EARNINGS BRIEF

Bangkok Life Assurance

Monday, May 11, 2015

SCB Securities

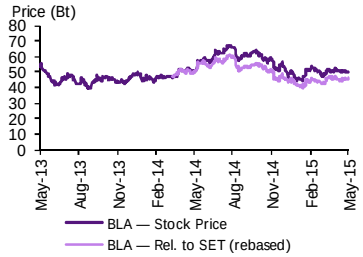
SELL

Stock Data

Last close (May 8) (Bt)	49.75
12-m target price (Bt)	40.00
Upside (Downside) to TP (%)	(19.60)
Mkt cap (Btbn)	84.47
Mkt cap (US$mn)	2,521

Bloomberg code	BLA TB
Reuters code	BLA.BK
Risk rating	L
Mkt cap (%) SET	0.60
Sector % SET	1.97
Shares issued (mn)	1,698
Par value (Bt)	1
12-m high / low (Bt)	68.2 / 44
Avg. daily 6m (US$mn)	2.50
Foreign limit / actual (%)	25 / 25
Free float (%)	40.9
Dividend policy (%)	≥ 25

Share performance



Source: SET, SCBS Investment Research

Price performance

	1M	3M	12M
Absolute	(3.4)	(6.1)	(1.6)
Relative to SET	(1.2)	(0.5)	(10.2)

Source: SET, SCBS Investment Research

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1Q15: High investment gain offsets high reserves

High life policy reserves offset by large investment gain, on falling bond yield. 1Q15 earnings fell 30% YoY and 66% QoQ to Bt765mn, in line with expectation. Hit by falling bond yield, its 1Q15 underwriting margin turned negative at -13.62% due to high life policy reserve of 77.04%. However, large Bt1bn investment gain kept its bottom line afloat. Return on investment rose 36 bps QoQ to 6.86% from both rising yield on investment and high investment gain. Net premiums fell 41% YoY (on fewer single-premium sales) but rose 111% QoQ to Bt15.7bn, 33% of our full-year forecast (-7%).

Figure 1: Quarterly results

P & L (Bt mn)	1Q14	4Q14	1Q15	%YoY ch	%QoQ ch	% full year
Net premiums written	26,712	7,446	15,711	(41)	111	33
Net investments income	2,014	2,259	2,511	25	11	24
Gains (losses) on investment	8	943	1,010	12,770	7	67
Other Income	9	21	15	78	(25)	30
Total Revenue	28,742	10,669	19,248	(33)	80	32
Total underwriting expenses	26,940	7,306	17,850	(34)	144	34
Total operating expensess	496	539	498	0	(8)	24
Corporate income tax	211	546	135	(36)	(75)	16
Net Profit	1,096	2,278	765	(30)	(66)	20
EPS (Bt)	0.90	1.34	0.45	(50)	(66)	20
Ratios (%)	**1Q14**	**4Q14**	**1Q15**	**%YoY ch***	**%QoQ ch***	**% full year**
Yield on investment (%)	4.69	4.58	4.89	0.20	0.31	NM
Return on investment (%)	4.71	6.50	6.86	2.15	0.36	NM
Life policy reserve ratio (%)	83.91	42.80	77.04	(6.87)	34.25	NM
Benefit payment ratio (%)	11.34	43.12	28.26	16.93	(14.85)	NM
Commission ratio (%)	3.84	8.07	5.36	1.52	(2.71)	NM
Underwriting margin (%)	(0.85)	1.88	(13.62)	(12.76)	(15.50)	NM
Cost to income ratio (%)	1.73	5.54	2.73	1.00	(2.81)	NM
Net profit margin (%)	3.81	21.35	3.98	0.16	(17.37)	NM
ROA (%)	2.38	4.70	1.37	(1.00)	(3.32)	NM
ROE (%)	18.92	36.76	11.92	(7.00)	(24.83)	NM

Source: SCBS Investment Research
Note: * Percentage points

Expect a fall in net premiums this year. In 2015 BLA expects a 7% slip in total premiums (vs. +32% in 2014) and an 11% reduction in new business premiums (vs. +81% in 2014). The coincidence of falling bond yield with rising competition for deposits makes it more difficult for BLA to offer competitive savings products at a viable margin this year.

Maintain Sell. All signs are negative: slowing premium growth amidst falling bond yield, rising competition from banks for deposits and slowing purchasing power plus downside risk from falling government bond yield that may mandate extra life policy reserve, as well as downward pressure on yield on investment and difficulty in launching viable savings products and tighter regulations on capital requirements.

Forecasts and Valuation

FY Dec	Unit	2013	2014	2015F	2016F	2017F
Net profit	(Btmn)	4,381	2,662	3,879	4,323	4,848
EPS	(Bt)	2.58	1.57	2.28	2.55	2.86
BVPS	(Bt)	13.12	15.06	16.78	18.78	21.01
DPS	(Bt)	0.91	0.51	0.69	0.76	0.86
ROE	(%)	21.00	11.13	14.35	14.32	14.35
EV/share	(Bt)	19.24	28.14	29.86	31.86	34.09
1-year VNB/share	(Bt)	1.10	0.67	0.82	0.93	1.05
EPS growth	(%)	32.83	(39.28)	45.72	11.46	12.14
PER	(x)	19.27	31.73	21.78	19.54	17.42
PBV	(x)	3.79	3.30	2.97	2.65	2.37
Dividend yields	(%)	1.83	1.03	1.38	1.54	1.72
P/EV	(x)	2.59	1.77	1.67	1.56	1.46
P/VNB	(x)	45.34	73.90	60.77	53.31	47.60

Source: SCBS Investment Research

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Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2013	2014	2015F	2016F	2017F
Net premiums written	38,795	51,172	47,458	53,251	58,816
Net investments income	7,056	8,812	10,363	11,613	12,893
Gains (losses) on investment in sec.	545	1,443	1,500	500	500
Other Income	39	48	50	53	58
Total Revenue	**46,435**	**61,475**	**59,371**	**65,417**	**72,268**
Total underwriting expenses	39,296	56,349	52,545	57,895	63,945
Total operating expenses	1,828	2,018	2,096	2,250	2,411
Corporate income tax	930	446	851	949	1,064
Net Profit	**4,381**	**2,662**	**3,879**	**4,323**	**4,848**
EPS (Bt)	2.58	1.57	2.28	2.55	2.86
DPS (Bt)	0.91	0.51	0.69	0.76	0.86

Profit and Loss Statement (Btmn)

FY December 31	1Q14	2Q14	3Q14	4Q14	1Q15
Net premiums written	26,712	9,769	7,245	7,446	15,711
Net investments income	2,014	2,153	2,386	2,259	2,511
Gains (losses) on investment in securities	8	330	162	943	1,010
Other Income	9	9	10	21	15
Total Revenue	28,742	12,260	9,804	10,669	19,248
Total underwriting expenses	26,940	11,596	10,507	7,306	17,850
Total operating expenses	496	501	482	539	498
Corporate income tax	211	(6)	(304)	546	135
Net Profit	1,096	169	(881)	2,278	765
EPS (Bt)	0.90	0.14	(0.73)	1.34	0.45

Balance Sheet (Btmn)

FY December 31	2013	2014	2015F	2016F	2017F
Total investments in securities	161,126	198,238	224,405	249,202	276,614
Total loans - net	3,526	4,735	5,209	5,729	6,302
Total Assets	**172,234**	**215,590**	**239,143**	**264,639**	**292,841**
Total Liabilities	**149,971**	**190,013**	**210,657**	**232,757**	**257,165**
Paid-up capital	1,697	1,698	1,698	1,698	1,698
Total Equity	**22,264**	**25,576**	**28,485**	**31,882**	**35,676**
BVPS (Bt)	13.12	15.06	16.78	18.78	21.01

Balance Sheet (Btmn)

FY December 31	1Q14	2Q14	3Q14	4Q14	1Q15
Total investments in securities	182,310	190,289	196,098	198,238	212,733
Total loans - net	3,645	3,939	4,323	4,735	4,938
Total Assets	**196,908**	**205,003**	**210,428**	**215,590**	**230,061**
Total Liabilities	**172,839**	**180,683**	**186,434**	**190,013**	**204,293**
Paid-up capital	1,212	1,212	1,213	1,698	1,698
Total Equity	**24,069**	**24,320**	**23,994**	**25,576**	**25,768**
BVPS (Bt)	19.86	20.06	19.79	15.06	15.18

Key Financial Ratios and Assumptions

	2013	2014	2015F	2016F	2017F
Net insurance premium growth (%)	13.68	31.90	(7.26)	12.21	10.45
Underwriting margin (%)	(1.29)	(10.12)	(10.72)	(8.72)	(8.72)
Net profit margin (%)	9.43	4.33	6.53	6.61	6.71
Yield on investment (%)	4.77	4.90	4.90	4.90	4.90
Return on investment (%)	5.13	5.71	5.61	5.12	5.09
Underwriting expense ratio (%)	101.29	110.12	110.72	108.72	108.72
Cost to income ratio (%)	3.98	3.36	3.62	3.47	3.36
ROA (%)	2.77	1.37	1.71	1.72	1.74
ROE (%)	21.00	11.13	14.35	14.32	14.35
Equity to Life policy reserve (%)	16.30	14.41	14.43	14.58	14.73

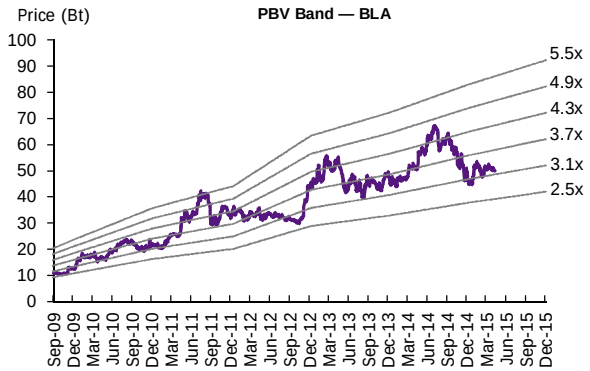
Key Financial Ratios

	1Q14	2Q14	3Q14	4Q14	1Q15
Net insurance premium growth (%)	105.82	7.40	(13.46)	(10.82)	(41.18)
Underwriting margin (%)	(0.85)	(18.71)	(45.01)	1.88	(13.62)
Net profit margin (%)	3.81	1.38	(8.98)	21.35	3.98
Yield on investment (%)	4.69	4.62	4.94	4.58	4.89
Return on investment (%)	4.71	5.33	5.28	6.50	6.86
Underwriting expense ratio (%)	4.69	4.62	4.94	4.58	4.89
Cost to income ratio (%)	1.73	4.20	5.00	5.54	2.73
ROA (%)	2.38	0.34	(1.70)	4.70	1.37
ROE (%)	18.92	2.79	(14.58)	36.76	11.92
Equity to Life policy reserve (%)	15.13	14.55	13.77	14.41	13.60

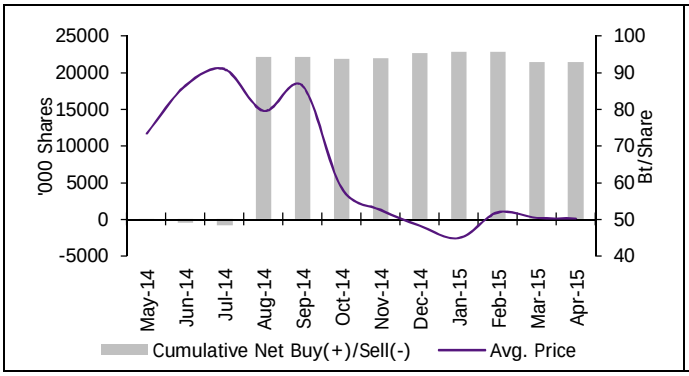
Valuation Assumptions

	2012	2013	2014F	2015F	2016F
Embedded value	30,610	32,641	35,450	42,247	49,423
Embedded value/share (Bt)	25.41	26.94	20.89	24.90	29.13
1-year VNB	1,910	1,862	2,123	2,221	2,325
1-year VNB per share (Bt)	1.59	1.54	1.25	1.31	1.37
Discount rate (%)	10.00	10.00	10.00	10.00	10.00

PBV Band Chart

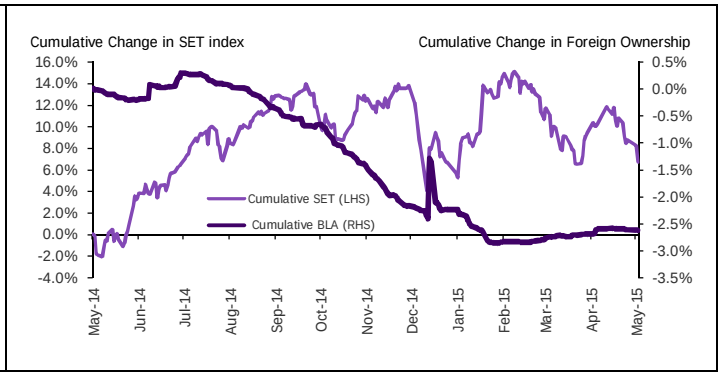


12-month cumulative directors trade



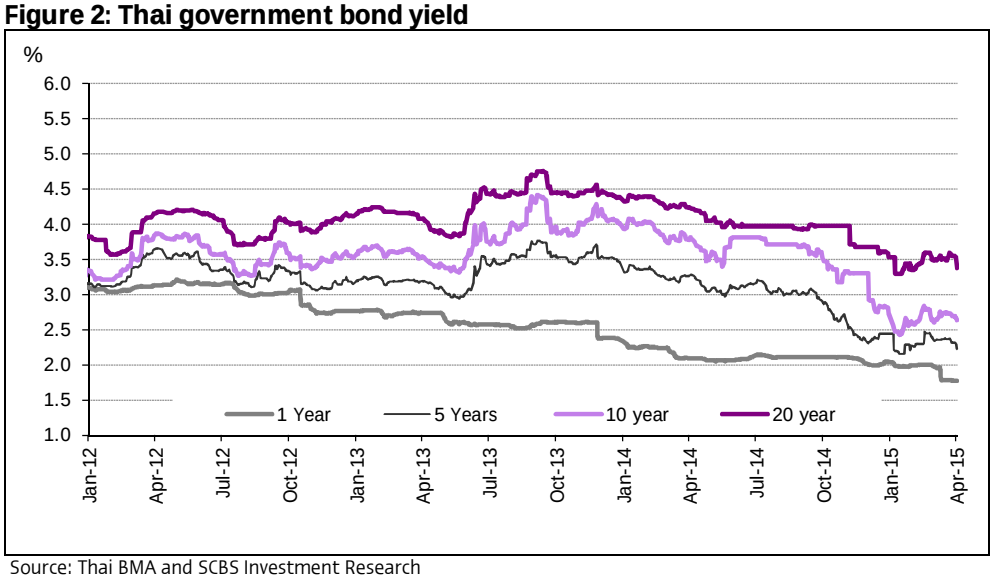
Source: SEC

Cumulative chg in foreign ownership versus cumulative chg in SET index



Source: SET, SCBS Investment Research

Figure 2: Thai government bond yield



Source: Thai BMA and SCBS Investment Research

Figure 3: Valuation summary (Closing price as of May 8, 2015)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x) 14A	P/E (x) 15F	P/E (x) 16F	EPS growth (%) 14A	EPS growth (%) 15F	EPS growth (%) 16F	P/BV (x) 14A	P/BV (x) 15F	P/BV (x) 16F	ROE (%) 14A	ROE (%) 15F	ROE (%) 16F	Div. Yield (%) 14A	Div. Yield (%) 15F	Div. Yield (%) 16F
BLA	Sell	49.75	40.0	(18.2)	31.7	21.8	19.5	(39)	46	11	3.3	3.0	2.6	11	14	14	1.0	1.4	1.5
THRE	Buy	3.28	3.7	13.4	n.m.	17.5	13.6	42	n.m.	29	3.7	2.9	2.3	(59)	18	19	0.0	0.6	1.5
THREL	Buy	13.90	16.0	18.9	22.4	18.5	16.6	(3)	21	12	7.0	6.1	5.4	33	35	34	3.2	3.8	4.2
Average					**27.1**	**19.3**	**16.6**	**(0)**	**33**	**18**	**4.7**	**4.0**	**3.4**	**(5)**	**23**	**23**	**1.4**	**1.9**	**2.4**

Source: SCBS Investment Research

CG Rating 2014	Companies with CG Rating
▲▲▲▲▲	BAFS, BCP, BTS, CPN, EGCO, GRAMMY, HANA, INTUCH, IRPC, IVL, KBANK, KKP, KTB, MINT, PSL, PTT, PTTEP, PTTGC, SAMART, SAMTEL, SAT, SC, SCB, SE-ED, SIM, SPALI, TISCO, TMB, TOP
▲▲▲▲	AAV, ACAP, ADVANC, ANAN, AOT, ASIMAR, ASK, ASP, BANPU, BAY, BBL, BECL, BIGC, BKI, BLA, BMCL, BROOK, CENTEL, CFRESH, CIMBT, CK, CNT, CPF, CSL, DELTA, DRT, DTAC, DTC, EASTW, EE, ERW, GBX, GC, GFPT, GUNKUL, HEMRAJ, HMPRO, ICC, KCE, KSL, LANNA, LH, LHBANK, LOXLEY, LPN, MACO, MC, MCOT, NBC, NCH, NINE, NKI, NMG, NSI, OCC, OFM, PAP, PE, PG, PHOL, PJW, PM, PPS, PR, PRANDA, PS, PT, QH, RATCH, ROBINS, RS, S & J, SAMCO, SCC, SINGER, SIS, SITHAI, SNC, SNP, SPI, SSF, SSI, SSSC, STA, SVI, TCAP, TF, THAI, THANI, THCOM, TIP, TIPCO, TK, TKT, TNITY, TNL, TOG, TRC, TRUE, TSTE, TSTH, TTA, TTW, TVO, UAC, VGI, VNT, WACOAL
▲▲▲	2S, AF, AH, AHC, AIT, AJ, AKP, AKR, AMANAH, AMARIN, AMATA, AP, APCO, APCS, AQUA, ARIP, AS, ASIA, AYUD, BEAUTY, BEC, BFIT, BH, BJC, BJCHI, BOL, BTNC, BWG, CCET, CGD, CGS, CHOW, CI, CKP, CM, CMR, CSC, CSP, CSS, DCC, DEMCO, DNA, EA, ESSO, FE, FORTH, FPI, GENCO, GL, GLOBAL, GLOW, GOLD, HOTPOT, HTC, HTECH, HYDRO, IFS, IHL, INET, IRC, IRCP, ITD, KBS, KGI, KKC, KTC, L&E, LRH, LST, MAJOR, MAKRO, MATCH, MBK, MBKET, MEGA, MFC, MFEC, MJD, MODERN, MONO, MOONG, MPG, MTI, NC, NTV, NUSA, NWR, NYT, OGC, OISHI, PACE, PATO, PB, PDI, PICO, PPM, PPP, PREB, PRG, PRIN, PTG, QLT, QTC, RCL, SABINA, SALEE, SCBLIF, SCCC, SCG, SEAFCO, SEAOIL, SFP, SIAM, SIRI, SKR, SMG, SMK, SMPC, SMT, SOLAR, SPC, SPCG, SPPT, SST, STANLY, STEC, STPI, SUC, SWC, SYMC, SYNEX, SYNTEC, TASCO, TBSP, TEAM, TFD, TFI, THANA, THIP, THREL, TIC, TICON, TIW, TKS, TLUXE, TMI, TMT, TNDT, TPC, TPCORP, TRT, TRU, TSC, TTCL, TUF, TVD, TWFP, UMI, UP, UPF, UPOIC, UT, UV, UWC, VIH, WAVE, WHA, WIN, WINNER, YUASA, ZMICO

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