BUALUANG SECURITIES

COMPANY UPDATE

Bangkok Life Assurance

BLA TB / BLA.BK

29 February 2016

Profit for 4Q15 beat all estimates on less provision than modeled

Outcome for 4Q15 turned Bt2.3bn profit versus our loss of Bt273m

BLA posted 4Q15 earnings of Bt2.3bn, up 1% YoY (and against the large loss of Bt786m in last quarter). The result was immensely better than our loss forecast of Bt273m and the *Bloomberg* consensus' loss forecast of Bt680m, due to less provisioning for its life-policy reserve than assumed (BLA set provision at Bt8.9bn in 4Q15; we projected Bt13.1bn). Hence, its FY15 profit jumped 55% YoY to Bt4.1bn.

Results highlights

Total premiums for 4Q15 grew 72% YoY and 53% QoQ to Bt12.8bn as expected. ROI in 4Q15 slipped to 4.32% from 6.37% in the same period last year (and down from 4.86% in 3Q15). The poor YoY ROI was due to a low investment gain of Bt29m in 4Q15 from Bt951m in the same period last year. Its 4Q15 investment income was Bt2.48bn, up 9.7% YoY as expected. We expect its FY16 ROI of 4%.

BLA set 4Q15 provisions of Bt8.9bn for its life-policy reserve, equal to 69.0% of total premiums—its loss ratio—which was moderately below our number of 74%. The lower provisioning came from its accounting policy change in riders (such as PA and healthcare, both of which are tied normally to the main policyholders) from short-term provisions (on lump sum amounts for year one) to long term. This policy implies that provisions for riders can be spread over the lives of policyholders instead of year one). This allows BLA to write back its provisions of over Bt3bn for unearned premium reserve of riders to offset extra provisioning for lower interest rates. Its LAT reserve plunged to Bt345m at YE15 from Bt2.2bn in 3Q15. This means that BLA set provision of about Bt5bn against lowering interest rate risk in 4Q15.

Outlook

We expect BLA's 1Q16 performance to improve YoY from the lower loss ratio than the same period last year, on its new accounting policy.

What's changed?

We raise our FY16 estimated profit by 71% to Bt3bn due to the company's new accounting policy.

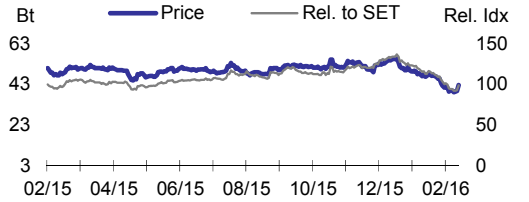
Recommendation

We view that the policy could mitigate extra provisioning for low interest rate risk in FY16 to a high degree. We cut our FY16 loss ratio assumptions from 74% to 71% (up slightly from 70.4% in FY15). This triggers us to raise our BLA FY16 earnings forecast by 71% to Bt3bn (we maintain our FY17 earnings forecast of Bt4bn). Given the less risk on low bond yields in FY16 and new accounting support, we view that BLA's share price looks attractive (after dipping 20% from 3Q15). Given the earnings revisions, we have arrived at the new YE16 BLA target price of Bt52.00, pegged to new business (VNB) of Bt20.35 and Embedded Value of Bt31.67). We thus maintain our BUY rating.

Sector: Insurance – OVERWEIGHT

Rating: BUY
Target Price: Bt52.00
Price (26 February 2016)**: Bt42.50**

Price chart

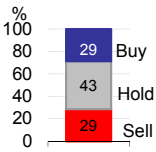


Share price perf. (%)	1M	3M	12M
Relative to SET	(15.5)	(19.7)	1.3
Absolute	(10.5)	(21.2)	(14.1)

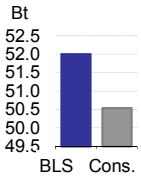
Key statistics

Market cap	Bt72.9bn	USD2.0bn
12-mth price range	Bt38.8/Bt56.3	
12-mth avg daily volume	Bt53m	USD1.5m
# of shares (m)	1,704	
Est. free float (%)	41.6	
Foreign limit (%)	25.0	

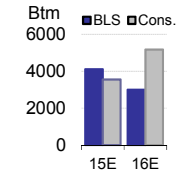
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015	2016E	2017E
Total rev (Btm)	61,427	55,589	61,105	65,678
Net profit (Btm)	2,662	4,108	3,000	3,950
Fully diluted EPS (Bt)	1.56	2.41	1.76	2.31
EPS grow th (%)	-39.2%	+54.3%	-27.0%	+31.7%
PER (x)	27.4	17.8	24.3	18.5
EV/EBITDA (x)	24.2	17.5	24.0	18.7
PBV (x)	3.57	2.71	2.54	2.28
Dividend (Bt)	0.51	0.64	0.53	0.70
ROA (%)	1.2	1.6	1.0	1.2
Net gearing (x)	7.2	8.0	8.9	9.2
Total loss ratio (%)	79.8	70.4	71.0	70.0
Total premium Mkt (%)	12.0	10.0	10.0	10.0

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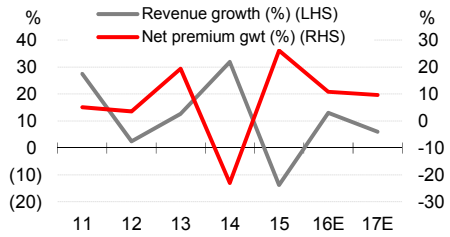
BUALUANG SECURITIES

BLA: Financial Tables – Year

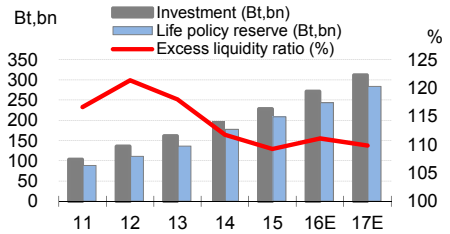
PROFIT & LOSS (Btm)	2013	2014	2015	2016E	2017E
Insurance premium	38,795	51,172	44,175	49,937	52,933
Less Life policy reserve	(25,357)	(40,818)	(31,114)	(35,455)	(37,053)
Net premium	**13,438**	**10,354**	**13,061**	**14,482**	**15,880**
Underwriting expenses	(13,939)	(15,531)	(17,473)	(19,755)	(21,205)
Profit from insurance	**(501)**	**(5,177)**	**(4,412)**	**(5,274)**	**(5,325)**
Revenue on investment	7,601	10,255	11,414	11,168	12,745
Other income/exp.	39	48	64	73	77
Net revenue	**7,139**	**5,126**	**7,066**	**5,967**	**7,497**
Operating expenses	(1,828)	(2,018)	(2,179)	(2,360)	(2,699)
EBIT	**5,311**	**3,108**	**4,887**	**3,607**	**4,798**
Minority interest	0	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(930)	(446)	(779)	(607)	(848)
Net profit (loss)	**4,381**	**2,662**	**4,108**	**3,000**	**3,950**
Reported EPS	3.62	1.56	2.41	1.76	2.31
Fully diluted EPS	**3.62**	**1.56**	**2.41**	**1.76**	**2.31**
Core net profit	**4,341**	**2,614**	**4,044**	**2,927**	**3,873**
Core EPS	3.58	1.53	2.37	1.71	2.27
EBITDA	**5,407**	**3,204**	**4,983**	**3,703**	**4,894**
KEY RATIOS					
Revenue growth (%)	12.7	31.9	(13.7)	13.0	6.0
Gross margin (%)	15.4	8.3	12.7	9.8	11.4
EBITDA margin (%)	11.6	5.2	9.0	6.1	7.4
Operating margin (%)	9.4	4.3	7.3	4.8	5.9
Net margin (%)	9.4	4.3	7.4	4.9	6.0
Core profit margin (%)	9.4	4.3	7.3	4.8	5.9
ROA (%)	2.5	1.2	1.6	1.0	1.2
ROE (%)	19.7	10.4	15.2	10.4	12.3
Commission/Insurance premium	11.2	9.3	15.0	13.0	13.5
Life policy Provision/insurance premium re	65.4	79.8	70.4	71.0	70.0
Cost/income	34.0	34.0	34.0	34.0	34.0
Combined ratio	81.3	114.1	114.9	115.3	115.2
BALANCE SHEET (Btm)					
Cash & Equivalent	1,331	5,708	7,102	2,000	3,000
Total investment in securities	161,126	198,238	227,584	270,825	311,449
Total net loans	3,526	4,735	6,139	6,753	7,382
Premises & equipment (Net)	327	389	547	558	569
Other assets	5,925	6,520	8,204	6,173	6,946
Total assets	**172,234**	**215,590**	**249,576**	**286,309**	**329,346**
Life policy reserve	136,616	177,435	208,383	243,838	283,541
Unpaid benefit to life policy	8,800	1,489	470	1,175	2,118
Premium received in advance	950	2,239	459	500	550
Other liabilities	3,604	8,851	13,272	12,033	11,057
Total liabilities	**149,971**	**190,013**	**222,585**	**257,546**	**297,266**
Paid-up capital	1,212	1,698	1,704	1,704	1,704
Share premium	2,846	3,091	3,220	3,220	3,220
Retained earnings	18,138	20,787	22,017	23,791	27,107
Shareholders equity	**22,264**	**25,576**	**26,990**	**28,764**	**32,080**
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**172,234**	**215,590**	**249,575**	**286,309**	**329,346**
CASH FLOW (Btm)					
Net income	4,381	2,662	4,108	3,000	3,950
Depreciation and amortization	136	143	150	157	165
Change in working capital	23,571	39,586	30,708	35,905	37,736
FX, non-cash adjustment & others	804	805	806	807	808
Cash flows from operating activities	**28,087**	**42,390**	**34,966**	**39,062**	**41,851**
Capex (Invest)/Divest	(88)	(126)	(247)	(11)	(11)
Others	(27,427)	(49,777)	(39,023)	(43,496)	(40,762)
Cash flows from investing activities	**(27,515)**	**(36,529)**	**(32,407)**	**(43,507)**	**(40,773)**
Debt financing (repayment)	0	0	0	0	0
Equity financing	809	0	0	0	0
Dividend payment	(917)	(678)	(1,325)	(1,090)	(634)
Others	(27,427)	(49,777)	(39,023)	(43,496)	(40,762)
Cash flows from financing activities	**(107)**	**(678)**	**(1,325)**	**(1,090)**	**(634)**
Net change in cash	465	5,183	1,235	(5,535)	444
Free cash flow (Btm)	**28,000**	**42,264**	**34,719**	**39,051**	**41,840**
FCF per share (Bt)	**23.1**	**24.7**	**20.3**	**22.9**	**24.5**

Insurance data	2013	2014	2015	2016E	2017E
FYP (Btm)	6,818	8,928	7,707	8,712	9,235
RYP (Btm)	28,545	37,379	32,268	36,476	38,665
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	39,079	51,172	44,175	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

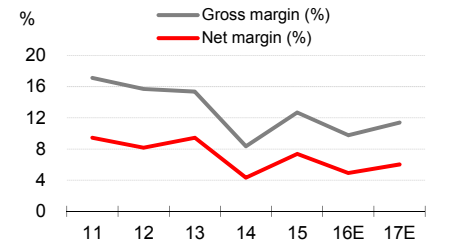
Revenue and net premium growth



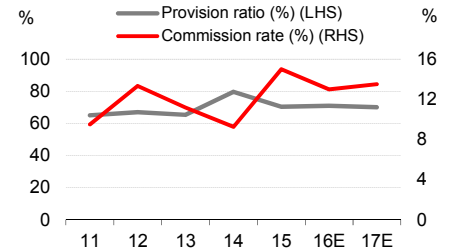
Excess liquidity



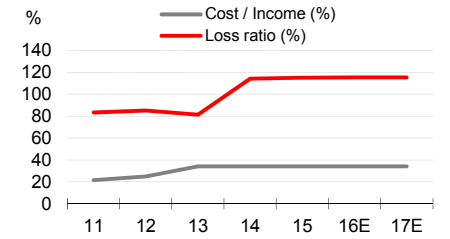
Profit margins



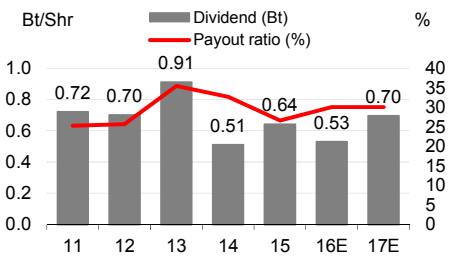
Comission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



BLA: Financial Tables – Quarter

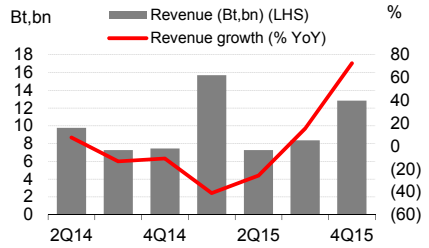
QUARTERLY PROFIT & LOSS (Btm)	4Q14	1Q15	2Q15	3Q15	4Q15
Net insurance premium revenue	7,446	15,711	7,252	8,368	12,844
Less provision for life policy reserve	3,187	12,104	2,906	7,241	8,862
Revenue realization on premium	4,260	3,607	4,346	1,127	3,982
Underw riting expenses	4,120	5,746	4,127	4,469	3,131
Profit from insurance business	140	(2,139)	219	(3,342)	850
Net investment income	2,259	2,511	2,466	2,715	2,478
Gain on investment	951	1,010	113	91	29
Total revenue from investment	3,210	3,522	2,579	2,806	2,507
Other income	13	15	18	13	18
Total revenues	3,362	1,398	2,816	(523)	3,375
Total operating expenses	539	498	571	551	559
Exceptional items	0	0	0	0	0
EBT	2,823	900	2,245	(1,074)	2,816
Income tax	546	135	400	(287)	531
Minority Interest	(0)	0	(0)	(0)	0
Net profit	2,278	765	1,844	(786)	2,285
EPS	1	0	1	(0)	1
Core profit before tax	1,859	(126)	2,113	(1,177)	2,769
Core EPS	1	(0)	1	(1)	2

KEY RATIOS					
Premium/life policy reserve (%)	17	33	15	17	25
Life policy provision/Premium (%)	43	77	40	87	69
Claim/life policy (%)	7	24	28	25	27
ROI (%)	6	7	5	5	4
Net margin (%)	21	4	19	(7)	15
Equity/Life policy reserve (%)	14	14	14	14	13
BV (Bt)	21	15	16	15	16
ROE (%)	38	12	29	(11)	36
ROA (%)	4	1	3	(1)	4
D/E (x)	8	7	8	8	9
Cost to Income (%)	16	36	20	147	98

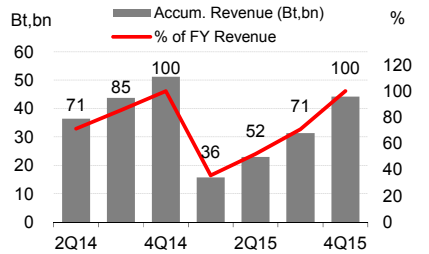
QUARTERLY BALANCE SHEET (Btm)	4Q14	1Q15	2Q15	3Q15	4Q15
Cash & Equivalent	5,708	1,405	564	461	7,102
Total investment in securities	198,238	212,733	224,442	226,543	227,584
Total net loans	4,735	4,938	5,430	5,683	6,139
Premises & equipment (Net)	389	460	465	534	547
Other assets	6,520	10,524	7,660	9,097	8,204
Total assets	215,590	230,061	238,561	242,317	249,576
Life policy reserve	177,435	189,539	192,445	199,686	208,383
Unpaid benefit to life policy	1,489	1,690	4,620	1,612	470
Premium received in advance	380	566	628	723	0
Other liabilities	10,710	12,498	13,473	15,024	13,732
Total liabilities	190,013	204,293	211,167	217,045	222,585
Paid-up capital	1,200	1,200	1,200	1,200	1,704
Share premium	2,700	2,700	2,700	2,700	3,220
Retained earnings	14,678	15,443	16,506	15,176	22,066
Shareholders equity	25,576	25,768	27,394	25,272	26,990
Minority interests	0	0	(0)	0	0

Insurance data	4Q14	1Q15	2Q15	3Q15	4Q15
FYP (Btm)	768	1,672	1,052	2,538	3,821
RYP (Btm)	6,240	13,914	5,806	5,398	6,097
SP (Btm)	530	436	537	501	3,070
Total premium (Btm)	7,538	16,022	7,395	8,437	12,988
FYP+SP mkt (%)	3.2	5.3	3.7	7.5	14.1
Total premium Mkt (%)	5.8	12.0	9.5	6.6	8.9

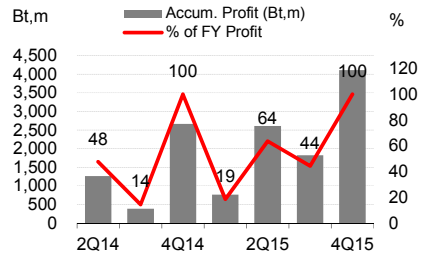
Revenue trend



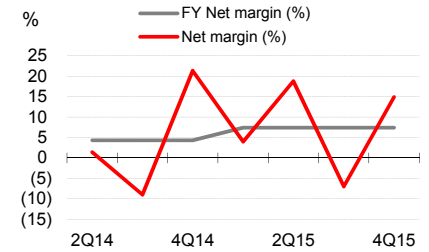
Revenue trend (accumulated)



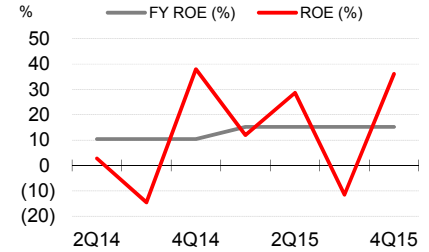
Net profit trend (accumulated)



Net margin



ROE



Company profile

Bangkok Life Assurance Public Company Limited (BLA) is one of Thailand's largest pure life assurance players and is a subsidiary of Bangkok Bank (BLL). Its FYP revenue growth is currently about twice the industry average.

Figure 1 : 4Q15 earnings review

FY Ended 31 Dec (Btm)	4Q15	4Q14	YoY %	3Q15	QoQ %	2015	2014	YoY %
Income Statement								
Net insurance premium revenue	12,844	7,446	*72*	8,368	*53*	44,175	51,172	*(14)*
Less provision for life policy rese	8,862	4,474	*98*	7,241	*22*	31,114	42,106	*(26)*
Revenue realization on premium	3,982	2,972	*34*	1,127	*253*	13,061	9,066	*44*
Underwriting expenses	3,131	2,832	*11*	4,469	*(30)*	17,473	14,243	*23*
Profit from insurance business	850	140	*508*	(3,342)	*(125)*	(4,412)	(5,177)	*(15)*
Net investment income	2,478	2,259	*10*	2,715	*(9)*	10,171	8,812	*15*
Gain on investment	29	951	*(97)*	91	*(68)*	1,243	1,443	*(14)*
Other income	18	13	*42*	13	*35*	64	48	*nm*
Total revenues	**3,375**	**3,362**	*0*	**(523)**	*nm*	**7,066**	**5,126**	***38***
Total operating expenses	559	554	*1*	551	*2*	2,179	2,033	*7*
EBT	2,816	2,808	*0*	(1,074)	*nm*	4,887	3,093	*58*
Income tax	531	543	*(2)*	(287)	*nm*	779	443	*76*
Net profit	**2,285**	**2,266**	***1***	**(786)**	***nm***	**4,108**	**2,650**	***55***
EPS	**1.34**	**1.33**	*1*	**(0.46)**	*nm*	**2.41**	**1.86**	*30*
Key ratios								
Premium/life policy reserve (%)	24.7	16.8		16.8		32.9	28.4	
Life policy provision/Premium (%	69.0	60.1		86.5		70.4	82.3	
ROI (%)	4.3	6.4		4.9		4.9	5.1	
Tax rate (%)	18.9	19.3		26.7		15.9	14.3	
Net margin (%)	14.9	21.3		(7.0)		4.3	9.4	
D/E (x)	8.6	7.8		7.7		8.6	7.8	
Cost to Income (%)	97.7	105.6		146.5		30.8	39.7	
Asset/Equity (%)	9.6	8.8		8.7		9.6	8.8	
Balance Sheet								
Cash & Equivalent	7,102	5,708	24	461	1,442			
Total assets	249,576	215,590	16	242,317	3			
Unpaid benefit to life policy	470	1,489	(68)	1,612	(71)			
Premium received in advance	0	380	100	723	0			
Total liabilities	222,585	190,013	17	217,045	3			
Retained earnings	22,066	20,787	6	15,176	45			
Shareholders equity	26,990	25,576	6	25,272	7			
Minority interests	0	0	nm	0	nm			
BV (Bt)	15.8	15.0	6	14.8	7			

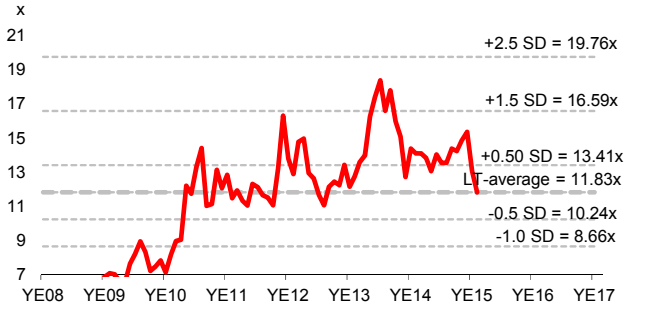
- Total premiums rose YoY and QoQ
- Bigger QoQ and YoY provisioning for its life-policy reserve
- A lower YoY investment gain
- A lowering YoY of ROI, due to less investment gain and slow investment portfolio expansion in 4Q15

Sources: Company data, Bualuang Research estimates

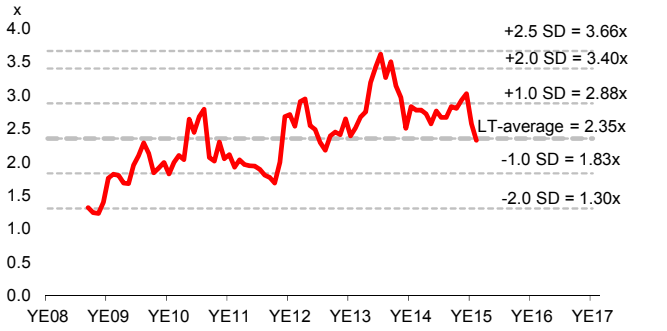
Regional Comparisons

	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	CNY29.1	80,211	9.3	8.4	25.0	10.7	1.4	1.2	17.8	16.8	1.7	1.9
China Life Insurance	601628 CH	CNY20.6	82,069	14.0	13.0	28.2	8.9	1.8	1.7	14.0	13.6	2.2	2.5
China Pacific Insurance (Group	601601 CH	CNY23.4	31,541	12.8	12.6	50.7	1.8	1.6	1.5	13.2	12.4	2.7	2.9
T&D Holdings	8795 JP	JPY1,125.0	6,730	8.6	8.0	-7.4	6.6	0.5	0.5	6.0	6.4	2.5	2.8
Bangkok Life Assurance	BLA TB	THB42.75	2,039	17.8	24.3	54.3	-27.0	2.7	2.5	15.2	10.4	1.5	1.2
Thaire Life Assurance	THREL TB	THB10.10	170	15.6	13.6	4.6	14.5	4.7	4.3	31.4	32.9	5.0	5.7
Simple average				**13.0**	**13.3**	**25.9**	**2.6**	**2.1**	**1.9**	**16.3**	**15.4**	**2.6**	**2.8**

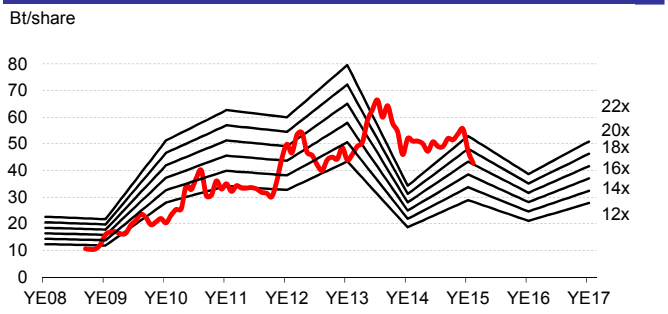
PER band versus SD (next 12 months)



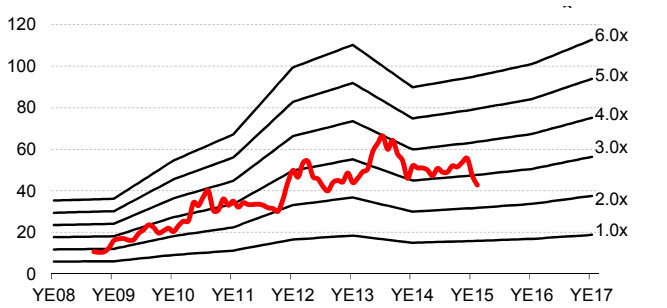
PER band versus SD (next 12 months)



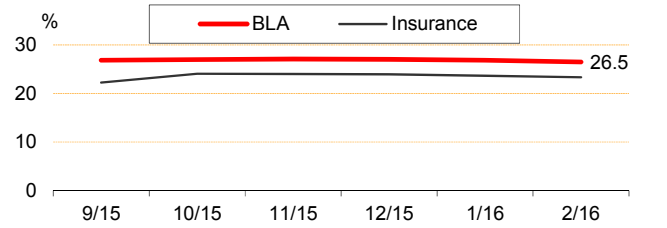
PER band and share price



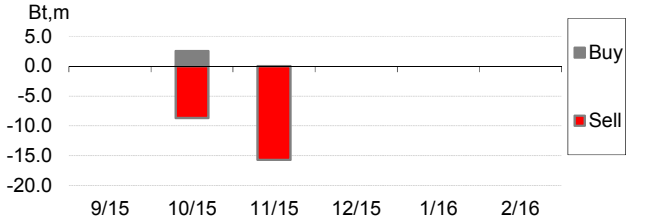
PBV band and share price



Foreign holdings



Management trading activities during past six months



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

Anti-Corruption Progress Indicator

Level	Description
5	Extended
4	Certified
3B	Established by Commitment and Policy
3A	Established by Declaration of Intent
2	Declared
1	Committed
Partially progress	Partially progress
No progress	No progress

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

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.