

Bangkok Life Assurance

BLA TB / BLA.BK

11 August 2016

Decent growth on high-margin line-up

Investment thesis

We reiterate our BUY rating on BLA. This are attributable to fast recovery on the long-term bond yield in 2Q16 and its diversification policy tending more toward protection products (credit life, pension and health care) in FY16 and FY17. This allows BLA the chance to reduce the provisioning for its life-policy reserve to about 65% of total premium. However, we have maintained our profit forecast of Bt4.3bn in FY16 and Bt4.9bn in FY17. Given the favorable outlook on rising interest rates in FY17 and possible reduction of provisions for its life-policy reserve this year and next, we have seen scope for BLA earnings upside. Presently, our YE16 target price of BLA remains Bt52.00, pegged to embedded value of Bt33.22/share and total VNB of Bt18.82.

Emphasis on bottom-line growth, led to margin products

According to acting president Komkai Thusaranon, BLA has switched its policy focus more into medium-to-long-term policies (whole life, credit life, pension funds and health care products, such as *Senior Sukjai*, *Super Senior*, *Health Riders* and *Gain 1st 245 Plus*) in FY16 and FY17. Given the less focus on endowment products, its FY16 FYP is trimmed to Bt12bn from the former Bt22bn, whereas its FY16 total premium is also cut to Bt44bn from old Bt55bn formerly. We view that these numbers look achievable. Note that our FY16 new total premium forecast are Bt45bn (flat from last year) close to the company's guidance. Note that BLA's 1H16 FYP grew 19.5% YoY to Bt4.4bn.

Potential upside from ROI target of 4.60% in FY16

We anticipate potential upside on our FY16 ROI forecasts of 4.75% (including investment gain) after the firm delivered great ROI of 5.4% in 1Q16 and 6.3% in 2Q16. The possibility of high bond yields late this year would present BLA with a chance to accrue more long-term bonds. The firm invests more than Bt20bn (11% of total investment) in foreign-currency-denominated bonds that yield about 6%. Note that we forecast BLA to have FY17 ROI of 4.85% (plus investment gain) in FY17. Also, Morgan Stanley forecasts that the policy rate would stay flat at 1.5% in FY16 and rise to 2.0% in FY17. If that turns out to be true, the 10-year long-term bond yield will have room to rise further next year from 2% at the moment. This could be scope for upside to our FY16-FY17 ROIs.

Potential provision cut in FY16 & FY17 = better earnings chances

The policy change to medium-to-long-term policies allows BLA to reduce its provision to about 65% of total premium in FY16 and FY17. We presently forecast its provisioning of 73% of total premium in FY16 and 70% next year. If the insurer carries on its new policy as planned, this will provide opportunity for BLA to cut provisioning to close to stay 65-70% in this year and next. Therefore, BLA's earnings have scope for upside, we believe.

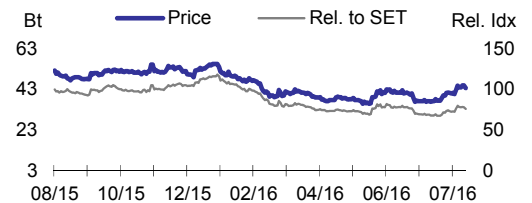
Sector: Insurance – OVERWEIGHT

Rating: BUY

Target Price: Bt52.00

Price (10 August 2016): Bt43.75

Price chart

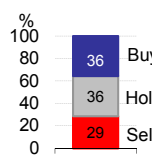


Share price perf. (%)	1M	3M	12M
Relative to SET	12.0	0.9	(20.6)
Absolute	17.4	12.9	(10.7)

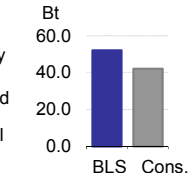
Key statistics

Market cap	Bt74.6bn	USD2.1bn
12-mth price range	Bt35.3/Bt56.3	
12-mth avg daily volume	Bt79m	USD2.3m
# of shares (m)	1,705	
Est. free float (%)	43.8	
Foreign limit (%)	25.0	

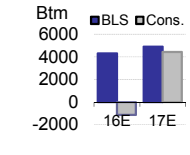
Consensus rating



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	57,182	66,228
Net profit (Btm)	2,650	4,108	4,300	4,900
Fully diluted EPS (Bt)	1.55	2.41	2.52	2.87
EPS growth (%)	-39.5%	+55.0%	+4.7%	+14.0%
PER (x)	29.0	18.7	17.9	15.7
EV/EBITDA (x)	16.4	16.1	17.6	16.6
PBV (x)	2.59	2.45	2.24	2.00
Dividend (Bt)	0.51	0.64	0.66	0.86
ROA (%)	1.2	1.6	1.5	1.4
Net gearing (x)	7.2	8.0	7.5	7.7
Total loss ratio (%)	82.3	70.4	73.0	70.0
Total premium Mkt (%)	12.0	10.0	10.0	10.0

CG/Anti-Corruption



Suwat Bumrungratudom

Securities Fundamental Investment Analyst

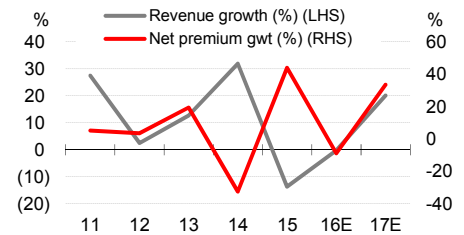
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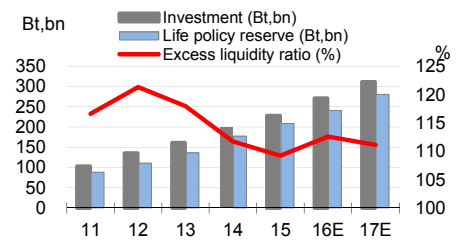
BLA: Financial Tables – Year

PROFIT & LOSS (Btm)					
Insurance premium	38,795	51,172	44,175	44,062	52,933
Less Life policy reserve	(25,357)	(42,106)	(31,114)	(32,165)	(37,053)
Net premium	13,438	9,066	13,061	11,897	15,880
Underwriting expenses	(13,939)	(14,243)	(17,473)	(18,139)	(21,527)
Profit from insurance	(501)	(5,177)	(4,412)	(6,243)	(5,647)
Revenue on investment	7,601	10,255	11,414	13,120	13,295
Other income/exp.	39	48	64	450	541
Net revenue	7,139	5,126	7,066	7,327	8,189
Operating expenses	(1,828)	(2,033)	(2,179)	(2,148)	(2,387)
EBIT	5,311	3,093	4,887	5,179	5,803
Minority interest	0	0	0	(11)	(12)
Extra items	0	0	0	0	0
Income tax	(930)	(443)	(779)	(869)	(891)
Net profit (loss)	4,381	2,650	4,108	4,300	4,900
Reported EPS	3.62	1.55	2.41	2.52	2.87
Fully diluted EPS	3.62	1.55	2.41	2.52	2.87
Core net profit	4,341	2,602	4,044	3,850	4,359
Core EPS	3.58	1.52	2.37	2.25	2.55
EBITDA	5,407	3,189	4,983	5,275	5,898
KEY RATIOS					
Revenue growth (%)	12.7	31.9	(13.7)	(0.3)	20.1
Gross margin (%)	15.4	8.3	12.7	12.7	12.3
EBITDA margin (%)	11.6	5.2	9.0	9.2	8.8
Operating margin (%)	9.4	4.2	7.3	6.7	6.6
Net margin (%)	9.4	4.3	7.4	7.5	7.3
Core profit margin (%)	9.4	4.2	7.3	6.7	6.6
ROA (%)	2.5	1.2	1.6	1.5	1.4
ROE (%)	19.7	10.4	15.2	12.5	12.7
Commission/Insurance premium	11.2	9.3	15.0	7.0	10.5
Life policy Provision/insurance premium	65.4	82.3	70.4	73.0	70.0
Cost/income	34.0	34.0	34.0	34.0	34.0
Combined ratio	81.3	114.1	114.9	119.0	115.2
BALANCE SHEET (Btm)					
Cash & Equivalent	1,331	5,708	7,102	2,706	6,477
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	12,170	15,609
Total assets	172,234	215,590	249,576	293,012	341,487
Life policy reserve	136,616	177,435	208,383	240,548	280,251
Unpaid benefit to life policy	8,800	1,489	470	1,292	3,706
Premium received in advance	950	2,239	459	500	550
Other liabilities	3,604	8,851	13,272	16,322	18,521
Total liabilities	149,971	190,013	222,585	258,662	303,029
Paid-up capital	1,212	1,698	1,704	1,704	1,704
Share premium	2,846	3,091	3,220	3,295	3,295
Retained earnings	18,138	20,787	22,017	29,351	33,459
Shareholders' equity	22,264	25,576	26,990	34,350	38,458
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	172,234	215,590	249,575	293,012	341,487
CASH FLOW (Btm)					
Net income	4,381	2,650	4,108	4,300	4,900
Depreciation and amortization	136	143	150	157	165
Change in working capital	23,571	39,598	30,708	32,887	37,790
FX, non-cash adjustment & others	804	805	806	807	808
Cash flows from operating activities	28,087	42,390	34,966	37,345	42,855
Capex (Invest)/Divest	(88)	(126)	(247)	(11)	(11)
Others	(27,427)	(49,777)	(39,023)	(43,437)	(40,027)
Cash flows from investing activities	(27,515)	(36,529)	(32,407)	(43,448)	(40,038)
Debt financing (repayment)	0	0	0	0	0
Equity financing	809	0	0	0	0
Dividend payment	(917)	(678)	(1,325)	(1,090)	(792)
Others	(27,427)	(49,777)	(39,023)	(43,437)	(40,027)
Cash flows from financing activities	(107)	(678)	(1,325)	(1,090)	(792)
Net change in cash	465	5,183	1,235	(7,194)	2,026
Free cash flow (Btm)	28,000	42,264	34,719	37,334	42,844
FCF per share (Bt)	23.1	24.7	20.3	21.9	25.1
Insurance data					
FYP (Btm)	6,818	8,928	7,707	7,687	9,235
RYP (Btm)	28,545	37,379	32,268	32,185	38,665
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	39,079	51,172	44,175	44,062	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

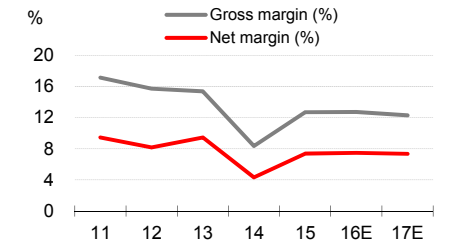
Revenue and net premium growth



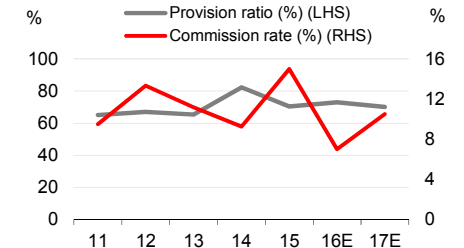
Excess liquidity



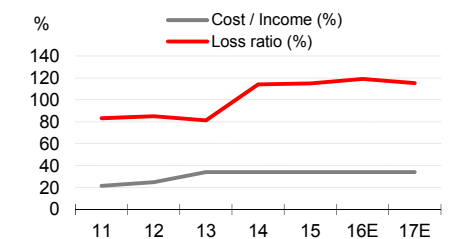
Profit margins



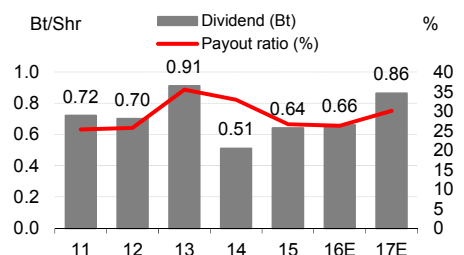
Commission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



BLA: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	2Q15	3Q15	4Q15	1Q16	2Q16
Net insurance premium revenue	7,252	8,368	12,844	12,856	7,433
Less provision for life policy reserve	2,906	7,241	8,862	17,848	(6,037)
Revenue realization on premium	4,346	1,127	3,982	(4,993)	13,470
Underwriting expenses	4,127	4,469	3,131	6,564	5,250
Profit from insurance business	219	(3,342)	850	(11,556)	8,220
Net investment income	2,466	2,715	2,478	2,716	2,721
Gain on investment	113	91	29	555	1,207
Total revenue from investment	2,579	2,806	2,507	3,270	3,928
Other income	18	13	18	138	63
Total revenues	2,816	(523)	3,375	(8,148)	12,211
Total operating expenses	571	551	559	541	539
Exceptional items	0	0	0	0	0
EBT	2,245	(1,074)	2,816	(8,689)	11,671
Income tax	400	(287)	531	(1,801)	2,285
Minority Interest	(0)	(0)	0	0	(6)
Net profit	1,844	(786)	2,285	(6,888)	9,392
EPS	1	(0)	1	(4)	6
Core profit before tax	2,113	(1,177)	2,769	(9,382)	10,402
Core EPS	1	(1)	2	(6)	6

KEY RATIOS

Premium/life policy reserve (%)	15	17	25	22	13
Life policy provision/Premium (%)	40	87	69	139	(81)
Claim/life policy (%)	28	25	27	20	21
ROI (%)	5	5	4	5	6
Net margin (%)	19	(7)	15	(43)	83
Equity/Life policy reserve (%)	14	14	13	13	10
BV (Bt)	16	15	16	14	19
ROE (%)	29	(11)	36	(102)	155
ROA (%)	3	(1)	4	(11)	14
D/E (x)	8	8	9	8	10
Cost to Income (%)	20	147	98	194	(3)

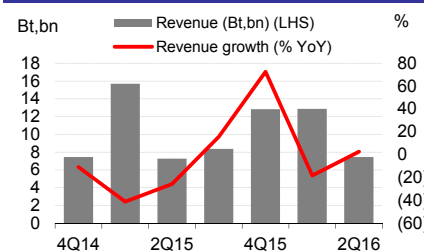
QUARTERLY BALANCE SHEET (Btm)	2Q15	3Q15	4Q15	1Q16	2Q16
Cash & Equivalent	564	461	7,102	5,590	8,894
Total investment in securities	224,442	226,543	227,584	240,689	242,851
Total net loans	5,430	5,683	6,139	6,463	6,674
Premises & equipment (Net)	465	534	547	572	1,107
Other assets	7,660	9,097	8,204	13,003	8,670
Total assets	238,561	242,317	249,576	266,318	268,196
Life policy reserve	192,445	199,686	208,383	234,972	228,748
Unpaid benefit to life policy	4,620	1,612	470	699	682
Premium received in advance	628	723	0	0	0
Other liabilities	13,473	15,024	13,732	6,395	6,275
Total liabilities	211,167	217,045	222,585	242,065	235,705
Paid-up capital	1,200	1,200	1,704	1,704	1,705
Share premium	2,700	2,700	3,220	3,295	3,307
Retained earnings	16,506	15,176	22,066	19,253	27,468
Shareholders equity	27,394	25,272	26,990	24,253	32,480
Minority interests	(0)	0	0	0	11

Insurance data	2Q15	3Q15	4Q15	1Q16	2Q16
FYP (Btm)	1,052	2,538	3,821	1,805	0
RYP (Btm)	5,806	5,398	6,097	10,996	0
SP (Btm)	537	501	3,070	612	0
Total premium (Btm)	7,395	8,437	12,988	13,412	0
FYP+SP mkt (%)	3.7	7.5	14.1	5.9	0.0
Total premium Mkt (%)	9.5	6.6	8.9	9.5	0.0

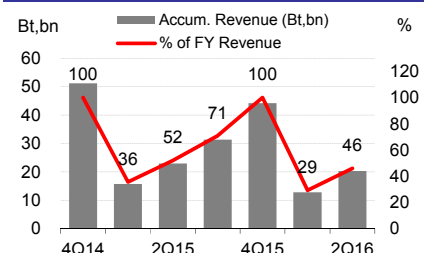
Company profile

Bangkok Life Assurance Public Company Limited (BLA) is one of Thailand's largest pure-life-assurance players and a subsidiary of Bangkok Bank. Its FYP revenue growth is currently about twice the industry average. The firm ranked fifth in market share of 7.6% for total life assurance premiums in 1H16

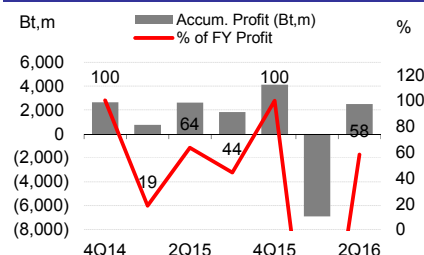
Revenue trend



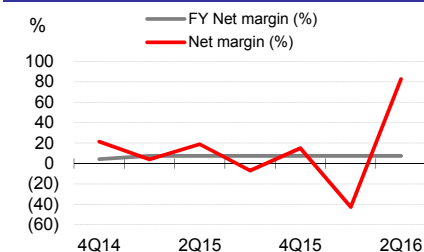
Revenue trend (accumulated)



Net profit trend (accumulated)



Net margin



ROE

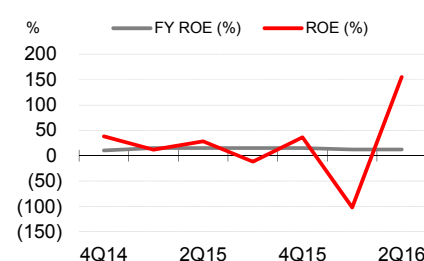
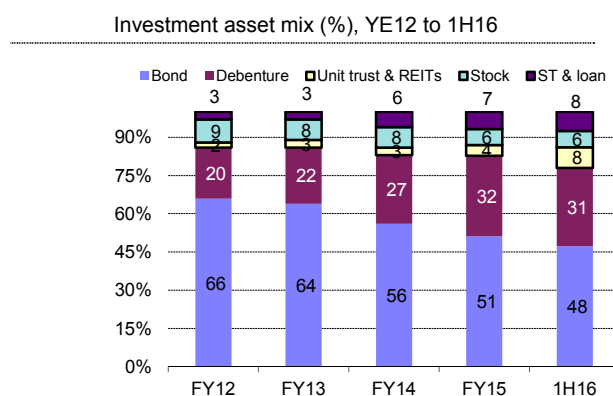
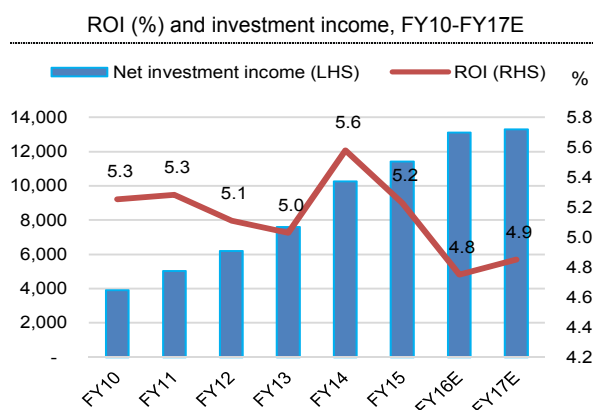
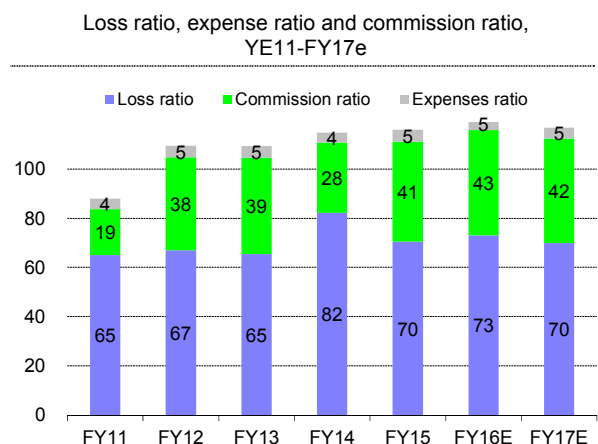
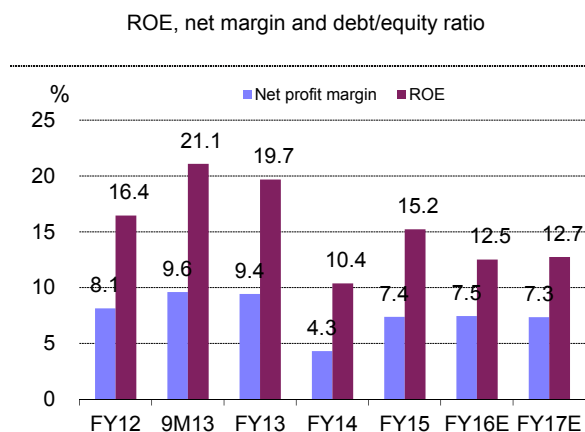


Figure 1: Total life assurance premium market share (%), FY07-1H16

Market share of Total premium (%)	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	1H16
American International Assurances (AIA)	37.9	33.3	31.0	28.7	26.3	25.0	22.8	22.2	19.9
Audhya Allianz C.P Life Plc., (AZAY)	6.5	6.1	6.2	6.3	5.8	5.7	5.4	5.4	5.3
Thai Life Insurance	14.4	13.7	12.4	12.2	12.5	12.4	12.5	12.7	13.3
SCB Life Insurance Plc	6.8	7.5	8.3	9.2	10.7	10.3	9.6	9.9	10.6
Muang Thai Life Assurance	7.7	8.3	10.0	11.5	12.5	13.6	14.9	16.3	18.6
Bangkok Life Assurance Plc.,	6.7	7.7	8.9	9.6	8.9	8.8	10.3	8.3	7.6
Krungthai AXA Life Insurance	4.1	4.9	6.0	6.4	7.4	8.5	9.7	10.2	10.3
Ocean Life Insurance	4.3	4.1	3.9	4.0	3.8	3.1	2.9	2.6	2.5
Prudential Life Assurance (Thailand) Plc.	1.1	1.2	1.2	1.3	1.4	2.3	3.1	3.2	3.3
Others	4.2	6.6	5.5	4.9	5.5	10.2	8.8	9.2	8.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: TLAA and Bualuang Research estimates

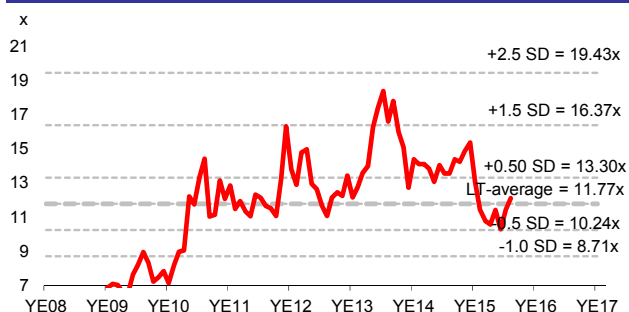
Figure 2: BLA's net investment income (Btm) and net ROI (%), FY05-FY16 and Investment asset breakdown, FY12-1H16

Figure 3: Net margin (%), ROE (%) and debt/equity ratio, YE12-FY17e, and combined ratio (%)


Sources: Company data and TLAA

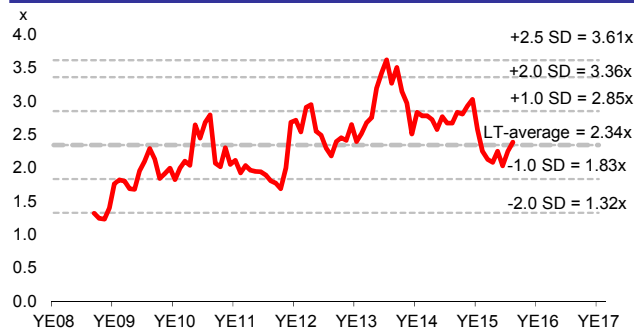
Regional Comparisons

	Bloomberg	Price	Market Cap	PER (x)	EPS Growth (%)	PBV (x)	ROE (%)	Div Yield (%)					
	Code	(local curr.)	(US\$ equivalent)	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E
Ping An Insurance (Group)	601318 CH	CNY32.5	88,854	11.0	9.5	0.4	16.1	1.5	1.3	16.1	16.3	1.7	1.9
China Life Insurance	601628 CH	CNY20.7	82,395	20.5	17.1	-15.4	19.5	1.8	1.7	8.7	10.3	1.7	1.9
China Pacific Insurance (Group)	601601 CH	CNY27.0	35,728	16.6	14.7	-16.4	14.0	1.8	1.6	11.3	12.0	2.8	2.8
T&D Holdings	8795 JP	JPY1,116.5	7,508	9.3	8.5	7.7	7.4	0.5	0.5	6.3	6.5	2.8	3.1
Bangkok Life Assurance	BLA TB	THB43.75	2,146	17.4	15.3	4.7	14.0	2.2	1.9	12.5	12.7	1.5	2.0
Thaire Life Assurance	THREL TB	THB10.20	176	13.8	12.2	14.5	12.4	4.3	4.0	32.9	33.9	5.6	6.3
Simple average				14.8	12.9	-0.8	13.9	2.0	1.8	14.6	15.3	2.7	3.0

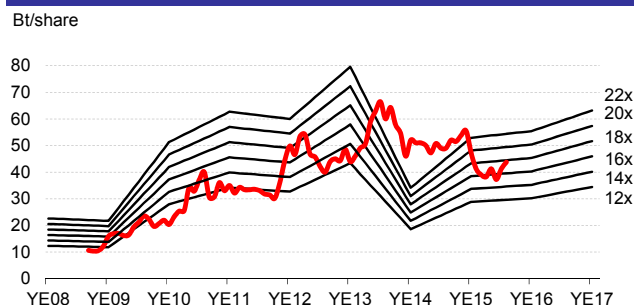
PER band versus SD (next 12 months)



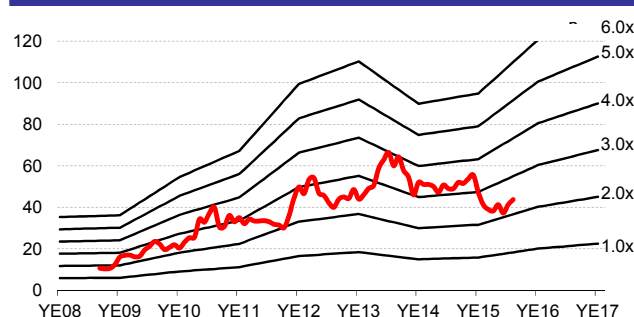
PER band versus SD (next 12 months)



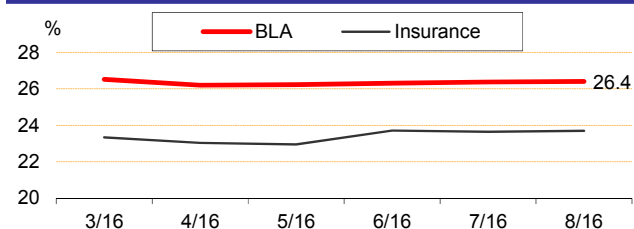
PER band and share price



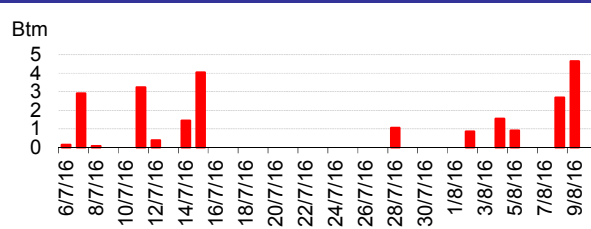
PBV band and share price



Foreign holdings



Short selling activities during past four weeks



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
	RJH

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.