EARNINGS BRIEF

Bangkok Life Assurance

Thursday, November 12, 2015

SCB Securities

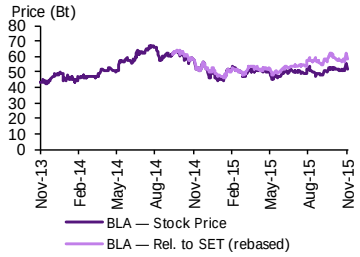
SELL

Stock Data

Last close (Nov 11) (Bt)	51.75
12-m target price (Bt)	45.00
Upside (Downside) to TP (%)	(13.04)
Mkt cap (Btbn)	88.17
Mkt cap (US$mn)	2,459

Bloomberg code	BLA TB
Reuters code	BLA.BK
Risk rating	L
Mkt cap (%) SET	0.67
Sector % SET	1.52
Shares issued (mn)	1,704
Par value (Bt)	1.00
12-m high / low (Bt)	57 / 44
Avg. daily 6m (US$mn)	1.19
Foreign limit / actual (%)	25 / 25
Free float (%)	41.6
Dividend policy (%)	≥ 25

Share performance



Source: SET, SCBS Investment Research

Price performance

	1M	3M	12M
Absolute	0.0	(1.0)	(1.9)
Relative to SET	1.6	0.3	10.2

Source: SET, SCBS Investment Research

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3Q15: Put into the red by falling bond yield

Falling bond yield led to a Bt786mn loss in 3Q15 vs. Bt1.84bn net profit in 2Q15. Its life policy reserve ratio doubled to 86.54% in 3Q15 from 40.1% in 2Q15. The company booked extra life policy reserve of Bt2.28bn in 3Q15 to handle the falling bond yield. Its 2Q15 life policy reserve ratio of 40.1% was lower than usual because it reversed Bt1.32bn life policy reserve following a rise in L-T bond yield. Its 3Q15 net premiums rose 15% YoY and 15% QoQ. Return on investment rose by 26 bps QoQ to 4.98% as a result of rising yield on investment, despite falling bond yield.

Quarterly results

P & L (Bt mn)	3Q14	2Q15	3Q15	%YoY ch	%QoQ ch	9M14	9M15	% YoY ch	% full year
Net premiums written	7,245	7,252	8,368	15	15	43,726	31,331	(28)	72
Net investments income	2,386	2,466	2,715	14	10	6,553	7,693	17	76
Gains (losses) on investment	162	113	91	(44)	(20)	500	1,214	143	87
Other Income	10	18	13	29	(27)	28	47	69	92
Total Revenue	9,804	9,849	11,187	14	14	50,806	40,285	(21)	73
Total underwriting expenses	10,507	7,033	11,710	11	66	49,043	36,594	(25)	73
Total operating expensess	482	571	551	14	(4)	1,479	1,620	10	77
Corporate income tax	(304)	400	(287)	6	(172)	(99)	248	(350)	42
Net Profit	(881)	1,844	(786)	11	(143)	384	1,823	375	68
EPS (Bt)	(0.73)	1.08	(0.46)	36	(143)	0.32	1.07	238	68
Ratios (%)	**3Q14**	**2Q15**	**3Q15**	**%YoY ch***	**%QoQ ch***	**9M14**	**9M15**	**YoY ch***	**% full year**
Yield on investment (%)	4.94	4.51	4.82	(0.12)	0.30	4.89	4.83	(0.06)	NM
Return on investment (%)	5.28	4.72	4.98	(0.30)	0.26	5.26	5.59	0.33	NM
Life policy reserve ratio (%)	98.24	40.07	86.54	(11.70)	46.46	86.06	71.02	(15.04)	NM
Benefit payment ratio (%)	31.99	42.64	40.39	8.40	(2.25)	18.04	34.83	16.79	NM
Commission ratio (%)	8.10	8.65	8.00	(0.09)	(0.65)	5.05	6.83	1.78	NM
Underwriting margin (%)	(45.01)	3.02	(39.94)	5.07	(42.96)	(12.16)	(16.80)	(4.64)	NM
Cost to income ratio (%)	5.00	5.87	4.96	(0.03)	(0.90)	2.94	4.15	1.21	NM
Net profit margin (%)	(8.98)	18.73	(7.03)	1.95	(25.76)	0.76	4.53	3.77	NM
ROA (%)	(1.70)	3.15	(1.31)	0.39	(4.46)	0.24	1.00	0.76	NM
ROE (%)	(14.58)	27.76	(11.95)	2.64	(39.70)	2.21	9.56	7.35	NM

Source: SCBS Investment Research
Note: * Percentage points

Cut forecast to reflect accounting change. BLA earlier planned to start using the best-estimate assumption for bond yield instead of an 8-quarter average yield on zero coupon bonds when calculating life policy reserve from 3Q15 onward to make this less sensitive to fluctuations in bond yield, but it reports that its auditor did not okay this accounting change. We thus cut 2015F earnings forecast by 42% to Bt2.6bn (flat relative to 2014) to reflect this, as our old forecast had factored in the accounting change. This did not, however, have an impact on our target price.

Looking forward to benefit from a hike in Fed fund rate. Its 9M15 earnings accounted for 68% of our full-year forecast. We expect lower life policy reserve in 4Q15 to factor in the possibility of a hike in the Fed funds rate in December. We also expect a seasonal QoQ rise in net premiums in 4Q15, though still maintain our forecast of a 14% reduction in net premiums for the full year.

Maintain Sell. We maintain Sell on BLA in view of the sluggish premium growth and rich valuation. A hike in Fed funds rate could be a turning point for BLA as this will help ease life policy reserve and improve yield on investment in the future.

Forecasts and Valuation

FY Dec	Unit	2013	2014	2015F	2016F	2017F
Net profit	(Btmn)	4,381	2,662	2,685	3,443	3,679
EPS	(Bt)	2.58	1.57	1.58	2.03	2.17
BVPS	(Bt)	13.12	15.06	16.16	17.83	19.55
DPS	(Bt)	0.91	0.51	0.47	0.61	0.65
ROE	(%)	21.00	11.13	10.13	11.93	11.59
EV/share	(Bt)	19.24	28.14	29.24	30.91	32.63
1-year VNB/share	(Bt)	1.10	0.67	0.87	1.03	1.14
EPS growth	(%)	32.83	(39.28)	0.87	28.23	6.87
PER	(x)	20.05	33.01	32.72	25.52	23.88
PBV	(x)	3.94	3.44	3.20	2.90	2.65
Dividend yields	(%)	1.76	0.99	0.92	1.18	1.26
P/EV	(x)	2.69	1.84	1.77	1.67	1.59
P/VNB	(x)	47.16	76.87	59.73	50.28	45.34

Source: SCBS Investment Research

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Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2013	2014	2015F	2016F	2017F
Net premiums written	38,795	51,172	43,804	49,712	55,396
Net investments income	7,056	8,812	10,086	11,158	12,207
Gains (losses) on investment in sec.	545	1,443	1,400	500	500
Other Income	39	48	50	53	58
Total Revenue	**46,435**	**61,475**	**55,341**	**61,423**	**68,161**
Total underwriting expenses	39,296	56,349	49,967	54,967	61,251
Total operating expenses	1,828	2,018	2,099	2,258	2,423
Corporate income tax	930	446	589	756	808
Net Profit	**4,381**	**2,662**	**2,685**	**3,443**	**3,679**
EPS (Bt)	2.58	1.57	1.58	2.03	2.17
DPS (Bt)	0.91	0.51	0.47	0.61	0.65

Profit and Loss Statement (Btmn)

FY December 31	3Q14	4Q14	1Q15	2Q15	3Q15
Net premiums written	7,245	7,446	15,711	7,252	8,368
Net investments income	2,386	2,259	2,511	2,466	2,715
Gains (losses) on investment in securities	162	943	1,010	113	91
Other Income	10	21	15	18	13
Total Revenue	9,804	10,669	19,248	9,849	11,187
Total underwriting expenses	10,507	7,306	17,850	7,033	11,710
Total operating expenses	482	539	498	571	551
Corporate income tax	(304)	546	135	400	(287)
Net Profit	(881)	2,278	765	1,844	(786)
EPS (Bt)	(0.73)	1.34	0.45	1.08	(0.46)

Balance Sheet (Btmn)

FY December 31	2013	2014	2015F	2016F	2017F
Total investments in securities	161,126	198,238	222,026	242,897	265,729
Total loans - net	3,526	4,735	5,209	5,729	6,302
Total Assets	**172,234**	**215,590**	**235,025**	**256,554**	**280,306**
Total Liabilities	**149,971**	**190,013**	**207,590**	**226,281**	**247,110**
Paid-up capital	1,697	1,698	1,698	1,698	1,698
Total Equity	**22,264**	**25,576**	**27,435**	**30,272**	**33,196**
BVPS (Bt)	13.12	15.06	16.16	17.83	19.55

Balance Sheet (Btmn)

FY December 31	3Q14	4Q14	1Q15	2Q15	3Q15
Total investments in securities	196,098	198,238	212,733	224,442	226,543
Total loans - net	4,323	4,735	4,938	5,430	5,683
Total Assets	**210,428**	**215,590**	**230,061**	**238,561**	**242,317**
Total Liabilities	**186,434**	**190,013**	**204,293**	**211,167**	**217,045**
Paid-up capital	1,213	1,698	1,698	1,702	1,703
Total Equity	**23,994**	**25,576**	**25,768**	**27,394**	**25,272**
BVPS (Bt)	19.79	15.06	15.18	16.09	14.84

Key Financial Ratios and Assumptions

	2013	2014	2015F	2016F	2017F
Net insurance premium growth (%)	13.68	31.90	(14.40)	13.49	11.43
Underwriting margin (%)	(1.29)	(10.12)	(14.07)	(10.57)	(10.57)
Net profit margin (%)	9.43	4.33	4.85	5.61	5.40
Yield on investment (%)	4.77	4.90	4.80	4.80	4.80
Return on investment (%)	5.13	5.71	5.47	5.02	5.00
Underwriting expense ratio (%)	101.29	110.12	114.07	110.57	110.57
Cost to income ratio (%)	3.98	3.36	3.89	3.71	3.58
ROA (%)	2.77	1.37	1.19	1.40	1.37
ROE (%)	21.00	11.13	10.13	11.93	11.59
Equity to Life policy reserve (%)	16.30	14.41	14.12	14.27	14.30

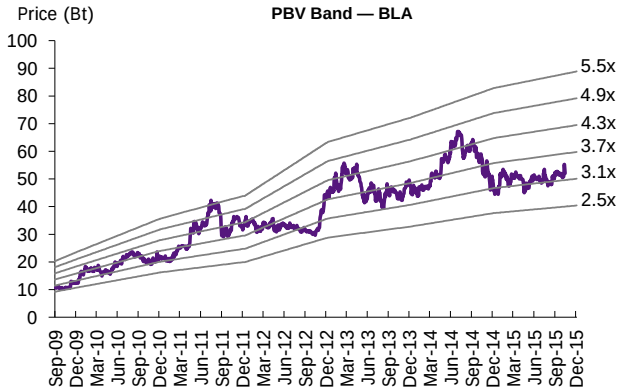
Key Financial Ratios

	3Q14	4Q14	1Q15	2Q15	3Q15
Net insurance premium growth (%)	(13.46)	(10.82)	(41.18)	(25.76)	15.49
Underwriting margin (%)	(45.01)	1.88	(13.62)	3.02	(39.94)
Net profit margin (%)	(8.98)	21.35	3.98	18.73	(7.03)
Yield on investment (%)	4.94	4.58	4.89	4.51	4.82
Return on investment (%)	5.28	6.50	6.86	4.72	4.98
Underwriting expense ratio (%)	4.94	4.58	4.89	4.51	4.82
Cost to income ratio (%)	5.00	5.54	2.73	5.87	4.96
ROA (%)	(1.70)	4.70	1.37	3.15	(1.31)
ROE (%)	(14.58)	36.76	11.92	27.76	(11.95)
Equity to Life policy reserve (%)	13.77	14.41	13.60	14.23	12.66

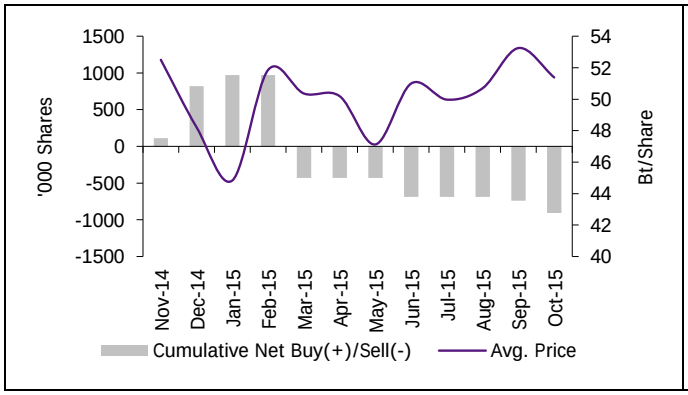
Valuation Assumptions

	2013	2014	2015F	2016F	2017F
Embedded value	32,641	47,785	49,644	52,481	55,404
Embedded value/share (Bt)	19.24	28.14	29.24	30.91	32.63
1-year VNB	1,862	1,143	1,471	1,748	1,938
1-year VNB per share (Bt)	1.10	0.67	0.87	1.03	1.14
Discount rate (%)	10.00	10.00	10.00	10.00	10.00

PBV Band Chart

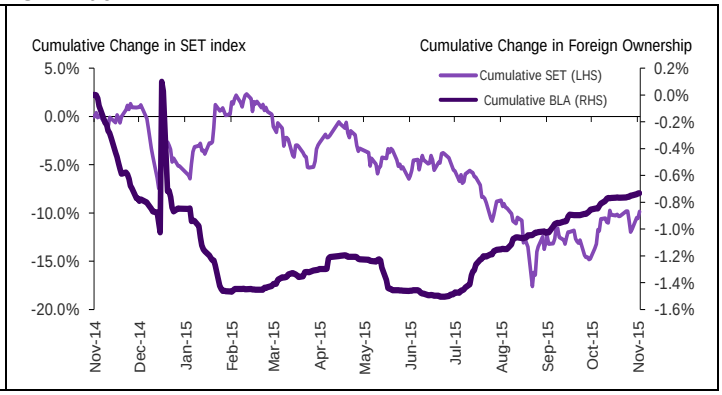


12-month cumulative directors trade



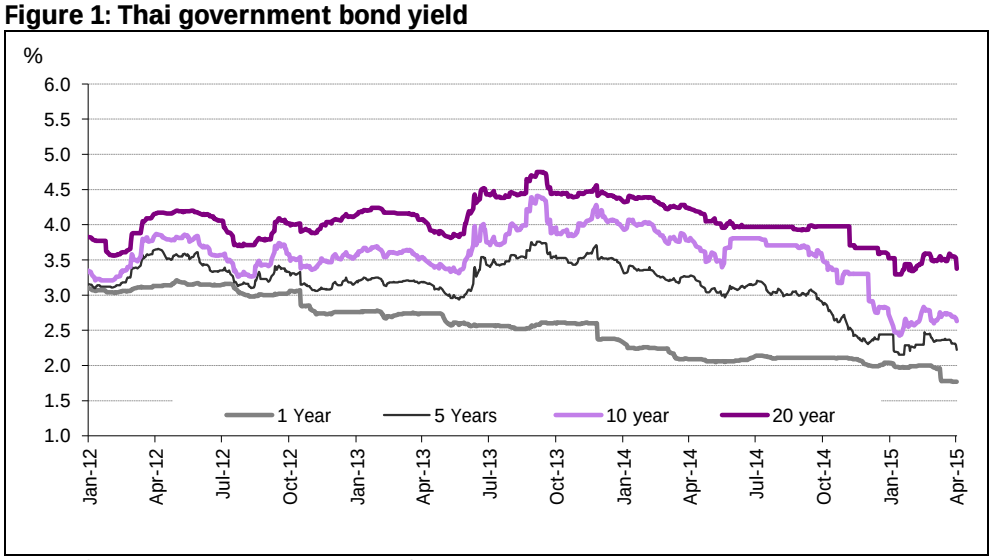
Source: SEC

Cumulative chg in foreign ownership versus cumulative chg in SET index



Source: SET, SCBS Investment Research

Figure 1: Thai government bond yield



Source: Thai BMA and SCBS Investment Research

Figure 2: Valuation summary (Closing price as of Nov 11, 2015)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x) 14A	P/E (x) 15F	P/E (x) 16F	EPS growth (%) 14A	EPS growth (%) 15F	EPS growth (%) 16F	P/BV (x) 14A	P/BV (x) 15F	P/BV (x) 16F	ROE (%) 14A	ROE (%) 15F	ROE (%) 16F	Div. Yield (%) 14A	Div. Yield (%) 15F	Div. Yield (%) 16F
BLA	Sell	51.75	45.0	(12.1)	33.0	32.7	25.5	(39)	1	28	3.4	3.2	2.9	11	10	12	1.0	0.9	1.2
THRE	Buy	2.78	3.4	24.2	n.m.	16.5	13.5	42	n.m.	23	3.1	1.8	1.6	(59)	14	12	0.0	1.9	2.2
THREL	Buy	13.50	15.0	14.9	21.8	18.6	16.2	(3)	17	15	6.8	6.0	5.2	33	34	34	3.3	3.8	4.3
Average					**27.4**	**22.6**	**18.4**	**(0)**	**9**	**22**	**4.4**	**3.6**	**3.2**	**(5)**	**19**	**20**	**1.4**	**2.2**	**2.6**

Source: SCBS Investment Research

CG Rating 2014	Companies with CG Rating
▲▲▲▲▲	BAFS, BCP, BTS, CPN, EGCO, GRAMMY, HANA, INTUCH, IRPC, IVL, KBANK, KKP, KTB, MINT, PSL, PTT, PTTEP, PTTGC, SAMART, SAMTEL, SAT, SC, SCB, SE-ED, SIM, SPALI, TISCO, TMB, TOP
▲▲▲▲	AAV, ACAP, ADVANC, ANAN, AOT, ASIMAR, ASK, ASP, BANPU, BAY, BBL, BECL, BIGC, BKI, BLA, BMCL, BROOK, CENTEL, CFRESH, CIMBT, CK, CNT, CPF, CSL, DELTA, DRT, DTAC, DTC, EASTW, EE, ERW, GBX, GC, GFPT, GUNKUL, HEMRAJ, HMPRO, ICC, KCE, KSL, LANNA, LH, LHBANK, LOXLEY, LPN, MACO, MC, MCOT, NBC, NCH, NINE, NKI, NMG, NSI, OCC, OFM, PAP, PE, PG, PHOL, PJW, PM, PPS, PR, PRANDA, PS, PT, QH, RATCH, ROBINS, RS, S & J, SAMCO, SCC, SINGER, SIS, SITHAI, SNC, SNP, SPI, SSF, SSI, SSSC, STA, SVI, TCAP, TF, THAI, THANI, THCOM, TIP, TIPCO, TK, TKT, TNITY, TNL, TOG, TRC, TRUE, TSTE, TSTH, TTA, TTW, TVO, UAC, VGI, VNT, WACOAL
▲▲▲	2S, AF, AH, AHC, AIT, AJ, AKP, AKR, AMANAH, AMARIN, AMATA, AP, APCO, APCS, AQUA, ARIP, AS, ASIA, AYUD, BEAUTY, BEC, BFIT, BH, BJC, BJCHI, BOL, BTNC, BWG, CCET, CGD, CGS, CHOW, CI, CKP, CM, CMR, CSC, CSP, CSS, DCC, DEMCO, DNA, EA, ESSO, FE, FORTH, FPI, GENCO, GL, GLOBAL, GLOW, GOLD, HOTPOT, HTC, HTECH, HYDRO, IFS, IHL, INET, IRC, IRCP, ITD, KBS, KGI, KKC, KTC, L&E, LRH, LST, MAJOR, MAKRO, MATCH, MBK, MBKET, MEGA, MFC, MFEC, MJD, MODERN, MONO, MOONG, MPG, MTI, NC, NTV, NUSA, NWR, NYT, OGC, OISHI, PACE, PATO, PB, PDI, PICO, PPM, PPP, PREB, PRG, PRIN, PTG, QLT, QTC, RCL, SABINA, SALEE, SCBLIF, SCCC, SCG, SEAFCO, SEAOIL, SFP, SIAM, SIRI, SKR, SMG, SMK, SMPC, SMT, SOLAR, SPC, SPCG, SPPT, SST, STANLY, STEC, STPI, SUC, SWC, SYMC, SYNEX, SYNTEC, TASCO, TBSP, TEAM, TFD, TFI, THANA, THIP, THREL, TIC, TICON, TIW, TKS, TLUXE, TMI, TMT, TNDT, TPC, TPCORP, TRT, TRU, TSC, TTCL, TUF, TVD, TWFP, UMI, UP, UPF, UPOIC, UT, UV, UWC, VIH, WAVE, WHA, WIN, WINNER, YUASA, ZMICO

Corporate Governance Report disclaimer

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