

Bangkok Life Assurance

BLA TB / BLA.BK

8 December 2016

Earnings upgraded on provision trim

Investment thesis

We have raised our earnings forecasts in FY16 by 16% to Bt5bn and in FY17 by 18% to Bt5.8bn. This reflects a V-shaped recovery on the long-term bond yield in 4Q16 and what looks will be a rising trend for interest rates in FY17. This allows BLA to cut provisioning and reverse its Bt2bn reserve for the Liability Adequacy Test (LAT) to compress FY16 provisions for its life-policy reserve to 71% of total premiums from its former 73% and to 68% in FY17 from old 70%. Aside from that, the new sales focus on long-term products allows BLA to curb its provisioning to below 68% of total premiums in FY17. Given the favorable outlook on rising interest rates and our earnings upgrade, we have raised our YE17 target price to Bt65, pegged to our embedded value of Bt39.8/share and total VNB of Bt25.22. Our BUY rating stands.

Provisioning is revised down after bond yield rises in 4Q16 ...

After setting extra provisions of Bt2.0bn for the LAT reserve against the lower long-term bond yield (down 20bps QoQ to 2.3%) during 9M16, we expect BLA to reverse its LAT reserve to reduce provisioning for its life-policy reserves in 4Q16 and onward because of the fast recovery in the 10-year bond yield back to 2.7% at present. Given the assumption of "no change" in the 10-year long-term bond yield of 2.7% until YE16 and FY17, we have cut our provisioning forecasts for life-policy reserves in FY16 to 71% of total premiums, from the former 73% level and in FY17 to 68% from the former 70%. The lower provisioning enables us to revise up our earnings forecasts in FY16 by 16% to Bt5m and by 18% in FY17 to Bt5.8bn, as mentioned previously.

Scope for upside in ROI target of 4.80% in both FY16 and FY17

We expect potential upside in our FY16 ROI forecast of 4.8% (including investment gain) following 5.9% in 9M16 and 5.6% last year. 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 investments) in foreign-currency-denominated bonds that yield about 6%. Note that we forecast BLA to have FY17 ROI of 4.8% (plus investment gain) next year. Morgan Stanley expects the US Fed fund rate to be raised twice next year. If this is realized, our 10-year long-term bond yield would have room to rise further next year from its current 2.7%. This implies scope for upside to our FY17 ROI.

Emphasis on bottom-line growth led by high-margin products

BLA has changed focused to the promotion of medium- to medium-to-long-term policies (whole life, credit life, pension funds and healthcare, such as its BLA *Senior Sukjai*, *Super Senior* and *Health Riders*) in 4Q16 and FY17. These complicated and expensive products would be endorsed along the channels of agents, financial advisors and via an online initiative (the so-called *Smart Saving 168*, without commissions). It should be noted that we forecast its FY16 FYP and total premiums to be flat before rising 13% to Bt49bn in FY17. Note that these products will require lower-than-normal provisioning for their life-policy reserves. The bigger sales imply scope for upsides to our FY17 earnings.

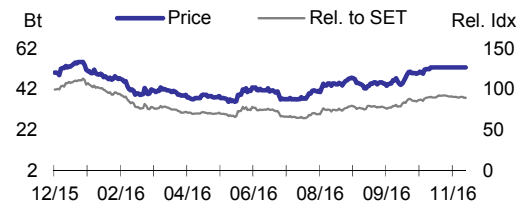
Sector: Insurance – OVERWEIGHT

Rating: BUY

Target Price: Bt65.00

Price (7 December 2016): Bt54.00

Price chart

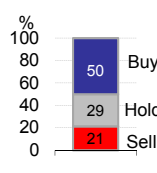


Share price perf. (%)	1M	3M	12M
Relative to SET	20.0	28.7	(11.5)
Absolute	20.7	30.9	4.9

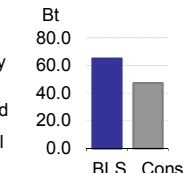
Key statistics

Market cap	Bt92.1bn	USD2.6bn
12-mth price range	Bt35.3/Bt55.8	
12-mth avg daily volume	Bt113m	USD3.2m
# of shares (m)	1,706	
Est. free float (%)	43.8	
Foreign limit (%)	25.0	

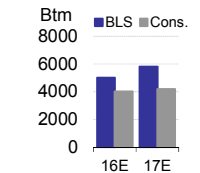
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2015	2016E	2017E	2018E
Total rev (Btm)	55,589	57,155	63,025	69,568
Net profit (Btm)	4,108	5,000	5,800	6,600
Fully diluted EPS (Bt)	2.41	2.93	3.40	3.86
EPS growth (%)	+55.0%	+21.7%	+16.0%	+13.8%
PER (x)	22.5	18.4	15.9	14.0
EV/EBITDA (x)	16.1	17.6	15.4	13.4
PBV (x)	2.45	2.63	2.30	2.03
Dividend (Bt)	0.64	0.66	1.02	1.16
ROA (%)	1.6	1.7	1.7	1.8
Net gearing (x)	8.0	7.3	7.2	7.1
Total loss ratio (%)	70.4	71.0	68.0	68.0
Total premium Mkt (%)	10.0	10.0	10.0	11.0

CG rating



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BLA: Financial Tables – Year

PROFIT & LOSS (Btm)	2014	2015	2016E	2017E	2018E
Insurance premium	51,172	44,175	44,062	49,819	54,459
Less Life policy reserve	(42,106)	(31,114)	(31,284)	(33,877)	(37,032)
Net premium	9,066	13,061	12,778	15,942	17,427
Underwriting expenses	(14,243)	(17,473)	(18,139)	(20,261)	(22,420)
Profit from insurance	(5,177)	(4,412)	(5,361)	(4,318)	(4,993)
Revenue on investment	10,255	11,414	13,093	13,206	15,109
Other income/exp.	48	64	450	509	556
Net revenue	5,126	7,066	8,181	9,397	10,673
Operating expenses	(2,033)	(2,179)	(2,148)	(2,387)	(2,625)
EBIT	3,093	4,887	6,034	7,010	8,047
Minority interest	0	0	(11)	(12)	(13)
Extra items	0	0	0	0	0
Income tax	(443)	(779)	(1,023)	(1,198)	(1,434)
Net profit (loss)	2,650	4,108	5,000	5,800	6,600
Reported EPS	1.55	2.41	2.93	3.40	3.86
Fully diluted EPS	1.55	2.41	2.93	3.40	3.86
Core net profit	2,602	4,044	4,550	5,291	6,044
Core EPS	1.52	2.37	2.66	3.10	3.54
EBITDA	3,189	4,983	6,129	7,106	8,143

KEY RATIOS

Revenue growth (%)	31.9	(13.7)	(0.3)	13.1	9.3
Gross margin (%)	8.3	12.7	14.2	14.8	15.2
EBITDA margin (%)	5.2	9.0	10.6	11.2	11.6
Operating margin (%)	4.2	7.3	8.0	8.4	8.7
Net margin (%)	4.3	7.4	8.7	9.1	9.4
Core profit margin (%)	4.2	7.3	8.0	8.4	8.7
ROA (%)	1.2	1.6	1.7	1.7	1.8
ROE (%)	10.4	15.2	14.3	14.5	14.5
Commission/Insurance premium	9.3	15.0	7.0	10.5	10.0
Life policy Provision/insurance premium	82.3	70.4	71.0	68.0	68.0
Cost/income	34.0	34.0	34.0	34.0	34.0
Combined ratio	114.1	114.9	117.0	113.5	114.0

BALANCE SHEET (Btm)

Cash & Equivalent	5,708	7,102	2,706	6,477	6,782
Total investment in securities	198,238	227,584	269,687	308,117	347,340
Total net loans	4,735	6,139	6,753	7,382	7,909
Premises & equipment (Net)	389	547	558	569	581
Other assets	6,520	8,204	12,193	13,632	14,070
Total assets	215,590	249,576	291,897	336,178	376,682
Life policy reserve	177,435	208,383	239,667	276,194	313,226
Unpaid benefit to life policy	1,489	470	411	857	3,797
Premium received in advance	2,239	459	500	550	556
Other liabilities	8,851	13,272	16,269	18,519	13,671
Total liabilities	190,013	222,585	256,847	296,120	331,249
Paid-up capital	1,698	1,704	1,704	1,704	1,704
Share premium	3,091	3,220	3,295	3,295	3,295
Retained earnings	20,787	22,017	30,051	35,059	40,434
Shareholders' equity	25,576	26,990	35,050	40,058	45,433
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	215,590	249,575	291,897	336,178	376,682

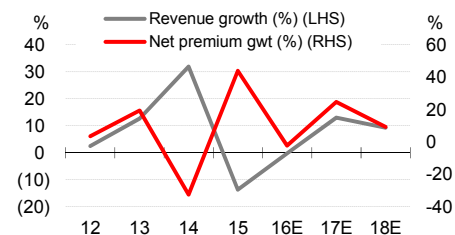
CASH FLOW (Btm)

Net income	2,650	4,108	5,000	5,800	6,600
Depreciation and amortization	143	150	157	165	173
Change in working capital	39,598	30,708	32,160	34,922	38,306
FX, non-cash adjustment & others	805	806	807	808	809
Cash flows from operating activities	42,390	34,966	37,317	40,887	45,079
Capex (Invest)/Divest	(126)	(247)	(11)	(11)	(11)
Others	(49,777)	(39,023)	(42,740)	(38,817)	(38,269)
Cash flows from investing activities	(36,529)	(32,407)	(42,751)	(38,828)	(38,280)
Debt financing (repayment)	0	0	0	0	0
Equity financing	0	0	0	0	0
Dividend payment	(678)	(1,325)	(1,090)	(792)	(1,225)
Others	(49,777)	(39,023)	(42,740)	(38,817)	(38,269)
Cash flows from financing activities	(678)	(1,325)	(1,090)	(792)	(1,225)
Net change in cash	5,183	1,235	(6,524)	1,266	5,573
Free cash flow (Btm)	42,264	34,719	37,307	40,876	45,068
FCF per share (Bt)	24.7	20.3	21.8	23.9	26.4

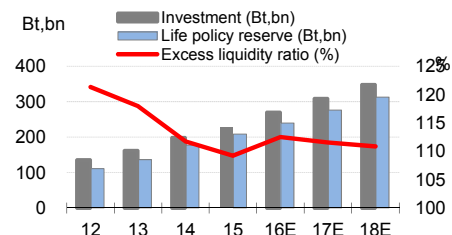
Insurance data

Insurance data					
FYP (Btm)	8,928	7,707	7,687	8,692	9,501
RYP (Btm)	37,379	32,268	32,185	36,390	39,779
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	51,172	44,175	44,062	49,819	54,459
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

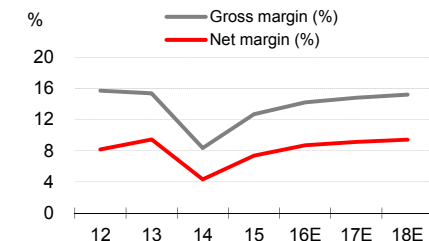
Revenue and net premium growth



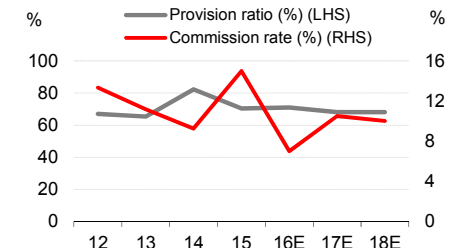
Excess liquidity



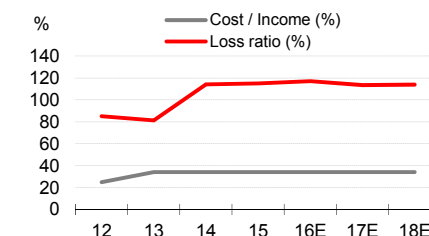
Profit margins



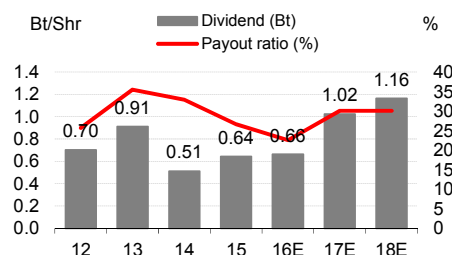
Commission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



BLA: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	3Q15	4Q15	1Q16	2Q16	3Q16
Net insurance premium revenue	8,368	12,844	12,856	7,433	9,001
Less provision for life policy reserve	7,241	8,862	17,848	(6,037)	6,936
Revenue realization on premium	1,127	3,982	(4,993)	13,470	2,065
Underwriting expenses	4,469	3,131	6,564	5,250	4,558
Profit from insurance business	(3,342)	850	(11,556)	8,220	(2,492)
Net investment income	2,715	2,478	2,716	2,721	2,797
Gain on investment	91	29	555	1,207	758
Total revenue from investment	2,806	2,507	3,270	3,928	3,555
Other income	13	18	138	63	24
Total revenues	(523)	3,375	(8,148)	12,211	1,087
Total operating expenses	551	559	541	539	433
Exceptional items	0	0	0	0	0
EBT	(1,074)	2,816	(8,689)	11,671	654
Income tax	(287)	531	(1,801)	2,285	45
Minority Interest	(0)	0	0	(6)	(3)
Net profit	(786)	2,285	(6,888)	9,392	612
EPS	(0)	1	(4)	6	0
Core profit before tax	(1,177)	2,769	(9,382)	10,402	(129)
Core EPS	(1)	2	(6)	6	(0)

KEY RATIOS

Premium/life policy reserve (%)	17	25	22	13	15
Life policy provision/Premium (%)	87	69	139	(81)	77
Claim/life policy (%)	25	27	20	21	21
ROI (%)	5	4	5	6	6
Net margin (%)	(7)	15	(43)	83	5
Equity/Life policy reserve (%)	14	13	13	10	14
BV (Bt)	15	16	14	19	19
ROE (%)	(11)	36	(102)	155	8
ROA (%)	(1)	4	(11)	14	1
D/E (x)	8	9	8	10	7
Cost to Income (%)	147	98	194	(3)	133

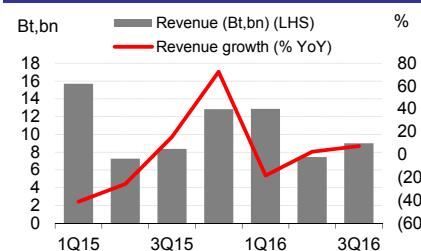
QUARTERLY BALANCE SHEET (Btm)	3Q15	4Q15	1Q16	2Q16	3Q16
Cash & Equivalent	461	7,102	5,590	8,894	9,035
Total investment in securities	226,543	227,584	240,689	242,851	247,149
Total net loans	5,683	6,139	6,463	6,674	6,969
Premises & equipment (Net)	534	547	572	1,107	1,121
Other assets	9,097	8,204	13,003	8,670	8,904
Total assets	242,317	249,576	266,318	268,196	273,178
Life policy reserve	199,686	208,383	234,972	228,748	235,755
Unpaid benefit to life policy	1,612	470	699	682	719
Premium received in advance	723	0	0	0	0
Other liabilities	15,024	13,732	6,395	6,275	4,547
Total liabilities	217,045	222,585	242,065	235,705	241,021
Paid-up capital	1,200	1,704	1,704	1,705	1,705
Share premium	2,700	3,220	3,295	3,307	3,320
Retained earnings	15,176	22,066	19,253	27,468	27,124
Shareholders equity	25,272	26,990	24,253	32,480	32,149
Minority interests	0	0	0	11	7

Insurance data	3Q15	4Q15	1Q16	2Q16	3Q16
FYP (Btm)	2,538	3,821	1,805	1,331	2,120
RYP (Btm)	5,398	6,097	10,996	5,628	6,539
SP (Btm)	501	3,070	612	669	506
Total premium (Btm)	8,437	12,988	13,412	7,629	9,165
FYP+SP mkt (%)	7.5	14.1	5.9	5.0	6.8
Total premium Mkt (%)	6.6	8.9	9.5	5.6	6.7

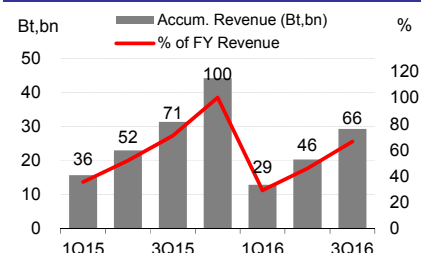
Company profile

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 7.3% for total life assurance premiums during 9M16.

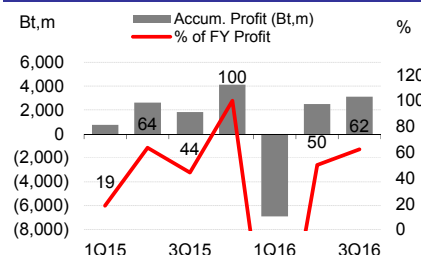
Revenue trend



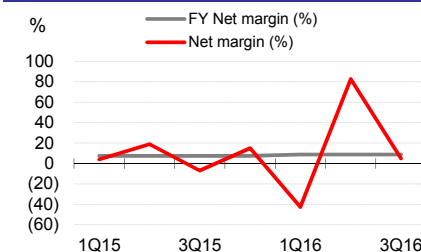
Revenue trend (accumulated)



Net profit trend (accumulated)



Net margin



ROE

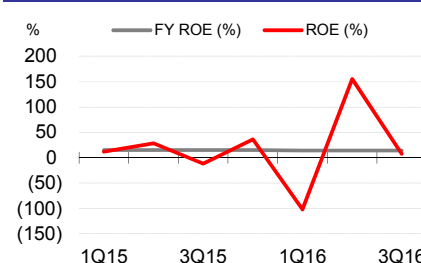
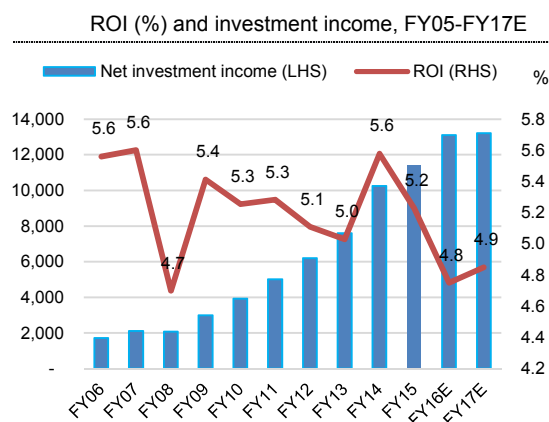


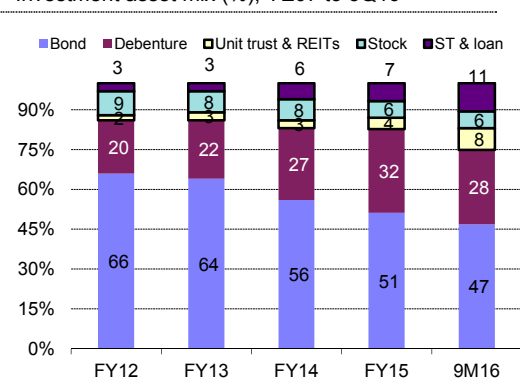
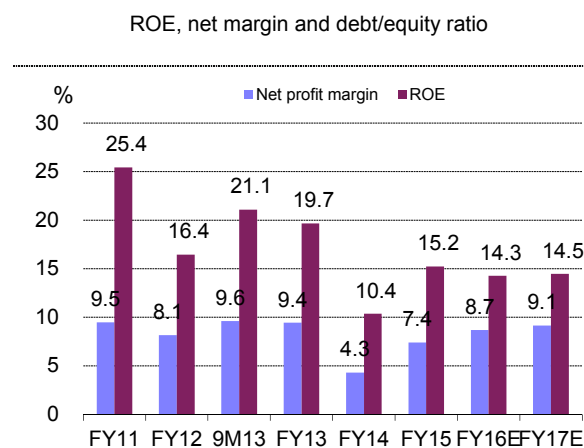
Figure 1: Total life assurance premium market share (%), FY07-9M16

Market share of Total premium (%)	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	9M16
American International Assurances (AIA)	37.9	33.3	31.0	28.7	26.3	25.0	22.8	22.2	20.5
Audhya Allianz C.P Life Plc., (AZAY)	6.5	6.1	6.2	6.3	5.8	5.7	5.4	5.4	5.4
Thai Life Insurance	14.4	13.7	12.4	12.2	12.5	12.4	12.5	12.7	14.1
SCB Life Insurance Plc	6.8	7.5	8.3	9.2	10.7	10.3	9.6	9.9	10.3
Muang Thai Life Assurance	7.7	8.3	10.0	11.5	12.5	13.6	14.9	16.3	17.6
Bangkok Life Assurance Plc.,	6.7	7.7	8.9	9.6	8.9	8.8	10.3	8.3	7.3
Krungthai AXA Life Insurance	4.1	4.9	6.0	6.4	7.4	8.5	9.7	10.2	10.0
Ocean Life Insurance	4.3	4.1	3.9	4.0	3.8	3.1	2.9	2.6	2.3
Prudential Life Assurance (Thailand) Plc.	1.1	1.2	1.2	1.3	1.4	2.3	3.1	3.2	3.4
Others	4.2	6.6	5.5	4.9	5.5	10.2	8.8	9.2	9.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

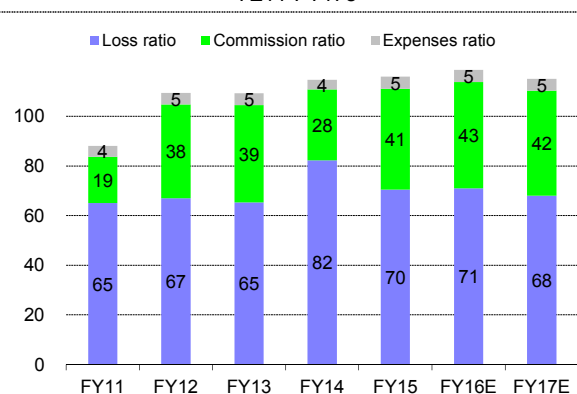
Sources: TLAA and Bualuang Research estimates

Figure 2: BLA's net investment income (Btm) and net ROI (%), FY05-FY17 and Investment asset breakdown, FY08-3Q16


Investment asset mix (%), YE07 to 3Q16


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


Loss ratio, expense ratio and commission ratio, YE11-FY17e



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	CNY36.5	97,708	11.1	10.3	9.6	8.1	1.7	1.4	16.3	15.7	1.5	1.7
China Life Insurance	601628 CH	CNY25.1	97,495	35.1	26.7	-39.8	32.8	2.2	2.1	7.2	9.5	1.2	1.4
China Pacific Insurance (Group)	601601 CH	CNY30.3	38,420	21.2	18.6	-26.8	14.8	2.0	1.9	9.9	11.0	2.3	2.4
T&D Holdings	8795 JP	JPY1,524.5	9,133	12.2	11.7	10.1	4.8	0.7	0.7	5.8	6.2	2.1	2.3
Bangkok Life Assurance	BLA TB	THB54.00	2,587	18.4	15.9	21.7	16.0	2.6	2.3	14.3	14.5	1.2	1.9
Thaire Life Assurance	THREL TB	THB9.65	163	14.8	13.8	0.3	7.7	4.1	3.9	29.0	28.9	5.2	5.6
Simple average				18.8	16.2	-4.1	14.0	2.2	2.0	13.7	14.3	2.2	2.5

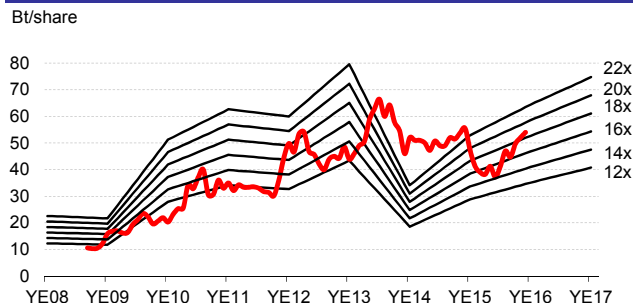
PER band versus SD (next 12 months)



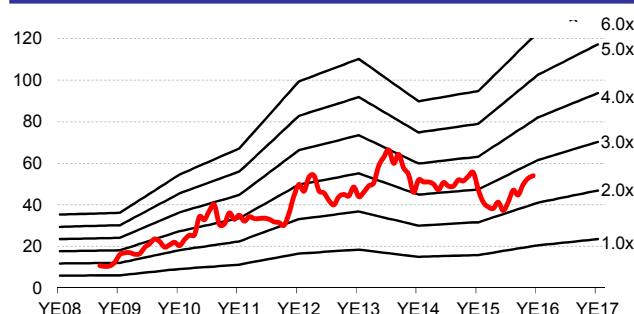
PER band versus SD (next 12 months)



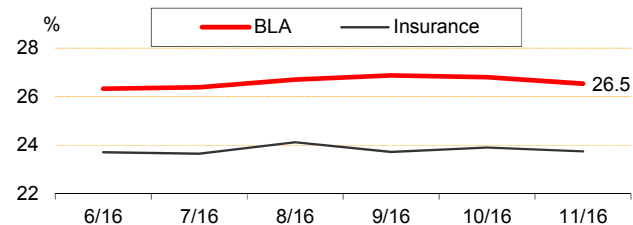
PER band and share price



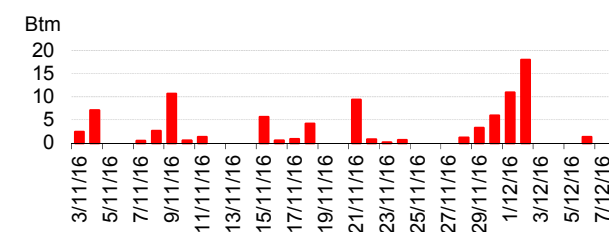
PBV band and share price



Foreign holdings



Short selling activities during past four weeks



Bualuang Securities Public Company Limited

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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
	AU

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
4	Certified
2	Declared

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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.