SCBS Investment Research

Initial Public Offering

August 21, 2009

Bangkok Life Assurance (BLA)

Solid and steady growth

Bt15.5 fair value —We determine BLA's fair value at Bt15.5, equivalent to 2.2x 2010F BVPS and 11.6 x 2010F EPS. The target 2.2x PBV is derived from 20% L-T ROE, 11.5% cost of equity and 4.5% terminal growth rate. An IPO price of Bt12.5-14 would be equivalent to PE of 10-11x and PBV of 2.1-2.3x for 2009F vs. the sector's PE of 12.1x (using earnings for the past four quarters) and PBV of 1.47x (using 1Q09 BVPS).

Highest premium growth —Among Thailand's top five life insurance companies, BLA saw the strongest growth in life insurance premiums in 1H09 of 42% YoY (vs. the sector average of 15%), mainly provided by an aggressive expansion in bancassurance by BBL, its major shareholder. We expect a steady and substantial growth in net premiums of 20% for 2009 and 15% for each of 2010 and 2011, translating to earnings growth of 54% for 2009 and 15-16% for 2010 and 2011.

Upside risk on return on investment — BLA's return on investment should benefit from the ongoing issuance of government bonds with their more attractive coupon to finance the government's stimulus package via the MoF's Bt400bn borrowing plan. In addition, it will see rising reinvestment from the potential move to an interest rate uptrend in 2H09. There is also upside risk from a more favorable equity market.

Strong capital base — BLA has a strong balance sheet with a high capital base. Its capital funds averaged 6% of life policy reserve in 2Q09, well above the 2% minimum requirement. We calculate that capital funds will increase to ~13% of life policy reserve at YE2009 after factoring in the capital increase via the IPO.

Stock data	
IPO shares (mn)	200
Est. IPO price (Bt)	12.5-14.00
Fair value (Bt)	15.5
Est. mkt cap (Btbn)	15-16.8

Risk rating	M
Mkt cap (%) SET	0.3
Sector % SET	16.24
Shares issued (mn)	1,200
Par value (Bt)	1
Dividend policy (%)	25

Shareholding structure (Post-IPO)	
IPO	16.7%
Sophonpanich group	32.2%
Nippon Life Assurance	20.8%
Bangkok Bank	7.7%
Lim Song Group	7.0%
Bangkok Insurance	4.3%
Others	11.2%

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Forecasts and valuation

FY Dec	07	08	09F	10F	11F
Net profit (Btmn)	770	752	1,390	1,607	1,853
EPS (Bt)	0.77	0.75	1.16	1.34	1.54
EPS growth (%)	18.03	(2.37)	54.09	15.63	15.28
BVPS (Bt)	3.08	3.02	5.96	7.05	8.31
DPS (Bt)	1.00	-	0.29	0.33	0.39
ROE (%)	24.17	24.65	27.34	20.59	20.11
PER (x)	18.18	18.62	12.09	10.45	9.07
PBV (x)	4.55	4.64	2.35	1.99	1.69
Dividend yields (%)	7.14	-	2.07	2.39	2.76

Source: SCBS Investment Research
Note: Assumed Bt14 IPO price

SCB Securities Co., Ltd. is acting as underwriter for the offering of the shares of Bangkok Life Assurance Public Company Limited. Investors should read the prospectus in detail before making a decision to invest in the shares in the Company.

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Financial Statement

Profit and Loss Statement (Btmn)

FY December 31	2007	2008	2009F	2010F	2011F
Net premiums written	12,296	14,732	17,679	20,330	23,380
Net investments income	1,985	2,430	2,889	3,509	4,058
Gains (losses) on investment in sec.	131	(359)	200	100	100
Other Income	15	26	28	30	33
Total Revenue	**14,427**	**16,829**	**20,795**	**23,970**	**27,571**
Total underwriting expenses	12,483	14,843	17,763	20,530	23,609
Total operating expensess	883	958	1,128	1,297	1,492
Corporate income tax	291	277	514	536	618
Net Profit	**770**	**752**	**1,390**	**1,607**	**1,853**
EPS (Bt)	0.77	0.75	1.16	1.34	1.54
DPS (Bt)	1.00	0.00	0.29	0.33	0.39

Profit and Loss Statement (Btmn)

FY December 31	1Q09	2Q09
Net premiums written	4,722	4,701
Net investments income	635	688
Gains (losses) on investment in securities	125	41
Other Income	7	6
Total Revenue	**5,490**	**5,435**
Total underwriting expenses	4,432	4,853
Total operating expensess	286	266
Corporate income tax	217	73
Net Profit	**556**	**233**
EPS (Bt)	0.56	0.23
DPS (Bt)	0.00	0.00

Balance Sheet (Btmn)

FY December 31	2007	2008	2009F	2010F	2011F
Total investments in securities	40,009	44,858	58,316	65,897	77,758
Total loans - net	1,499	1,798	1,979	2,177	2,395
Total Assets	**44,410**	**51,482**	**65,768**	**78,866**	**94,045**
Total Liabilities	**41,330**	**48,463**	**58,619**	**70,406**	**84,077**
Paid-up capital	1,000	1,000	1,200	1,200	1,200
Total Equity	**3,080**	**3,019**	**7,149**	**8,460**	**9,968**
BVPS (Bt)	3.08	3.02	5.96	7.05	8.31

Balance Sheet (Btmn)

FY December 31	1Q09	2Q09
Total investments in securities	47,135	50,131
Total loans - net	1,825	1,848
Total Assets	**55,021**	**58,425**
Total Liabilities	**51,765**	**54,551**
Paid-up capital	1,000	1,000
Total Equity	**3,256**	**3,874**
BVPS (Bt)	3.26	3.87

Key Financial Ratios

	2007	2008	2009F	2010F	2011F
Net insurance premium growth (%)	17.8	19.8	20.0	15.0	15.0
Gross margin (%)	14.5	14.5	15.0	14.0	13.5
Net profit margin (%)	5.3	4.5	6.7	6.7	6.7
Yield on investment (%)	5.5	5.7	5.6	5.7	5.7
Return on investment (%)	5.8	4.9	6.0	5.8	5.8
Underwriting expense ratio (%)	101.5	100.8	100.5	101.0	101.0
Cost to income ratio (%)	6.1	5.6	5.5	5.4	5.4
ROA (%)	1.9	1.6	2.4	2.2	2.1
ROE (%)	24.2	24.7	27.3	20.6	20.1

Source: SCBS Investment Research

Key Financial Ratios

	1Q09	2Q09
Net insurance premium growth (%)	60.3	29.7
Gross margin (%)	23.0	11.0
Net profit margin (%)	10.1	4.3
Yield on investment (%)	5.5	5.7
Return on investment (%)	6.6	6.0
Underwriting expense ratio (%)	93.9	103.2
Cost to income ratio (%)	5.3	4.9
ROA (%)	4.2	1.6
ROE (%)	70.9	26.2

Highest premium growth

BLA targets sustained strong growth in net life insurance premiums at 20% in 2009, topping its accelerating growth of 20% in 2008, 18% in 2007 and 13% in 2006. Of Thailand's top five life insurance companies, BLA saw the strongest YoY growth in life insurance premiums of 42% in 1H09 (vs. the sector average of 15%), reflecting the highest growth in first-year premiums of 79% YoY (vs. the sector average of 24%) and highest renewal rate of 91% (vs. the sector average of 86%). 1H09 net insurance premiums accounted for 53% of its full-year target. The outperforming growth in 1H09 was mainly underwritten by an aggressive expansion in bancassurance by BBL, its major shareholder.

Table 1: Life insurance premium

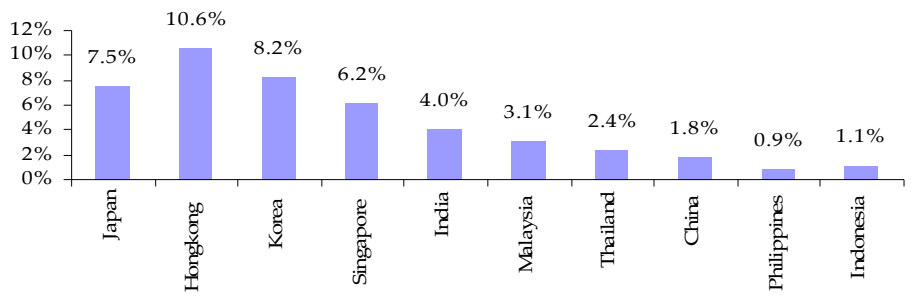
Btmn	First Year Premium		%+ (-)		Renewal Premium		% Renewal		Single Premium		%+ (-)		Total Premium		%+ (-)	
	1H09	1H08	1H09	1H08	1H09	1H08	1H09	1H08	1H09	1H08	1H09	1H08	1H09	1H08	1H09	1H08
AIA	6,595	6,529	1	8	31,468	30,280	85	88	2,407	2,176	11	50	40,469	38,985	4	8
TLI	2,593	2,542	2	3	11,587	10,541	89	87	2,236	994	125	(31)	16,416	14,076	17	4
MTL	3,194	1,875	70	9	6,199	5,123	89	91	1,366	1,439	(5)	69	10,759	8,437	28	30
BLA	3,442	1,926	79	69	5,792	4,464	91	88	346	352	(2)	66	9,581	6,742	42	28
SCNYL	3,225	2,112	53	7	5,858	4,522	88	86	469	881	(47)	2	9,552	7,516	27	23
AACP	1,882	1,847	2	(5)	4,961	4,606	77	55	202	287	(30)	67	7,045	6,740	5	(22)
KTAL	1,871	1,401	34	55	2,980	1,991	88	93	637	812	(22)	168	5,488	4,204	31	73
OLIC	1,091	1,023	7	27	3,976	3,796	83	83	56	39	43	-	5,123	4,858	5	6
TLA	404	89	356	58	251	215	83	106	3,092	2,378	30	175	3,747	2,682	40	151
ING	973	818	19	14	2,239	1,732	88	86	101	19	427	6,263	3,313	2,570	29	28
PLT	389	462	(16)	20	744	550	73	74	251	133	89	39	1,384	1,145	21	37
TCLife	284	120	137	(81)	729	690	90	88	98	114	(14)	(24)	1,112	924	20	(1)
SEIC	92	94	(2)	80	679	635	93	98	296	69	332	(35)	1,067	798	34	6
SCI Life	260	336	(23)	417	605	260	101	59	165	46	256	1,650	1,030	643	60	46
ACE	221	244	(9)	26	438	298	81	76	158	352	(55)	419	817	894	(9)	93
FLA	99	147	(33)	(41)	680	711	79	75	32	51	(39)	(41)	811	909	(11)	(12)
GT	274	230	19	(1)	458	314	84	85	0	4	(98)	66	732	547	34	47
MLI	215	95	127	20	261	279	70	92	41	77	(46)	385	517	451	15	42
SSLI	63	75	(17)	61	194	188	74	98	165	95	73	-	422	359	18	25
MIT	26	29	(10)	99	209	205	89	85	-	-	-	-	234	233	0	(3)
ALife	108	69	56	85	73	42	66	74	-	-	-	(100)	181	111	63	97
SAHA	54	-	-	-	28	-	-	-	5	-	-	-	87	-	-	-
SLI	1	1	24	(21)	58	67	85	100	-	-	-	-	59	68	(13)	2
BUILife	1	0	68	63	3	3	86	88	-	-	-	-	3	3	6	-
Total	**27,358**	**22,065**	**24**	**12**	**80,470**	**71,512**	**86**	**84**	**12,123**	**10,317**	**18**	**53**	**119,950**	**103,894**	**15**	**13**

Source: The Thai Life Assurance Association and SCBS Investment Research

We forecast net premium growth of 20% for 2009 and 15% for 2010 and 2011, supplied by:

1) Low penetration rate. We expect Thailand's life insurance industry to expand steadily at a moderate rate of 10-15% due to the very low penetration rate. Thailand's net premium per GDP was 2.4% in 2007, well behind 3-10% for other Asian countries.

Chart 1: Net premium per GDP in 2007



Source: The Thai Life Assurance Association and SCBS Investment Research

2) BBL's more aggressive move in bancassurance — BBL started bancassurance with BLA in November 2005. Though it was almost two years behind SCB and KBANK, it has been able to catch up with those two banks in terms of first-year premiums (bancassurance). In 1H09, BLA ranked #2 (very close to #1) in terms of bancassurance for first-year premiums. BBL's second largest branch network (900 branches, just behind SCB's 957) and largest deposit client base will underpin BLA's steady and substantial expansion in the life insurance business.

Table 2: Life insurance premium breakdown by distribution channel

	First Year Premium (Bt mn)				Total Premium (Bt mn)				Mkt. Share in First Year Premium				Mkt. Share in Total Premium			
	Agency	Banc.	Others	Total	Agency	Banc.	Others	Total	Agency	Banc.	Others	Total	Agency	Banc.	Others	Total
AIA	5,771	519	305	6,595	37,129	2,205	1,135	40,469	42%	5%	11%	24%	46%	7%	12%	34%
TLI	2,518	-	74	2,593	15,893	333	190	16,416	18%	0%	3%	9%	20%	1%	2%	14%
MTL	716	2,245	233	3,194	4,199	5,397	1,162	10,759	5%	21%	9%	12%	5%	18%	12%	9%
BLA	594	2,755	92	3,442	4,396	4,642	543	9,581	4%	25%	3%	13%	5%	15%	6%	8%
SCNYL	306	2,771	148	3,225	955	7,452	1,146	9,552	2%	26%	5%	12%	1%	25%	12%	8%
AACP	1,114	350	418	1,882	4,900	865	1,280	7,045	8%	3%	15%	7%	6%	3%	13%	6%
KTAL	809	1,000	63	1,871	2,677	2,735	76	5,488	6%	9%	2%	7%	3%	9%	1%	5%
OLIC	1,052	0	39	1,091	5,026	2	95	5,123	8%	0%	1%	4%	6%	0%	1%	4%
TLA	3	119	282	404	16	3,189	541	3,747	0%	1%	10%	1%	0%	11%	6%	3%
ING	481	354	137	973	2,188	505	619	3,313	3%	3%	5%	4%	3%	2%	6%	3%
PLT	24	139	226	389	183	500	701	1,384	0%	1%	8%	1%	0%	2%	7%	1%
TCLife	-	253	33	286	4	915	193	1,112	0%	2%	1%	1%	0%	3%	2%	1%
SEIC	92	-	-	92	1,067	-	-	1,067	1%	0%	0%	0%	1%	0%	0%	1%
SCI Life	1	188	71	260	6	884	140	1,030	0%	2%	3%	1%	0%	3%	1%	1%
ACE	82	2	137	220	272	172	371	816	1%	0%	5%	1%	0%	1%	4%	1%
FLA	83	-	16	99	743	-	68	811	1%	0%	1%	0%	1%	0%	1%	1%
GT	2	-	272	274	25	-	708	732	0%	0%	10%	1%	0%	0%	7%	1%
MLI	0	149	65	215	8	233	277	517	0%	1%	2%	1%	0%	1%	3%	0%
SSLI	59	-	4	63	164	140	118	422	0%	0%	0%	0%	0%	0%	1%	0%
MIT	18	-	8	26	225	-	9	234	0%	0%	0%	0%	0%	0%	0%	0%
ALife	-	-	108	108	15	-	166	181	0%	0%	4%	0%	0%	0%	2%	0%
SAHA	54	-	-	54	88	-	(0)	88	0%	0%	0%	0%	0%	0%	0%	0%
SLI	0	-	1	1	40	-	19	59	0%	0%	0%	0%	0%	0%	0%	0%
BUILife	0	-	0	1	3	-	0	3	0%	0%	0%	0%	0%	0%	0%	0%
Total	13,779	10,844	2,734	27,357	80,221	30,167	9,561	119,949	100%	100%	100%	100%	100%	100%	100%	100%

Source: The Thai Life Assurance Association and SCBS Investment Research

3) Tax incentive scheme —The ceiling for annual life insurance premium as a tax deductible expense has been increased from Bt50,000 to Bt100,000, effective 2008. This will become increasingly prominent in 2010 and 2011 upon the economic recovery.

Rising return on investment

BLA's return on investment should benefit from the government's ongoing issuance of bonds - with their more attractive coupon rate - to finance the MoF's Bt400bn borrowing plan for its stimulus package. In addition, it will see rising reinvestment from a potential return of interest rates to an uptrend in 2H09. There is also upside risk from a more favorable equity market.

The majority of its investment is in long-term debt securities. Most of these are classified as "held to maturity", and thus are not required to be marked to market.

Its unrealized investment gain under equities is more related to equity investment. In line with the rally in the SET, its unrealized investment gain turned from a Bt3mn loss in 1Q09 to a Bt517mn gain in 2Q09.

Table 3: Return on investment

	2007	2008	1Q09	2Q09
Yield on investment	5.47%	5.73%	5.53%	5.66%
Return on investment	5.83%	4.88%	6.62%	6.00%
Gain on investment	131	(359)	125	41
Unrealized gain	1,129	316	(3)	517

Source: The company and SCBS Investment Research

Table 4: Investment in securities

Bt mn	Trading	Available for sale	Held to maturity	Others	Total
Investment in equities	70	5,651	-	-	5,721
Investment in debt securities	-	1,412	42,986		44,398
Others	-	-	-	12	12
Total	70	7,063	42,986	12	50,131

Source: The company and SCBS Investment Research

Table 5: Investment in debt securities broken down by duration at 2Q09

Btmn	Available for sale	Held to maturity	Total
1 year	0	5,934	5,934
2-5 years	107	8,214	8,321
> 5 years	1,306	28,838	30,143
Total	1,412	42,986	44,398

Source: The company and SCBS Investment Research

Strong capital base

BLA has a strong balance sheet with high capital base. Its capital funds came to ~6% of life policy reserve in 2Q09, well above the 2% minimum requirement. We calculate that capital funds will increase to ~13% of life policy reserve at YE2009 after factoring in the Bt2.5bn capital increase via the IPO.

Table 6: Capital fund position

	2006	2007	2008	1Q09	2Q09
Capital funds (Btmn)	3,248	3,016	2,800	2,741	NA.
Min. required capital fund at 2% of Life policy reserve (Btmn)	560	684	838	887	943
Capital funds to minimum required capital fund (x)	5.80	4.41	3.34	3.09	NA.
Capital funds to life policy reserve	11.60%	8.81%	6.68%	6.18%	6.31%
Equity to life policy reserve	11.76%	9.00%	7.21%	7.35%	8.22%

Source: The company and SCBS Investment Research

Comparison with SCNYL

We provide a comparison of BLA's operating performance with Siam Commercial New York Life Insurance (SCNYL), the only listed life insurance company. BLA posted stronger net premium growth than SCYNL in 1H09, a reversal from the slower growth over 2006-2008, and indicative of BLA's more aggressive expansion this year.

BLA's ROA was lower than SCNYL's ROA because of margin on insurance business, mainly reflected by lower gross margin and higher underwriting expense ratio.

BLA's profitability is more volatile than SCNYL due to a higher contribution of investment gain to revenue. BLA's ROE increased sharply to 44.3% in 1H09 from 24.7% in 2008, mainly due to a reserve of investment loss of Bt359mn to investment gain of Bt166mn. Sizable investment gain led to BLA's spectacular 1H09 ROE of 44%, close to SCNYL's 46%. If investment gain is excluded, BLA's 1H09 ROE would be 35%.

Table 7: Operating performance comparison between BLA and SCNYL

	2006	2007	2008	1H09
Net premium growth				
BLA	13%	18%	20%	43%
SCNYL	15%	22%	24%	27%
Yield on investment				
BLA	5.71%	5.47%	5.73%	5.44%
SCNYL	5.38%	5.70%	5.79%	5.70%
Return on investment				
BLA	5.77%	5.83%	4.88%	6.13%
SCNYL	5.45%	5.70%	5.80%	5.11%
Gross margin				
BLA	15.18%	14.54%	14.50%	17.03%
SCNYL	28.27%	31.24%	29.95%	29.59%
Net profit margin				
BLA	5.36%	5.34%	4.47%	7.23%
SCNYL	4.47%	6.04%	7.21%	7.57%
Underwriting expense to underwriting income ratio				
BLA	102%	102%	101%	99%
SCNYL	93%	91%	91%	90%
Cost to income ratio				
BLA	5.87%	6.09%	5.62%	5.13%
SCNYL	8.87%	8.28%	8.15%	7.47%
ROA				
BLA	1.95%	1.90%	1.57%	2.78%
SCNYL	2.74%	3.28%	3.65%	3.88%
ROE				
BLA	21.77%	24.17%	24.65%	44.29%
SCNYL	49.09%	49.62%	46.51%	45.95%
Equity to Life policy reserve				
BLA	11.76%	9.00%	7.21%	8.22%
SCNYL	6.58%	8.09%	9.56%	9.81%

Source: SET and SCBS Investment Research

Valuation

We use the ROE-PBV Gordon growth model to assess BLA's fair value. Our Bt15.5 fair value is equivalent to 2.2 x 2010F BVPS and 11.6 x 2010F EPS. The target 2.2x PBV is derived from 20% L-T ROE, 11.5% cost of equity and 4.5% L-T growth rate.

The ROE-PBV method gives a valuation in line with SCNYL, the only listed life insurance company. The stock is trading at a high PBV of 4.5x due to its high ROE of 46% and illiquidity in the stock market.

An IPO price of Bt12.5-14 would be equivalent to PE of 10-11x and PBV of 2.1-2.3x for 2009F, vs. the sector's PE of 12.1x (using past four quarter earnings) and PBV of 1.47x (using 1Q09 BVPS).

Table 8: Valuation comparison

	PE (x)	PBV (x)
AYUD	11.12	0.64
BKI	14.83	1.02
BUI	10	0.48
CHARAN	13.74	0.55
INSURE	N/A	2.44
MTI	116.83	0.89
NKI	12.67	1.03
NSI	2.91	0.26
SCNYL	12.83	4.53
SCSMG	N/A	1.46
SMK	9.99	0.99
THRE	11.91	2.55
TIC	N/A	0.52
TIP	8.4	1.2
TSI	N/A	0.45
TVI	N/A	0.61
Average	12.1	1.47

Source: SET and SCBS Investment Research

Chart 2: SCNYL's historical PBV

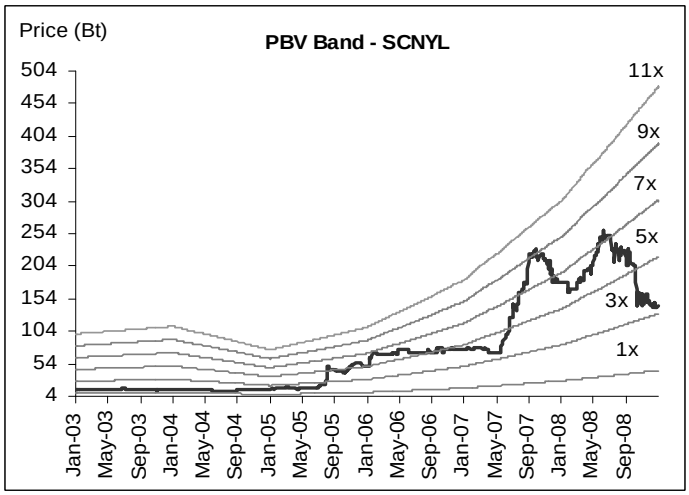
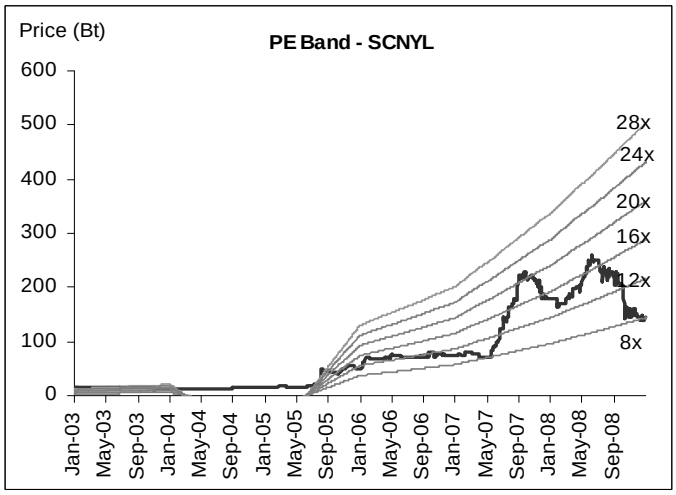


Chart 3: SCNYL's historical PE



Source: SCBS Investment Research

Chart 4: SETINSURANCE's historical PBV

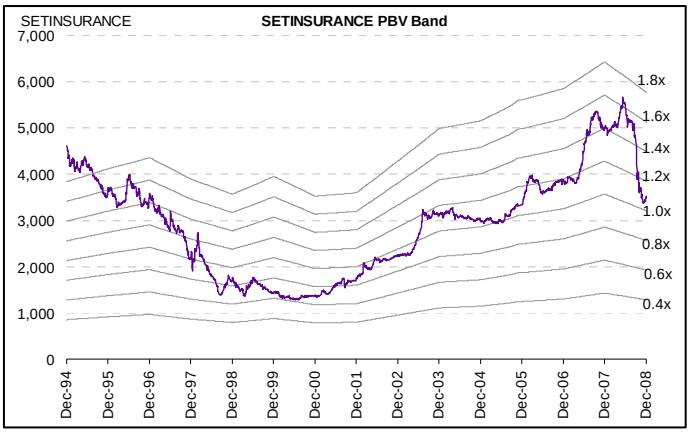
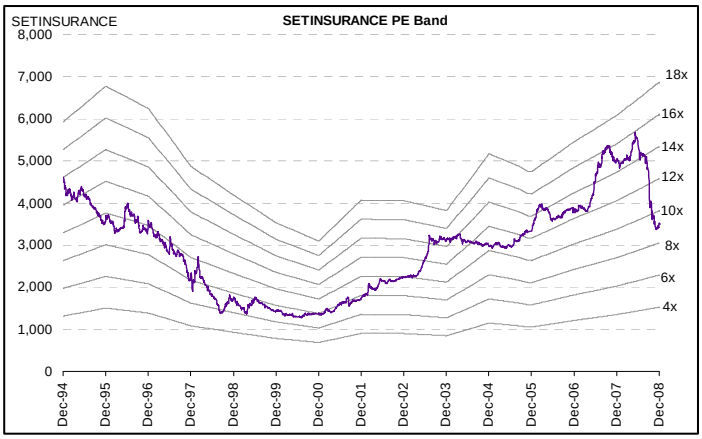


Chart 5: SETINSURANCE's historical PE



Source: SCBS Investment Research

Bangkok Life Assurance PLC

Company background

Established on June 1, 1951, Bangkok Life Assurance is the #4 player in the life insurance business with a market share of 8%. As a company under the Sophonpanich family (32.2% holding post IPO) and Bangkok Bank (BBL) (7.7% holding post IPO) groups, the company gets strong support from BBL through bancassurance and cross-selling with the bank's client base. The company has a partnership with Nippon Life Insurance (20.8% holding post IPO) — the largest life insurance company in Japan. BLA had active agents of 6,196 (111 with Thailand National Quality Award and 60 with International Quality Award).

Table 9: Life insurance market share

	2008	1H09
American International Assurance (AIA)	29.1%	33.7%
Thai Life Insurance (TLI)	12.4%	13.7%
Muang Thai Life Assurance (MTL)	8.3%	9.0%
Bangkok Life Assurance (BLA)	8.0%	8.0%
Siam Commercial New York Life Insurance (SCNYL)	9.9%	8.0%
Others	32.2%	27.7%

Source: The company and SCBS Investment Research

Table 10: BLA's product mix

Bt mn	First year premium		Renewal year premium		Total premium	
	2007	2008	2007	2008	2007	2008
Single premium	22	40	-	-	22	40
Ordinary life	2,545	3,297	8,843	10,302	11,388	13,598
Whole life	257	316	937	1,071	1,194	1,387
Term	21	26	34	48	56	74
Endowment	2,046	2,699	6,920	8,137	8,966	10,836
Rider	221	256	952	1,046	1,173	1,301
Group life	675	849	412	520	1,087	1,369
Total	3,242	4,186	9,254	10,821	12,496	15,007
Product mix						
Single premium	0.7%	0.9%	0.0%	0.0%	0.2%	0.3%
Ordinary life	78.5%	78.8%	95.6%	95.2%	91.1%	90.6%
Whole life	7.9%	7.6%	10.1%	9.9%	9.6%	9.2%
Term	0.7%	0.6%	0.4%	0.4%	0.4%	0.5%
Endowment	63.1%	64.5%	74.8%	75.2%	71.7%	72.2%
Rider	6.8%	6.1%	10.3%	9.7%	9.4%	8.7%
Group life insurance	20.8%	20.3%	4.4%	4.8%	8.7%	9.1%

Source: The company and SCBS Investment Research

Valuation

Our Bt15.5 fair value is equivalent to 2.2 x 2010F BVPS and 11.6 x 2010F EPS. The target 2.2x PBV is derived from 20% L-T ROE, 11.5% cost of equity and 4.5% L-T growth rate.

Risks

1) Upside: Reinvestment risk from falling interest rates.

2) Downside: Dilution from the exercise of 20mn units (2% of total post-IPO shares) of zero-cost ESOP warrants, which will have 5 year maturity and an exercise price the same as the IPO price.