ASIA PLUS Securities

Wednesday, March 2, 2016

# Bangkok Life Assurance

## Downside is limited

We upgrade our recommendation to BUY. The share price has undergone substantial correction until an upside appears. Despite a risk from the interest downtrend, there is also an opportunity as the whole industry has cooperated to reduce the limitation of the current accounting method.

### New reserve calculation method for supplementary contracts benefits 4Q15

BLA posted 4Q15 net profit at B2.28bn, versus a net loss of B786m in 3Q15, because a ratio of premium reserve expense to total premium income decreased from 86.5% to 59.3%; the lower ratio had both positive and negative effects, but the positive outweighed the negative, so premium reserves dropped significantly in this quarter.

### Cut 2016 forecast to reflect higher premium reserves

We revise down 2016 net profit forecast by 5.5% to reflect an increase of premium reserve expense estimate as a result of increasing sales of short-term products this year. The new forecast has also included an effect from 10-year bond yield curve that is projected to lower from 2.51% at end-2015 (decreasing 38bp to 2.13% in February 2016). On the other hand, an assumption of net premium income in 2016 is raised according to a new target to 20%yoy (50%yoy for a first-year premium), but it cannot negate the negative factors. In addition, we have not yet included a positive factor from possibility of a change in discount rate for calculation of fair value of debts and a change in booking method of fair value of long-term investment for there is still not a conclusion.

### Loss likely in 1Q16 if there is no supporting factor

A bond yield curve as of February 29, 2016 was 2.13%, decreasing 38bp from end-2015. Accordingly, BLA would still face loss in 1Q16, especially when there will not be a positive factor from assumption revision like in 4Q15 and total premium income growth would become normal after staying usually high in 4Q15.

### Risk is limited, upside appears

We upgrade our recommendation to BUY. 2016 fair value from appraisal value method decreased from B52 to B45 (embedded value is B22.87 and the rest is multiplier of VNB). The share price has undergone substantial correction until an upside appears, while the company would be less affected during the interest rate downtrend

| *FY: Ending Dec 31* | FY14A | FY15A | FY16F | FY17F | FY18F |
|---|---|---|---|---|---|
| Net Profit (Million B) | 2,650 | 4,108 | 2,609 | 4,069 | 5,347 |
| EPS (B) | 1.56 | 2.41 | 1.53 | 2.39 | 3.14 |
| Normalized Profit (Million B) | 3,419 | 3,266 | 3,139 | 4,069 | 5,347 |
| BVS (B) | 15.06 | 15.84 | 16.98 | 18.73 | 21.00 |
| PER (x) | 25.6 | 16.6 | 26.1 | 16.8 | 12.7 |
| PBV (x) | 2.7 | 2.5 | 2.4 | 2.1 | 1.9 |
| DPS (B) | 0.91 | 0.64 | 0.46 | 0.72 | 0.94 |
| Dividend Yield (%) | 2.3% | 1.6% | 1.1% | 1.8% | 2.4% |
| ROE (%) | 11.1% | 15.6% | 9.3% | 13.4% | 15.8% |

*Source: ASPS Research*

## BLA

## Recommendation : BUY

| | |
|---|---|
| Current Price (B): | 40.00 |
| Target Price (B): | 45.00 |
| Upside | 12.50% |
| Dividend Yield | 1.60% |
| Total Return | 14.10% |
| Market Cap. (Million B) | 67,914 |

## Technical Chart

**ASPS vs IAA Consensus**

| EPS (B) | ASPS | IAA Cons | % diff |
|---|---|---|---|
| **2016F** | 1.53 | 1.68 | -9% |
| **2017F** | 2.39 | 2.28 | 5% |

*Source: ASPS and IAA consensus*

**CG Score : 4 = Very Good**
**Anti-corruption Progress Indic. 4 = Certified**

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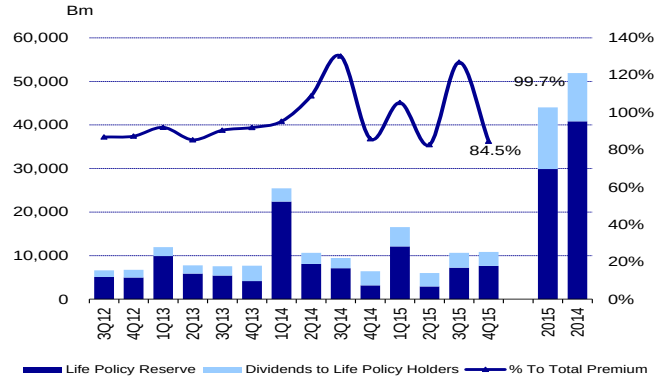
*This report is a rough translation of one of our Thai-language research products. It is produced primarily with time efficiency in mind, so that English-reading clients can see what the main recommendations are from our Thai-language research team. Given that this is a rough-and-ready translation, Asia Plus Securities cannot be held responsible for translation inaccuracies.) The reports and information contained herein are compiled from public data sources and our analysts' interviews with executives of listed companies. They are presented for informational purposes only and not to be deemed as solicitations to buy or sell any securities. Best attempts have been made to verify information from these vast sources, but we cannot guarantee their accuracy, adequacy, completeness and timeliness. The analyses and comments presented herein are opinions of our analysts and do not necessarily reflect the views of Asia Plus Securities.*

## 4Q15 and 2015 Earnings Results by Quarter

| Million Baht | 2Q14 | 3Q14 | 4Q14 | 1Q15 | 2Q15 | 3Q15 | 4Q15 | %QoQ | %YoY | 2015 | 2014 | %YoY |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Premium Income | 9,769 | 7,245 | 7,446 | 15,711 | 7,252 | 8,368 | 12,844 | *53.5%* | *72.5%* | 44,175 | 51,172 | *-13.7%* |
| Net Investment Income | 2,475 | 2,578 | 3,213 | 3,527 | 2,546 | 2,769 | 2,492 | *-10.0%* | *-22.4%* | 11,334 | 10,326 | *9.8%* |
| **Total Income** | **12,260** | **9,804** | **10,669** | **19,248** | **9,849** | **11,187** | **15,368** | ***37.4%*** | ***44.1%*** | **55,653** | **61,475** | ***-9.5%*** |
| Underwriting Expenses | (11,596) | (10,507) | (7,306) | (17,850) | (7,033) | (11,710) | (11,994) | *2.4%* | *64.2%* | (48,587) | (56,349) | *-13.8%* |
| Operating Expenses | (501) | (482) | (554) | (498) | (571) | (551) | (559) | *1.5%* | *0.9%* | (2,179) | (2,033) | *7.2%* |
| **Total Expenses** | **(12,097)** | **(10,988)** | **(7,860)** | **(18,348)** | **(7,605)** | **(12,261)** | **(12,553)** | ***2.4%*** | ***59.7%*** | **(50,766)** | **(58,382)** | ***-13.0%*** |
| **Pre-tax Profi** | **163** | **(1,185)** | **2,808** | **900** | **2,245** | **(1,074)** | **2,816** | ***n.m.*** | ***0.3%*** | **4,887** | **3,093** | ***58.0%*** |
| Income Tax | 6 | 304 | (543) | (135) | (400) | 287 | (531) | *n.m.* | *n.m.* | (779) | (443) | *75.6%* |
| **Net Profit** | **169** | **(881)** | **2,266** | **765** | **1,844** | **(786)** | **2,285** | ***n.m.*** | ***0.8%*** | **4,108** | **2,650** | ***55.0%*** |
| **EPS (B)** | **0.10** | **(0.52)** | **1.33** | **0.45** | **1.08** | **(0.46)** | **1.34** | ***n.m.*** | ***0.5%*** | **2.41** | **1.56** | ***54.5%*** |
| Norm Profit | 1,297 | 1,175 | 1,311 | 1,483 | 2,059 | 1,444 | (1,719) | ***n.m.*** | ***n.m.*** | 3,266 | 3,419 | ***-4.5%*** |
| Gross Margin | -18.7% | -45.0% | 1.9% | -13.6% | 3.0% | -39.9% | 6.6% | | | -10.0% | -10.1% | |
| ROI | 5.31% | 5.34% | 6.52% | 6.87% | 4.66% | 4.91% | 4.39% | | | 5.32% | 5.74% | |
| ROE | 2.79% | -14.58% | 36.56% | 11.92% | 27.76% | -11.95% | 34.97% | | | 17.01% | 10.69% | |
| Life Policy Reserve to Net Premium | 82.9% | 98.2% | 42.8% | 77.0% | 40.1% | 86.5% | 59.3% | | | 67.6% | 79.8% | |
| Life Policy Reserve and Claims on life policy to Net Premiur | 108.9% | 130.2% | 85.9% | 105.3% | 82.7% | 126.9% | 84.5% | | | 0.0% | 101.5% | |
| Operating expenses/ Investment assets | 1.1% | 1.0% | 1.1% | 1.0% | 1.0% | 1.0% | 1.0% | | | 1.1% | 1.0% | |
| Spread (ROI-Operating expenses/ Investment assets) | 4.2% | 4.3% | 5.4% | 5.9% | 3.6% | 3.9% | 3.4% | | | 4.2% | 4.7% | |
| Income Tax ratio | -3.4% | 25.7% | 19.3% | 15.0% | 17.8% | 26.7% | 18.9% | | | 15.9% | 14.3% | |

*Source: Financial Statement / ASPS Research*

## Premium Reserve Expense, Benefit Payment Expense and Total Premium Income by Quarter

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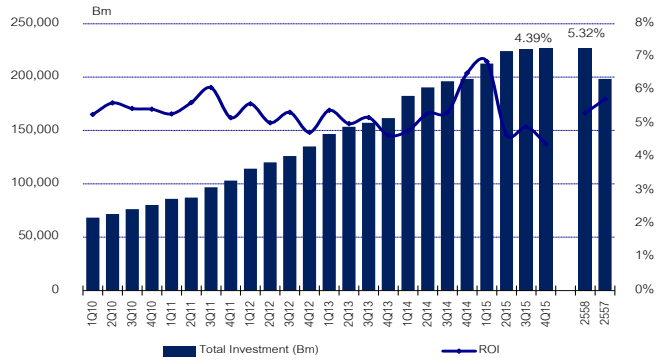
## Return On Investment (ROI) by Quarter

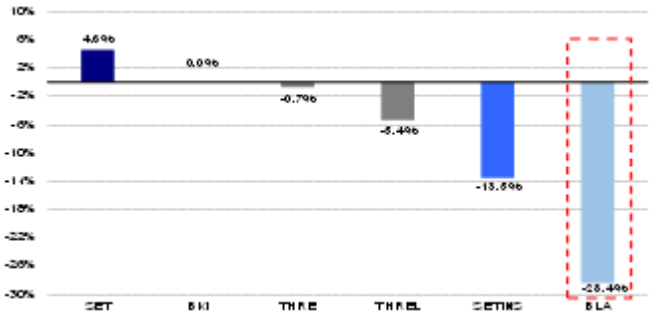



*Source: Financial Statement / ASPS Research*

## Historical PBV Band

*Source: Bloomberg*

## Year-To-Date Returns




*Source: ASPS Research*

## 2016-2018 Earnings Forecast

### Income Statement (Million B)

| *Ended 31 Dec.* | 2015 | 2016F | 2017F | 2018F |
|---|---|---|---|---|
| Net premium income | 44,175 | 53,010 | 59,371 | 66,496 |
| Net investment income | 10,171 | 12,000 | 14,000 | 16,800 |
| Gain/(Loss) on investment in securities | 1,163 | 500 | 800 | 800 |
| Other income | 64 | 64 | 64 | 64 |
| **Total revenues** | **55,653** | **65,654** | **74,315** | **84,240** |
| Underwriting expenses | (48,587) | (59,916) | (66,489) | (74,457) |
| Operating expenses | (2,179) | (2,477) | (2,740) | (3,099) |
| Fx gains/ (loss) | - | - | - | - |
| **Total expenses** | **(50,766)** | **(62,393)** | **(69,229)** | **(77,556)** |
| **Net profit Before taxes** | **4,887** | **3,261** | **5,086** | **6,684** |
| Income taxes | (779) | (652) | (1,017) | (1,337) |
| **Net profit** | **4,108** | **2,609** | **4,069** | **5,347** |
| EPS (B) | 2.41 | 1.53 | 2.39 | 3.14 |
| **Norm profit** | **4,108** | **2,609** | **4,069** | **5,347** |
| **Norm EPS (B)** | **1.92** | **1.84** | **2.39** | **3.14** |

### Quarter Income Statement (Million B)

| *Ended 31 Dec.* | 1Q15 | 2Q15 | 3Q15 | 4Q15 |
|---|---|---|---|---|
| Net premium income | 15,711 | 7,252 | 8,368 | 12,844 |
| Net investment income | 2,511 | 2,466 | 2,715 | 2,478 |
| Gain/(Loss) on investment in securities | 1,016 | 80 | 54 | 14 |
| Other income | (5) | 33 | 13 | 23 |
| **Total revenues** | **19,248** | **9,849** | **11,187** | **15,368** |
| Underwriting expenses | (17,850) | (7,033) | (11,710) | (11,994) |
| Operating expenses | (498) | (571) | (551) | (559) |
| Fx gains/ (loss) | - | - | - | - |
| **Total expenses** | **(18,348)** | **(7,605)** | **(12,261)** | **(12,553)** |
| **Net profit Before taxes** | **900** | **2,245** | **(1,074)** | **2,816** |
| Income taxes | (135) | (400) | 287 | (531) |
| **Net profit** | **765** | **1,844** | **(786)** | **2,285** |
| EPS (B) | 0.45 | 1.08 | (0.46) | 1.34 |
| **Norm profit** | **1,483** | **2,059** | **1,444** | **(1,719)** |
| **Norm EPS (B)** | **0.87** | **1.21** | **0.85** | **(1.01)** |

### Financial Ratio

| *Ended 31 Dec.* | 2015 | 2016F | 2017F | 2018F |
|---|---|---|---|---|
| Gross margin | 0.34% | -2.00% | -1.00% | -1.00% |
| Net margin | 7.38% | 3.97% | 5.48% | 6.35% |
| ROI | 5.32% | 5.12% | 5.30% | 5.51% |
| ROE | 15.63% | 9.33% | 13.37% | 15.80% |
| Underwriting expenses to Net Premium | 7.52% | 7.53% | 7.49% | 7.47% |
| Claims on Life Policy during the year/ Net Premium | 32.03% | 32.03% | 32.03% | 32.03% |
| Debt to Equity (x) | 8.25 | 8.76 | 9.09 | 9.34 |

## 2016-2018 Earnings Forecast (cont'l)

Balance Sheet (Million B)

| *Ended 31 Dec.* | 2015 | 2016F | 2017F | 2018F |
|---|---|---|---|---|
| Investment in securities | 227,563 | 261,047 | 297,747 | 341,017 |
| Net loans | 6,139 | 6,753 | 7,428 | 8,171 |
| Cash and Deposits at FI | 7,102 | 3,959 | 3,603 | 3,835 |
| Property, plant and equipment, net | 568 | 625 | 687 | 756 |
| Other assets | 8,204 | 10,034 | 12,576 | 16,164 |
| **Total assets** | **249,576** | **282,417** | **322,041** | **369,943** |
| Life Premium Reserve | 207,308 | 237,308 | 273,000 | 316,000 |
| Other liabilities | 15,277 | 16,173 | 17,134 | 18,165 |
| **Total liabilities** | **222,585** | **253,481** | **290,134** | **334,165** |
| **Paid-up share captial** | **1,704** | **1,704** | **1,704** | **1,704** |
| Share premium | 3,269 | 3,269 | 3,269 | 3,269 |
| Surplus on revaluation of investments. | 3,986 | 4,106 | 4,229 | 4,356 |
| Retained earnings | 18,031 | 19,857 | 22,705 | 26,449 |
| **Total shareholders' equity** | **26,990** | **28,936** | **31,907** | **35,777** |
| **Total liabilities and shareholders' equity** | **249,576** | **282,417** | **322,041** | **369,943** |

Balance Sheet (Million B)

| *Ended 31 Dec.* | 1Q15 | 2Q15 | 3Q15 | 4Q15 |
|---|---|---|---|---|
| Investment in securities | 212,733 | 224,442 | 226,543 | 227,563 |
| Net loans | 4,938 | 5,430 | 5,683 | 6,139 |
| Cash and Deposits at FI | 1,405 | 564 | 461 | 7,102 |
| Property, plant and equipment, net | 460 | 465 | 534 | 568 |
| Other assets | 10,524 | 7,660 | 9,097 | 8,204 |
| **Total assets** | **230,061** | **238,561** | **242,317** | **249,576** |
| Life Premium Reserve | 189,539 | 192,445 | 199,686 | 207,308 |
| Other liabilities | 14,754 | 18,721 | 17,359 | 15,277 |
| **Total liabilities** | **204,293** | **211,167** | **217,045** | **222,585** |
| **Paid-up share captial** | **1,698** | **1,702** | **1,703** | **1,704** |
| Share premium | 3,206 | 3,229 | 3,255 | 3,269 |
| Surplus on revaluation of investments. | 4,850 | 5,387 | 4,567 | 3,986 |
| Retained earnings | 15,443 | 16,506 | 15,176 | 17,460 |
| **Total shareholders' equity** | **25,768** | **27,394** | **25,272** | **26,990** |
| **Total liabilities and shareholders' equity** | **230,061** | **238,561** | **242,317** | **249,576** |

Financial Assumption

| *Ended 31 Dec.* | 2015 | 2016F | 2017F | 2018F |
|---|---|---|---|---|
| Net premium income growth | -13.7% | 20.0% | 12.0% | 12.0% |
| Underwriting expenses growth | -16.0% | 18.9% | 9.9% | 10.7% |
| Investment growth | 12.9% | 12.8% | 12.3% | 12.7% |
| Persistency rate | 67.6% | 70.0% | 69.0% | 69.0% |
| Assets to Life Policy Reserve | 120.4% | 119.0% | 118.0% | 117.1% |
| Investment Assets to Life Policy Reserve | 116.2% | 114.5% | 113.1% | 111.7% |
| Equity to Life Policy Reserve | 13.02% | 12.19% | 11.69% | 11.32% |