Equity Talk

ASIA PLUS Securities

Analyst Meeting/3Q15 Results Note

Friday, November 13, 2015

Bangkok Life Assurance

Massive loss due to decreasing bond yield

Although BLA has undergone substantial correction to reflect bad earnings in 3Q15, a price rebound will be limited because bond yield curve has decreased 13bp and the company has launched more short-term products. Accordingly, massive loss is still anticipated in 4Q15.

- Massive loss in 3Q15 due to downtrend of bond yield curve

BLA faced a net loss of B786m in 3Q15, which was 27% better than expected, but reversed from a net profit of B1.84bn in 2Q15 because a ratio of premium reserve expense to total premium income has increased to 86.5% after standing unusually low at 40.1% in 2Q15. Total premium income grew more strongly than projected in this quarter because the company has focused on selling mid-term savings products, Gain 1st 350 (five-year payment for ten-year protection) via bancassurance channel to boost first-year premium income. On the contrary, renewal-year premium income declined because some products already matured in 2Q15. Selling channels in 3Q15 consisted of bancassurance, sales representatives, and others at a ratio of 61:36:3. Regarding the investment business, total investment income rose more than expected, mainly from increasing interest income from bond portfolio. As a result, ROI increased from 4.66% in 2Q15 to 4.91% in 3Q15.

- Loss still likely in 4Q15

We maintain our earnings forecast. 2015 earnings are projects to sink 78.4%yoy because a ratio of premium reserve expense to total premium income would increase significantly owing to a downtrend of long-term bond yield curve and decreasing total premium income as a result of lower first-year premiums. Nevertheless, BLA's earnings would rebound significantly 381.1%yoy in 2016 because a ratio of premium reserve expense to total premium income would decrease for a long-term interest rate would start to stabilize. However, a massive loss is still anticipated in 4Q15 like in 3Q15 because a 10-year bond yield would continue to weaken by 13bp from 2.89% in 3Q15. Moreover, BLA is launching a short-term savings product to boost total premium income from both bancassurance and sales representative channels, which would make premium reserve expense higher than usual.

- SELL. Limited upside and dividend yield

We reiterate SELL for BLA. 2016 fair value (appraisal value) is B52 (embedded value is B22.19 and the rest is a multiplier of 2014 VNB at B0.67). The current share price barely has an upside; although a downside is limited, the share price would still be depressed by bad earnings in 4Q15.

Key Data

FY: Dec 31	FY13A	FY14A	FY15F	FY16F	FY17F
Net Profit (Million B)	4,381	2,662	574	2,761	3,434
EPS (B)	3.62	1.57	0.34	1.62	2.02
Norm. Profit (Million B)	4,381	2,662	574	2,761	3,434
BVS (B)	18.37	15.06	15.26	16.45	17.90
PER (x)	14.3	33.0	153.5	31.9	25.7
PBV (x)	2.8	3.4	3.4	3.1	2.9
DPS (B)	0.91	0.51	0.11	0.53	0.66
Dividend Yield (%)	1.8%	1.0%	0.2%	1.0%	1.3%
ROE (%)	21.0%	11.1%	2.2%	10.2%	11.7%

Source : ASPS Research

BLA

Rec.: SELL

Current Price (B): 51.75

Target Price (B): 52.00

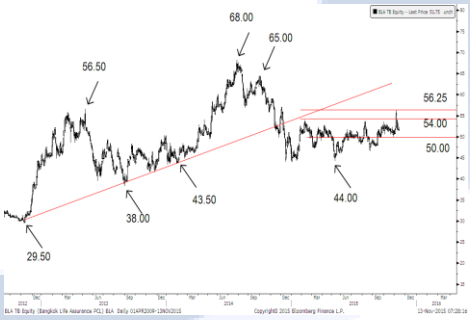
Upside : 0.77%

Dividend Yield : 0.21%

Total Return : 1.76%

Market Cap. (Million B) : 87,864

Technical Chart



ASPS vs IAA Consensus

EPS (B)	ASPS	IAA Cons	% diff
2015F	0.34	1.89	-82%
2016F	1.62	2.68	-39%

Source: ASPS and IAA consensus

CG Score : 4 = Very Good
Anti-corruption Progress Indic. 4 = Certified

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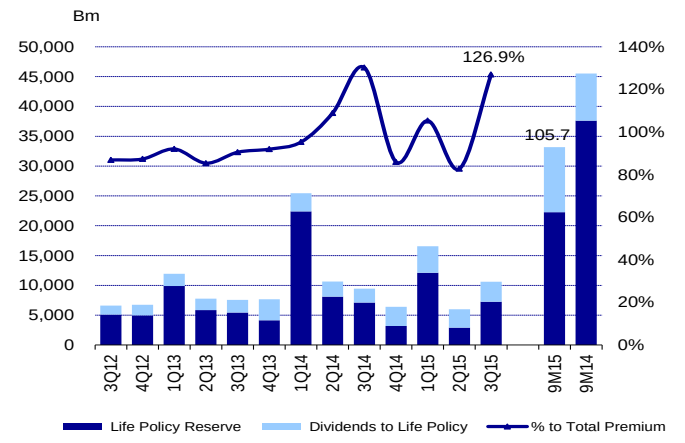
3Q15 and 9M15 Earnings Forecast

Bm	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	%QoQ	%YoY	9M15	9M14	%YoY
Net Premium Income	26,712	9,769	7,245	7,446	15,711	7,252	8,368	*15.4%*	*15.5%*	31,331	43,726	*-28.3%*
Net Investment Income	2,060	2,475	2,578	3,213	3,527	2,546	2,769	*8.8%*	*7.4%*	8,842	7,113	*24.3%*
Total Income	**28,742**	**12,260**	**9,804**	**10,669**	**19,248**	**9,849**	**11,187**	*13.6%*	*14.1%*	**40,285**	**50,806**	*-20.7%*
Underwriting Expenses	(26,940)	(11,596)	(10,507)	(7,306)	(17,850)	(7,033)	(11,710)	*66.5%*	*11.5%*	(36,594)	(49,043)	*-25.4%*
Operating Expenses	(496)	(501)	(482)	(539)	(498)	(571)	(551)	*-3.6%*	*14.3%*	(1,620)	(1,479)	*9.6%*
Total Expenses	**(27,436)**	**(12,097)**	**(10,988)**	**(7,845)**	**(18,348)**	**(7,605)**	**(12,261)**	*61.2%*	*11.6%*	**(38,214)**	**(50,521)**	*-24.4%*
Pre-tax Profi	**1,307**	**163**	**(1,185)**	**2,823**	**900**	**2,245**	**(1,074)**	*-147.8%*	*-9.4%*	**2,071**	**285**	*626.5%*
Income Tax	(211)	6	304	(546)	(135)	(400)	287	*n.m.*	*-5.6%*	(248)	99	*n.m.*
Net Profit	**1,096**	**169**	**(881)**	**2,278**	**765**	**1,844**	**(786)**	*-142.6%*	*-10.7%*	**1,823**	**384**	*374.6%*
EPS (B)	**0.65**	**0.10**	**(0.52)**	**1.34**	**0.45**	**1.09**	**(0.46)**	*-142.6%*	*-10.7%*	**1.07**	**0.23**	*374.6%*
Norm Profit	1,050	1,297	1,175	1,323	750	2,765	160	*-94.2%*	*-86.4%*	3,674	3,522	*4.3%*
Gross Margin	-0.9%	-18.7%	-45.0%	1.9%	-13.6%	3.0%	-39.9%			-16.8%	-12.2%	
ROI	4.79%	5.31%	5.34%	6.52%	6.87%	4.66%	4.91%			5.58%	5.37%	
ROE	18.92%	2.79%	-14.58%	36.76%	11.92%	27.76%	-11.95%			9.87%	2.23%	
Life Policy Reserve to Net Premium	83.9%	82.9%	98.2%	42.8%	77.0%	40.1%	86.5%			71.0%	86.1%	
Life Policy Reserve and Claims on life policy to Net Premiu	95.3%	108.9%	130.2%	85.9%	105.3%	82.7%	126.9%			98.2%	98.9%	
Operating expenses/ Investment assets	1.2%	1.1%	1.0%	1.1%	1.0%	1.0%	1.0%			1.0%	1.1%	
Spread (ROI-Operating expenses/ Investment assets)	3.6%	4.2%	4.3%	5.4%	5.9%	3.6%	3.9%			4.6%	4.3%	
Income Tax ratio	16.1%	-3.4%	25.7%	19.3%	15.0%	17.8%	26.7%			12.0%	-34.8%	

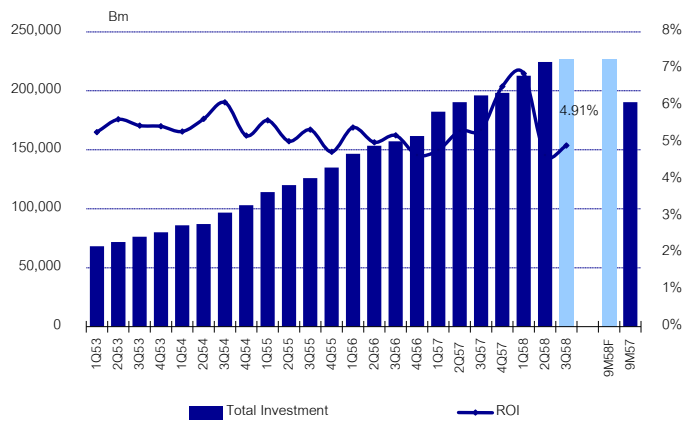
Source: Financial Statement/ ASPS Research

Premium Reserve Expense, Benefit Payment Expense and Total Premium Income by Quarter



Source: Financial Statement/ ASPS Research

Return On Investment (ROI) by Quarter

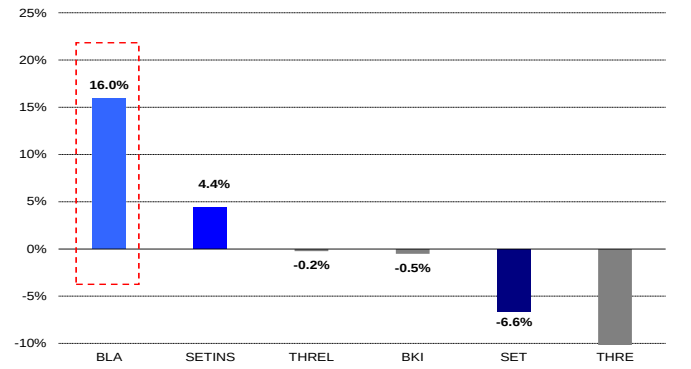


Source: Financial Statement/ ASPS Research

Historical PBV Band

Source: Bloomberg

Year-To-Date Returns



Source: Compiled by ASPS Research

2015-2017 Earnings Forecast

Income Statement (Million B)				
Ended 31 Dec.	2014	2015F	2016F	2017F
Net premium income	51,172	39,863	42,255	45,635
Net investment income	8,812	10,200	12,350	14,000
Gain/(Loss) on investment in securities	1,515	1,200	500	500
Other income	48	-	-	-
Total revenues	**61,475**	**51,263**	**55,105**	**60,135**
Underwriting expenses	(56,349)	(48,368)	(49,091)	(53,016)
Operating expenses	(2,018)	(2,247)	(2,562)	(2,827)
Fx gains/ (loss)	-	-	-	-
Total expenses	**(58,367)**	**(50,615)**	**(51,653)**	**(55,843)**
Net profit Before taxes	**3,108**	**648**	**3,452**	**4,292**
Income taxes	(446)	(74)	(690)	(858)
Net profit	**2,662**	**574**	**2,761**	**3,434**
EPS (B)	1.57	0.34	1.62	2.02
Norm profit	**2,662**	**574**	**2,761**	**3,434**
Norm EPS (B)	**1.57**	**0.34**	**1.62**	**2.02**

Balance Sheet (Million B)				
Ended 31 Dec.	2014	2015F	2016F	2017F
Investment in securities	198,238	230,376	251,447	283,127
Net loans	4,735	5,209	5,729	6,302
Cash and Deposits at FI	5,708	1,767	1,047	1,797
Property, plant and equipment, net	389	428	471	518
Other assets	6,520	8,062	10,228	13,315
Total assets	**215,590**	**245,841**	**268,922**	**305,059**
Life Premium Reserve	177,435	197,435	217,435	250,000
Other liabilities	12,579	22,483	23,745	25,090
Total liabilities	**190,013**	**219,918**	**241,179**	**275,090**
Paid-up share captial	**1,698**	**1,702**	**1,702**	**1,702**
Share premium	3,091	3,229	3,229	3,229
Surplus on revaluation of investments.	5,539	5,400	5,562	5,729
Retained earnings	15,248	15,593	17,250	19,310
Total shareholders' equity	**25,576**	**25,923**	**27,742**	**29,969**
Total liabilities and shareholders' equity	**215,590**	**245,841**	**268,922**	**305,059**

Quarter Income Statement (Million B)				
	4Q14	1Q15	2Q15	3Q15
Net premium income	7,446	15,711	7,252	8,368
Net investment income	2,259	2,511	2,466	2,715
Gain/(Loss) on investment in securities	955	1,016	80	54
Other income	68	(5)	33	13
Total revenues	**10,669**	**19,248**	**9,849**	**11,187**
Underwriting expenses	(7,306)	(17,850)	(7,033)	(11,710)
Operating expenses	(539)	(498)	(571)	(551)
Fx gains/ (loss)	-	-	-	-
Total expenses	**(7,845)**	**(18,348)**	**(7,605)**	**(12,261)**
Net profit Before taxes	**2,823**	**900**	**2,245**	**(1,074)**
Income taxes	(546)	(135)	(400)	287
Net profit	**2,278**	**765**	**1,844**	**(786)**
EPS (B)	1.34	0.45	1.09	(0.46)
Norm profit	**1,323**	**750**	**2,765**	**160**
Norm EPS (B)	**0.78**	**0.44**	**1.63**	**0.09**

Balance Sheet (Million B)				
Ended 31 Dec.	4Q14	1Q15	2Q15	3Q15
Investment in securities	198,238	212,733	224,442	226,543
Net loans	4,735	4,938	5,430	5,683
Cash and Deposits at FI	5,708	1,405	564	461
Property, plant and equipment, net	389	460	465	534
Other assets	6,520	10,524	7,660	9,097
Total assets	**215,590**	**230,061**	**238,561**	**242,317**
Life Premium Reserve	177,435	189,539	192,445	199,686
Other liabilities	12,579	14,754	18,721	17,359
Total liabilities	**190,013**	**204,293**	**211,167**	**217,045**
Paid-up share captial	**1,698**	**1,698**	**1,702**	**1,703**
Share premium	3,091	3,206	3,229	3,255
Surplus on revaluation of investments.	5,539	4,850	5,387	4,567
Retained earnings	14,678	15,443	16,506	15,176
Total shareholders' equity	**25,576**	**25,768**	**27,394**	**25,272**
Total liabilities and shareholders' equity	**215,590**	**230,061**	**238,561**	**242,317**

Financial Ratio				
Ended 31 Dec.	2014	2015F	2016F	2017F
Gross margin	-1.45%	-10.20%	-5.00%	-5.00%
Net margin	4.33%	1.12%	5.01%	5.71%
ROI	5.74%	5.32%	5.33%	5.42%
ROE	11.13%	2.23%	10.29%	11.90%
Underwriting expenses to Net Premium	6.15%	7.64%	7.68%	7.67%
Claims on Life Policy during the year/ Net Premium	24.74%	24.74%	24.74%	24.74%
Debt to Equity (x)	7.43	8.48	8.69	9.18

Financial Assumption				
Ended 31 Dec.	2014	2015F	2016F	2017F
Net premium income growth	31.9%	-22.1%	6.0%	8.0%
Underwriting expenses growth	30.3%	-16.5%	1.5%	7.4%
Investment growth	18.5%	14.0%	8.4%	11.2%
Persistency rate	79.8%	76.0%	71.0%	71.0%
Assets to Life Policy Reserve	121.5%	124.5%	123.7%	122.0%
Investment Assets to Life Policy Reserve	117.6%	120.2%	118.8%	116.5%
Equity to Life Policy Reserve	14.41%	13.13%	12.76%	11.99%

Source: Financial Statement/ ASPS Research