

9 August 2012

Bangkok Life Assurance

Insurance
Overweight

2Q12 missed estimate, due to provisioning for SP policies

Below all estimates: BLA reported a 2Q12 profit of Bt808m, down by 37% YoY and 12% QoQ. The weak headline result was 15% below our estimate and 18% short of the *Bloomberg* consensus, due to heavy life policy reserve-setting and a high effective corporate tax rate of 38%. As such, 1H12 profit represents only 47% of our FY12 projection.

Results highlights: Total 2Q12 premiums jumped by 25% YoY and 13% QoQ to Bt9.97bn, boosted by Bt1.4bn in sales of single premiums (SP) for new products (mainly "Whole Life 1st 175"). The jump in SP sales meant that BLA had to raise provisions for its life policy reserve to 71% of total premiums at end-June (we had assumed 63.5%), up from 59.5% in 2Q11. The YoY increase in provisioning meant that the underwriting profit of the assurance unit fell to Bt226m from Bt793m in 2Q11.

Note that BLA's Whole Life 1st 175 policy features a single premium payment in exchange for insurance protection for whole life. Thus, provisioning requirements for the single premium are very high the first year, but plunge the next year.

ROI was 4.8% in 2Q12, which was slightly better than our estimate of 4.7%, driven by a net investment gain of Bt91m (our assumption was only Bt70m). Investment income was Bt1.35bn, up by 21% YoY and 1% QoQ, boosted by invested asset expansion and good equity portfolio management.

Outlook: We expect the strong sales of Whole Life 1st to be sustained through 2H12, especially in 4Q12. Thus, we also anticipate high life policy reserve-setting of 63-68% of total premiums (we model for 65%).

What's changed? Our FY12 earnings forecast stands unchanged at Bt3.7bn for the moment.

Recommendation: The successful sales of Whole Life 1st 175 will strengthen BLA's long-term performance, as the product yields a fatter margin over the long-term than endowment policies. But that long-term gain comes at the expense of heavy short-term provision-setting. Given its favorable long-term earnings outlook, our BUY rating stands with a YE12 target price of Bt54.

BUALUANG RESEARCH

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BUY

 (maintained)

Target price to Bt54.00
Price (08/08/12): Bt45.75
BLA TB / BLA.BK

Key Ratios & Statistics

Market cap	Bt54.90bn		
12-mth price range	Bt39.00/Bt59.50		
12-mth avg daily volume	Bt10166m		
# of shares (m)	1200.0		
Est. free float (%)	34.6		
Foreign limit (%)	25.0		
Share price perf. (%)	1M	3M	12M
Relative to SET	(12)	(7.1)	(29.8)
Absolute	11	(8.5)	(17.2)

Financial summary

FY Ended 31 Dec	2011	2012E	2013E	2014E
Total rev (Btm)	36,091	40,219	43,454	46,673
Net profit (Btm)	3,417	3,700	4,450	4,950
Fully diluted EPS (Bt)	2.85	3.08	3.71	4.13
BLS/Consensus (x)	n.m.	0.84	0.87	0.79
EPS Consensus (Bt)	n.m.	3.65	4.25	5.25
EPS growth (%)	+22.2%	+8.3%	+20.3%	+11.2%
PER (x)	16.07	14.84	12.34	11.09
EV/EBITDA (x)	7.63	6.62	5.51	4.13
PBV (x)	4.09	3.43	2.78	2.32
Dividend (Bt)	0.72	0.70	0.90	1.00
Dividend yield (%)	1.57	1.53	1.97	2.19
ROE (%)	25.44	23.14	22.53	20.91
ROA (%)	3.04	2.74	2.71	2.63
Net gearing (x)	7.2	7.4	7.3	6.9

CGRating - 2011



EARNINGS RESULTS

Figure 1: 2Q12 results

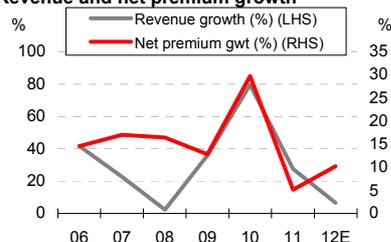
FY Ended 31 Dec (Btm)	2Q12	2Q11	YoY %	1Q12	QoQ %	6M12	6M11	YoY %
Income Statement								
Net insurance premium revenue	9,973	7,959	25	8,803	13	18,776	15,820	19
Less provision for life policy reser	7,061	4,732	49	5,755	23	12,816	9,475	35
Revenue realization on premiurr	2,912	3,227	(10)	3,048	(4)	5,960	6,345	(6)
Underwriting expenses	2,686	2,433	10	2,943	(9)	5,629	5,078	11
Profit from insurance business	226	793	(71)	105	116	331	1,267	NM
Net investment income	1,350	1,114	21	1,335	1	2,685	2,179	23
Gain on investment	91	124	(26)	198	(54)	289	159	82
Other income	27	3	735	(10)	nm	17	10	65
Total revenues	1,694	2,034	(17)	1,628	4	3,322	3,614	(8)
Total operating expenses	386	355	9	344	12	730	670	9
EBT	1,308	1,679	(22)	1,284	2	2,592	2,944	(12)
Income tax	501	387	29	370	35	871	665	31
Net profit	808	1,292	(37)	914	(12)	1,721	2,279	(24)
EPS	0.67	1.08	(37)	0.76	(12)	1.43	1.90	(24)
Key ratios								
Premium/life policy reserve (%)	39.4	54.7		37.4		39.4	54.7	
Life policy provision/Premium (%)	70.8	59.5		65.4		68.3	59.9	
ROI (%)	4.8	5.6		5.5		4.8	5.6	
Tax rate (%)	38.3	23.1		28.8		33.6	22.6	
Net margin (%)	7.1	14.0		8.8		7.9	12.6	
D/E (x)	7.1	7.1		7.4		7.1	7.1	
Cost to Income (%)	23.1	20.5		21.1		22.0	18.5	
Asset/Equity (%)	8.1	8.2		8.4		8.1	8.2	
Balance Sheet								
Cash & Equivalent	1,521	7,695	(80)	563	170			
Total assets	129,240	100,782	28	121,883	6			
Unpaid benefit to life policy	401	7,243	(94)	385	4			
Premium received in advance	452	1,067	(58)	484	0			
Total liabilities	113,167	88,131	28	106,753	6			
Retained earnings	7,848	5,847	34	7,445	5			
Shareholders equity	16,073	12,651	27	15,130	6			
Minority interests	0	0	nm	0	nm			
BV (Bt)	13.4	10.5	27	12.6	6			

- Life policy reserve-setting was heavier than we assumed
- Underwriting profit was Bt226m, down 71% YoY
- Bt91m investment gain in 2Q12 (we estimated only Bt70m)

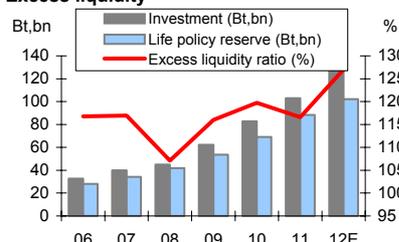
- ROI was 4.8% in 2Q12 (our estimate was 4.8%)

Source: Company data

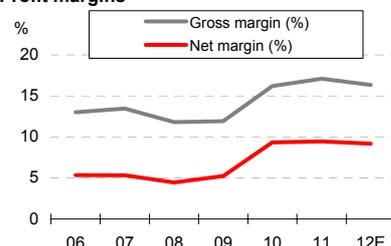
Revenue and net premium growth



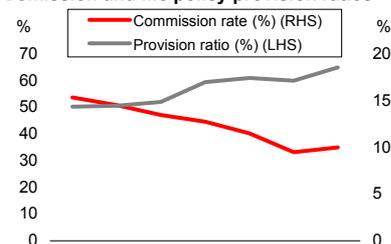
Excess liquidity



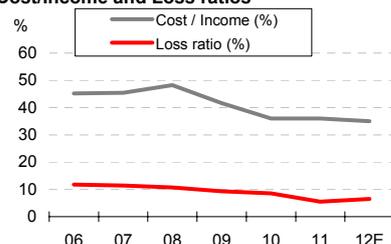
Profit margins



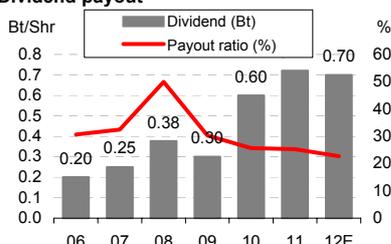
Comission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



PROFIT & LOSS (Btm)	2009	2010	2011	2012E	2013E
Insurance premium	19,632	25,982	31,067	34,239	36,293
Less Life policy reserve	(11,666)	(15,645)	(20,197)	(22,255)	(23,591)
Net premium	7,966	10,337	10,870	11,984	12,703
Underwriting expenses	(8,287)	(9,426)	(9,728)	(11,405)	(12,121)
Profit from insurance	(322)	911	1,142	578	581
Revenue on investment	2,996	3,916	5,024	5,980	7,160
Other income /exp.	26	22	16	30	35
Net revenue	2,701	4,849	6,182	6,588	7,777
Operating expenses	(1,123)	(1,259)	(1,339)	(1,707)	(1,921)
EBIT	1,578	3,591	4,842	4,882	5,855
Minority interest	0	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(392)	(794)	(1,425)	(1,182)	(1,405)
Net profit (loss)	1,186	2,796	3,417	3,700	4,450
Reported EPS	0.99	2.33	2.85	3.08	3.71
Fully diluted EPS	0.99	2.33	2.85	3.08	3.71
Core net profit	1,159	2,774	3,402	3,670	4,415
Core EPS	0.97	2.31	2.83	3.06	3.68
EBITDA	1,673	3,686	4,938	4,977	5,951

KEY RATIOS	2009	2010	2011	2012E	2013E
Revenue growth (%)	36.0	79.5	27.5	6.6	18.0
Gross margin (%)	11.9	16.2	17.1	16.4	17.9
EBITDA margin (%)	7.4	12.3	13.7	12.4	13.7
Operating margin (%)	5.1	9.3	9.4	9.1	10.2
Net margin (%)	5.2	9.3	9.5	9.2	10.2
Core profit margin (%)	5.1	9.3	9.4	9.1	10.2
ROA (%)	1.7	3.2	3.0	2.7	2.7
ROE (%)	16.4	25.6	25.4	23.1	22.5
Commission /Insurance prerr	12.7	11.5	9.5	10.0	10.0
Life policy Provision /insuran	59.4	61.0	60.0	65.0	65.0
Cost/income	41.6	36.0	36.0	35.0	34.0
Total Loss ratio (benefit pay)	9.3	8.5	5.6	6.6	5.8

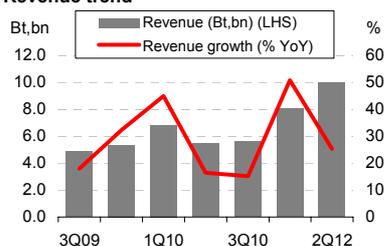
BALANCE SHEET (Btm)	2009	2010	2011	2012E	2013E
Cash & Equivalent	1,718	860	2,737	446	1,100
Total investment in securities	62,141	82,847	103,082	129,900	153,000
Total net loans	1,907	2,158	2,113	2,733	6,970
Premises & equipment (Net)	334	339	306	400	460
Other assets	2,240	2,543	4,221	1,692	2,923
Total assets	68,339	88,746	112,459	135,171	164,453
Life policy reserve	53,558	69,203	88,386	102,251	124,261
Unpaid benefit to life policy	4,680	5,461	8,354	9,862	10,992
Premium received in advanc	1,417	1,281	0	2,500	3,625
Other liabilities	1,452	1,885	2,288	4,568	5,825
Total liabilities	61,108	77,829	99,028	119,181	144,703
Paid-up capital	1,200	1,200	1,200	1,200	1,200
Share premium	2,700	2,700	2,700	2,700	2,700
Retained earnings	3,332	7,017	9,531	12,090	15,850
Shareholders equity	7,232	10,917	13,431	15,990	19,750
Minority interests	0	0	0	0	0
Total Liab. & Shareholders '	68,339	88,746	112,459	135,171	164,453

CASH FLOW (Btm)	2009	2010	2011	2012E	2013E
Net income	1,186	2,796	3,417	3,700	4,450
Depreciation and amortizatio	112	117	123	129	136
Change in working capital	12,209	16,236	19,098	23,307	24,860
FX, non-cash adjustment &	1,142	1,413	876	837	804
Cash flows from operating	13,507	19,149	22,638	27,137	29,446
Capex (Invest)/Divest	(405)	0	(44)	(94)	(60)
Others	(64,280)	(182,016)	(22,506)	(26,674)	(26,767)
Cash flows from investing	(7,085)	(22,766)	(22,550)	(26,768)	(26,827)
Debt financing (repayment)	0	0	0	0	0
Equity financing	2,625	0	0	0	0
Dividend payment	(315)	(419)	(931)	(864)	(840)
Others	0	0	0	0	0
Cash flows from financing	2,310	(419)	(931)	(864)	(840)
Net change in cash	8,732	(4,035)	(843)	(495)	1,779

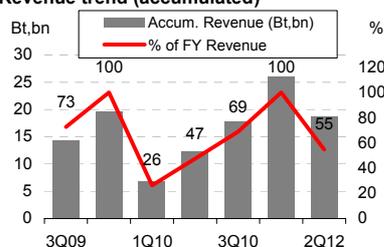
Free cash flow (Btm)	13,102	19,149	22,594	27,043	29,386
FCF per share (Bt)	10.92	15.96	18.83	22.54	24.49

Sources: Company data, Bualuang Research

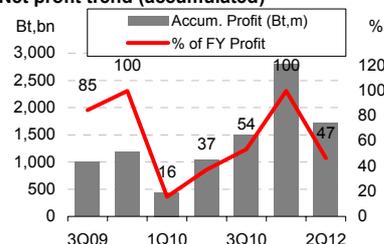
Revenue trend



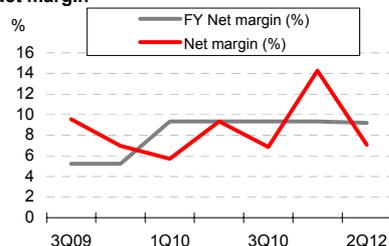
Revenue trend (accumulated)



Net profit trend (accumulated)



Net margin



QUARTERLY PROFIT & LOSS (Btm)

	2Q11	3Q11	4Q11	1Q12	2Q12
Net insurance premium revenue	7,959	6,761	8,485	8,803	9,973
Less provision for life policy reserve	4,732	4,063	6,658	5,755	7,061
Revenue realization on premium	3,227	2,698	1,828	3,048	2,912
Underwriting expenses	2,433	2,422	2,228	2,943	2,686
Profit from insurance business	793	276	(401)	105	226
Net investment income	1,114	1,224	1,295	1,335	1,350
Gain on investment	124	172	(4)	198	91
Total revenue from investment	1,238	1,397	1,290	1,533	1,441
Other income	3	7	(1)	(10)	27
Total revenues	2,034	1,679	888	1,628	1,694
Total operating expenses	355	318	352	344	386
Exceptional items	-	-	-	-	-
EBT	1,679	1,362	536	1,284	1,308
Income tax	387	299	461	370	501
Minority Interest	-	-	-	-	-
Net profit	1,292	1,063	75	914	808
EPS	1.08	0.89	0.06	0.76	0.67
Core profit before tax	1,553	1,183	542	1,096	1,190
Core EPS	1.29	0.99	0.45	0.91	0.99

KEY RATIOS

	2Q11	3Q11	4Q11	1Q12	2Q12
Premium/life policy reserve (%)	54.66	43.13	38.40	37.40	39.42
Life policy provision/Premium (%)	59.46	60.10	78.46	65.38	70.80
Claim/life policy (%)	8.25	6.30	3.04	7.06	6.20
ROI (%)	5.58	5.94	5.07	5.54	4.83
Net margin (%)	14.05	13.03	0.77	8.84	7.08
Equity/Life policy reserve (%)	15.76	15.80	15.20	15.20	16.07
BV (Bt)	10.54	10.76	11.19	12.61	13.39
ROE (%)	30.3	33.4	2.2	27.2	21.4
ROA (%)	5.28	4.13	0.27	3.25	2.65
D/E (x)	7.1	6.6	7.4	7.4	7.1
Cost to Income (%)	20.5	19.9	39.6	21.1	23.1
Asset/Equity (%)	8.2	7.6	8.4	8.4	8.1

QUARTERLY BALANCE SHEET (Btm)

	2Q11	3Q11	4Q11	1Q12	2Q12
Cash & Equivalent	7,695	2,568	2,737	563	1,521
Total investment in securities	87,124	96,662	103,082	114,112	120,106
Total net loans	2,241	1,916	2,113	2,152	2,403
Premises & equipment (Net)	325	315	306	328	325
Other assets	3,397	3,511	4,221	4,727	4,886
Total assets	100,782	104,971	112,459	121,883	129,240
Life policy reserve	77,665	81,729	88,386	94,142	101,202
Unpaid benefit to life policy	7,243	6,947	8,621	385	401
Premium received in advance	1,067	1,094	0	484	452
Other liabilities	2,156	2,290	2,021	11,741	11,112
Total liabilities	88,131	92,059	99,028	106,753	113,167
Paid-up capital	1,200	1,200	1,200	1,200	1,200
Share premium	2,700	2,700	2,700	2,700	2,700
Retained earnings	5,847	6,457	6,532	7,445	7,848
Shareholders equity	12,651	12,912	13,431	15,130	16,073
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	100,782	104,971	112,459	121,883	129,240
	0	0	0	0	(0)

Sources: Company data, Bualuang Research

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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.