EQUITY ANALYSIS
KASIKORNTHAI Created by KSecurities
คือความเป็นเลิศทางการเงิน

หลักทรัพย์กสิกรไทย
开泰证券 KASIKORN SECURITIES

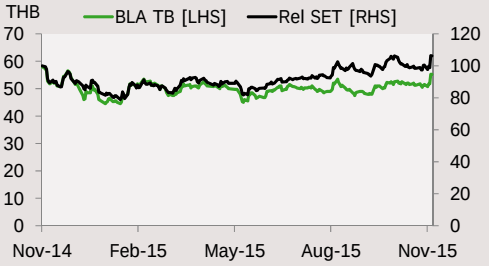
Bangkok Life Assurance PCL

BLA TB		Neutral
Fair price		Bt54.00
Close Price (06/11/2015)	**Bt**	**55.25**
Upside/Downside	**%**	**-2.3**
Valuation		**DDM**
Sector		**Insurance**
Market Cap	**Btm**	**94,136**
30-day avg t/o	**Btm**	**43**
No. of shares	**m**	**1,704**
CG Scoring		**Very Good**

Investment fundamentals

Year end Dec 31	2014A	2015E	2016E	2017E
Company Financials				
Operating Revenue (Bt m)	61,546	53,289	59,487	69,075
Core profit (Bt m)	2,734	1,444	3,872	6,545
Net profit (Bt m)	2,662	1,472	3,872	6,545
Net EPS (Bt)	1.83	0.87	2.27	3.85
DPS (Bt)	0.51	0.09	0.91	1.53
BV/shr (Bt)	15.30	17.00	19.40	21.80
Net EPS growth (%)	-49.53	-52.68	162.70	69.06
ROAA (%)	1.37	0.63	1.44	2.11
ROAE (%)	11.13	5.70	14.09	21.13
D/E (x)	7.43	8.63	8.98	9.04
Valuation				
PE (x)	30.20	63.81	24.29	14.37
PBV (x)	3.61	3.25	2.85	2.53
Dividend yield (%)	0.92	0.16	1.65	2.77

BLA TB rel SET performance



Source: SET Smart
(all figures in THB unless noted)

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9 November 2015
Kasikorn Securities Public Company Limited

To take 4 quarters to get over the hump

We downgrade BLA to Neutral from Outperform and lower fair price of Bt54 from Bt59. According to BLA's special meeting held last Friday evening (Nov 6), the auditor requested BLA to change its interest rate assumption for life insurance policy reserve to the actual coupon yield (eight-quarter average) from the best estimated assumption basis. This will result in BLA setting aside extra policy reserve whenever yields fall. We expect earnings will be under pressure for the next four quarters due to a flat yield curve until 1H16. We cut our 2015 net profit forecast by 66% and our 2016 forecast by 22% to reflect higher expense on policy reserve. As the share price has appreciated by 8% since our initiation of coverage note on Oct 28, we would take profit and start to accumulate if interest rate stabilize.

Investment highlights

- **Bond market to be under pressure until 1H16.** Due to the new life policy reserve requirement, earnings will be under pressure from a low 10-year bond yield for four quarters, i.e., 3Q15-2Q16, as we maintain our view the yield curve will be flat until 1H16 and then steepen afterward when a supply of government bonds is issued. We believe the current 10-yield bond yield of 2.64% will not fall below the lowest level of 2.49% seen in 2015. This coincides with the 2-10 year bond yield spread that currently stands at 100 bps, which suggests downside could be as low as 50 bps. We expect the spread to rebound to 160 bps by the end of 2016 as KBANK research believes the bond market will come under the most pressure in 1H16 following a potential increase in Fed funds rate.
- **Cutting 2015-16E earnings due to higher policy reserve to NEP.** We lower our 2015-16E earnings forecast mainly due to higher policy reserve to NEP, while we leave other elements, such as net earned premiums (NEP) and return on investment unchanged. We revise up our reserve to NEP assumption for 3Q15-2Q16 as we believe low interest rates will pressure earnings in the period. Earnings should improve in 3Q16 due to an expected widening bond yield. We raise our reserve to NEP assumption for 2015 from 66% to 75% and from 68% to 70% for 2016. We thereby lower our net profit estimate for 2015 by 66% and for 2016 by 22%. We thus foresee BLA's earnings turning around next year instead of our previous forecast of this year.
- **Expect a net loss in 3Q15 on a 21 bps drop in yield.** Due to BLA's new interest rate assumption for life insurance policy reserve that it adopted as of 3Q15, we expect BLA will report a net loss for 3Q15 of Bt927mn mainly as policy reserve expense was Bt2bn higher than our initial forecast. According to data from the Thai Bond Market Association (ThaiBMA), the 10-year bond yield stood at 2.74% at end-3Q15, down 21 bps QoQ. The higher reserve expense was in line with management's expectation that every 25 bps decrease in 10-year yield will result in additional policy reserve expense by Bt2bn. We maintain our forecast net earned premium from its mid-term 10/5 endowment product that was launched during 3Q.

Valuation

- We downgrade our rating on BLA from Outperform to Neutral and lower our 2016 target price from Bt59 to Bt54.00 based on the DDM method. At the current price, BLA currently trades at a one-year forward PER of 16.9x and PBV of 2.8x.

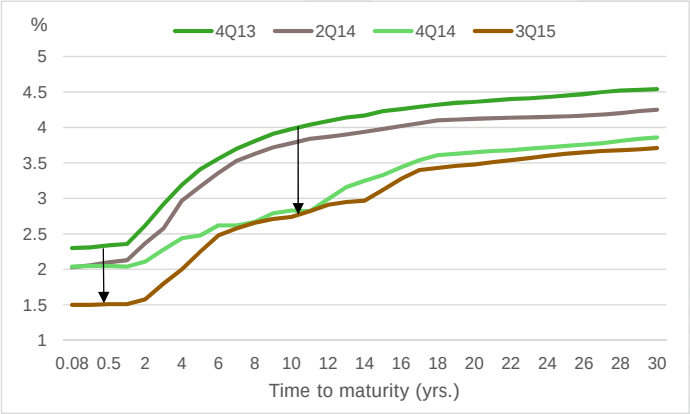
To take 4 quarters to get over the hump

Earnings to be volatile due to the change in interest rate assumption for life insurance reserve

We downgrade BLA from Outperform to Neutral and lower our fair price from Bt59 of Bt54.00. BLA held an urgent meeting last Friday evening (Nov 6) regarding its life insurance policy reserve. The key message was that the auditor asked BLA to change its interest rate assumption for life insurance policy reserve to the actual coupon yield (8-quarter average) from a best estimated assumption basis that has been applied since 4Q14. This will result in BLA setting aside extra policy reserve whenever bond yields fall. BLA's earnings will eventually fluctuate in line with changes in yields, as has occurred in the past.

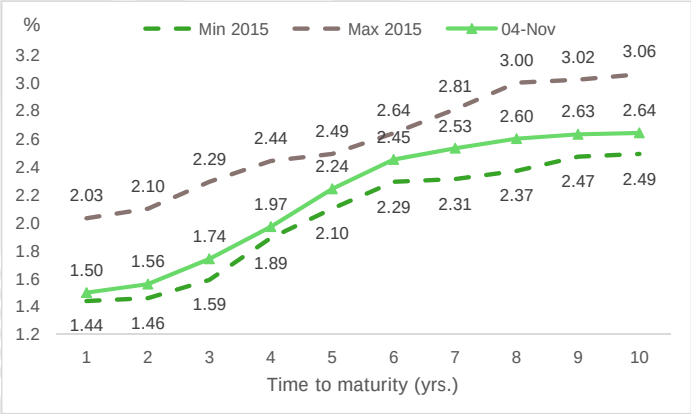
Given the new life policy reserve assumption, earnings will be under pressure from low yields for the next four quarters (3Q15-2Q16), as we maintain our view that the yield curve will remain flat until 1H16. Afterwards, the yield curve should steepen from a fresh supply of government bonds. We maintain our view that the current 10-yield yield of 2.64% will not fall below the lowest point of 2.49% seen in 2015.

Fig 1 Change in yield curve



Source: Thai BMA, KBANK and KS

Fig 2 Yield curve band for 2015



Source: Thai BMA, KBANK and KS

Our key yield curve trend indicator is the 2-10 bond yield spread, which currently stands at 100 bps. The downtrend of the 2-10 yield spread should continue to as low as 50 bps before rebounding to 160 bps by the end of 2016, as KBANK research suggests the bond market will be under the most pressure in 1H16, as this period coincides with a potential increase in the Fed funds rate.

Fig 3 2-10 year spread to reduce and then rebound to 160 bps by end-2016

Source: Thai BMA

Lowering 2015-16E earnings on an increase in reserve/NEP only, while other elements remain unchanged

We cut our 2015-16E earnings forecast mainly due to higher expense on policy reserve to NEP, while other elements, e.g., net earned premium, benefit payment to NEP, and return on investment remain unchanged. We revise up our expense on policy reserve to NEP assumption for 3Q15-2Q16 as we believe low interest rates will pressure earnings in the period before improving in 3Q16 on an expected increase in bond yield. We raise our reserve to NEP assumption from 66% to 75% for 2015E and from 68% to 70% for 2016. As a result, we lower our net profit estimate by 66% for 2015E and by 22% for 2016E.

Fig 4 Earnings revisions

	Revised forecast			Previous forecast			Change (%, ppt)		
Btmn	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Net earned premium : NEP	41,353	46,814	54,293	41,353	46,814	54,293	0.0%	0.0%	0.0%
Total underwriting expense	-49,555	-52,477	-58,527	-45,907	-51,017	-58,688	-7.9%	-2.9%	0.3%
Total investment income	11,936	12,674	14,782	11,922	12,575	14,677	0.1%	0.8%	0.7%
Operating profit	1,513	4,500	7,772	5,147	5,863	7,508	-70.6%	-23.3%	3.5%
Net Profit	**1,472**	**3,872**	**6,545**	**4,379**	**4,960**	**6,332**	**-66.4%**	**-21.9%**	**3.4%**
Net investment return (%)	5.40	4.92	4.99	5.41	4.92	4.99	-0.01	0.00	0.00
Increase in reserve to NEP (%)	74.90	69.98	66.22	66.31	67.52	67.06	8.59	2.47	-0.84
Benefit payment to NEP (%)	37.13	34.15	33.63	36.90	33.52	33.11	0.22	0.62	0.52
Operating margin (%)	2.84	7.56	11.25	9.66	9.87	10.89	-6.82	-2.31	0.37
ROAE (%)	5.70	14.09	21.13	16.25	16.58	18.93	-10.55	-2.50	2.20
Net profit growth (%)	-44.70	163.03	69.06	64.51	13.27	27.65	-109.22	149.76	41.41

Source: KS

New 3Q15 result preview – to turn to a net loss of Bt927mn

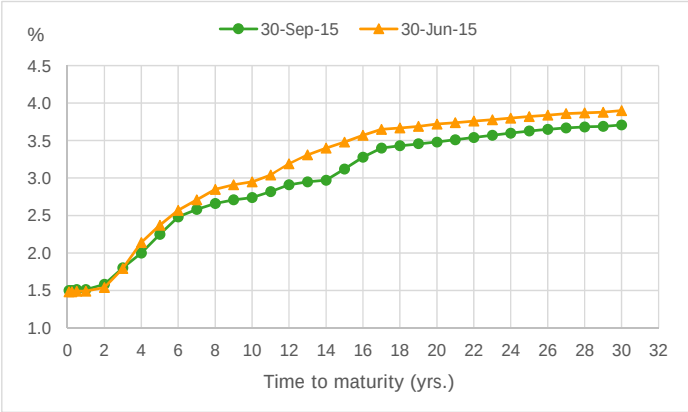
Given the change of interest rate assumption on life policy reserve in 3Q15, we expect BLA to report a net loss of Bt927mn, in contrast to our previously estimated net profit of Bt877mn. This mainly reflects the expense on policy reserve that will cause total underwriting expense to exceed our initial estimate by Bt2bn. According to data from the Thai Bond Market Association (ThaiBMA), the 10-year bond yield stood at 2.74% at end-3Q15, down 21 bps QoQ. The higher reserve expense was in line with management's expectation and with our preview report that every 25 bps decrease in 10-year yield will result in additional policy reserve expense by Bt2bn. We maintain our net earned premium forecast, as BLA's mid-term 10/5 endowment product that was launched during 3Q should help alleviate the effect of the low yield environment.

Fig 5 Quarterly earnings

	3Q14A	4Q14A	1Q15A	2Q15A	3Q15E	%YoY	%QoQ
Financials							
Net earned premium : NEP (Btmn)	7,245	7,446	15,711	7,252	8,884	22.6	22.5
Total underwriting expense (Btmn)	-10,507	-7,306	-17,850	-7,033	-12,541	-19.4	-78.3
Total investment income (Btmn)	2,588	3,234	3,542	2,564	2,959	14.3	15.4
Operating profit (Btmn)	-1,155	2,835	905	2,211	-1,266	-9.7	-157.3
Net Profit (Btmn)	-881	2,278	765	1,844	-927	-5.3	-150.3
Net EPS (Bt)	-0.73	1.57	0.45	1.09	-0.54	25.0	-150.2
Performance Drivers							
Investment securities (Btmn)	196,098	198,238	212,733	224,442	226,083	15.3	0.7
Policy reserves (Btmn)	175,381	178,492	190,784	193,664	201,926	15.1	4.3
First Year Premium (% share)	16.7	17.2	13.2	21.5	32.5		
Premium from bancassurance (% share)	57.6	43.3	79.2	59.0	70.0		
Ratios						**Change**	
Net investment return (%)	5.2	6.3	6.6	4.6	5.1	-0.1	0.5
Increase in reserves to NEP (%)	98.2	42.8	77.0	40.1	93.0	-5.2	52.9
Benefit payment to NEP (%)	37.4	46.5	30.4	46.8	39.7	2.4	-7.1
Operating margin (%)	-11.7	26.5	4.7	22.5	-10.7	1.0	-33.2
ROAE (%)	-14.6	36.8	11.9	27.8	-13.9	0.7	-41.7
Equity to policy reserves (%)	13.7	14.3	13.5	14.1	12.8	-0.8	-1.3
CAR under Risk based capital (%)	282.0	409.0	407.0	347.0	286.7	4.7	-60.3

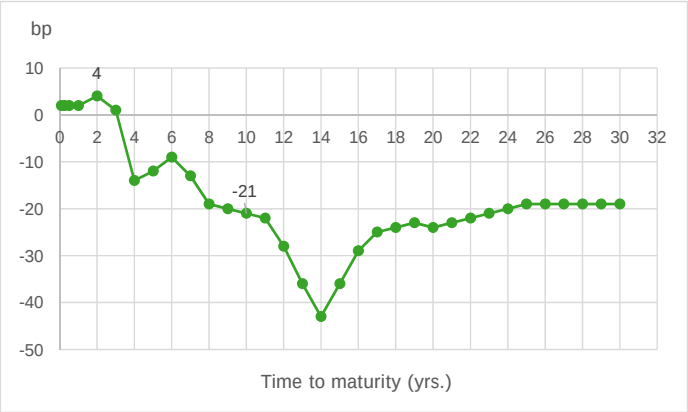
Source: KS

Fig 6 Yield curve – 2Q15 vs 3Q15



Source: Thai BMA and KS

Fig 7 Change in yield curve – 2Q vs 3Q15



Source: Thai BMA and KS

Year-end 31 Dec

Income Statement (Btmn)	2013A	2014A	2015E	2016E	2017E
Net earned premium (NEP)	38,795	51,172	41,353	46,814	54,293
Increase in policy reserves	-25,357	-40,818	-30,972	-32,761	-35,953
Benefit payments	-10,851	-12,384	-15,353	-15,985	-18,257
Commission expenses	-2,705	-2,807	-2,689	-3,055	-3,543
Other underwriting expenses	-383	-339	-540	-677	-774
Underwriting income	-501	-5,177	-8,202	-5,664	-4,234
Total investment income	7,688	10,374	11,936	12,674	14,782
Operating expenses	-1,828	-2,018	-2,221	-2,510	-2,776
Operating profit	5,359	3,180	1,513	4,500	7,772
Equity earnings	0	0	0	0	0
Pre-tax profit	5,359	3,180	1,513	4,500	7,772
Income tax	-930	-446	-69	-628	-1,227
NPAT	4,428	2,734	1,444	3,872	6,545
Minority interests	0	0	0	0	0
Core Profit	4,428	2,734	1,444	3,872	6,545
Extraordinary items	0	0	0	0	0
FX gain (loss)	-48	-72	28	0	0
Reported net profit	4,381	2,662	1,472	3,872	6,545
Balance Sheet (Btmn)					
Cash & equivalents	1,331	5,708	1,980	2,280	2,617
Investment in securities	161,126	198,238	233,856	269,273	309,007
Net loans	3,526	4,735	5,651	6,507	7,467
Fixed assets-net	327	389	464	536	616
Reinsurers assets	790	764	1,069	1,236	1,420
Premium receivables	1,840	1,725	2,809	3,248	3,730
Accrued investment income	1,863	2,344	2,809	3,248	3,730
Other assets	1,433	1,687	2,127	2,460	2,825
Total assets	172,235	215,590	250,765	288,788	331,409
Policy & premium reserves	137,638	178,492	209,626	242,387	278,340
Other insurance liabilities	7,779	8,074	9,533	11,023	12,658
Other liabilities	4,554	3,447	5,571	6,442	7,397
Total liabilities	149,971	190,013	224,730	259,852	298,395
Paid up capital	1,212	1,698	1,702	1,702	1,702
Share premium	2,846	2,988	3,158	3,158	3,158
Other equity items	4,459	5,642	5,457	5,457	5,457
Retained earnings	13,747	15,248	15,718	18,620	22,697
Minority interests	0	0	-0	-0	-0
Total shareholders' equity	22,264	25,576	26,035	28,937	33,014
Total equity & liabilities	172,235	215,590	250,765	288,788	331,409
Key Assumptions					
Number of share outstanding (mn)	1,212	1,698	1,702	1,702	1,702
Net earned premium growth (%)	13.68	31.90	-19.19	13.21	15.98
Net investment return (%)	5.09	5.64	5.40	4.92	4.99
Increase in policy reserves/NEP (%)	65.36	79.77	74.90	69.98	66.22
Benefit payments/NEP (%)	27.97	24.20	37.13	34.15	33.63

Key Statistics & Ratios	2013A	2014A	2015E	2016E	2017E
Per share (Bt)					
Reported EPS	3.63	1.83	0.87	2.27	3.85
Core EPS	3.67	1.88	0.85	2.27	3.85
DPS	0.91	0.51	0.09	0.91	1.53
BV	15.06	15.30	17.00	19.40	21.80
Embedded value (EV)	26.94	28.14	29.71	32.75	36.38
Value of new business (VNB)	1.54	0.67	0.82	1.14	1.32
Valuation analysis					
Reported P/E (x)	15.24	30.20	63.81	24.29	14.37
Core P/E (x)	15.07	29.40	65.05	24.29	14.37
P/BV (x)	3.67	3.61	3.25	2.85	2.53
Price / EV (x)	2.05	1.96	1.86	1.69	1.52
Dividend yield (%)	1.65	0.92	0.16	1.65	2.77
Profitability ratio					
Operating margin (%)	11.53	5.17	2.84	7.56	11.25
Net profit margin (%)	9.42	4.32	2.76	6.51	9.48
Effective tax rate (%)	20.34	20.81	25.33	20.00	20.00
ROAA (%)	2.78	1.37	0.63	1.44	2.11
ROAE (%)	20.74	11.13	5.70	14.09	21.13
Operating ratio					
Net investment return (%)	5.09	5.64	5.40	4.92	4.99
Increase in policy reserves/NEP (%)	65.36	79.77	74.90	69.98	66.22
Benefit payments/NEP (%)	27.97	24.20	37.13	34.15	33.63
Commission/NEP (%)	6.97	5.49	6.50	6.53	6.53
EV, VNB and Solvency ratio					
Embedded value : EV (Btmn)	32,640	47,785	50,576	55,742	61,917
Value of new business : VNB (Btmn)	1,862	1,143	1,403	1,938	2,247
Equity to policy reserves (%)	16.2	14.3	12.4	11.9	11.9
CAR under Risk Based Capital (%)	244.0	409.0	278.3	268.6	267.1
Debt/equity (x)	6.74	7.43	8.63	8.98	9.04
Premium Breakdown					
First year premium (% share)	27.0	36.8	22.2	28.0	28.0
Premium - bancassurance (% share)	65.1	72.6	70.4	65.0	65.0
Growth					
Investment in securities (%)	19.37	23.03	17.97	15.15	14.76
Policy & premium reserves (%)	22.52	29.68	17.44	15.63	14.83
Net earned premium : NEP (%)	13.68	31.90	-19.19	13.21	15.98
Operating profit (%)	11.35	-40.66	-52.43	197.43	72.74
Reported net profit (%)	33.37	-39.23	-44.70	163.03	69.06
Reported EPS (%)	32.73	-49.53	-52.68	162.70	69.06
Core profit (%)	32.88	-38.27	-47.18	168.15	69.06
Core EPS (%)	32.23	-48.73	-54.80	167.81	69.06
Embedded value : EV (%)	11.55	46.40	5.84	10.21	11.08
Value of new business : VNB (%)	-2.51	-38.61	22.76	38.10	15.98

Source: Company, KS estimate

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