BUALUANG SECURITIES

12 November 2009

Bangkok Life Assurance

Insurance
Overweight

Bigger life policy reserve-setting than expected

EARNINGS RESULTS

21% below our estimate: BLA posted a 3Q09 profit of Bt214m, down 8.1% QoQ but up 22.0% YoY. The result was 21% below our estimate because the firm set aside more funds for the life policy reserve than we expected. BLA's policy reserve rose 11% QoQ and 31% YoY to Bt3.1bn (we expected Bt2.7bn), due to reserve-setting on bancassurance. BLA's 9M09 profit grew 48% YoY to Bt1bn, which represents 73% of our FY09 projection.

Result highlights: 3Q09 first-year premium (FYP) revenue declined 8.9% QoQ (but jumped 87% YoY) to Bt1.3bn because it was low season. Total premiums grew 3.6% QoQ and 18.0% YoY to Bt4.9bn (and a 7.4% market share, up from 6.8% in FY08), driven by bancassurance sales. Note that bancassurance contributed about 50% of total premiums during 9M09, up from 33% in FY08. 9M09 FYPs leaped 104% YoY to 5.1bn (8% market share); 9M09 total premiums soared 49% YoY to Bt14.5bn, a 7.74% market share.

The 3Q09 investment yield (ex investment gain) slipped to 5.32% from 5.45%, in line with our estimate. BLA will take some time to find enough appropriate high-yielding assets to re-invest the cash injection from the IPO and total insurance premiums. The firm booked investment gains of Bt58m in 3Q09, up 42% QoQ

Outlook: 4Q09 earnings should rise QoQ on seasonality and a better overall investment yield from the IPO cash.

What's changed? We maintain our FY09 BLA profit forecast at a conservative Bt1.38bn (EPS Bt1.15). Life policy reserve-setting should be flat QoQ in 4Q09, whereas we estimate that net insurance premium revenue will rise in 4Q09 on high season.

Recommendation: We reiterate a BUY rating on BLA, premised on: 1) fast business growth (driven by bancassurance), 2) a strong investment asset/life policy liability ratio of 124%, 3) financial strength (a low D/E ratio of 8x with robust risk-based capital of 14.26%e—the regulatory floor is only 2%) and 4) support from major shareholders (BBL, Nippon Life Insurance, Limsong Group and Bangkok Insurance).

BUALUANG RESEARCH

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BUY (maintained)

Target price to Bt18.00
Price (11/11/09): Bt15.10
BLA TB / BLA.BK

Key Ratios & Statistics

Market cap	Bt18.12bn
12-mth price range	Bt13.50/Bt16.20
# of shares (m)	Bt1,000.00m

Share price perf. (%)	1M	3M	12M
Relative to SET	3.2		
Absolute	(1.3)		

Financial summary

FY Ended 31 Dec	2008	2009E	2010E	2011E
Total rev (Btm)	16,804	20,060	23,162	24,935
Net profit (Btm)	752	1,375	1,521	1,685
Fully diluted EPS (Bt)	0.75	1.15	1.27	1.40
BLS/Consensus (x)	n.m.	n.m.	n.m.	n.m.
EPS Consensus (Bt)	n.m.	n.m.	n.m.	n.m.
EPS growth (%)	-2.4	52.4	10.7	10.8
PER (x)	20.1	13.2	11.9	10.8
EV/EBITDA (x)	18.91	12.15	11.80	11.19
PBV (x)	5.0	3.7	3.2	2.8
Dividend (Bt)	0.4	0.6	0.6	0.7
Dividend yield (%)	2.5	3.8	4.2	4.7
ROE (%)	24.9	28.3	27.1	25.6
ROA (%)	1.5	2.2	2.0	1.9
Net gearing (x)	15.3	11.4	11.8	11.8
Total loss ratio (%)	10.7	9.3	9.3	8.9
Total premium Mkt (%)	6.7	7.0	7.0	7.0

CG Rating - 2008 N/A

Company profile

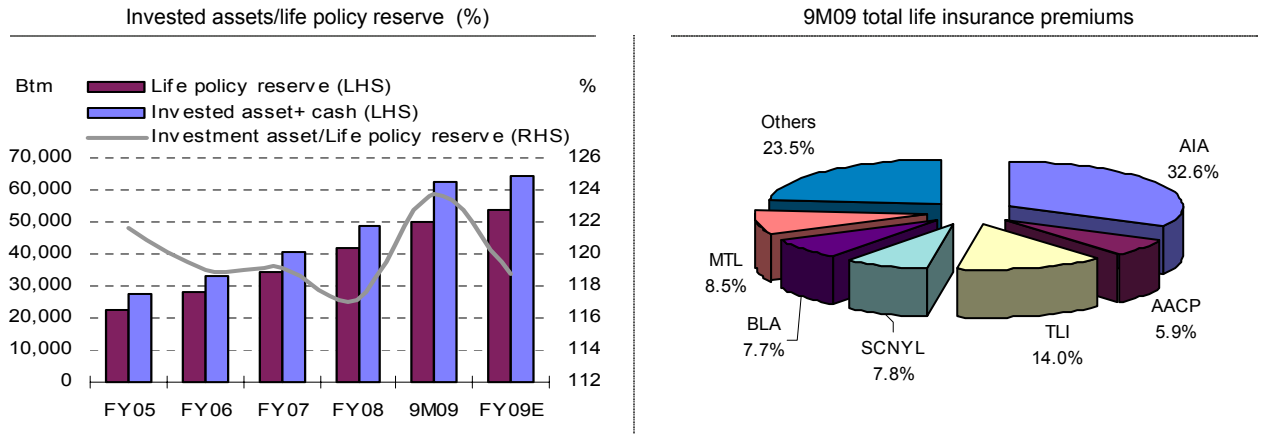
Bangkok Life Assurance Plc (BLA) is one of the largest pure life assurance players in Thailand. It comes under the umbrella of Bangkok Bank group. In FY08 the firm had a first year premium market share of 6.1% and a 6.7% market share of total assurance premiums. BLA has about 12,200 agents and 69 branches nationwide.

Figure 1: 3Q09 results

Consolidated BLA	3Q09	2Q09	%QoQ	3Q08	%YoY	9M09	9M08	% YoY
Net insurance premium revenue	4,872	4,701	3.6	4,129.2	18.0	14,295	10,699	33.6
Less provision for life policy reserve	3,133	2,822	11.0	2,391.1	31.0	8,388	5,695	47.3
Revenue realization on premium	**1,739**	**1,879**	**-7.4**	**1,738.1**	**0.1**	**5,907**	**5,004**	**18.0**
Underwriting expenses	2,038	2,032	0.3	1,830.7	11.3	6,068	5,129	18.3
Profit from insurance business	(299)	(153)	95.7	-92.6	222.2	(161)	-125	28.7
Net investment income	742	688	7.7	648.4	14.4	2,065	1,817	13.7
Gain on investment	58	41	41.7	-60.2	-196.1	224	-47	-572.9
Total revenue from investment	799	729	9.6	588.2	35.9	2,289	1,770	29.4
Other income	**4**	**6**	**-24.3**	**14.9**	**-71.3**	**17**	**19**	**-13.6**
Total revenues	505	582	-13.2	510.5	-1.1	2,144	1,663	28.9
Total operating expenses	269	276	-2.5	251.1	7.0	828	718	15.4
EBT	236	307	-22.9	259.4	-8.9	1,316	945	39.2
Income tax	22	73	-69.9	83.8	-73.6	312	269	16.2
Net profit	214	233	-8.1	175.6	22.0	1,004	676	48.4
EPS	**0.18**	**0.19**	**- 8.1**	**0.15**	**22.0**	**0.84**	**0.56**	**48.4**
Investment assets	**57,751**	**50,131**	**15.2**	**44,859**	**28.7**	**57,751**	**44,859**	**28.7**
Total Assets	64,683	58,425	10.7	49,285	31.2	64,683	49,285	31.2
Life policy reserve	50,280	47,147	6.6	39,917	26.0	50,280	39,917	25.96
Premium/life policy reserve (%)	9.69	9.97	nn	10.34	nn	9.48	8.93	nm
Life policy provision/Premium (%)	64.30	60.03	nn	57.91	nn	58.68	53.23	nm
Total loss ratio (%)	10.21	10.59	nn	11.77	nn	7.88	10.61	nm
ROAE (%)	12.13	24.07	nm	25.02	nm	18.93	32.13	nm
ROAA (%)	1.32	1.60	nm	1.43	nm	2.07	1.83	nm
D/E (x)	8.2	14.1	nm	16.6	nm	8.2	16.6	nm
Cost to income %	53.2	47.3	nm	49.2	nm	38.6	43.2	nm

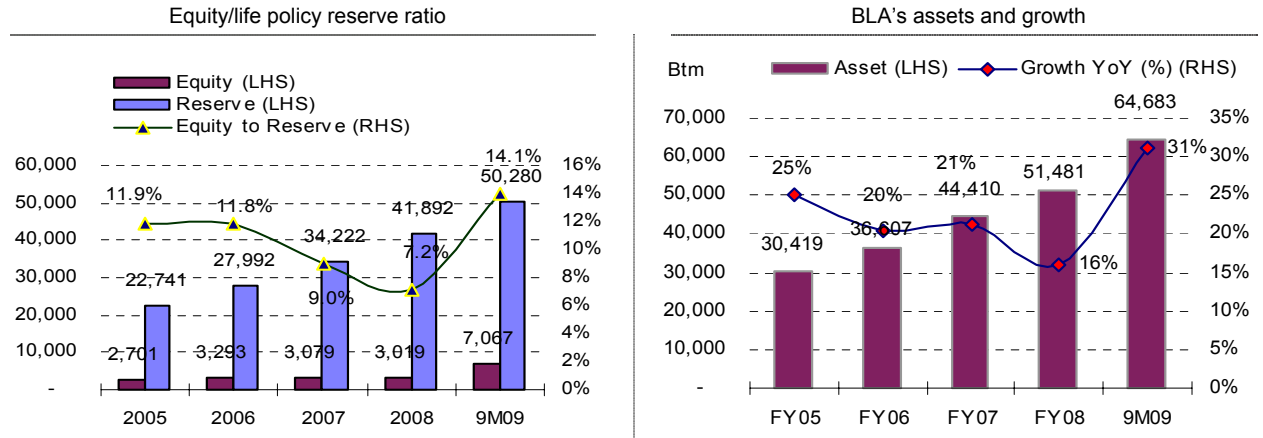
Sources: Company data & Bualuang Research

Figure 2: Movement of Life policy reserve and invested assets and BLA's total premium market share in 9M09



Sources: Company data, Bualuang Research

Figure 3: Equity, life policy reserve and risk-based capital ratio (%) and BLA's assets and growth



Sources: Company data, Bualuang Research

Financial tables

PROFIT & LOSS (Btm)	2007	2008	2009E	2010E	2011E
Insurance premium	12,296	14,732	16,636	19,132	21,045
Less Life policy reserve	(6,230)	(7,670)	(8,318)	(9,566)	(10,522)
Net premium	**6,066**	**7,062**	**8,318**	**9,566**	**10,522**
Underwriting expenses	(6,254)	(7,173)	(8,024)	(9,418)	(10,518)
Profit from insurance	**(187)**	**(111)**	**295**	**147**	**4**
Revenue on investment	2,116	2,071	2,844	3,348	3,890
Other income /exp.	15	26	29	33	37
Net revenue	**1,943**	**1,987**	**3,167**	**3,529**	**3,932**
Operating expenses	(883)	(958)	(1,287)	(1,503)	(1,684)
EBIT	**1,061**	**1,028**	**1,881**	**2,026**	**2,247**
Minority interest	(0)	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(291)	(277)	(506)	(504)	(562)
Net profit (loss)	**770**	**752**	**1,375**	**1,521**	**1,685**
Reported EPS	0.77	0.75	1.15	1.27	1.40
Fully diluted EPS	0.77	0.75	1.15	1.27	1.40
Core net profit	**755**	**726**	**1,346**	**1,488**	**1,648**
Core EPS	0.75	0.73	1.12	1.24	1.37
EBITDA	**1,156**	**1,124**	**1,976**	**2,122**	**2,343**

KEY RATIOS	2007	2008	2009E	2010E	2011E
Revenue growth (%)	22.6	2.2	59.4	11.4	11.4
Gross margin (%)	13.5	11.8	16.2	15.7	15.7
EBITDA margin (%)	8.0	6.7	10.1	9.4	9.4
Operating margin (%)	5.2	4.3	6.9	6.6	6.6
Net margin (%)	5.3	4.5	7.0	6.8	6.7
Core profit margin (%)	5.2	4.3	6.9	6.6	6.6
ROA (%)	1.7	1.5	2.2	2.0	1.9
ROE (%)	25.0	24.9	28.3	27.1	25.6
Commission /Insurance premium	14.5	13.5	15.0	15.0	15.0
Life policy Provision /insurance premium revenue	50.7	52.1	50.0	50.0	50.0
Cost/income	45.4	48.2	41.0	43.0	43.3
Total Loss ratio (benefit payment /Life policy reserve +Unpaid benefit)	11.4	10.7	9.3	9.3	8.9

BALANCE SHEET (Btm)	2007	2008	2009E	2010E	2011E
Cash & Equivalent	**760**	**2,382**	**2,534**	**2,530**	**2,801**
Total investment in securities	40,009	44,858	55,676	66,850	78,450
Total net loans	1,502	1,801	2,078	2,231	2,638
Premises & equipment (Net)	261	325	450	470	539
Other assets	1,878	2,116	2,120	2,493	2,896
Total assets	**44,410**	**51,482**	**62,858**	**74,574**	**87,324**
Life policy reserve	34,222	41,892	50,210	59,776	70,298
Unpaid benefit to life policy	3,311	3,984	4,122	4,996	5,665
Premium received in advance	1,699	1,551	1,590	1,907	2,003
Other liabilities	2,098	1,036	2,071	2,277	2,770
Total liabilities	**41,330**	**48,463**	**57,993**	**68,956**	**80,736**
Paid-up capital	1,000	1,000	1,200	1,200	1,200
Share premium	275	275	1,075	1,075	1,075
Retained earnings	1,805	1,744	2,590	3,343	4,313
Shareholders equity	**3,080**	**3,019**	**4,865**	**5,618**	**6,588**
Minority interests	0	0	0	0	0
Total Liab .&Shareholders ' equity	**44,410**	**51,482**	**62,858**	**74,574**	**87,324**

CASH FLOW (Btm)	2007	2008	2009E	2010E	2011E
Net income	770	752	1,375	1,521	1,685
Depreciation and amortization	101	106	112	117	123
Change in working capital	6,692	7,850	8,712	9,953	10,961
FX, non-cash adjustment & others	(1)	1,090	1,142	1,413	876
Cash flows from operating activities	**7,563**	**8,708**	**10,199**	**11,592**	**12,769**
Capex (Invest)/Divest	(27)	(113)	(125)	(20)	(69)
Others	(7,190)	(57,849)	(11,025)	(10,888)	(11,668)
Cash flows from investing activities	**(7,217)**	**(7,331)**	**(11,151)**	**(10,908)**	**(11,738)**
Debt financing (repayment)	0	0	0	0	0
Equity financing	0	0	3,200	0	0
Dividend payment	(250)	(1,000)	(376)	(687)	(761)
Others	0	0	0	0	0
Cash flows from financing activities	**(250)**	**(1,000)**	**2,824**	**(687)**	**(761)**
Net change in cash	96	377	1,872	(3)	271
Free cash flow (Btm)	**7,536**	**8,595**	**10,073**	**11,572**	**12,700**
FCF per share (Bt)	**7.54**	**8.60**	**8.39**	**9.64**	**10.58**

Sources: Company data, Bualuang Research estimates

Financial tables

QUARTERLY PROFIT & LOSS (Btm)	3Q08	4Q08	1Q09	2Q09	3Q09
Net insurance premium revenue	4,129	4,033	4,722	4,701	4,872
Less provision for life policy reserve	2,391	1,975	2,434	2,822	3,133
Revenue realization on premium	**1,738**	**2,058**	**2,289**	**1,879**	**1,739**
Underwriting expenses	1,831	2,044	1,999	2,032	2,038
Profit from insurance business	(93)	15	**290**	(153)	**(299)**
Net investment income	**648**	**613**	635	**688**	742
Gain on investment	**(60)**	**(311)**	125	**41**	58
Total revenue from investment	588	302	**761**	729	**799**
Other income	**15**	**7**	7	**6**	4
Total revenues	511	323	**1,057**	582	**505**
Total operating expenses	251	240	284	276	269
Exceptional items	0	0	0	0	0
EBT	**259**	**83**	773	**307**	236
Income tax	83.83	8	**217**	73	**22**
Minority Interest	0.00	0.00	0	0.00	0
Net profit	**176**	**75**	**556**	**233**	**214**
EPS	**0.18**	**0.08**	**0.56**	**0.23**	**0.18**
Core profit before tax	305	387	641	260	174
Core EPS	**0.30**	**0.39**	**0.64**	**0.26**	**0.15**

KEY RATIOS	3Q08	4Q08	1Q09	2Q09	3Q09
Premium/life policy reserve (%)	10.34	9.63	10.65	9.97	9.89
Life policy provision/Premium (%)	57.91	48.97	51.53	60.03	64.30
Total loss ratio (%)	11.77	12.59	9.92	10.59	10.21
Net margin (%)	7.81	3.16	16.63	9.47	9.55
Equity/Life policy reserve (%)	7.0	7.2	7.3	8.2	13.9
BV (Bt)	2.81	3.02	3.26	3.87	5.72
ROE (%)	25.0	10.0	68.3	24.1	12.5
ROA (%)	1.4	0.6	4.0	1.6	1.3
D/E (x)	16.6	16.1	15.9	14.1	8.3
Cost to Income (%)	49.2	74.3	26.9	47.3	53.2
Asset/Equity (%)	17.6	17.05	16.9	15.08	9.3

QUARTERLY BALANCE SHEET (Btm)	3Q08	4Q08	1Q09	2Q09	3Q09
Cash & Equivalent	**533**	**2,382**	**3,657**	**3,748**	**4,002**
Total investment in securities	44,859	44,858	47,135	50,131	54,995
Total net loans	1,635	1,798	1,825	1,848	1,894
Premises & equipment (Net)	293	325	321	319	319
Other assets	1,965	2,119	2,082	2,379	2,431
Total assets	**49,285**	**51,482**	**55,021**	**58,425**	**63,640**
Life policy reserve	39,917	41,892	44,325	47,147	49,246
Unpaid benefit to life policy	3,842	3,984	4,106	4,333	4,463
Premium received in advance	1,594	1,551	1,528	1,516	1,516
Other liabilities	1,125	1,036	1,805	1,555	1,555
Total liabilities	**46,478**	**48,463**	**51,765**	**54,551**	**56,781**
Paid-up capital	1,000	1,000	1,000	1,000	1,200
Share premium	275	275	275	275	2,775
Retained earnings	879	950	1,479	1,565	1,851
Shareholders equity	**2,808**	**3,019**	**3,256**	**3,873.78**	**6,859.67**
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**49,285**	**51,482**	**55,021**	**58,425**	**63,640**

Sources: Company data, Bualuang Research

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90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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.