COMPANY RESEARCH | Results Preview

November 9, 2015

NEUTRAL
(from OUTPERFORM)

Bangkok Life Assurance

(BLA TB)

Share Price: Bt55.25 Target Price: Bt56.0 (+1%)

krungsri Securities

A member of MUFG a global financial group

Auditor drops bombshell

- **Surprise policy reserve forces BLA to book additional reserve to cover falling bond yields in 3Q15**
- **Expect BLA to book Bt510m net loss in 3Q15**
- **Cut FY15F/16F earnings; downgrade to NEUTRAL with a TP of Bt56 based on Bt41 EV and 16x VNB 2016, implying 20x FY16F P/E, 3x P/BV and 16% ROE**

Surprise decision in reserve accounting policy

At Friday's analyst meeting, the management guided that the auditor did not allow BLA to change the methodology to calculate life policy reserve. Hence, the company will set additional reserves in 3Q15 to cover falling bond yields. Previously, BLA had expected smooth earnings from 3Q15 onwards with a change in the reserve accounting policy. We estimate its reserves reached 85% of premiums in 3Q15 vs 39% in 2Q15, due to additional Bt1.5bn policy reserve. Thailand's 10-year government bond yield fell 15bps qoq to 2.80% at end-3Q15.

Expect losses in 3Q15

BLA is now expected to book Bt510m net loss in 3Q15 vs Bt1.8bn net profit in 2Q15, because of the additional reserve. But losses should be smaller yoy due to higher net premium and investment income. We expect net premium income to grow 24% yoy and qoq as BLA has started to sell mid-term endowment products. Net investment income is expected to grow 10% yoy and 6% qoq, led by higher dividend income. Investment yield should improve 8bps qoq to 4.74% in 3Q15. There is no gain on investment to offset higher reserve in 3Q15.

Downgrade to NEUTRAL with a revised TP of Bt56

We cut FY15/16F earnings by 21%/6% after imputing slower premium growth and higher underwriting costs (see Page 2). BLA is fully valued following the 7% rise in the share price last week which led the stock to outperform the market by 24% YTD. Downgrade to NEUTRAL from OUTPERFORM, and cut TP to Bt56 (from Bt60) based on Bt41 EV and 16x VNB (2016), implying 20x FY16F P/E, 3x P/BV and 16% ROE. BLA will announce 3Q15 results on November 11.

Financial Summary (Btm)

Year to Dec	2013	2014	2015F	2016F	2017F
Net premium income	38,795	51,172	41,893	46,823	51,360
Net profit	4,381	2,662	3,044	4,657	6,030
EPS (Bt)	3.62	1.56	1.78	2.73	3.53
EPS growth (%)	17	-57	14	53	29
P/E (x)	15.3	35.5	31.4	20.5	15.9
BVPS (Bt)	18.37	14.97	16.36	18.48	21.21
P/B (x)	3.0	3.7	3.4	3.0	2.6
EV/share (Bt)	26.9	28.0	35.8	41.2	47.4
P/EV	2.1	2.0	1.6	1.4	1.2
DPS (Bt)	0.91	0.46	0.40	0.60	0.80
Div Yield	1.6	0.8	0.7	1.1	1.4
ROE (%)	21.0	11.1	11.4	15.7	17.8
ROA (%)	2.8	1.4	1.3	1.7	1.8

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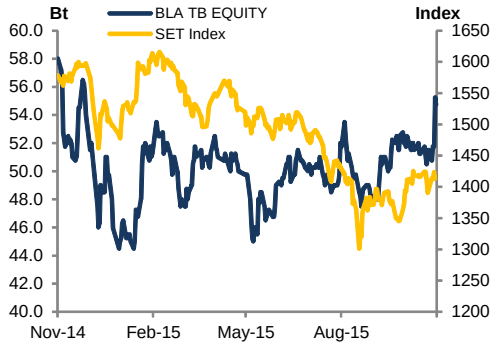
Key Data

12-mth high/low (Bt)	59.0 / 44.0
Market capital (Btm/US$m)	93,283 / 2,623
3m avg turnover (Btm/US$m)	44.9 / 1.3
Free float (%)	61.8
Issued shares (m shares)	1,702.88
Major shareholders:	
- STATE STREET BANK AND TRUST	24.3
- WATTANASOPHONPANICH	13.1
- BBL ASSET MANAGEMENT	8.6

Share Price Performance



	YTD	1Mth	3Mth	12Mth
Absolute (%)	19.0	5.3	5.3	(6.4)
Relative to index (%)	24.0	(0.4)	5.9	3.8

Krungsri Securities vs Market

	Positive	Neutral	Negative
Market Recommend	9	3	3
	Krungsri	Consensus	% +/-
Target Price (Bt)	56.0	54.0	3.7
'15 Net Profit	3,044	4,524	-32.7
'16 Net Profit	4,657	5,584	-16.6

Source: Bloomberg, Krungsri Securities

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3Q15 results preview

Quarterly P&L (Btm)	3Q14	2Q15	3Q15F	Chg YoY	Chg QoQ	Note
Net premium written	7,245	7,252	9,015	24%	24%	Premium income was Bt6bn in July/August period
Life policy reserve	(7,118)	(2,906)	(7,663)	8%	164%	Expect 85% reserve to premiums
Benefit payments	(2,318)	(3,092)	(3,065)	32%	-1%	
Commissions	(587)	(628)	(631)	8%	1%	
Other expenses	(485)	(408)	(414)	-15%	2%	
Total underwriting expenses	(10,507)	(7,033)	(11,773)	12%	67%	
Underwriting income	**(3,261)**	**219**	**(2,758)**	-15%	na.	
Net investments income	2,386	2,466	2,614	10%	6%	Growth led by dividend income
Gains on investments	192	80	70	-64%	-12%	
Other income	(20)	51	(4)	-80%	-108%	
Total investments income	2,558	2,597	2,680	5%	3%	
Operating expenses	(462)	(551)	(531)	15%	-4%	
Profits from operations	**(1,165)**	**2,265**	**(609)**	na.	-127%	
Non-operating expenses	(20)	(20)	(28)	43%	40%	
Pre-tax profit	**(1,185)**	**2,245**	**(637)**	na.	-128%	
Tax	304	(400)	127	na.	-132%	
Net profit	**(881)**	**1,844**	**(510)**	na.	-128%	
EPS	**(0.52)**	**1.08**	**0.66**	na.	-39%	
Key ratios						
Net premium growth	-13.5%	-25.8%	24.4%			Strong sales of mid-term endowment products
Net return on investment	5.34%	4.66%	4.74%			Expect higher ROI led by dividend income
Reserves to premiums	96.5%	39.3%	85.0%			10-year government bond yield fell 15bps qoq to 2.8%
Benefits paid to premiums	31.4%	41.8%	34.0%			
Commissions to premiums	8.0%	8.5%	7.0%			
Net margin	-9.1%	19.0%	-4.4%			
Cost to income ratio	-52.8%	20.5%	-369.8%			
ROA	-1.7%	3.1%	-0.9%			
ROE	-14.6%	27.8%	-7.4%			

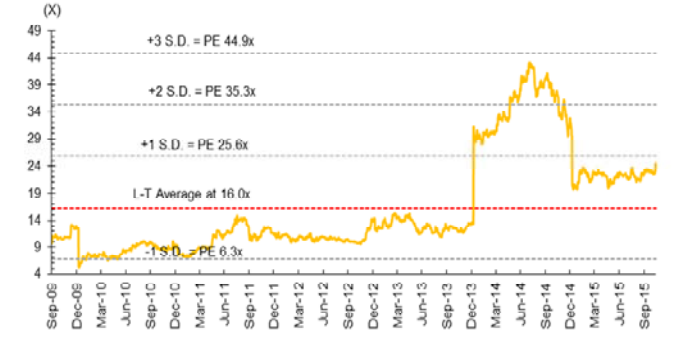
Source: Company data, Krungsri Securities

Cut FY15-16F earnings on slower premium growth and higher expense ratio

	New		Previous		Note
	2015F	2016F	2015F	2016F	
Premium growth	-18.1%	11.8%	-10.5%	11.7%	Reflects weak premium growth in 9M15
Reserves to premiums	71.0%	72.0%	74.0%	72.0%	
Benefits paid to premiums	35.0%	30.0%	29.0%	28.5%	Higher surrender expenses
Return on investment	5.4%	5.0%	5.4%	5.0%	
Net profit (Btm)	3,044	4,657	3,845	4,974	
Chg in net profit	-20.8%	-6.4%			
ROE	11.4%	15.7%	14.2%	16.3%	

Source: Company data, Krungsri Securities

P/E Band



Source: Company data, Krungsri Securities

P/BV Band

Source: Company data, Krungsri Securities

Quarterly P&L (Btm)	2Q14	3Q14	4Q14	1Q15	2Q15
Net premium written	9,769	7,245	7,446	15,711	7,252
Life policy reserve	-8,099	-7,118	-3,187	-12,104	-2,906
Benefit payments	-2,540	-2,318	-3,211	-4,440	-3,092
Commissions	-594	-587	-601	-841	-628
Other expense	-363	-485	-308	-464	-408
Total underwriting expense	-11,596	-10,507	-7,306	-17,850	-7,033
Underwriting income	**-1,828**	**-3,261**	**140**	**-2,139**	**219**
Net investments income	2,153	2,386	2,259	2,511	2,466
Gains on investments	322	192	955	1,016	80
Other income	17	-20	9	10	51
Total investment income	2,492	2,558	3,222	3,537	2,597
Operating expenses	-475	-462	-519	-455	-551
Profit from operations	**189**	**-1,165**	**2,843**	**943**	**2,265**
Non-operating expenses	-26	-20	-20	-43	-20
Pre-tax profit	**163**	**-1,185**	**2,823**	**900**	**2,245**
Tax	6	304	-546	-135	-400
Net profit	**169**	**-881**	**2,277**	**765**	**1,844**
EPS	**0.10**	**-0.52**	**1.33**	**0.45**	**1.08**
Key ratios					
Net premium growth	7.4%	-13.5%	-10.8%	-41.2%	-25.8%
Net return on investment	5.31%	5.34%	6.44%	6.79%	4.66%
Reserves to premiums	81.8%	96.5%	42.3%	75.5%	39.7%
Benefits paid to premiums	25.7%	31.4%	42.6%	27.7%	42.2%
Commissions to premiums	6.0%	8.0%	8.0%	5.3%	8.6%
Net margin	1.4%	-9.1%	23.5%	4.2%	19.0%
Cost to income ratio	145.9%	-52.8%	21.6%	122.3%	20.5%
ROA	0.3%	-1.7%	4.3%	1.4%	3.1%
ROE	2.8%	-14.6%	36.8%	11.9%	27.8%

INCOME STATEMENT

FYE Dec (Btm)	2013	2014	2015E	2016E	2017E
Net premiums written	38,795	51,172	41,893	46,823	51,360
Net investment income	7,056	8,812	10,169	11,842	13,572
Gains on investments	593	1,515	1,531	756	866
Total revenue	46,444	61,498	53,592	59,420	65,798
Reserve and benefit paid	(36,208)	(53,203)	(44,406)	(47,759)	(51,873)
Commissions and brokerages	(2,705)	(2,807)	(2,891)	(3,036)	(3,279)
Operarting expenses	(1,720)	(1,881)	(2,069)	(2,276)	(2,549)
Other expense	(383)	(339)	(339)	(339)	(339)
Total expense	(41,017)	(58,230)	(49,705)	(53,410)	(58,040)
Profit from operations	5,427	3,269	3,887	6,010	7,758
Other income and expense	(117)	(161)	(174)	(189)	(221)
Pre-tax profit	5,311	3,108	3,712	5,821	7,537
Tax	(930)	(446)	(668)	(1,164)	(1,507)
Net profit	**4,381**	**2,662**	**3,044**	**4,657**	**6,030**
Basic EPS (THB)	3.62	1.56	1.78	2.73	3.53
DPS (THB)	0.91	0.46	0.40	0.60	0.80
BVPS (THB)	18.4	15.0	16.4	18.5	21.2
EV per share (THB)	26.9	28.0	35.8	41.2	47.4
VNB per share (THB)	1.5	0.7	0.8	0.9	1.0

BALANCE SHEET

FYE Dec (Btm)	2013	2014	2015E	2016E	2017E
Cash	1,331	5,708	11,329	21,493	37,657
Accrued investment income - net	1,863	2,344	2,696	3,100	3,565
Premium receivables	1,840	1,725	1,984	2,282	2,624
Investment assets	165,163	202,973	234,392	269,509	308,029
Other assets	1,599	2,840	3,162	3,522	3,925
Total assets	**171,795**	**215,589**	**253,563**	**299,907**	**355,800**
Life policy reserve	136,616	177,435	212,922	255,506	306,607
Premium reserves	1,021	1,057	1,067	1,078	1,089
Other insurance liabilities	7,415	7,642	7,719	7,796	7,874
Other liabilities	4,479	3,879	3,918	3,957	3,997
Total liabilities	**149,532**	**190,013**	**225,626**	**268,337**	**319,567**
Share capital	1,212	1,698	1,698	1,698	1,698
Share premium	2,846	2,988	2,988	2,988	2,988
Retained earnings	13,747	15,248	17,609	21,241	25,905
Other	4,459	5,642	5,642	5,642	5,642
Total equity	**22,264**	**25,576**	**27,937**	**31,569**	**36,233**
Total liabilities & equity	**171,795**	**215,589**	**253,563**	**299,907**	**355,800**

FINANCIAL RATIOS

FYE Dec (Btm)	2013	2014	2015E	2016E	2017E
Growth					
First year premium growth	20.2%	82.2%	-50.0%	12.0%	12.0%
Net premium growth	13.7%	31.9%	-18.1%	11.8%	9.7%
Earnings growth	17.6%	-39.2%	14.4%	53.0%	29.5%
ROI and Spread					
Net return on investment (ROI)	5.1%	5.6%	5.4%	5.0%	5.0%
OPEX to investment	1.1%	1.0%	0.9%	0.9%	0.9%
Spread	3.9%	4.6%	4.4%	4.1%	4.1%
Expenses					
Reserves to premiums	64.9%	78.6%	71.0%	72.0%	71.0%
Benefits paid to premiums	27.8%	23.8%	35.0%	30.0%	30.0%
Commissions to premiums	6.9%	5.4%	6.9%	6.5%	6.4%
Profitability Ratios (%)					
Operating margin	17.5%	14.4%	18.0%	20.0%	20.0%
ROA	2.8%	1.4%	1.3%	1.7%	1.8%
ROE	21.0%	11.1%	11.4%	15.7%	17.8%
Premium Breakdown					
First year premium	27.2%	37.5%	22.9%	23.0%	23.4%
Renewal year premium	73.6%	64.0%	79.0%	77.0%	76.6%

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	

To recognize well performers, the list of companies attaining "Good", "Very Good" and "Excellent" levels of recognition without regulatory notation (from January 1, 2013 to October 22, 2014) is publicized.

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									

Score Range	Number of Logos	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
Below 50	No logo given	N/A

Disclaimer

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. Krungsri Securities Public Company Limited does not confirm nor certify the accuracy of such survey result.

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Definition of Ratings

OUTPERFORM - Stocks with an expected capital gain above 10% in the next 12 months for small-caps, above 5% for big-caps
NEUTRAL - Stocks with an expected capital gain between -10% and +10% in the next 12 months for small-caps, -5% to +5% for big-caps
UNDERPERFORM - Stocks with an expected capital gain below 10% in the next 12 months for small-caps, below 5% for big-caps