BUALUANG SECURITIES

COMPANY UPDATE

Bangkok Life Assurance

BLA TB / BLA.BK

27 February 2015

Shift in focus to long-term products

Investment thesis

We expect BLA's performance to recover strongly this year after the setting of Bt3.3bn in extra provisions for interest rate risk in FY14. The firm has switched focus to fatter margin products, such as whole life and credit life. The two products require less provisioning for the life policy reserve than we currently model for, so there is scope for upside to our earnings projections (the advent of higher interest rates in 4Q15 would also mean upside). For now, our profit forecasts remain Bt4.4bn for FY15, up 65% YoY, and Bt5bn for FY15, up 14% YoY. We have a BUY rating with a YE15 target price of Bt67, pegged to embedded value of Bt31.26/share and total VNB of Bt35.8.

FY15 FYP target down 11% YoY; focus shift to fat-margin products

Following swift FY14 expansion of 79% YoY in FYPs (driven by short-term endowments) and 32% YoY in total premiums, BLA has switched focus from slim-margin short-term policies to fat-margin long-term products (whole life, credit life and long-term endowments, such as Gain 1st 245). The focus shift indicates that BLA intends to concentrate on the bottom-line rather than the top-line. Hence, the firm guides for an FY15 FYP premium drop of 11% YoY and total premium slippage of 7% YoY. Note that we assume YoY declines of 10% in FYPs and 8% in total premiums.

Provisions to fall, driven by long-term products

The greater emphasis on long-term products with fatter margins will mean much lighter provisions for the life policy reserve in FY15 following heavy FY14 provisions of Bt41bn (equal to about 80% of total premiums). BLA doesn't expect to set an extra provision for interest rate risk in FY15 after setting Bt3.3bn in FY14. It guides for FY15 provisions equal to 67-70% of total premiums (against 80% for FY14). Note that we assume provisions equal to 70% total premiums in FY15. Furthermore, if interest rates were to start rising in late FY15, BLA would reverse some of its interest rate risk provision into revenue.

FY14 ROI target > 5%

Management guides for FY15 ROI of 5%, down from 6% last year. The possibility of higher bond yields later this year would present BLA with an opportunity to accumulate more long-term bonds. The firm invests Bt20bn (about 11% of total investments) in foreign currency-denominated bonds that yield around 6%.

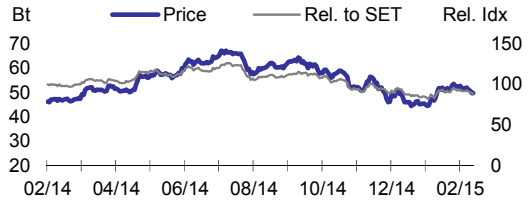
High CAR means no cash call risk

Given its greater emphasis on higher margin products, BLA's YE15 CAR is expected to stay over 400% (it was 410% at YE14). Additionally, management guides that the firm's big CAR will allow it to invest in higher yielding assets (such as property funds and infrastructure funds) in order to boost ROI.

Sector: Insurance Overweight

Rating: BUY
Target Price: Bt67.00
Price (26 February 2015)**: Bt52.00**

Price chart

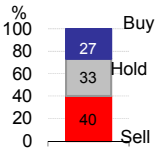


Share price perf. (%)	1M	3M	12M
Relative to SET	6.0	(3.0)	(44.0)
Absolute	6.3	(2.9)	(21.8)

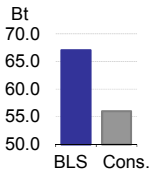
Key statistics

Market cap	Bt86.6bn	USD2.7bn
12-mth price range	Bt44.0/Bt95.5	
12-mth avg daily volume	Bt94m	USD2.9m
# of shares (m)	1,698	
Est. free float (%)	40.8	
Foreign limit (%)	25.0	

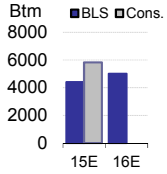
Consensus rating



BLS Target price vs. Consensus



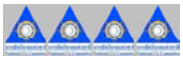
BLS earnings vs. Consensus



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)	32.7	19.8	17.4	15.6
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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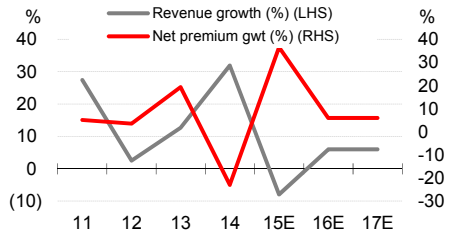
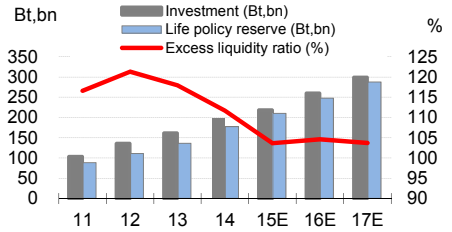
BLA : Financial Tables – Year

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**
Underw riting 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 grow th (%)	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 r	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 w orking 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

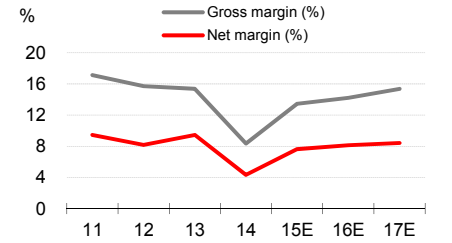
Revenue and net premium growth



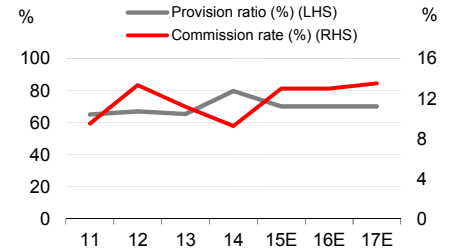
Excess liquidity



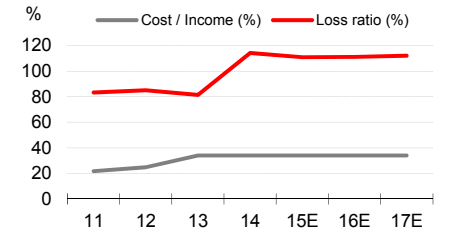
Profit margins



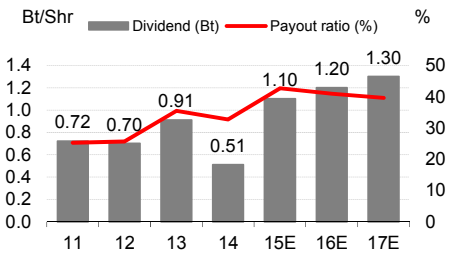
Comission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



BLA : Financial Tables – Quarter

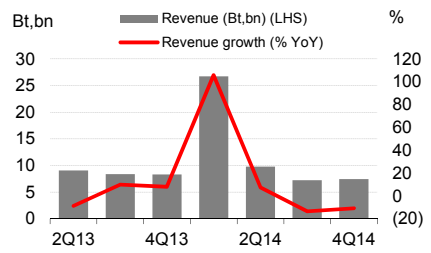
QUARTERLY PROFIT & LOSS (Btm)	4Q13	1Q14	2Q14	3Q14	4Q14
Net insurance premium revenue	8,350	26,712	9,769	7,245	7,446
Less provision for life policy reserve	4,151	22,415	8,099	7,118	3,187
Revenue realization on premium	4,199	4,297	1,670	127	4,260
Underw riting expenses	4,519	4,525	3,497	3,389	4,120
Profit from insurance business	(320)	(228)	(1,828)	(3,261)	140
Net investment income	1,768	2,014	2,153	2,386	2,259
Gain on investment	89	8	322	162	951
Total revenue from investment	1,857	2,022	2,475	2,548	3,210
Other income	23	9	17	10	13
Total revenues	1,560	1,803	664	(703)	3,362
Total operating expenses	442	496	501	482	539
Exceptional items	0	0	0	0	0
EBT	1,118	1,307	163	(1,185)	2,823
Income tax	213	211	(6)	(304)	546
Minority Interest	0	0	0	(0)	(0)
Net profit	905	1,096	169	(881)	2,278
EPS	1	1	0	(1)	1
Core profit before tax	1,006	1,290	(175)	(1,357)	1,859
Core EPS	1	1	(0)	(1)	1

KEY RATIOS					
Premium/life policy reserve (%)	24	67	23	17	17
Life policy provision/Premium (%)	50	84	83	98	43
Claim/life policy (%)	10	8	6	5	7
ROI (%)	5	5	5	5	6
Net margin (%)	9	4	1	(9)	21
Equity/Life policy reserve (%)	17	16	15	14	14
BV (Bt)	19	20	20	20	21
ROE (%)	16	20	3	(14)	38
ROA (%)	2	3	0	(2)	4
D/E (x)	7	7	7	7	8
Cost to Income (%)	28	28	75	(69)	16

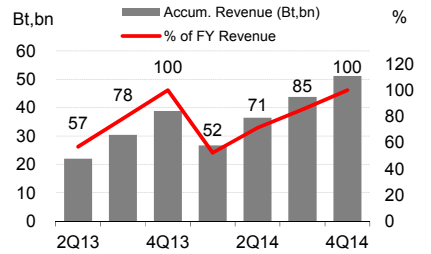
QUARTERLY BALANCE SHEET (Btm)	4Q13	1Q14	2Q14	3Q14	4Q14
Cash & Equivalent	1,331	1,810	2,800	2,184	5,708
Total investment in securities	161,126	182,310	190,289	196,098	198,238
Total net loans	3,526	3,645	3,939	4,323	4,735
Premises & equipment (Net)	327	336	358	388	389
Other assets	5,925	8,807	7,618	7,435	6,520
Total assets	172,234	196,908	205,003	210,428	215,590
Life policy reserve	136,616	159,031	168,314	174,248	177,435
Unpaid benefit to life policy	8,800	9,033	427	91	1,489
Premium received in advance	450	551	504	487	380
Other liabilities	4,104	4,224	11,438	11,607	10,710
Total liabilities	149,971	172,839	180,683	186,434	190,013
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	13,225	14,321	13,872	12,449	14,678
Shareholders equity	22,264	24,069	24,320	23,994	25,576
Minority interests	0	0	0	0	0

Insurance data	4Q13	1Q14	2Q14	3Q14	4Q14
FYP (Btm)	819	2,861	642	757	768
RYP (Btm)	6,194	12,251	8,103	6,147	6,240
SP (Btm)	1,129	11,885	1,154	472	530
Total premium (Btm)	8,141	26,997	9,899	7,376	7,538
FYP+SP mkt (%)	5.5	29.1	4.3	3.2	3.2
Total premium Mkt (%)	6.9	20.0	8.2	6.3	5.8

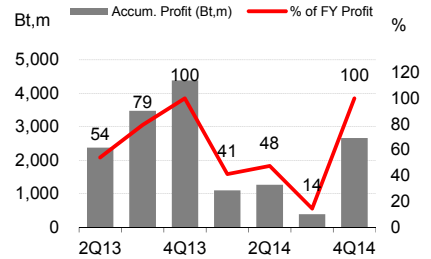
Revenue trend



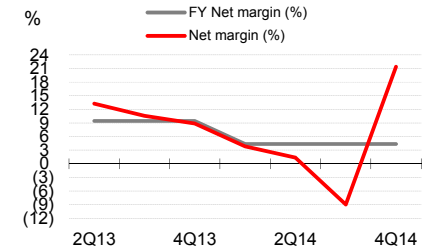
Revenue trend (accumulated)



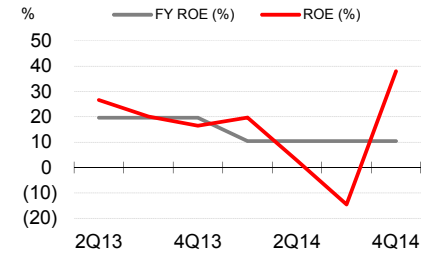
Net profit trend (accumulated)



Net margin



ROE



Company profile

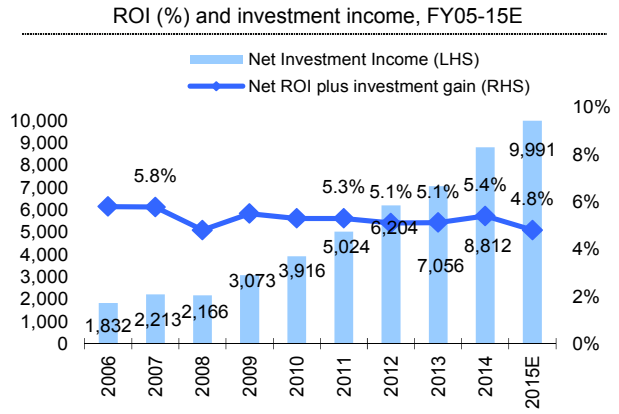
Bangkok Life Assurance Plc (BLA) is one of Thailand's largest pure life assurance players and a subsidiary of Bangkok Bank. Its FYP revenue growth is currently about twice the industry average. The firm ranked fifth with market share of 10% for total life assurance premium in FY14

Figure 1: Total life assurance premium market share (%), FY03-14

Market share of Total premium (%)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	1Q14	1H14	FY14
American International Assurances (AIA)	38.9	37.9	33.3	31.0	28.7	26.3	24.99	19.7	20.7	22.8
Audhya Allianz C.P Life Plc., (AZAY)	9.5	6.5	6.1	6.2	6.3	5.8	5.67	4.7	4.9	5.4
Thai Life Insurance	15.2	14.4	13.7	12.4	12.2	12.5	12.44	10.3	11.6	12.5
SCB Life Insurance Plc	6.0	6.8	7.5	8.3	9.2	10.7	10.28	9.1	9.7	9.6
Muang Thai Life Assurance	6.8	7.7	8.3	10.0	11.5	12.5	13.62	14.8	15.4	14.9
Bangkok Life Assurance Plc.,	**6.1**	**6.7**	**7.7**	**8.9**	**9.6**	**8.9**	**8.83**	**20.0**	**14.4**	**10.3**
Krungthai AXA Life Insurance	2.9	4.1	4.9	6.0	6.4	7.4	8.53	8.1	9.3	9.7
Ocean Life Insurance	4.6	4.3	4.1	3.9	4.0	3.8	3.08	2.4	2.6	2.9
Prudential Life Assurance (Thailand) Plc.,	0.9	1.1	1.2	1.2	1.3	1.4	2.32	2.7	2.9	3.1
Others	3.2	4.2	6.6	5.5	4.9	5.5	10.24	8.23	8.5	8.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100	100	100	100

Sources: TLAA and Bualuang estimates

Figure 2: BLA's net investment income (Btm) and net-ROI (%), FY05-14 and Investment asset breakdown, YE07-14



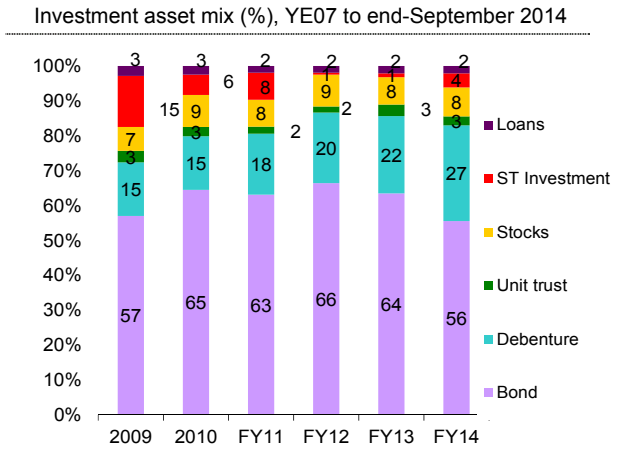
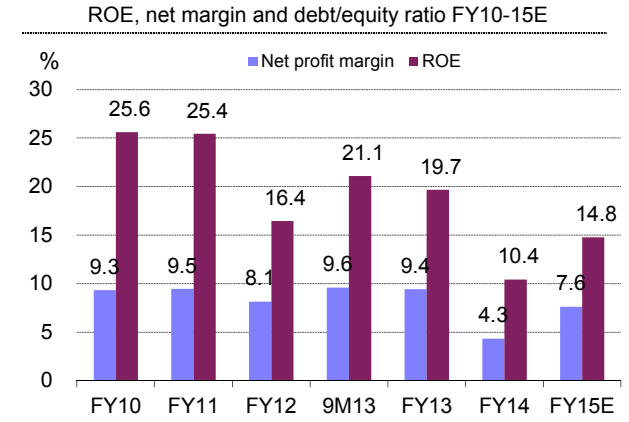
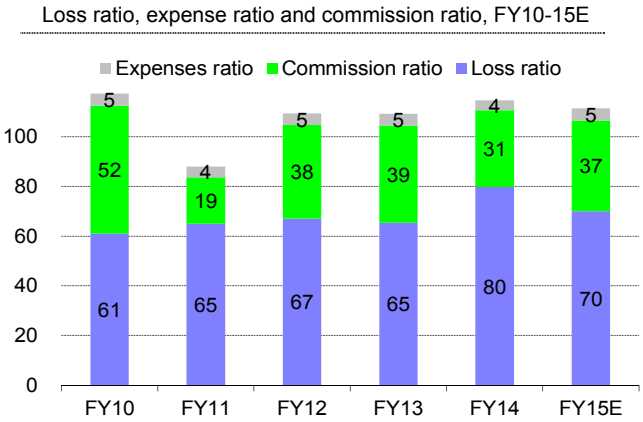


Figure 3: Net margin (%), ROE (%) and debt/equity ratio, and combined ratio (%)



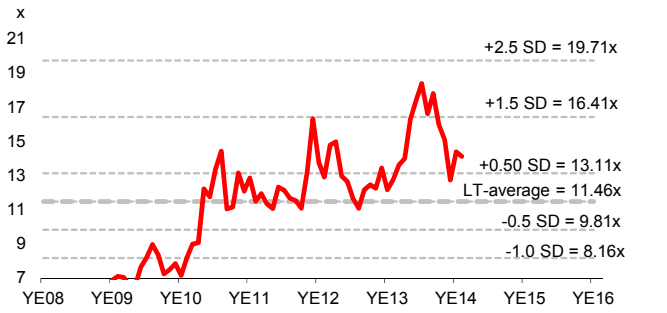


Sources: Company and TLAA

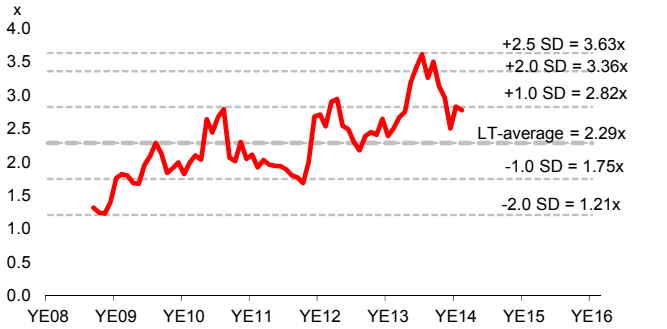
Regional Comparisons

	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	CNY69.9	102,045	14.8	13.4	32.1	11.4	2.4	2.1	17.4	15.6	1.2	1.2
China Life Insurance	601628 CH	CNY37.9	157,855	31.8	26.4	33.6	21.6	3.9	3.5	13.2	13.5	1.0	1.2
China Pacific Insurance (Group	601601 CH	CNY34.9	49,640	26.0	21.9	31.6	18.1	2.7	2.4	11.5	12.4	1.4	1.6
T&D Holdings	8795 JP	JPY1,544.5	8,817	12.2	11.7	9.8	3.6	0.9	0.8	8.0	7.6	1.6	1.7
Bangkok Life Assurance	BLA TB	THB51.00	2,673	19.8	17.4	65.3	13.6	2.9	2.7	14.8	15.3	2.2	2.4
Thaire Life Assurance	THREL TB	THB14.10	261	18.4	16.3	23.5	13.3	6.4	5.7	36.4	36.9	3.8	4.3
Simple average				**20.5**	**17.9**	**32.6**	**13.6**	**3.2**	**2.9**	**16.9**	**16.9**	**1.9**	**2.1**

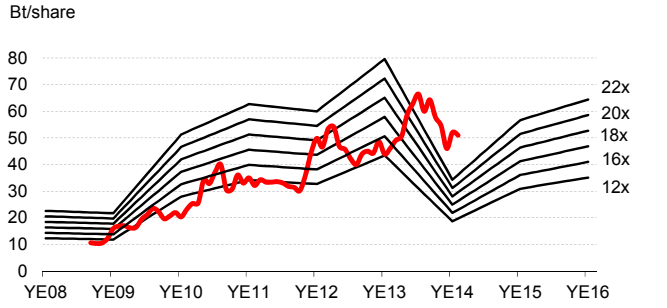
PER band versus SD (next 12 months)



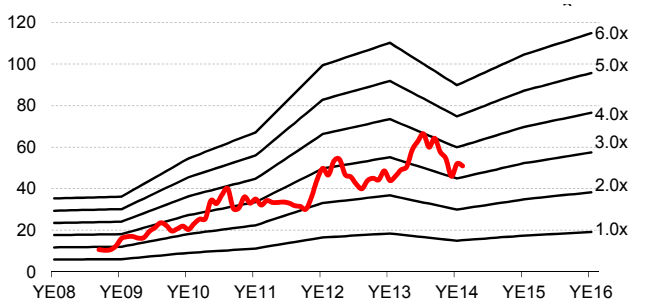
PER band versus SD (next 12 months)



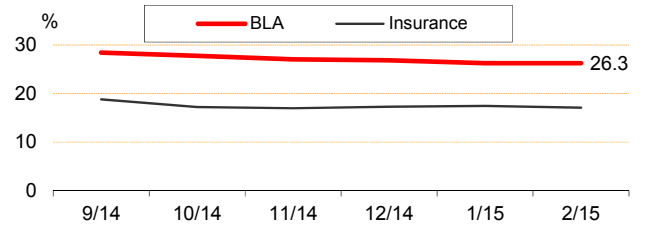
PER band and share price



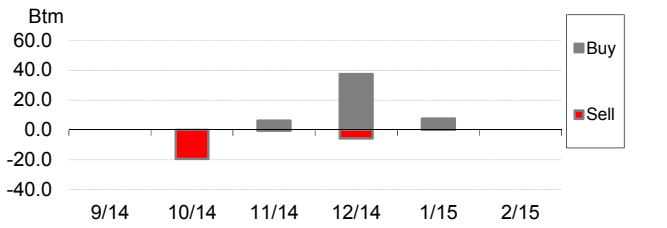
PBV band and share price



Foreign holding



Management trading activities during past six months



BUALUANG SECURITIES

Bualuang Securities Public Company Limited

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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
PLANB, JASIF	PLANB, JASIF

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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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.