# Bangkok Life Assurance

## Keep calm while business adjusting

We still have a positive outlook for BLA's business in the long run. Although the interest rate downtrend is an obstacle in the short term, BLA would be able to show stable growth in the long term from its strong capital base and visionary business adjustment.

### ▪ Interest rate downtrend is obstacle in 1Q15

We estimate 1Q15 net profit at only B347m or a plunge of 84.7%qoq and 68.3%yoy. Net premium income is projected to grow significantly in this quarter, mostly from renewal year premium income while first-year premium income would stay flat from the prior quarter for the company has not focused on selling any particular short-term products. However, the projected growth in total premium income would still not be able to compensate for two major adverse factors as follows: 1) total underwriting expense is projected to increase significantly in 1Q15; due to the recent decrease in bond yield by 16bp, total premium reserve is projected to rise to 75.7% of total premium again in this quarter and 2) insurance claim payment and insurance policy benefit payment are projected to increase B4.77bn in total, mainly from maturity of Gain 1st 116 (one-year premium payment for five-year protection). Consequently, underwriting loss of B2.42bn is anticipated in this quarter, reversing from slight underwriting gain of B140m in 4Q14 and B228m in 1Q14.

### ▪ Insurance business dull, investment business is hope

We maintain our FY2015-2016 earnings forecast. 2015 is still a year of business strategy adjustment to focus more on long-term products. BLA projected total premium income to decrease by 7%yoy, especially first-year premium income which is anticipated to lower 11%yoy, and the company would switch its focus to long-term products for their higher margin and lower reserve and in order to protect its capital adequacy ratio (CAR). In addition, BLA emphasized that it would ensure good earnings or net profit despite the contracting premium income, raising confidence of investors who projected to see ROE of above 15% again; a key driver is gain from its portfolio of B198bn worth at the end of 2014.

### ▪ Top pick of life insurance stocks

We recommend buying BLA, which is a good choice for long-term investment. The share price has undergone substantial correction when compared with 2015 fair value (using appraisal value method) of B66.35 (embedded value is B25.03 while the rest comes from multiplier of 2014 VNB of B0.67).

Key Data

| *FY: Dec 31* | FY13A | FY14A | FY15F | FY16F | FY17F |
|---|---|---|---|---|---|
| Net Profit (Bm) | 4,381 | 2,662 | 4,271 | 5,026 | 5,776 |
| EPS (B) | 3.64 | 1.57 | 2.52 | 2.96 | 3.40 |
| Norm Profit (Bm) | 4,381 | 2,662 | 4,271 | 5,026 | 5,776 |
| BVS (B) | 18.48 | 15.06 | 16.67 | 18.55 | 20.69 |
| PER (x) | 13.7 | 31.7 | 19.8 | 16.8 | 14.6 |
| PBV (x) | 2.7 | 3.3 | 3.0 | 2.7 | 2.4 |
| DPS (B) | 0.91 | 0.91 | 1.01 | 1.18 | 1.36 |
| Dividend Yield (%) | 1.8% | 1.8% | 2.0% | 2.4% | 2.7% |
| ROE (%) | 21.0% | 11.1% | 15.9% | 16.8% | 17.3% |

*Source : ASPS Research*

## BLA

## Rec. : BUY

Current Price (B): 49.75

Target Price (B): 66.35

Upside : 33.37%

Dividend Yield : 2.02%

Total Return : 34.63%

Market Cap. (Bm) : 84,468

CG Score: ▲▲▲▲

### Technical Chart

**ASPS vs IAA concensus**

| EPS (B) | ASPS | Cons | %diff |
|---|---|---|---|
| 2015F | 2.52 | 2.26 | 11% |
| 2016F | 2.96 | 2.55 | 16% |

*Source: IAA concensus and ASPS*

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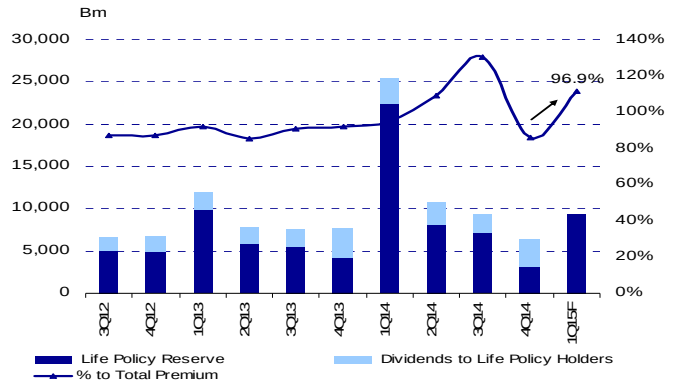
*This report is a rough translation of one of our Thai-language research products. It is produced primarily with time efficiency in mind, so that English-reading clients can see what the main recommendations are from our Thai-language research team. Given that this is a rough-and-ready translation, Asia Plus Securities cannot be held responsible for translation inaccuracies.)* The reports and information contained herein are compiled from public data sources and our analysts' interviews with executives of listed companies. They are presented for informational purposes only and not to be deemed as solicitations to buy or sell any securities. Best attempts have been made to verify information from these vast sources, but we cannot guarantee their accuracy, adequacy, completeness and timeliness. The analyses and comments presented herein are opinions of our analysts and do not necessarily reflect the views of Asia Plus Securities.

## 1Q15F Earnings Preview

| Bm | 3Q13 | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 1Q15F | %QoQ | %YoY |
|---|---|---|---|---|---|---|---|---|---|
| Net Premium Income | 8,372 | 8,350 | 26,712 | 9,769 | 7,245 | 7,446 | 12,350 | *65.9%* | *-53.8%* |
| Net Investment Income | 2,015 | 1,856 | 2,060 | 2,475 | 2,578 | 3,213 | 3,350 | *4.3%* | *62.6%* |
| **Total Income** | **10,381** | **10,229** | **28,742** | **12,260** | **9,804** | **10,669** | **15,710** | *47.3%* | *-45.3%* |
| Underwriting Expenses | (8,604) | (8,669) | (26,940) | (11,596) | (10,507) | (7,306) | (14,777) | *102.3%* | *-45.1%* |
| Operating Expenses | (465) | (442) | (496) | (501) | (482) | (539) | (499) | *-7.5%* | *0.5%* |
| **Total Expenses** | **(9,070)** | **(9,111)** | **(27,436)** | **(12,097)** | **(10,988)** | **(7,845)** | **(15,276)** | *94.7%* | *-44.3%* |
| **Pre-tax Profi** | **1,311** | **1,118** | **1,307** | **163** | **(1,185)** | **2,823** | **434** | *-84.6%* | *-66.8%* |
| Income Tax | (211) | (213) | (211) | 6 | 304 | (546) | (87) | *-84.1%* | *-58.8%* |
| **Net Profit** | **1,101** | **905** | **1,096** | **169** | **(881)** | **2,278** | **347** | *-84.7%* | *-68.3%* |
| **EPS (B)** | **0.91** | **0.75** | **0.65** | **0.10** | **(0.52)** | **1.34** | **0.20** | *-84.7%* | *-68.3%* |
| Norm Profit | 996 | 817 | 1,050 | 1,297 | 1,175 | 1,323 | 347 | *-73.7%* | *-66.9%* |
| Gross Margin | -2.8% | -3.8% | -0.9% | -18.7% | -45.0% | 1.9% | -19.7% | | |
| ROI | 5.19% | 4.66% | 4.79% | 5.31% | 5.34% | 6.52% | 6.77% | | |
| ROE | 20.07% | 16.37% | 18.92% | 2.79% | -14.58% | 36.76% | 5.43% | | |
| Life Policy Reserve to Net Premium | 65.0% | 49.7% | 83.9% | 82.9% | 98.2% | 42.8% | 75.7% | | |
| Life Policy Reserve and Claims on life policy to Net Premium | 90.5% | 91.9% | 95.3% | 108.9% | 130.2% | 85.9% | 111.3% | | |
| Operating expenses/ Investment assets | 1.2% | 1.1% | 1.2% | 1.1% | 1.0% | 1.1% | 1.0% | | |
| Spread (ROI-Operating expenses/ Investment assets) | 4.0% | 3.5% | 3.6% | 4.2% | 4.3% | 5.4% | 5.8% | | |
| Income Tax ratio | 16.1% | 19.1% | 16.1% | -3.4% | 25.7% | 19.3% | 20.0% | | |

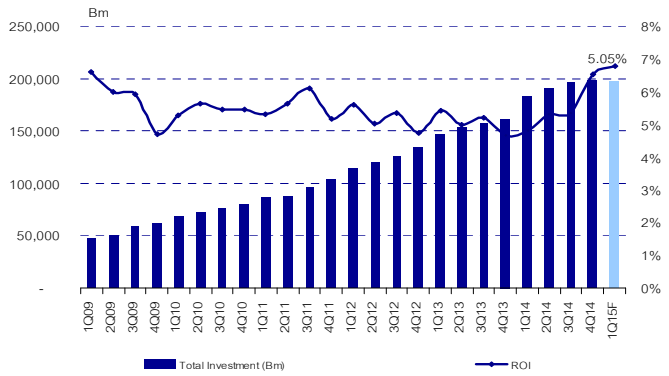
*Source: Financial Statement / ASPS Research*

## Life Policy Reserve and Benefits payments to life policyholders to Total Insurance Premium by Quarter




*Source: Financial Statement / ASPS Research*

## Return of Investment (ROI) by Quarter

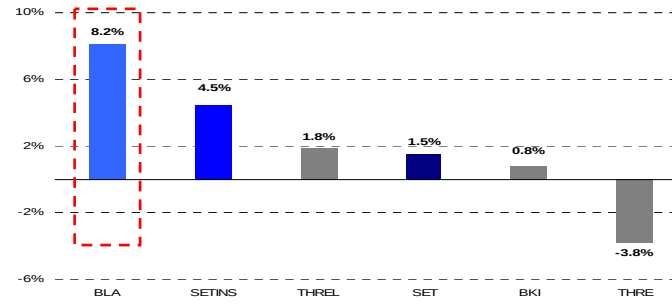



*Source: Financial Statement / ASPS Research*

## Historical PBV Band

*Source : Bloomberg*

## Year to Date return




*Source : Bloomberg*

## 2015-2017F Earnings Forecast

| Income Statement (Bm) | | | | |
|---|---|---|---|---|
| *Ended 31 Dec.* | 2014 | 2015F | 2016F | 2017F |
| Net premium income | 51,172 | 47,590 | 54,729 | 62,938 |
| Net investment income | 8,812 | 10,500 | 12,500 | 14,000 |
| Gain/(Loss) on investment in securities | 1,515 | 1,200 | 1,250 | 1,300 |
| Other income | 48 | - | - | - |
| **Total revenues** | **61,475** | **59,290** | **68,479** | **78,238** |
| Underwriting expenses | (56,349) | (51,999) | (59,888) | (68,522) |
| Operating expenses | (2,018) | (1,951) | (2,308) | (2,496) |
| Fx gains/ (loss) | - | - | - | - |
| **Total expenses** | **(58,367)** | **(53,951)** | **(62,196)** | **(71,018)** |
| **Net profit Before taxes** | **3,108** | **5,339** | **6,282** | **7,220** |
| Income taxes | (446) | (1,068) | (1,256) | (1,444) |
| **Net profit** | **2,662** | **4,271** | **5,026** | **5,776** |
| EPS (B) | 1.57 | 2.52 | 2.96 | 3.40 |
| **Norm profit** | **2,662** | **4,271** | **5,026** | **5,776** |
| **Norm EPS (B)** | **1.57** | **2.52** | **2.96** | **3.40** |

| Balance Sheet (Bm) | | | | |
|---|---|---|---|---|
| *Ended 31 Dec.* | 2014 | 2015F | 2016F | 2017F |
| Investment in securities | 198,238 | 224,786 | 246,001 | 278,436 |
| Net loans | 4,735 | 5,209 | 5,729 | 6,302 |
| Cash and Deposits at FI | 5,708 | 3,740 | 3,244 | 3,605 |
| Property, plant and equipment, net | 389 | 428 | 471 | 518 |
| Other assets | 6,520 | 8,062 | 10,228 | 13,315 |
| **Total assets** | **215,590** | **242,224** | **265,673** | **302,176** |
| Life Premium Reserve | 177,435 | 197,435 | 217,435 | 250,000 |
| Other liabilities | 12,579 | 16,483 | 16,745 | 17,040 |
| **Total liabilities** | **190,013** | **213,918** | **234,179** | **267,040** |
| **Paid-up share captial** | **1,698** | **1,698** | **1,698** | **1,698** |
| Share premium | 3,091 | 3,091 | 3,091 | 3,091 |
| Surplus on revaluation of investments. | 5,539 | 5,705 | 5,876 | 6,052 |
| Retained earnings | 15,248 | 17,812 | 20,829 | 24,295 |
| **Total shareholders' equity** | **25,576** | **28,306** | **31,494** | **35,137** |
| **Total liabilities and shareholders' equity** | **215,590** | **242,224** | **265,673** | **302,176** |

| Quarter Income Statement (Bm) | | | | |
|---|---|---|---|---|
| | 1Q14 | 2Q14 | 3Q14 | 4Q14 |
| Net premium income | 26,712 | 9,769 | 7,245 | 7,446 |
| Net investment income | 2,014 | 2,153 | 2,386 | 2,259 |
| Gain/(Loss) on investment in securities | 46 | 322 | 192 | 955 |
| Other income | (38) | 8 | 10 | 68 |
| **Total revenues** | **28,742** | **12,260** | **9,804** | **10,669** |
| Underwriting expenses | (26,940) | (11,596) | (10,507) | (7,306) |
| Operating expenses | (496) | (501) | (482) | (539) |
| Fx gains/ (loss) | - | - | - | - |
| **Total expenses** | **(27,436)** | **(12,097)** | **(10,988)** | **(7,845)** |
| **Net profit Before taxes** | **1,307** | **163** | **(1,185)** | **2,823** |
| Income taxes | (211) | 6 | 304 | (546) |
| **Net profit** | **1,096** | **169** | **(881)** | **2,278** |
| EPS (B) | 0.65 | 0.10 | (0.52) | 1.34 |
| **Norm profit** | **1,050** | **1,297** | **1,175** | **1,323** |
| **Norm EPS (B)** | **0.62** | **0.76** | **0.69** | **0.78** |

| Balance Sheet (Bm) | | | | |
|---|---|---|---|---|
| *Ended 31 Dec.* | 1Q14 | 2Q14 | 3Q14 | 4Q14 |
| Investment in securities | 182,310 | 190,289 | 196,098 | 198,238 |
| Net loans | 3,645 | 3,939 | 4,323 | 4,735 |
| Cash and Deposits at FI | 1,810 | 2,800 | 2,184 | 5,708 |
| Property, plant and equipment, net | 336 | 358 | 388 | 389 |
| Other assets | 8,807 | 7,618 | 7,435 | 6,520 |
| **Total assets** | **196,908** | **205,003** | **210,428** | **215,590** |
| Life Premium Reserve | 159,031 | 167,130 | 174,248 | 177,435 |
| Other liabilities | 13,808 | 13,553 | 12,186 | 12,579 |
| **Total liabilities** | **172,839** | **180,683** | **186,434** | **190,013** |
| **Paid-up share captial** | **1,212** | **1,213** | **1,213** | **1,698** |
| Share premium | 2,930 | 2,943 | 3,436 | 3,091 |
| Surplus on revaluation of investments. | 5,084 | 5,770 | 6,375 | 5,539 |
| Retained earnings | 14,321 | 13,872 | 12,449 | 14,678 |
| **Total shareholders' equity** | **24,069** | **24,320** | **23,994** | **25,576** |
| **Total liabilities and shareholders' equity** | **196,908** | **205,003** | **210,428** | **215,590** |

| Financial Ratio | | | | |
|---|---|---|---|---|
| *Ended 31 Dec.* | 2014 | 2015F | 2016F | 2017F |
| Gross margin | -1.45% | -0.30% | -0.50% | 0.00% |
| Net margin | 4.33% | 7.20% | 7.34% | 7.38% |
| ROI | 5.74% | 5.53% | 5.84% | 5.83% |
| ROE | 11.13% | 15.85% | 16.81% | 17.34% |
| Underwriting expenses to Net Premium | 6.15% | 6.47% | 6.43% | 6.37% |
| Claims on Life Policy during the year/ Net Premium | 24.74% | 24.74% | 24.74% | 24.74% |
| Debt to Equity (x) | 7.43 | 7.56 | 7.44 | 7.60 |

| Financial Assumption | | | | |
|---|---|---|---|---|
| *Ended 31 Dec.* | 2014 | 2015F | 2016F | 2017F |
| Net premium income growth | 31.9% | -7.0% | 15.0% | 15.0% |
| Underwriting expenses growth | 30.3% | -8.4% | 13.2% | 12.6% |
| Investment growth | 18.5% | 11.8% | 8.6% | 11.6% |
| Persistency rate | 79.8% | 70.3% | 70.5% | 70.0% |
| Assets to Life Policy Reserve | 121.5% | 122.7% | 122.2% | 120.9% |
| Investment Assets to Life Policy Reserve | 117.6% | 118.4% | 117.3% | 115.3% |
| Equity to Life Policy Reserve | 14.41% | 14.34% | 14.48% | 14.05% |

*Source: Financial Statement / ASPS Research*