



# Bangkok Life Assurance PCL

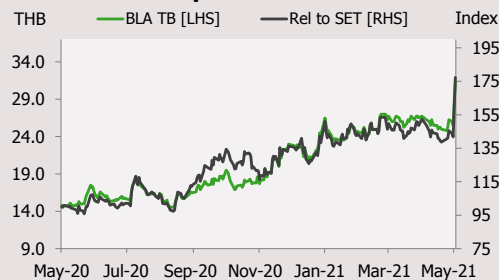
BLA TB Outperform

Target Price	Bt	39.00
Price (13/05/2021)	Bt	31.25
Upside	%	24.80
Valuation	DDM	
Sector	Insurance	
Market Cap	Btm	53,361
30-day avg turnover	Btm	88.89
No. of shares on issue	m	1,708
CG Scoring	Excellent	
Anti-Corruption Indicator	Certified	

## Investment fundamentals

Year end Dec 31	2020A	2021E	2022E	2023E
<b>Company Financials</b>				
Operating Revenue (Bt m)	47,207	50,374	52,067	55,173
Core profit (Bt m)	1,479	4,478	5,211	6,020
Net profit (Bt m)	1,608	4,678	5,411	6,221
Net EPS (Bt)	0.94	2.74	3.17	3.64
DPS (Bt)	0.23	0.68	0.80	0.90
BV/shr (Bt)	27.00	29.26	31.67	34.38
Net EPS growth (%)	-63.33	190.89	15.67	14.96
ROAA (%)	0.48	1.36	1.54	1.73
ROAE (%)	3.56	9.74	10.40	11.03
D/E (x)	6.37	5.96	5.57	5.20
<b>Valuation</b>				
PE (x)	22.30	11.41	9.86	8.58
PBV (x)	0.78	1.07	0.99	0.91
Price / EV (x)	0.53	0.73	0.68	0.63
Dividend yield (%)	1.10	2.18	2.56	2.88

## BLA TB rel SET performance



Source: Bloomberg (All figures in THB unless noted.)

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## Analyst

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14 May 2021

Kasikorn Securities Public Company Limited

## Rally is only at the halfway point

- We maintain our Outperform rating and raise our TP to Bt39 from Bt31.5 to reflect our upgrade based on FYP and rerated target PBV of 1.3x (-1SD).
- We expect strong VNB growth of 26% in 2021 to Bt1.45bn, driven by a better product mix and strong expected FYP growth of 10%.
- We expect a rising govt bond yield will support investment yield recovery in 2021-22, while combined ratio will gradually decline from 2021.

## Investment Highlights

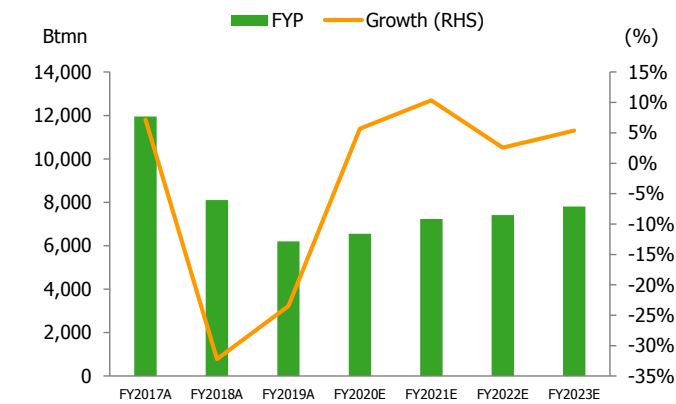
- **Strong FYP growth outlook.** We attended BLA's online analyst meeting yesterday and came away with a positive view given its strong FYP and value of new business (VNB) outlooks in 2021. Despite the 3<sup>rd</sup> wave of COVID-19 in 2Q21, management maintained its target for double-digit FYP growth in 2021 due to strong feedback on new products such as Gain 1<sup>st</sup> 424, unit linked products in 2H21, and its well-prepared online channels and agents for the COVID-19 situation. We expect 2Q21 FYP to soften QoQ, but to grow strongly YoY partly from a low base in 2Q20. We expect total FYP in 2021 to grow by 10% to Bt7.2bn (vs +6%/-23% in 2019-20), while RYP should turn to show growth of 4.9% YoY (vs -10%/4% in 2019-20).
- **Revise up VNB and EV in 2021-23.** 1Q21 VNB (unaudited) was very strong at ~Bt420mn, implying an impressive VNB margin of around 30% vs 5-17% in the past few years. The strong VNB was driven by better a product mix on a decline in the proportion of single-premium products, and a higher proportion of PAR products to 43%/20% of total FYP from bancassurance and agent channels respectively. We believe this robust VNB trend will continue in 2Q21-4Q21 due to the new PAR products in April, and new unit linked products in 2H21. As a result, we revise up 2021-23 VNB by 54% to Bt1.45bn/Bt1.48bn/Bt1.56bn and embedded value by 1-2% to Bt73bn/Bt78bn/Bt84bn. We maintain our earnings forecasts for 2021-23. Stronger VNB and EV may not yet be reflected in BLA's financial statement in the near term but we believe it will be a catalyst for the valuation of the stock.
- **Investment yield bottoming out along with rising bond yield.** Management expects the investment yield will drop slightly by 10bps in 2021, which marks an improvement from -27bps in 2020. We expect the recent recovery in the 10-year government bond yield will limit the contraction of the investment yield in 2021-22. In Fig 4, we can see how the rebound in the 10-year bond yield has started to support an investment yield recovery at BLA in 4Q20-1Q21. We expect net investment return to be stable at 4.4% in 2021 and to pick up by 10bps in 2022.
- **Expect earnings to return to pre-COVID-19 level in 2021.** As a result, we expect BLA's 2021 earnings to recover by 191% to Bt4.67bn, which is close to its 2019 earnings, due mainly to a lower combined ratio and stronger NEP.

## Valuation and Recommendation

- **Valuation remain attractive.** We maintain our Outperform rating and raise our TP to Bt39 from Bt31.5 to reflect stronger-than-expected VNB in 1Q21. We lower our discount rate (Ke) to 11% from 11.8%, which result in a long-run PBV of 1.3x. Despite the 22.5% rally in the share price in the past few days, we believe BLA's current valuation remains attractive as it is trading at 2021/22 PBVs of 1.07x/0.99x which are around 1.25SD below its historical PBV mean. In our view, BLA should trade higher to about 1SD below its historical PBV mean, or at a PBV of 1.3x, which is the level when BLA generated VNB in a range of Bt1.4bn-Bt1.6bn, in line with our forecast for VNB in 2021-23.

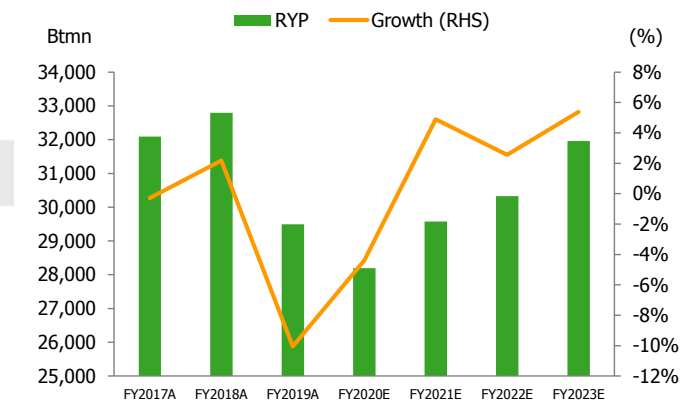


Fig 1 FYP to grow stronger in 2021



Source: Company data, KS Research

Fig 2 RYP to turn to show growth in 2021



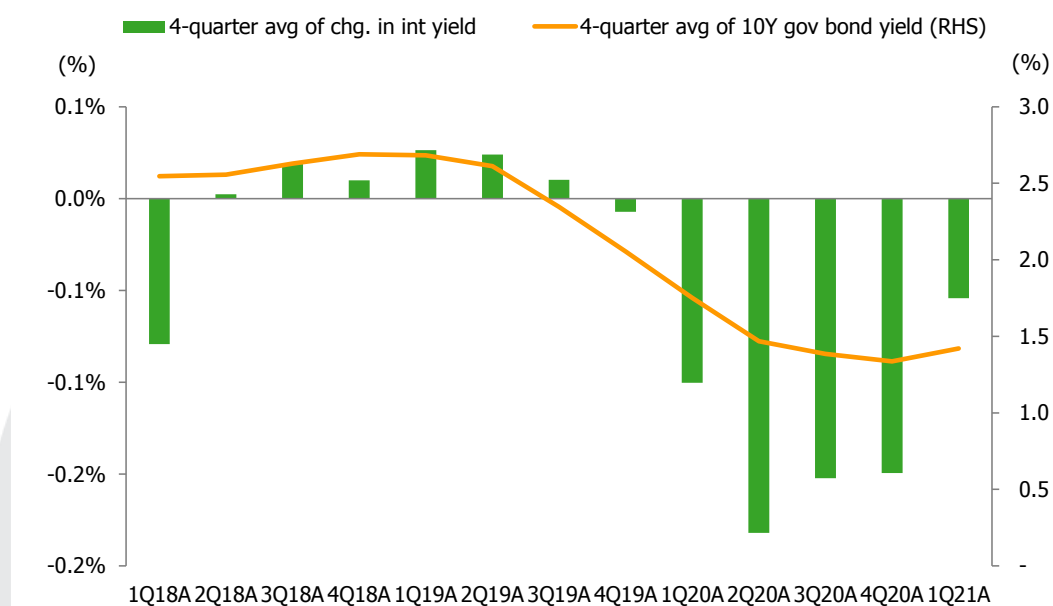
Source: Company data, KS Research

Fig 3 2021-23 revision of VNB and EV; maintain earnings forecasts

(Btmn)	Revised forecasts			Previous forecasts			Change (%, PPT)		
	FY2021E	FY2022E	FY2023E	FY2021E	FY2022E	FY2023E	FY2021E	FY2022E	FY2023E
Net earned premium (NEP)	36,066	36,985	38,974	36,066	36,985	38,974	0.0%	0.0%	0.0%
Total underwriting expenses	-43,622	-44,307	-46,303	-43,622	-44,307	-46,303	0.0%	0.0%	0.0%
Underwriting income	-7,556	-7,321	-7,329	-7,556	-7,321	-7,329	0.0%	0.0%	0.0%
Total investment income	14,309	15,081	16,199	14,309	15,081	16,199	0.0%	0.0%	0.0%
Operating expenses	-1,605	-1,707	-1,818	-1,605	-1,707	-1,818	0.0%	0.0%	0.0%
Operating profit	5,148	6,053	7,053	5,148	6,053	7,053	0.0%	0.0%	0.0%
Net profit	4,678	5,411	6,220	4,678	5,411	6,220	0.0%	0.0%	0.0%
First-year premium (FYP)	7,228	7,412	7,811	7,228	7,412	7,811	0.0%	0.0%	0.0%
Renewal-year premium (RYP)	29,574	30,328	31,959	29,574	30,328	31,959	0.0%	0.0%	0.0%
Total premium	36,802	37,740	39,769	36,802	37,740	39,769	0.0%	0.0%	0.0%
Net investment return (%)	4.40	4.53	4.75	4.40	4.53	4.75	0.00	0.00	0.00
Combined ratio (%)	110.68	109.56	108.64	110.68	109.56	108.64	0.00	0.00	0.00
ROAE (%)	9.74	10.40	11.03	9.74	10.40	11.03	0.00	0.00	0.00
Embedded value (EV)	73,124	78,396	84,229	72,618	77,321	82,499	0.7%	1.4%	2.1%
Value of new business (VNB)	1,446	1,482	1,562	940	964	1,015	53.8%	53.8%	53.8%

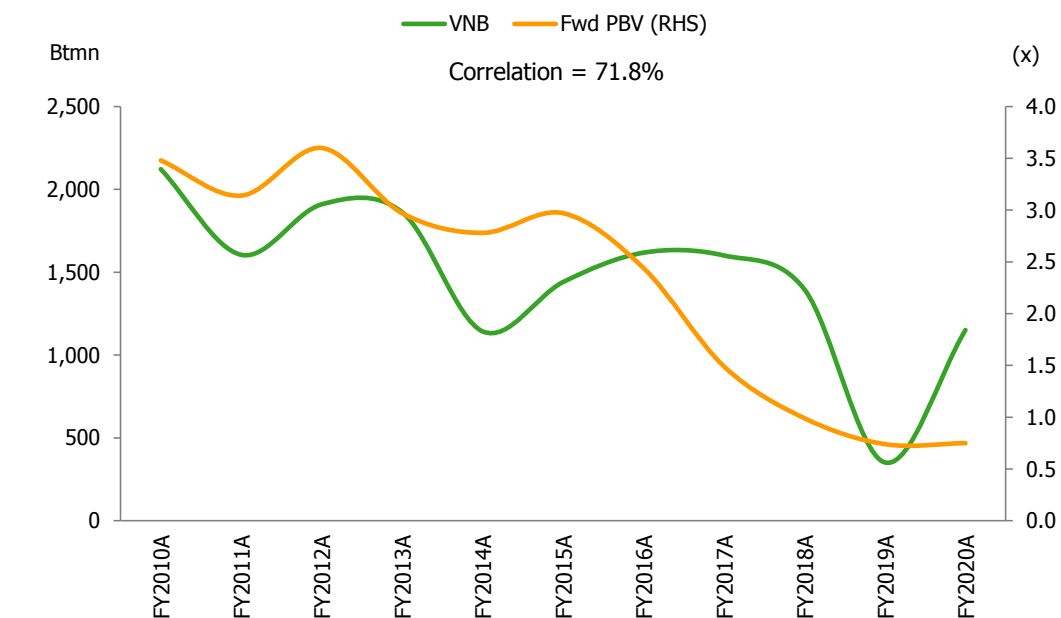
Source: KS Research

**Fig 4 Rising 10-year government bond yield to support investment yield recovery**



Source: Company data, KS Research

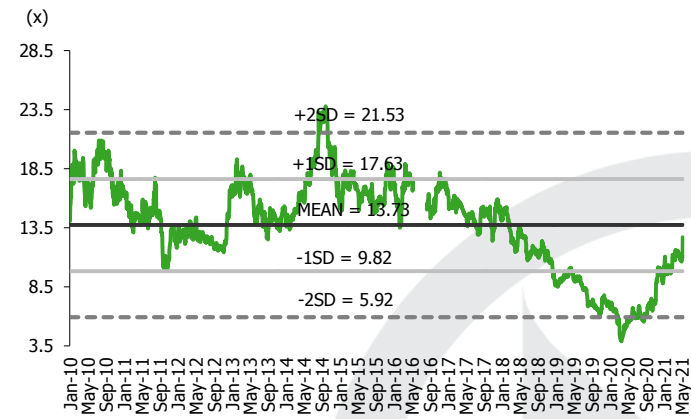
**Fig 5 PBV highly related with VNB**



Source: Company data, Bloomberg, KS Research

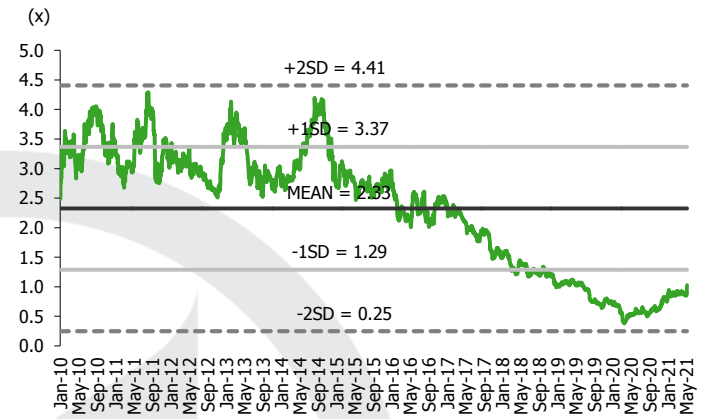


**Fig 6 PER band of BLA**



Source: Bloomberg, KS Research

**Fig 7 PBV band of BLA**



Source: Bloomberg, KS Research



BLA: Year-end 31 Dec

Income Statement (Btmn)						Key Statistics & Ratios					
	2019A	2020A	2021E	2022E	2023E		2019A	2020A	2021E	2022E	2023E
<b>Net earned premium (NEP)</b>						<b>Per share (Bt)</b>					
Increase in policy reserves	-3,580	-4,919	-3,272	-3,458	-3,644	Reported EPS	2.57	0.94	2.74	3.17	3.64
Benefit payments	-34,764	-35,461	-36,646	-37,064	-38,699	Core EPS	2.36	0.87	2.62	3.05	3.53
Commission expenses	-3,004	-2,765	-3,176	-3,257	-3,432	DPS	0.64	0.23	0.68	0.80	0.90
Other underwriting expenses	-610	-558	-528	-528	-528	BV	25.91	27.00	29.26	31.67	34.38
<b>Underwriting income</b>	<b>-7,652</b>	<b>-10,307</b>	<b>-7,556</b>	<b>-7,321</b>	<b>-7,329</b>	Embedded value (EV)	41.50	39.53	42.82	45.91	49.33
Total investment income	14,247	13,811	14,309	15,081	16,199	Value of new business (VNB)	0.21	0.67	0.85	0.87	0.91
Operating expenses	-1,636	-1,873	-1,605	-1,707	-1,818	<b>Valuation analysis</b>					
<b>Operating profit</b>	<b>4,959</b>	<b>1,632</b>	<b>5,148</b>	<b>6,053</b>	<b>7,053</b>	Reported P/E (x)	8.06	22.30	11.41	9.86	8.58
Equity earnings	0	0	0	0	0	Core P/E (x)	8.75	24.25	11.92	10.24	8.86
<b>Pre-tax profit</b>	<b>4,959</b>	<b>1,632</b>	<b>5,148</b>	<b>6,053</b>	<b>7,053</b>	P/BV (x)	0.80	0.78	1.07	0.99	0.91
Income tax	-918	-153	-670	-842	-1,032	Price / EV (x)	0.50	0.53	0.73	0.68	0.63
<b>NPAT</b>	<b>4,041</b>	<b>1,479</b>	<b>4,478</b>	<b>5,211</b>	<b>6,020</b>	Price / VNB (x)	100.44	31.15	36.91	36.00	34.16
Minority interests	-2	-0	0	0	0	Dividend yield (%)	3.10	1.10	2.18	2.56	2.88
<b>Core Profit</b>	<b>4,039</b>	<b>1,479</b>	<b>4,478</b>	<b>5,211</b>	<b>6,020</b>	<b>Profitability ratio</b>					
Extraordinary items	0	0	0	0	1	Operating margin (%)	10.21	3.46	10.22	11.63	12.78
FX gain (loss)	347	130	200	200	200	Net profit margin (%)	9.03	3.41	9.29	10.39	11.28
<b>Reported net profit</b>	<b>4,386</b>	<b>1,608</b>	<b>4,678</b>	<b>5,411</b>	<b>6,221</b>	Effective tax rate (%)	26.91	-51.79	20.00	20.00	20.00
<b>Balance Sheet (Btmn)</b>						ROAA (%)	1.33	0.48	1.36	1.54	1.73
Cash & equivalents	13,442	8,072	7,250	7,448	7,662	ROAE (%)	10.60	3.56	9.74	10.40	11.03
Investment in securities	300,137	310,811	317,350	324,494	332,272	<b>Operating ratio</b>					
Net loans	10,226	11,313	12,051	12,287	12,546	Net investment return (%)	4.64	4.38	4.40	4.53	4.75
Fixed assets-net	1,426	2,188	1,898	1,921	1,945	Increase in policy reserves/NEP (%)	10.44	14.73	9.07	9.35	9.35
Reinsurers assets	1,594	1,342	1,675	1,695	1,716	Benefit payments/NEP (%)	101.33	106.18	101.61	100.21	99.29
Premium receivables	1,801	1,786	2,318	2,346	2,375	Commission/NEP (%)	8.76	8.28	8.81	8.81	8.81
Accrued investment income	2,680	1,647	2,503	2,533	2,565	<b>EV, VNB and Solvency ratio</b>					
Other assets	2,376	2,618	2,799	2,833	2,869	Embedded value : EV (Btmn)	70,882	67,502	73,124	78,396	84,229
<b>Total assets</b>	<b>333,680</b>	<b>339,778</b>	<b>347,844</b>	<b>355,558</b>	<b>363,950</b>	Value of new business : VNB (Btmn)	352	1,151	1,446	1,482	1,562
Policy & premium reserves	275,231	284,153	287,425	290,883	294,527	Equity to policy reserves (%)	16.1	16.2	17.4	18.6	19.9
Other insurance liabilities	11,411	7,176	7,321	7,409	7,502	CAR under Risk Based Capital (%)	314.0	274.0	305.6	323.7	343.2
Other liabilities	2,778	2,351	3,141	3,179	3,219	Debt/equity (x)	6.54	6.37	5.96	5.57	5.20
<b>Total liabilities</b>	<b>289,420</b>	<b>293,680</b>	<b>297,887</b>	<b>301,471</b>	<b>305,248</b>	<b>Premium Breakdown</b>					
Paid up capital	1,708	1,708	1,708	1,708	1,708	First year premium (% share)	17.4	18.8	19.6	19.6	19.6
Share premium	3,361	3,361	3,361	3,361	3,361	Premium - bancassurance (% share)	82.6	81.2	80.4	80.4	80.4
Other equity items	7,531	9,301	9,301	9,301	9,301	<b>Growth</b>					
Retained earnings	31,626	31,729	35,587	39,717	44,332	Investment in securities (%)	2.55	3.56	2.10	2.25	2.40
Minority interests	35	0	0	0	0	Policy & premium reserves (%)	0.00	3.24	1.15	1.20	1.25
<b>Total shareholders' equity</b>	<b>44,261</b>	<b>46,098</b>	<b>49,957</b>	<b>54,087</b>	<b>58,702</b>	Net earned premium : NEP (%)	-13.26	-2.66	7.99	2.55	5.38
<b>Total equity &amp; liabilities</b>	<b>333,681</b>	<b>339,778</b>	<b>347,844</b>	<b>355,558</b>	<b>363,950</b>	Operating profit (%)	-13.48	-67.09	215.49	17.58	16.52
<b>Key Assumptions</b>						Reported net profit (%)	-11.75	-63.33	190.85	15.67	14.98
Number of share outstanding (mn)	1,708	1,708	1,708	1,708	1,708	Reported EPS (%)	-11.75	-63.33	190.89	15.67	14.96
Net earned premium growth (%)	-13.26	-2.66	7.99	2.55	5.38	Core profit (%)	-17.71	-63.39	202.83	16.37	15.54
Net investment return (%)	4.64	4.38	4.40	4.53	4.75	Core EPS (%)	-17.71	-63.38	202.87	16.37	15.54
Increase in policy reserves/NEP (%)	10.44	14.73	9.07	9.35	9.35	Embedded value : EV (%)	12.58	-4.77	8.33	7.21	7.44
Benefit payments/NEP (%)	101.33	106.18	101.61	100.21	99.29	Value of new business : VNB (%)	-74.79	226.99	25.59	2.55	5.38
Combined ratio (%)	111.77	120.91	110.68	109.56	108.64						

Source: Company, KS estimates



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