BUALUANG SECURITIES

EARNINGS PREVIEW

Bangkok Life Assurance

BLA TB / BLA.BK

10 August 2015

Expect strong growth in 2Q15

Anticipate a 2Q15 earnings rise of 29% QoQ

We expect the firm to post a 2Q15 profit of Bt985m, an increase of 29% QoQ and soaring 484% YoY. The assumed that the YoY rise is due to less provision for its life-policy reserve (as the firm focused more on long-term products with fatter margins). We expect 2Q15 provisions for the firm's life-policy reserve equal to 70% of total premium revenue, dropping from 83% posted in the same period last year. The 2Q15 total premium (plus single-premium) revenue is estimated at Bt8.3bn, down 15% YoY and 47% QoQ on seasonal basis.

Management guides for 2Q15 ROI of 4.8-5% from 6% last year. The likelihood of lower bond yields early this year would limit BLA to the accumulation of more long-term bonds. We forecast that BLA will post revenue from investment of Bt2.6bn in 2Q15 (equivalent to ROI of 4.9%), up by 23% YoY

2H15 outlook to focus on long-term products with fatter margins

We forecast its FY15 sales to decline 8% YoY to Bt47bn, after BLA has switched focus from short-term policies (Gain 1st 245) to long-term products (long-term endowments and credit protection such as Bualuang Huang Luk Lan and Bualuang Huang Krobkrua, pension funds 555/600) and whole life products with premium payment periods of at least seven years. The firm has concentrated on long-term products in 2H15. These products carry fat margins, but are more difficult to sell.

Lower provisions than modeled will be catalyst in 2H15 onwards

We assume provisioning for the life policy reserve at 70% of total premiums both this year and next. The renewed focus on fat-margin products will allow the ratio to fall moderately in 2H15 and FY16. BLA expects to set a lower extra provision for interest rate risk in FY15 than its amount of Bt3.3bn in FY14. If interest rates were to stop dropping in late 2H15, BLA could reverse some of its interest rate provisioning and book it as revenue. However, we expect BLA to set its FY15 provision at 70% of total premiums, against 83% in the same period last year.

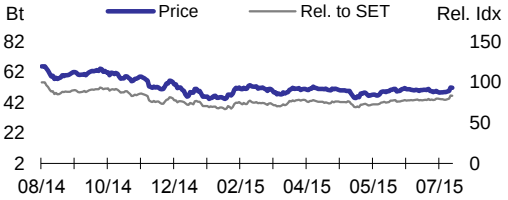
Investment thesis

Given its greater emphasis on products with higher margins, such as whole life, longer-term endowments and credit life policies, these allow BLA to set lower provisions for its life-policy reserve than we currently assumed in our model. This would mean scope for upside to our projections (as would higher interest rates in FY16). However, from a conservative standpoint, we maintain our FY15 profit forecasts of Bt4.4bn for FY15, up 65% YoY, and Bt5bn for FY15, up 14% YoY. Our BUY rating stands with a YE15 TP of Bt67, pegged to an embedded value of Bt31.26/share and total VNB of Bt35.8.

Sector: Insurance – OVERWEIGHT

Rating: BUY
Target Price: Bt67.00
Price (7 August 2015)**: Bt51.75**

Price chart

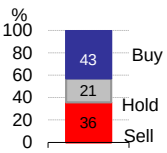


Share price perf. (%)	1M	3M	12M
Relative to SET	6.7	12.5	(36.5)
Absolute	3.0	7.8	(42.7)

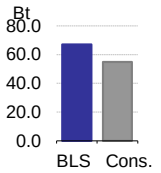
Key statistics

Market cap	Bt88.1bn	USD2.5bn
12-mth price range	Bt44.0/Bt92.5	
12-mth avg daily volume	Bt89m	USD2.5m
# of shares (m)	1,703	
Est. free float (%)	41.6	
Foreign limit (%)	25.0	

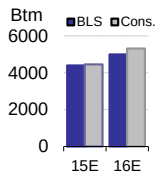
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Total rev (Btm)	61,427	57,601	61,590	66,504
Net profit (Btm)	2,662	4,400	5,000	5,600
Fully diluted EPS (Bt)	1.56	2.58	2.93	3.28
EPS growth (%)	-39.2%	+65.3%	+13.6%	+12.0%
PER (x)	29.5	17.9	15.7	14.0
EV/EBITDA (x)	24.2	13.4	11.7	9.9
PBV (x)	3.57	3.07	2.79	2.45
Dividend (Bt)	0.51	1.10	1.20	1.30
ROA (%)	1.2	1.9	1.8	1.7
Net gearing (x)	7.2	6.8	7.4	7.5
Total loss ratio (%)	79.8	70.0	70.0	70.0
Total premium Mkt (%)	12.0	10.0	10.0	10.0

CG rating

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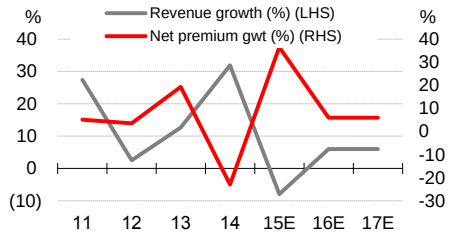
BLA: Financial Tables – Year

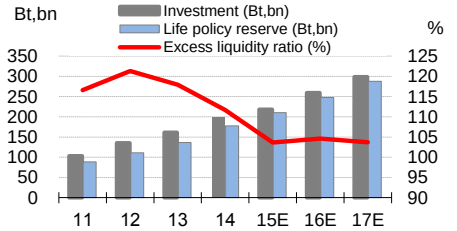
PROFIT & LOSS (Btm)	2013	2014	2015E	2016E	2017E
Insurance premium	38,795	51,172	47,110	49,937	52,933
Less Life policy reserve	(25,357)	(40,818)	(32,977)	(34,956)	(37,053)
Net premium	**13,438**	**10,354**	**14,133**	**14,981**	**15,880**
Underwriting expenses	(13,939)	(15,531)	(16,919)	(17,934)	(19,274)
Profit from insurance	**(501)**	**(5,177)**	**(2,786)**	**(2,953)**	**(3,395)**
Revenue on investment	7,601	10,255	10,491	11,653	13,571
Other income/exp.	39	48	44	47	50
Net revenue	**7,139**	**5,126**	**7,750**	**8,747**	**10,227**
Operating expenses	(1,828)	(2,018)	(2,295)	(2,596)	(2,944)
EBIT	**5,311**	**3,108**	**5,455**	**6,151**	**7,282**
Minority interest	0	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(930)	(446)	(1,055)	(1,151)	(1,682)
Net profit (loss)	**4,381**	**2,662**	**4,400**	**5,000**	**5,600**
Reported EPS	3.62	1.56	2.58	2.93	3.28
Fully diluted EPS	**3.62**	**1.56**	**2.58**	**2.93**	**3.28**
Core net profit	**4,341**	**2,614**	**4,356**	**4,953**	**5,550**
Core EPS	3.58	1.53	2.55	2.90	3.25
EBITDA	**5,407**	**3,204**	**5,550**	**6,247**	**7,378**
KEY RATIOS					
Revenue growth (%)	12.7	31.9	(7.9)	6.0	6.0
Gross margin (%)	15.4	8.3	13.4	14.2	15.4
EBITDA margin (%)	11.6	5.2	9.6	10.1	11.1
Operating margin (%)	9.4	4.3	7.6	8.0	8.3
Net margin (%)	9.4	4.3	7.6	8.1	8.4
Core profit margin (%)	9.4	4.3	7.6	8.0	8.3
ROA (%)	2.5	1.2	1.9	1.8	1.7
ROE (%)	19.7	10.4	14.8	15.3	15.0
Commission/Insurance premium	11.2	9.3	13.0	13.0	13.5
Life policy Provision/insurance premium re	65.4	79.8	70.0	70.0	70.0
Cost/income	34.0	34.0	34.0	34.0	34.0
Combined ratio	81.3	114.1	110.8	111.1	112.0
BALANCE SHEET (Btm)					
Cash & Equivalent	1,331	5,708	6,000	2,200	3,650
Total investment in securities	161,126	198,238	218,061	259,493	298,417
Total net loans	3,526	4,735	5,366	5,902	6,472
Premises & equipment (Net)	327	389	770	910	992
Other assets	5,925	6,520	6,709	7,597	11,710
Total assets	**172,234**	**215,590**	**236,906**	**276,103**	**321,241**
Life policy reserve	136,616	177,435	210,412	248,017	287,720
Unpaid benefit to life policy	8,800	1,489	(8,382)	(6,771)	(5,327)
Premium received in advance	950	2,239	0	0	0
Other liabilities	3,604	8,851	5,092	2,158	1,490
Total liabilities	**149,971**	**190,013**	**207,122**	**243,405**	**283,883**
Paid-up capital	1,212	1,698	1,708	1,708	1,708
Share premium	2,846	3,091	3,091	3,091	3,091
Retained earnings	18,138	20,787	24,985	27,899	32,559
Shareholders equity	**22,264**	**25,576**	**29,784**	**32,698**	**37,358**
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**172,234**	**215,590**	**236,906**	**276,103**	**321,241**
CASH FLOW (Btm)					
Net income	4,381	2,662	4,400	5,000	5,600
Depreciation and amortization	136	143	150	157	165
Change in working capital	23,571	39,586	33,882	35,950	38,570
FX, non-cash adjustment & others	804	805	806	807	808
Cash flows from operating activities	**28,087**	**42,390**	**38,432**	**41,107**	**44,335**
Capex (Invest)/Divest	(88)	(126)	(381)	(140)	(82)
Others	(27,427)	(49,777)	(25,374)	(41,155)	(38,763)
Cash flows from investing activities	**(27,515)**	**(36,529)**	**(25,755)**	**(41,295)**	**(38,845)**
Debt financing (repayment)	0	0	0	0	0
Equity financing	809	0	0	0	1
Dividend payment	(917)	(678)	(871)	(1,879)	(1,440)
Others	(27,427)	(49,777)	(25,374)	(41,155)	(38,763)
Cash flows from financing activities	**(107)**	**(678)**	**(871)**	**(1,879)**	**(1,438)**
Net change in cash	465	5,183	11,806	(2,066)	4,052
Free cash flow (Btm)	**28,000**	**42,264**	**38,051**	**40,967**	**44,253**
FCF per share (Bt)	**23.1**	**24.7**	**22.3**	**24.0**	**25.9**

Insurance data	2013	2014	2015E	2016E	2017E
FYP (Btm)	6,818	8,928	8,219	8,712	9,235
RYP (Btm)	28,545	37,379	34,411	36,476	38,665
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	39,079	51,172	47,110	49,937	52,933
FYP mkt (%)	7.8	9.7	8.4	7.6	7.2
Total premium Mkt (%)	7.7	8.9	9.6	8.7	8.9

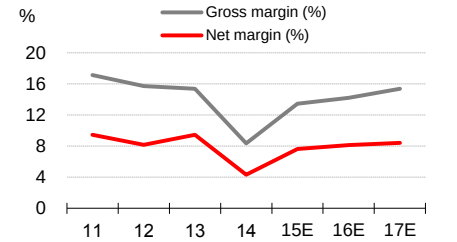
Revenue and net premium growth



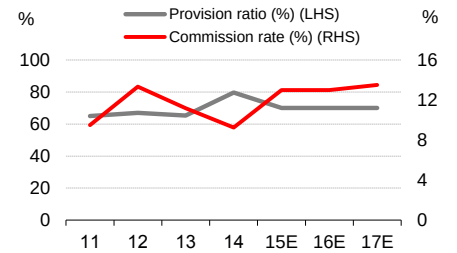
Excess liquidity



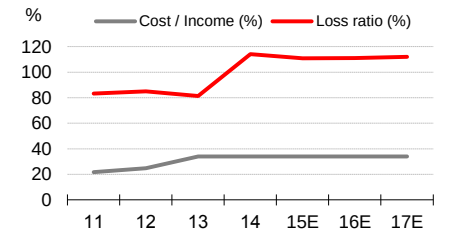
Profit margins



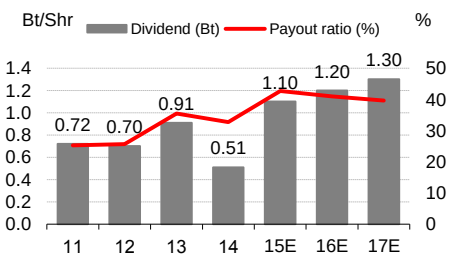
Comission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



BLA: Financial Tables – Quarter

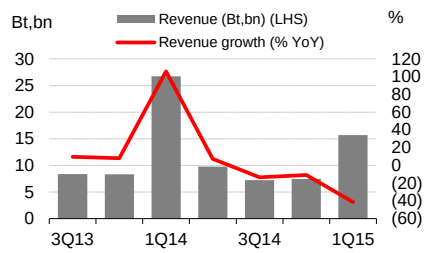
QUARTERLY PROFIT & LOSS (Btm)	1Q14	2Q14	3Q14	4Q14	1Q15
Net insurance premium revenue	26,712	9,769	7,245	7,446	15,711
Less provision for life policy reserve	22,415	8,099	7,118	3,187	12,104
Revenue realization on premium	4,297	1,670	127	4,260	3,607
Underw riting expenses	4,525	3,497	3,389	4,120	5,746
Profit from insurance business	(228)	(1,828)	(3,261)	140	(2,139)
Net investment income	2,014	2,153	2,386	2,259	2,511
Gain on investment	8	322	162	951	1,010
Total revenue from investment	2,022	2,475	2,548	3,210	3,522
Other income	9	17	10	13	15
Total revenues	1,803	664	(703)	3,362	1,398
Total operating expenses	496	501	482	539	498
Exceptional items	0	0	0	0	0
EBT	1,307	163	(1,185)	2,823	900
Income tax	211	(6)	(304)	546	135
Minority Interest	0	0	(0)	(0)	0
Net profit	1,096	169	(881)	2,278	765
EPS	1	0	(1)	1	0
Core profit before tax	1,290	(175)	(1,357)	1,859	(126)
Core EPS	1	(0)	(1)	1	(0)

KEY RATIOS					
Premium/life policy reserve (%)	67	23	17	17	33
Life policy provision/Premium (%)	84	83	98	43	77
Claim/life policy (%)	8	6	5	7	24
ROI (%)	5	5	5	6	7
Net margin (%)	4	1	(9)	21	4
Equity/Life policy reserve (%)	16	15	14	14	14
BV (Bt)	20	20	20	21	15
ROE (%)	20	3	(14)	38	12
ROA (%)	3	0	(2)	4	1
D/E (x)	7	7	7	8	7
Cost to Income (%)	28	75	(69)	16	36

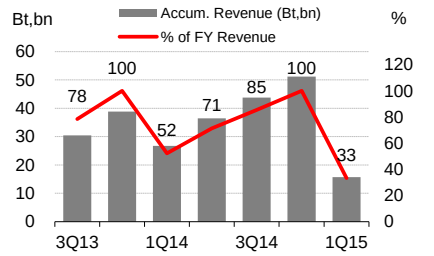
QUARTERLY BALANCE SHEET (Btm)	1Q14	2Q14	3Q14	4Q14	1Q15
Cash & Equivalent	1,810	2,800	2,184	5,708	1,405
Total investment in securities	182,310	190,289	196,098	198,238	212,733
Total net loans	3,645	3,939	4,323	4,735	4,938
Premises & equipment (Net)	336	358	388	389	460
Other assets	8,807	7,618	7,435	6,520	10,524
Total assets	196,908	205,003	210,428	215,590	230,061
Life policy reserve	159,031	168,314	174,248	177,435	189,539
Unpaid benefit to life policy	9,033	427	91	1,489	1,690
Premium received in advance	551	504	487	380	566
Other liabilities	4,224	11,438	11,607	10,710	12,498
Total liabilities	172,839	180,683	186,434	190,013	204,293
Paid-up capital	1,200	1,200	1,200	1,200	1,200
Share premium	2,700	2,700	2,700	2,700	2,700
Retained earnings	14,321	13,872	12,449	14,678	15,443
Shareholders equity	24,069	24,320	23,994	25,576	25,768
Minority interests	0	0	0	0	0

Insurance data	1Q14	2Q14	3Q14	4Q14	1Q15
FYP (Btm)	2,861	642	757	768	1,672
RYP (Btm)	12,251	8,103	6,147	6,240	13,914
SP (Btm)	11,885	1,154	472	530	436
Total premium (Btm)	26,997	9,899	7,376	7,538	16,022
FYP+SP mkt (%)	29.1	4.3	3.2	3.2	5.3
Total premium Mkt (%)	20.0	8.2	6.3	5.8	12.0

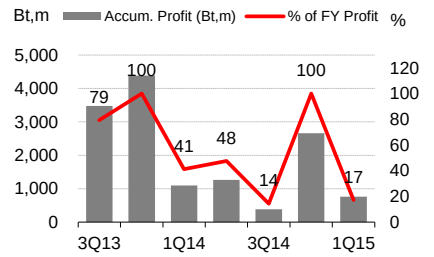
Revenue trend



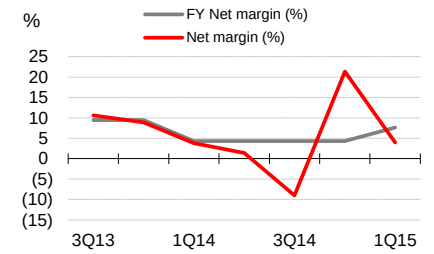
Revenue trend (accumulated)



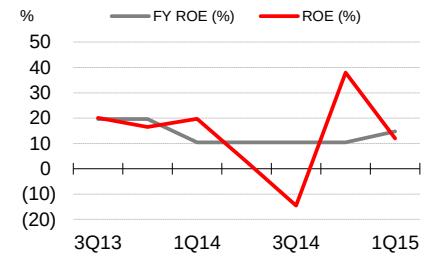
Net profit trend (accumulated)



Net margin



ROE



Company profile

Bangkok Life Assurance Public Company Limited (BLA) is one of Thailand's largest pure life assurance players and a subsidiary of Bangkok Bank. Its FYP revenue growth is currently about twice the industry average.

Figure 1 : 2Q15 earnings preview

FY Ended 31 Dec (Btm)	2Q15	2Q14	YoY %	1Q15	QoQ %	6M15	6M14	YoY %
Income Statement								
Net insurance premium revenue	8,303	9,769	*(15)*	15,711	*(47)*	24,014	36,480	*(34)*
Less provision for life policy rese	5,812	8,099	*(28)*	12,104	*(52)*	17,917	30,514	*(41)*
Revenue realization on premium	2,491	1,670	*49*	3,607	*(31)*	6,098	5,967	*2*
Underwriting expenses	3,452	3,497	*(1)*	5,746	*(40)*	9,198	8,022	*15*
Profit from insurance business	(961)	(1,828)	*(47)*	(2,139)	*(55)*	(3,100)	(2,055)	*51*
Net investment income	2,649	2,153	*23*	2,511	*5*	5,160	4,167	*24*
Gain on investment	80	322	*(75)*	1,010	*(92)*	1,090	330	*231*
Other income	16	17	*(2)*	15	*7*	32	25	*nm*
Total revenues	**1,784**	**664**	*169*	**1,398**	*28*	**3,182**	**2,467**	***29***
Total operating expenses	567	501	*13*	498	*14*	1,065	997	*7*
EBT	1,217	163	*645*	900	*35*	2,117	1,470	*44*
Income tax	232	(6)	*nm*	135	*72*	367	205	*79*
Net profit	**985**	**169**	***484***	**765**	***29***	**1,750**	**1,265**	***38***
EPS	**0.58**	**0.14**	*314*	**0.45**	*29*	**1.02**	**1.04**	*(2)*
Key ratios								
Premium/life policy reserve (%)	16.8	23.2		33.2		25.0	45.2	
Life policy provision/Premium (%	70.0	82.9		77.0		74.6	83.6	
ROI (%)	4.9	5.2		6.7		5.8	4.9	
Tax rate (%)	19.1	(3.4)		15.0		17.3	14.0	
Net margin (%)	8.9	1.4		4.0		6.5	2.6	
D/E (x)	7.9	7.2		7.4		7.9	7.2	
Cost to Income (%)	31.8	75.4		35.6		33.5	40.4	
Asset/Equity (%)	8.9	8.2		8.4		8.9	8.2	
Balance Sheet								
Cash & Equivalent	1,500	2,800	(46)	1,405	7			
Total assets	235,975	205,003	15	230,061	3			
Unpaid benefit to life policy	1,690	427	295	1,690	0			
Premium received in advance	566	504	100	566	0			
Total liabilities	209,731	180,683	16	204,293	3			
Retained earnings	15,918	13,872	15	15,443	3			
Shareholders equity	26,244	24,320	8	25,768	2			
Minority interests	0	0	nm	0	nm			
BV (Bt)	15.4	20.3	(24)	15.1	2			

Sources: Company data, Bualuang Research estimates

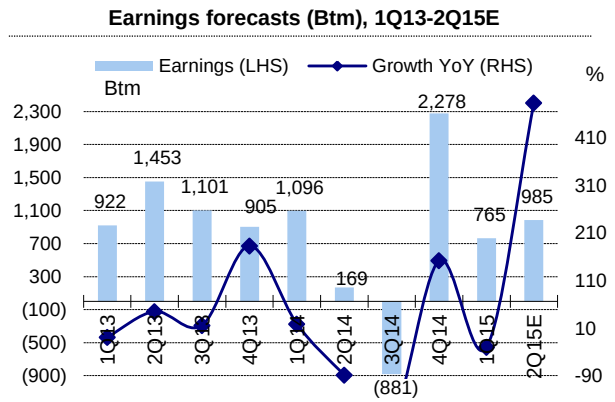
- FYPs are estimated to drop QoQ and YoY
- Lower YoY provisioning for the life-policy reserve
- A lower YoY investment gain
- Dipping ROI in YoY terms, due to less investment gains

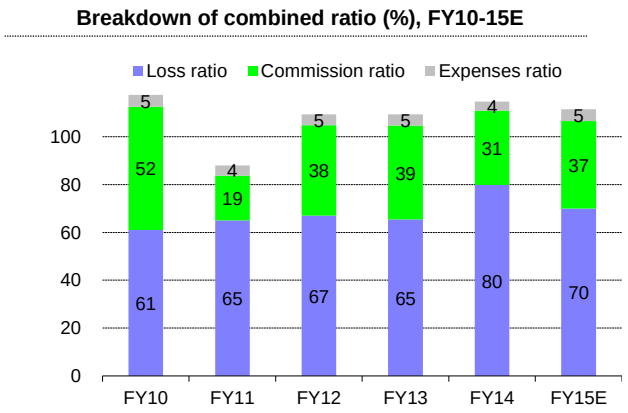
Figure 1: Total life assurance premium market share (%), FY07-2M15

Market share of Total premium (%)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	1Q15	5M15
American International Assurances (AIA)	38.9	37.9	33.3	31.0	28.7	26.3	24.99	22.8	20.61	21.2
Audhya Allianz C.P Life Plc., (AZAY)	9.5	6.5	6.1	6.2	6.3	5.8	5.67	5.4	5.09	5.2
Thai Life Insurance	15.2	14.4	13.7	12.4	12.2	12.5	12.44	12.5	11.36	12.1
SCB Life Insurance Plc	6.0	6.8	7.5	8.3	9.2	10.7	10.28	9.6	10.38	10.6
Muang Thai Life Assurance	6.8	7.7	8.3	10.0	11.5	12.5	13.62	14.9	17.73	17.2
Bangkok Life Assurance Plc.,	**6.1**	**6.7**	**7.7**	**8.9**	**9.6**	**8.9**	**8.83**	**10.3**	**11.98**	**9.5**
Krungthai AXA Life Insurance	2.9	4.1	4.9	6.0	6.4	7.4	8.53	9.7	9.79	10.8
Ocean Life Insurance	4.6	4.3	4.1	3.9	4.0	3.8	3.08	2.9	2.36	2.4
Prudential Life Assurance (Thailand) Plc.,	0.9	1.1	1.2	1.2	1.3	1.4	2.32	3.1	3.16	3.1
Others	3.2	4.2	6.6	5.5	4.9	5.5	10.24	8.8	7.54	7.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100	100	100	100

Sources: TLAA and Bualuang estimates

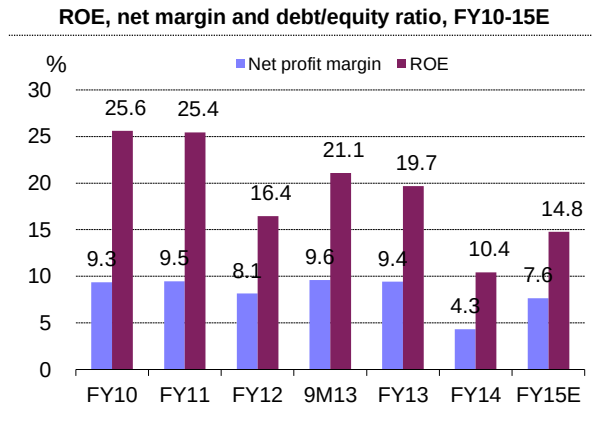
Figure 2: Earnings forecasts, 1Q14-1Q15E

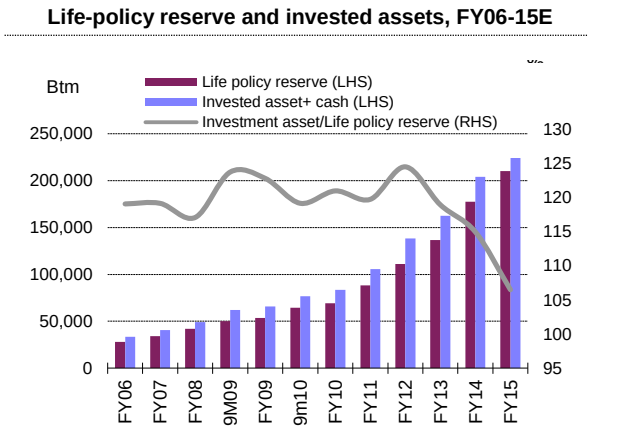




Sources: Company and BLS forecasts

Figure 4: Net margin (%), ROE (%) and debt/equity ratio, FY10-15E, and life-policy reserve and invested assets (Btm)



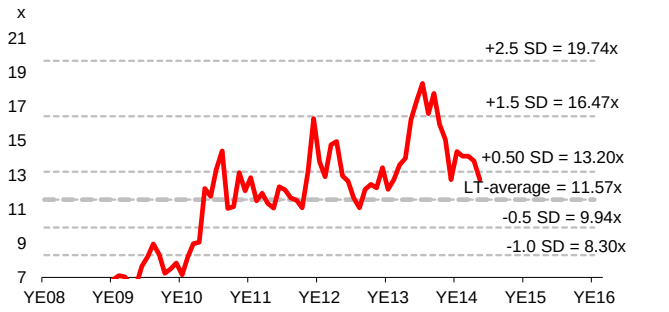


Sources: Company data and TLAA

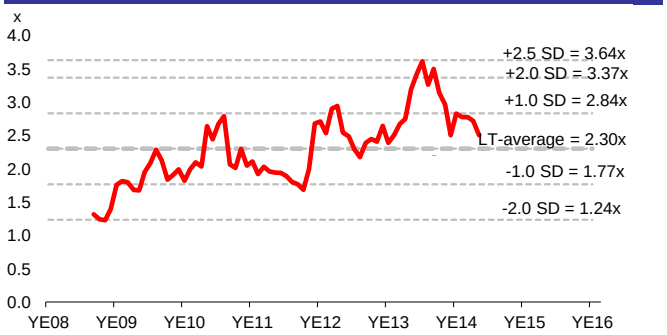
Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US$ equivalent)	PER (x) 2015E	PER (x) 2016E	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PBV (x) 2015E	PBV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E	Div Yield (%) 2015E	Div Yield (%) 2016E
Ping An Insurance (Group)	601318 CH	CNY33.9	101,436	11.9	10.4	15.6	14.9	1.8	1.5	15.8	16.6	1.3	1.5
China Life Insurance	601628 CH	CNY28.2	122,025	18.5	15.9	32.6	17.7	2.4	2.2	13.8	14.8	1.8	2.0
China Pacific Insurance (Grou	601601 CH	CNY25.1	36,973	15.1	13.2	36.1	15.0	1.7	1.6	12.1	12.9	2.3	2.6
T&D Holdings	8795 JP	JPY1,909.5	10,473	14.9	13.9	-9.1	6.4	0.9	0.9	6.4	6.6	1.4	1.6
Bangkok Life Assurance	BLA TB	THB51.75	2,507	20.1	17.7	65.3	13.6	3.0	2.7	14.8	15.3	2.1	2.3
Thaire Life Assurance	THREL TB	THB12.60	215	16.5	14.5	23.5	13.3	5.7	5.1	36.4	36.9	4.3	4.8
Simple average				**16.1**	**14.3**	**27.3**	**13.5**	**2.6**	**2.3**	**16.6**	**17.2**	**2.2**	**2.5**

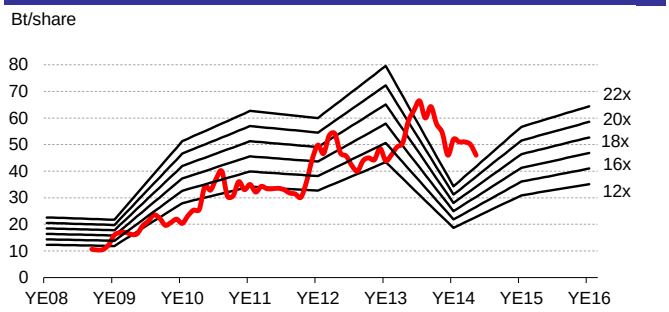
PER band versus SD (next 12 months)



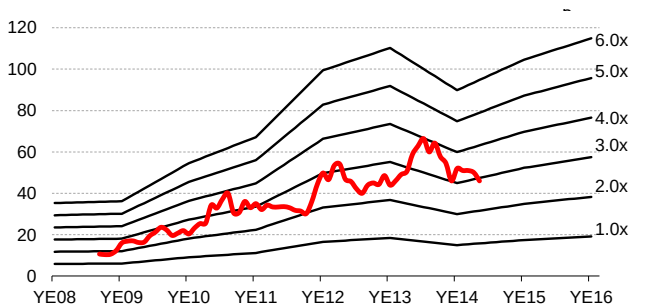
PER band versus SD (next 12 months)



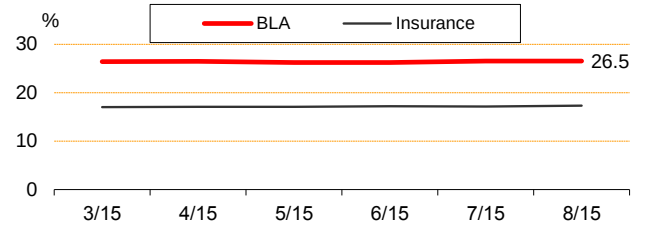
PER band and share price



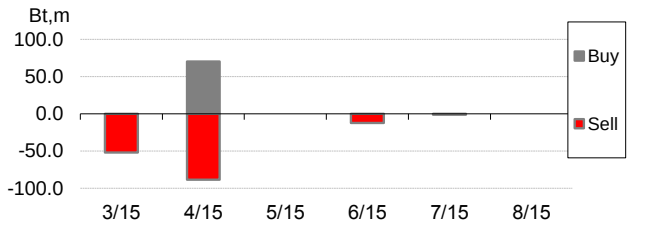
PBV band and share price



Foreign holdings



Management trading activities during past six months



Bualuang Securities Public Company Limited

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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
	COM7, TFG

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.
HOLD: Expected total returns of between -15% and +15% over the next 12 months.
SELL: Expected negative total returns of 15% or more over the next 12 months.
TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.
NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.
UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.