Equity Talk

ASIA PLUS Securities

Analyst Meeting/3Q15 Earnings Preview

Monday, November 9, 2015

Bangkok Life Assurance

Downgrade to SELL. Profit fluctuating following interest rates

YTD return has increased to 22%, outperforming the sector and the market and already reflecting the hope that the profit would not fluctuate following interest rate since 3Q15. However, BLA's earnings performance may turn out worse than expected, possibly resulting in massive loss in 2H15. We downgrade our recommendation to SELL.

- **Massive loss likely in 3Q15 due to interest rate downtrend**

We project BLA to face a net loss of B1.07bn in 3Q15, reversing from a net profit of B1.84bn in 2Q15 because a ratio of premium reserve expense to total premium income would increase to 89% after standing unusually low in 2Q15. Total premium income would improve in this quarter but not significantly 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. Renewal-year premium income would stay close to that of 2Q15 because total premium income in 3Q14, especially first-year premium, was very low, so it would not significantly affect renewal-year premium income in 3Q15. Regarding the investment business, total investment income would decrease slightly, mainly from decreasing capital gain from equity portfolio and fair value adjustment, while interest income from bond portfolio would grow only slightly, in line with the low policy interest rate.

- **Cut forecast. Huge loss still likely in 4Q15**

We revise down 2015-2016 earnings forecast by 86.6% and 45.1%, respectively. Accordingly, 2015 earnings are projected to shrink 78.4%yoy because a ratio of premium reserve expense to total premium income is projected to increase significantly as a result of a downtrend of long-term bond yield and lower total premium income estimate. 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 18bp from 2.71% 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.

- **Downgrade to SELL. New 2016 fair value is B52**

We downgrade our recommendation to SELL. New 2016 fair value (appraisal value) after the forecast revision is B52 (embedded value is B22.19 and the rest is a multiplier of 2014 VNB at B0.67).

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	15.23	16.30	17.61
PER (x)	15.3	35.2	163.8	34.1	27.4
PBV (x)	3.0	3.7	3.6	3.4	3.1
DPS (B)	0.91	0.91	0.13	0.65	0.81
Dividend Yield (%)	1.6%	1.6%	0.2%	1.2%	1.5%
ROE (%)	21.0%	11.1%	2.2%	10.3%	11.9%

Source : ASPS Research

BLA

Rec.: SELL

Current Price (B): 55.25

Target Price (B): 52.00

Upside : -5.88%

Dividend Yield : 0.20%

Total Return : -4.24%

Market Cap. (Million B) : 93,806

Technical Chart

ASPS vs IAA Consensus

EPS (B)	ASPS	IAA Cons	% diff
2015F	0.34	2.56	-87%
2016F	1.62	3.04	-47%

Source: ASPS and IAA consensus

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

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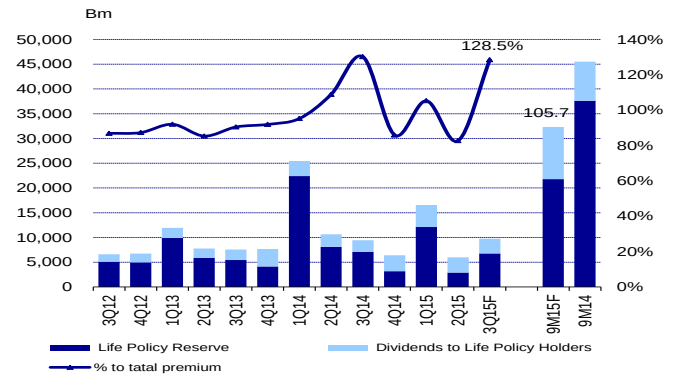
3Q15 and 9M15 Earnings Forecast

Million B	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15F	%QoQ	%YoY	9M15F	9M14	%YoY
Net Premium Income	26,712	9,769	7,245	7,446	15,711	7,252	7,600	*4.8%*	*4.9%*	30,563	43,726	*-30.1%*
Net Investment Income	2,060	2,475	2,578	3,213	3,527	2,546	2,540	*-0.2%*	*-1.5%*	8,613	7,113	*21.1%*
Total Income	**28,742**	**12,260**	**9,804**	**10,669**	**19,248**	**9,849**	**10,191**	*3.5%*	*4.0%*	**39,289**	**50,806**	*-22.7%*
Underwriting Expenses	(26,940)	(11,596)	(10,507)	(7,306)	(17,850)	(7,033)	(10,892)	*54.9%*	*3.7%*	(35,775)	(49,043)	*-27.1%*
Operating Expenses	(496)	(501)	(482)	(539)	(498)	(571)	(574)	*0.5%*	*19.2%*	(1,643)	(1,479)	*11.2%*
Total Expenses	**(27,436)**	**(12,097)**	**(10,988)**	**(7,845)**	**(18,348)**	**(7,605)**	**(11,466)**	*50.8%*	*4.3%*	**(37,419)**	**(50,521)**	*-25.9%*
Pre-tax Profi	**1,307**	**163**	**(1,185)**	**2,823**	**900**	**2,245**	**(1,275)**	*-156.8%*	*7.6%*	**1,870**	**285**	*555.9%*
Income Tax	(211)	6	304	(546)	(135)	(400)	200	*n.m.*	*-34.3%*	(335)	99	*n.m.*
Net Profit	**1,096**	**169**	**(881)**	**2,278**	**765**	**1,844**	**(1,075)**	*-158.3%*	*22.0%*	**1,535**	**384**	*299.5%*
EPS (B)	**0.65**	**0.10**	**(0.52)**	**1.34**	**0.45**	**1.09**	**(0.63)**	*-158.3%*	*22.0%*	**0.90**	**0.23**	*299.5%*
Norm Profit	1,050	1,297	1,175	1,323	750	2,765	(115)	*-104.1%*	*-109.8%*	3,400	3,522	*-3.5%*
Gross Margin	-0.9%	-18.7%	-45.0%	1.9%	-13.6%	3.0%	-43.3%			-17.1%	-12.2%	
ROI	4.79%	5.31%	5.34%	6.52%	6.87%	4.66%	4.45%			5.36%	5.37%	
ROE	18.92%	2.79%	-14.58%	36.76%	11.92%	27.76%	-16.00%			8.14%	2.23%	
Life Policy Reserve to Net Premium	83.9%	82.9%	98.2%	42.8%	77.0%	40.1%	89.0%			71.2%	86.1%	
Life Policy Reserve and Claims on life policy to Net Premium	95.3%	108.9%	130.2%	85.9%	105.3%	82.7%	128.5%			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%	3.4%			4.3%	4.3%	
Income Tax ratio	16.1%	-3.4%	25.7%	19.3%	15.0%	17.8%	15.7%			17.9%	-34.8%	

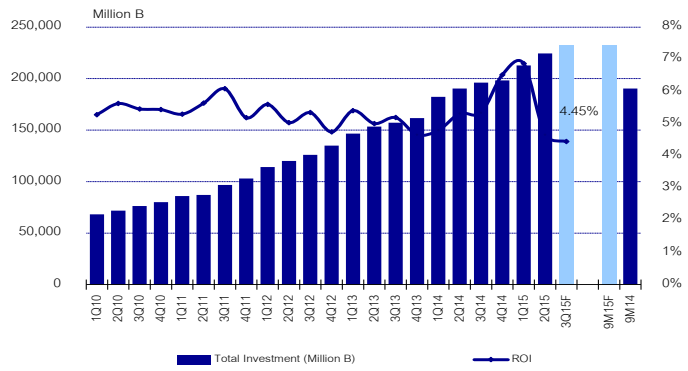
Source: Financial Statement/ ASPS Research

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



Source: Financial Statement/ ASPS Research

Return On Investment (ROI) by Quarter

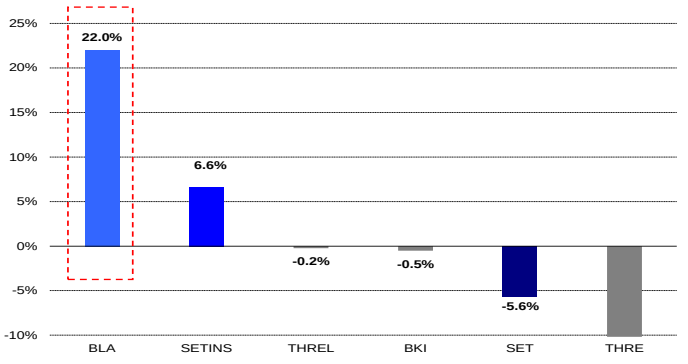


Source: Financial Statement/ ASPS Research

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)				
	3Q14	4Q14	1Q15	2Q15
Net premium income	7,245	7,446	15,711	7,252
Net investment income	2,386	2,259	2,511	2,466
Gain/(Loss) on investment in securities	192	955	1,016	80
Other income	10	68	(5)	33
Total revenues	**9,804**	**10,669**	**19,248**	**9,849**
Underwriting expenses	(10,507)	(7,306)	(17,850)	(7,033)
Operating expenses	(482)	(539)	(498)	(571)
Fx gains/ (loss)	-	-	-	-
Total expenses	**(10,988)**	**(7,845)**	**(18,348)**	**(7,605)**
Net profit Before taxes	**(1,185)**	**2,823**	**900**	**2,245**
Income taxes	304	(546)	(135)	(400)
Net profit	**(881)**	**2,278**	**765**	**1,844**
EPS (B)	(0.52)	1.34	0.45	1.09
Norm profit	**1,175**	**1,323**	**750**	**2,765**
Norm EPS (B)	**0.69**	**0.78**	**0.44**	**1.63**

Balance Sheet (Million B)				
Ended 31 Dec.	3Q14	4Q14	1Q15	2Q15
Investment in securities	196,098	198,238	212,733	224,442
Net loans	4,323	4,735	4,938	5,430
Cash and Deposits at FI	2,184	5,708	1,405	564
Property, plant and equipment, net	388	389	460	465
Other assets	7,435	6,520	10,524	7,660
Total assets	**210,428**	**215,590**	**230,061**	**238,561**
Life Premium Reserve	174,248	177,435	189,539	192,445
Other liabilities	12,186	12,579	14,754	18,721
Total liabilities	**186,434**	**190,013**	**204,293**	**211,167**
Paid-up share captial	**1,213**	**1,698**	**1,698**	**1,702**
Share premium	3,436	3,091	3,206	3,229
Surplus on revaluation of investments.	6,375	5,539	4,850	5,387
Retained earnings	12,449	14,678	15,443	16,506
Total shareholders' equity	**23,994**	**25,576**	**25,768**	**27,394**
Total liabilities and shareholders' equity	**210,428**	**215,590**	**230,061**	**238,561**

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