BUALUANG SECURITIES

EARNINGS RESULTS

Bangkok Life Assurance

BLA TB / BLA.BK

11 May 2015

1Q15 profit missed our estimate due to lower premiums than assumed

Profit for 1Q15 dipped below our forecast on lower premiums

BLA posted 1Q15 earnings of Bt765m, down 30% YoY and 66% QoQ. The result was 36% below our estimate, attributable to lower life assurance premiums than we had assumed (Bt15.7bn; we had projected Bt17bn). The 1Q15 profit accounts for 17% of our FY15 earnings projection.

Results highlights

Total premiums for the quarter plunged 41% YoY but soared 111% QoQ to Bt15.7bn (about 8% below our model). During the quarter, BLA set aside provisions of Bt12.1bn for its life-policy reserve equal to 77% of total premiums—its loss ratio—which was aligned with our assumption but was below last year's number, which was 84%. This all happened because BLA launched longer-term products during this quarter in order to trim its provision-setting needs.

Return on Investment (ROI) for 1Q15 rose to 6.7% from 6.4% in the previous quarter and 4.6% from the same period last year. The strong ROI was due to the big investment gain of Bt1bn from equities during the quarter. Note that its investment income was Bt2.5bn, expanding 25% YoY and 11% QoQ, driven by swift investment asset expansion.

Outlook

We expect BLA's performance to normalize and to maintain its focus on the sale of longer-term endowment products, whole-life products and credit-protection products from 2Q15 onward in order to boost margin and reduce provisioning needs for its life-policy reserve. Thus, we forecast YoY and QoQ profit expansion for 2Q15.

What's changed?

Our FY15 earnings forecast stands unchanged at Bt4.4bn.

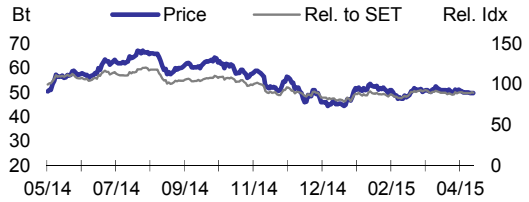
Recommendation

We feel bullish about BLA's outlook, driven by the lighter provisions it has needed to set aside for its life-policy reserve on longer-term products and the stronger marketing efforts it is making through BBL's branch network. Also, the interest rate trend seems close to bottoming out in mid-2015 and will provide scope for upside to its ROI, this year and next. Our BUY rating stands with a YE15 target price of Bt67, based on VNB of Bt35.80 and Embedded Value of Bt31.26).

Sector: Insurance Overweight

Rating: BUY
Target Price: Bt67.00
Price (8 May 2015)**: Bt49.75**

Price chart

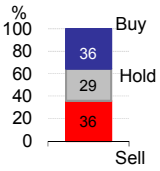


Share price perf. (%)	1M	3M	12M
Relative to SET	(1.2)	(0.4)	(37.4)
Absolute	(3.4)	(6.1)	(29.7)

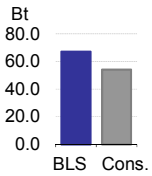
Key statistics

Market cap	Bt84.7bn	USD2.5bn
12-mth price range	Bt44.0/Bt95.5	
12-mth avg daily volume	Bt98m	USD2.9m
# of shares (m)	1,702	
Est. free float (%)	40.8	
Foreign limit (%)	25.0	

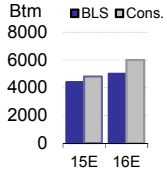
Consensus rating



BLS Target price vs. Consensus



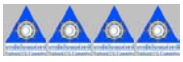
BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Total rev (Btm)	61,427	57,601	61,590	66,504
Net profit (Btm)	2,662	4,400	5,000	5,600
Fully diluted EPS (Bt)	1.56	2.58	2.93	3.28
EPS grow th (%)	-39.2%	+65.3%	+13.6%	+12.0%
PER (x)	31.9	19.3	17.0	15.2
EV/EBITDA (x)	24.2	13.4	11.7	9.9
PBV (x)	3.57	3.07	2.79	2.45
Dividend (Bt)	0.51	1.10	1.20	1.30
ROA (%)	1.2	1.9	1.8	1.7
Net gearing (x)	7.2	6.8	7.4	7.5
Total loss ratio (%)	79.8	70.0	70.0	70.0
Total premium Mkt (%)	12.0	10.0	10.0	10.0

CG rating



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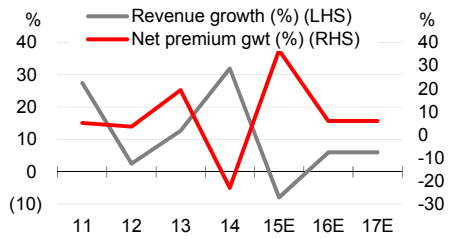
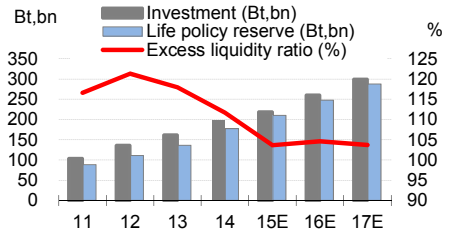
BLA : Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014	2015E	2016E	2017E
Insurance premium	38,795	51,172	47,110	49,937	52,933
Less Life policy reserve	(25,357)	(40,818)	(32,977)	(34,956)	(37,053)
Net premium	**13,438**	**10,354**	**14,133**	**14,981**	**15,880**
Underw riting expenses	(13,939)	(15,531)	(16,919)	(17,934)	(19,274)
Profit from insurance	**(501)**	**(5,177)**	**(2,786)**	**(2,953)**	**(3,395)**
Revenue on investment	7,601	10,255	10,491	11,653	13,571
Other income/exp.	39	48	44	47	50
Net revenue	**7,139**	**5,126**	**7,750**	**8,747**	**10,227**
Operating expenses	(1,828)	(2,018)	(2,295)	(2,596)	(2,944)
EBIT	**5,311**	**3,108**	**5,455**	**6,151**	**7,282**
Minority interest	0	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(930)	(446)	(1,055)	(1,151)	(1,682)
Net profit (loss)	**4,381**	**2,662**	**4,400**	**5,000**	**5,600**
Reported EPS	3.62	1.56	2.58	2.93	3.28
Fully diluted EPS	**3.62**	**1.56**	**2.58**	**2.93**	**3.28**
Core net profit	**4,341**	**2,614**	**4,356**	**4,953**	**5,550**
Core EPS	3.58	1.53	2.55	2.90	3.25
EBITDA	**5,407**	**3,204**	**5,550**	**6,247**	**7,378**
KEY RATIOS					
Revenue grow th (%)	12.7	31.9	(7.9)	6.0	6.0
Gross margin (%)	15.4	8.3	13.4	14.2	15.4
EBITDA margin (%)	11.6	5.2	9.6	10.1	11.1
Operating margin (%)	9.4	4.3	7.6	8.0	8.3
Net margin (%)	9.4	4.3	7.6	8.1	8.4
Core profit margin (%)	9.4	4.3	7.6	8.0	8.3
ROA (%)	2.5	1.2	1.9	1.8	1.7
ROE (%)	19.7	10.4	14.8	15.3	15.0
Commission/Insurance premium	11.2	9.3	13.0	13.0	13.5
Life policy Provision/insurance premium r	65.4	79.8	70.0	70.0	70.0
Cost/income	34.0	34.0	34.0	34.0	34.0
Combined ratio	81.3	114.1	110.8	111.1	112.0
BALANCE SHEET (Btm)					
Cash & Equivalent	1,331	5,708	6,000	2,200	3,650
Total investment in securities	161,126	198,238	218,061	259,493	298,417
Total net loans	3,526	4,735	5,366	5,902	6,472
Premises & equipment (Net)	327	389	770	910	992
Other assets	5,925	6,520	6,709	7,597	11,710
Total assets	**172,234**	**215,590**	**236,906**	**276,103**	**321,241**
Life policy reserve	136,616	177,435	210,412	248,017	287,720
Unpaid benefit to life policy	8,800	1,489	(8,382)	(6,771)	(5,327)
Premium received in advance	950	2,239	0	0	0
Other liabilities	3,604	8,851	5,092	2,158	1,490
Total liabilities	**149,971**	**190,013**	**207,122**	**243,405**	**283,883**
Paid-up capital	1,212	1,698	1,708	1,708	1,708
Share premium	2,846	3,091	3,091	3,091	3,091
Retained earnings	18,138	20,787	24,985	27,899	32,559
Shareholders equity	**22,264**	**25,576**	**29,784**	**32,698**	**37,358**
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	**172,234**	**215,590**	**236,906**	**276,103**	**321,241**
CASH FLOW (Btm)					
Net income	4,381	2,662	4,400	5,000	5,600
Depreciation and amortization	136	143	150	157	165
Change in w orking capital	23,571	39,586	33,882	35,950	38,570
FX, non-cash adjustment & others	804	805	806	807	808
Cash flows from operating activities	**28,087**	**42,390**	**38,432**	**41,107**	**44,335**
Capex (Invest)/Divest	(88)	(126)	(381)	(140)	(82)
Others	(27,427)	(49,777)	(25,374)	(41,155)	(38,763)
Cash flows from investing activities	**(27,515)**	**(36,529)**	**(25,755)**	**(41,295)**	**(38,845)**
Debt financing (repayment)	0	0	0	0	0
Equity financing	809	0	0	0	1
Dividend payment	(917)	(678)	(871)	(1,879)	(1,440)
Others	(27,427)	(49,777)	(25,374)	(41,155)	(38,763)
Cash flows from financing activities	**(107)**	**(678)**	**(871)**	**(1,879)**	**(1,438)**
Net change in cash	465	5,183	11,806	(2,066)	4,052
Free cash flow (Btm)	**28,000**	**42,264**	**38,051**	**40,967**	**44,253**
FCF per share (Bt)	**23.1**	**24.7**	**22.3**	**24.0**	**25.9**
Insurance data	**2013**	**2014**	**2015E**	**2016E**	**2017E**
FYP (Btm)	6,818	8,928	8,219	8,712	9,235
RYP (Btm)	28,545	37,379	34,411	36,476	38,665
SP	1,425	1,358	1,362	1,472	3,716
Total premium (Btm)	39,079	51,172	47,110	49,937	52,933
FYP mkt (%)	7.8	9.7	8.4	7.6	7.2
Total premium Mkt (%)	7.7	8.9	9.6	8.7	8.9

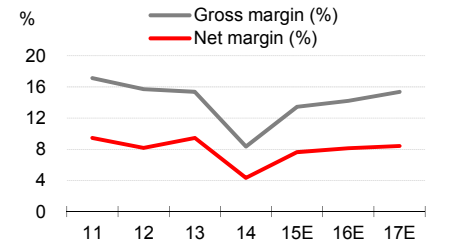
Revenue and net premium growth



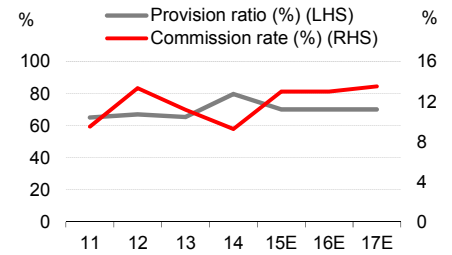
Excess liquidity



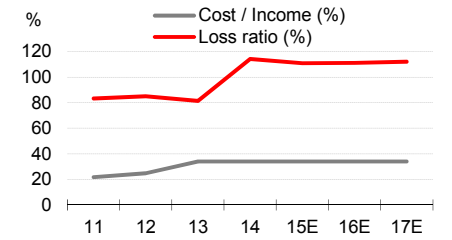
Profit margins



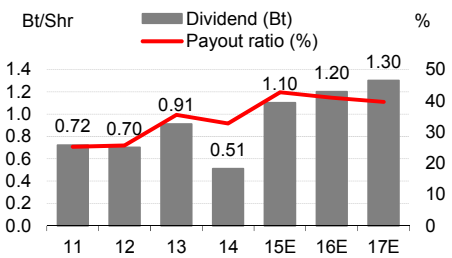
Comission and life policy provision ratios



Cost/Income and Loss ratios



Dividend payout



BLA : Financial Tables – Quarter

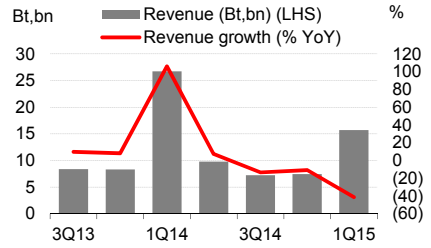
QUARTERLY PROFIT & LOSS (Btm)	1Q14	2Q14	3Q14	4Q14	1Q15
Net insurance premium revenue	26,712	9,769	7,245	7,446	15,711
Less provision for life policy reserve	22,415	8,099	7,118	3,187	12,104
Revenue realization on premium	4,297	1,670	127	4,260	3,607
Underw riting expenses	4,525	3,497	3,389	4,120	5,746
Profit from insurance business	(228)	(1,828)	(3,261)	140	(2,139)
Net investment income	2,014	2,153	2,386	2,259	2,511
Gain on investment	8	322	162	951	1,010
Total revenue from investment	2,022	2,475	2,548	3,210	3,522
Other income	9	17	10	13	15
Total revenues	1,803	664	(703)	3,362	1,398
Total operating expenses	496	501	482	539	498
Exceptional items	0	0	0	0	0
EBT	1,307	163	(1,185)	2,823	900
Income tax	211	(6)	(304)	546	135
Minority Interest	0	0	(0)	(0)	0
Net profit	1,096	169	(881)	2,278	765
EPS	1	0	(1)	1	0
Core profit before tax	1,290	(175)	(1,357)	1,859	(126)
Core EPS	1	(0)	(1)	1	(0)

KEY RATIOS					
Premium/life policy reserve (%)	67	23	17	17	33
Life policy provision/Premium (%)	84	83	98	43	77
Claim/life policy (%)	8	6	5	7	24
ROI (%)	5	5	5	6	7
Net margin (%)	4	1	(9)	21	4
Equity/Life policy reserve (%)	16	15	14	14	14
BV (Bt)	20	20	20	21	15
ROE (%)	20	3	(14)	38	12
ROA (%)	3	0	(2)	4	1
D/E (x)	7	7	7	8	7
Cost to Income (%)	28	75	(69)	16	36

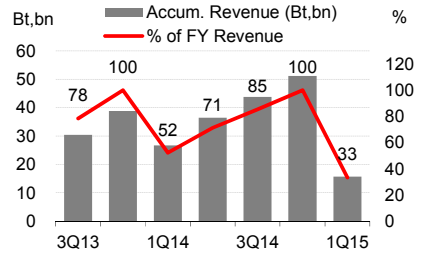
QUARTERLY BALANCE SHEET (Btm)	1Q14	2Q14	3Q14	4Q14	1Q15
Cash & Equivalent	1,810	2,800	2,184	5,708	1,405
Total investment in securities	182,310	190,289	196,098	198,238	212,733
Total net loans	3,645	3,939	4,323	4,735	4,938
Premises & equipment (Net)	336	358	388	389	460
Other assets	8,807	7,618	7,435	6,520	10,524
Total assets	196,908	205,003	210,428	215,590	230,061
Life policy reserve	159,031	168,314	174,248	177,435	189,539
Unpaid benefit to life policy	9,033	427	91	1,489	1,690
Premium received in advance	551	504	487	380	566
Other liabilities	4,224	11,438	11,607	10,710	12,498
Total liabilities	172,839	180,683	186,434	190,013	204,293
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	14,321	13,872	12,449	14,678	15,443
Shareholders equity	24,069	24,320	23,994	25,576	25,768
Minority interests	0	0	0	0	0

Insurance data	1Q14	2Q14	3Q14	4Q14	1Q15
FYP (Btm)	2,861	642	757	768	3,300
RYP (Btm)	12,251	8,103	6,147	6,240	11,761
SP (Btm)	11,885	1,154	472	530	650
Total premium (Btm)	26,997	9,899	7,376	7,538	15,711
FYP+SP mkt (%)	29.1	4.3	3.2	3.2	9.1
Total premium Mkt (%)	20.0	8.2	6.3	5.8	11.2

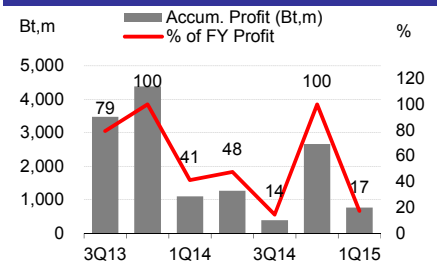
Revenue trend



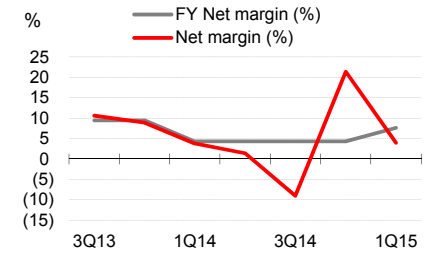
Revenue trend (accumulated)



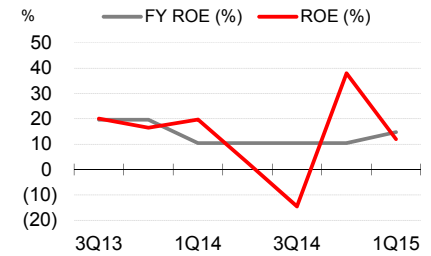
Net profit trend (accumulated)



Net margin



ROE



Company profile

Bangkok Life Assurance Plc (BLA) is one of Thailand's largest pure life assurance players and is a subsidiary of Bangkok Bank. Its FYP revenue growth is currently about twice the industry average.

Figure 1 : Earnings review for 1Q15

FY Ended 31 Dec (Btm)	1Q15	1Q14	YoY %	4Q14	QoQ %	3M15	3M14	YoY %
Income Statement								
Net insurance premium revenue	15,711	26,712	*(41)*	7,446	*111*	15,711	26,712	*(41)*
Less provision for life policy rese	12,104	22,415	*(46)*	3,187	*280*	12,104	22,415	*(46)*
Revenue realization on premium	3,607	4,297	*(16)*	4,260	*(15)*	3,607	4,297	*(16)*
Underwriting expenses	5,746	4,525	*27*	4,120	*39*	5,746	4,525	*27*
Profit from insurance business	(2,139)	(228)	*839*	140	*(1,628)*	(2,139)	(228)	*839*
Net investment income	2,511	2,014	*25*	2,259	*11*	2,511	2,014	*25*
Gain on investment	1,010	8	*nm*	951	*6*	1,010	8	*12,771*
Other income	15	9	*78*	13	*23*	15	9	*nm*
Total revenues	**1,398**	**1,803**	*(22)*	**3,362**	*(58)*	**1,398**	**1,803**	***(22)***
Total operating expenses	498	496	*0*	539	*(8)*	498	496	*0*
EBT	900	1,307	*(31)*	2,823	*(68)*	900	1,307	*(31)*
Income tax	135	211	*(36)*	546	*(75)*	135	211	*(36)*
Net profit	**765**	**1,096**	***(30)***	**2,278**	***(66)***	**765**	**1,096**	***(30)***
EPS	**0.45**	**0.90**	*(50)*	**1.33**	*(66)*	**0.45**	**0.90**	*(50)*
Key ratios								
Premium/life policy reserve (%)	33.2	67.2		16.8		33.2	67.2	
Life policy provision/Premium (%	77.0	83.9		42.8		77.0	83.9	
ROI (%)	6.7	4.6		6.4		6.7	4.6	
Tax rate (%)	15.0	16.1		19.3		15.0	16.1	
Net margin (%)	4.0	3.8		21.4		4.0	3.8	
D/E (x)	7.4	6.7		7.8		7.4	6.7	
Cost to Income (%)	35.6	27.5		16.0		35.6	27.5	
Asset/Equity (%)	8.4	7.7		8.8		8.4	7.7	
Balance Sheet								
Cash & Equivalent	1,405	1,810	(22)	5,708	(75)			
Total assets	230,061	196,908	17	215,590	7			
Unpaid benefit to life policy	1,690	9,033	(81)	1,489	14			
Premium received in advance	566	551	100	380	0			
Total liabilities	204,293	172,839	18	190,013	8			
Retained earnings	15,443	14,321	8	14,678	5			
Shareholders equity	25,768	24,069	7	25,576	1			
Minority interests	0	0	nm	0	nm			
BV (Bt)	15.1	20.1	(25)	21.3	(29)			

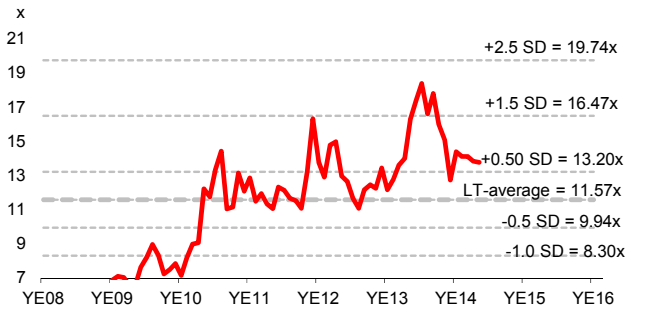
- FYPs declined YoY
- Lighter YoY provisioning for its life-policy reserve on higher sale of longer-term products
- A bigger YoY investment gain
- A soaring YoY ROI, due to a big investment gain and investment portfolio expansion in 1Q15

Sources: Company data, Bualuang Research estimates

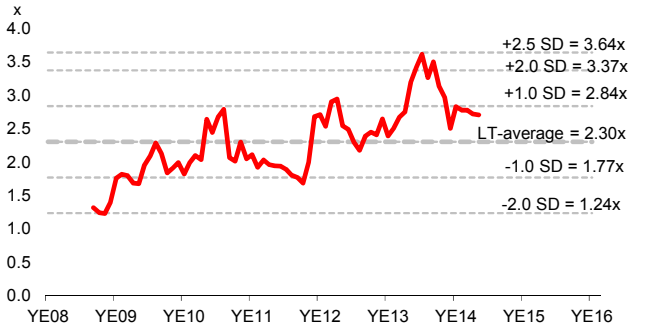
Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US$ equivalent)	PER (x) 2015E	PER (x) 2016E	EPS Growth (%) 2015E	EPS Growth (%) 2016E	PBV (x) 2015E	PBV (x) 2016E	ROE (%) 2015E	ROE (%) 2016E	Div Yield (%) 2015E	Div Yield (%) 2016E
Ping An Insurance (Group)	601318 CH	CNY86.9	128,993	16.0	13.7	10.6	17.8	2.3	1.9	14.4	14.9	0.9	1.0
China Life Insurance	601628 CH	CNY38.3	164,624	25.8	21.7	31.1	19.3	3.5	3.1	13.6	14.4	1.3	1.5
China Pacific Insurance (Group	601601 CH	CNY34.4	49,320	21.3	18.3	32.5	16.9	2.3	2.1	12.7	13.0	1.6	1.9
T&D Holdings	8795 JP	JPY1,795.0	10,218	13.3	13.5	14.0	-1.9	1.0	0.9	7.8	6.8	1.4	1.6
Bangkok Life Assurance	BLA TB	THB49.75	2,524	19.3	17.0	65.3	13.6	2.9	2.6	14.8	15.3	2.2	2.4
Thaire Life Assurance	THREL TB	THB13.90	249	18.2	16.0	23.5	13.3	6.3	5.6	36.4	36.9	3.9	4.4
Simple average				**19.0**	**16.7**	**29.5**	**13.2**	**3.0**	**2.7**	**16.6**	**16.9**	**1.9**	**2.1**

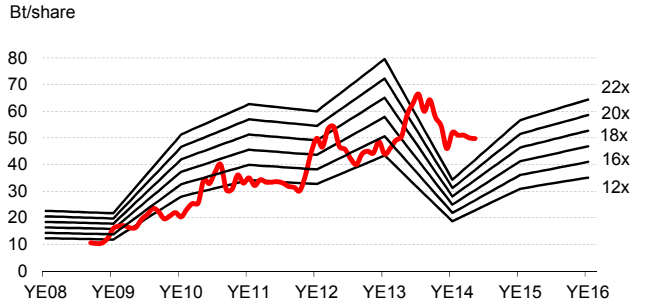
PER band versus SD (next 12 months)



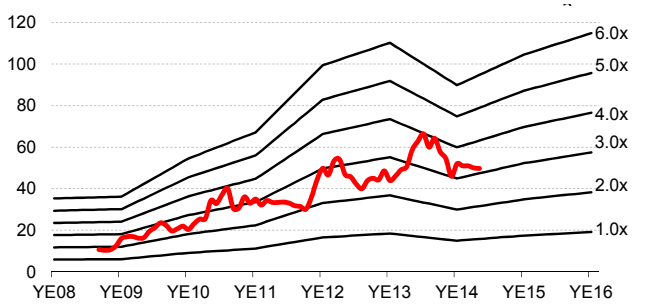
PER band versus SD (next 12 months)



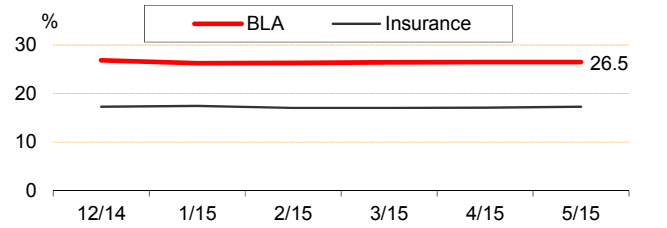
PER band and share price



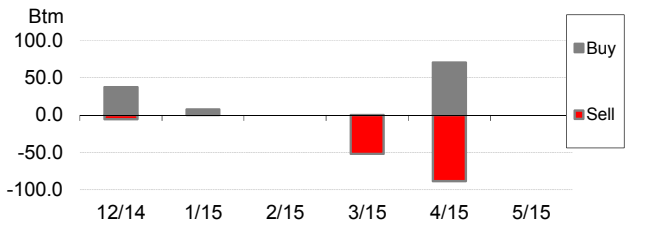
PBV band and share price



Foreign holding



Management trading activities during past six months



BUALUANG SECURITIES

Bualuang Securities Public Company Limited

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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
	GPSC

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

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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.