Bangkok Life Assurance PCL

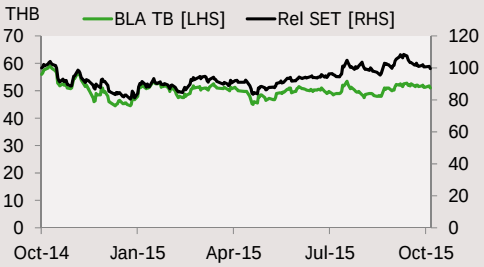
BLA TB	Outperform
Fair price	Bt59.00

Close Price (27/10/2015)	**Bt**	**51.00**
Upside/Downside	**%**	**15.7**
Valuation		**DDM**
Sector		**Insurance**
Market Cap	**Btm**	**86,894**
30-day avg t/o	**Btm**	**33**
No. of shares	**m**	**1,704**
CG Scoring		**Very Good**

Investment fundamentals

Year end Dec 31	2014A	2015E	2016E	2017E
Company Financials				
Operating Revenue (Bt m)	61,546	53,275	59,389	68,970
Core profit (Bt m)	2,734	4,351	4,960	6,332
Net profit (Bt m)	2,662	4,379	4,960	6,332
Net EPS (Bt)	1.83	2.58	2.91	3.72
DPS (Bt)	0.51	0.68	1.17	1.48
BV/shr (Bt)	16.63	18.51	20.79	23.50
Net EPS growth (%)	-49.53	40.79	13.13	27.65
ROAA (%)	1.37	1.88	1.85	2.06
ROAE (%)	11.13	16.25	16.58	18.93
D/E (x)	7.43	7.80	8.09	8.30
Valuation				
PE (x)	27.87	19.80	17.50	13.71
PBV (x)	3.07	2.76	2.45	2.17
Dividend yield (%)	1.00	1.33	2.29	2.90

BLA TB rel SET performance



Source: SET Smart
(all figures in THB unless noted)

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28 October 2015
Kasikorn Securities Public Company Limited

Over the hump and on a growth track

We reinitiate coverage of BLA with an Outperform rating and 2016 target price of Bt59.00 based on the DDM methodology. We foresee strong growth potential for the insurance industry in Thailand given a low penetration rate of 3.8%. Despite an expected slowdown in total industry premium growth this year to 8%, we expect a return to strong 12% growth in 2016-17E after growing by a 13% CAGR over the past 10 years (2004-2014). Although the bond yield curve will remain flat through 1H16, we believe downside risk for BLA to set aside extra policy reserve is limited. BLA's move away from last year's focus on low-margin endowment to higher-margin insurance products will enable earnings growth to recover at 13% and 28% in 2016 and 17E.

Investment highlights

- **Promising premium growth with low impact to an economic downturn.** We have a positive view of the insurance industry as it is still underpenetrated, and as there is strong growth potential given the structural change in Thai demographics in next 10 years during which 17 million people will need health and life insurance. Total industry premiums (TP) grew by a CAGR of 13% p.a. in 2004-14 with no periods of negative growth even during economic sluggishness. We therefore expect TP growth of 8% this year and then 12% p.a. in 2016-17E. There is an upside industry risk from a possible tax privilege for health assurance products.
- **Flat yield curve until 1H16 to have a limited impact on BLA.** A lower yield curve trend over the past two years resulted in BLA setting aside extra policy reserve due to its accounting policy to balance the rising value of investment assets. KBANK believes the current 10-year yield of 2.65% will not fall to a new low below 2.49%. We therefore believe there is limited risk for BLA to set extra policy reserve again. Although the company's investment return may be lower through 2016, an expected steepening yield curve since 2H16 will help boost earnings soon.
- **Shift to high-margin products to result in premium growth returning to normal.** Strong sales of its Gain 1st 5/1 single endowment product in 1Q14 will distort net earned premium (NEP) growth this year to -19% YoY. However, excluding this product, we expect 4% normalized growth this year. We assume NEP growth will return to a normal level in 2016-17E of 13-16%. Given a product shift to longer-term endowments and whole life products, we expect an increase in reserve to NEP will return to a normal level of 66-68%. We assume a high benefit payment to NEP ratio of 33-37% for 2015-17E. If this ratio comes in below our forecast of 33% to 30%, it will raise our net profit by 15%.
- **Lower investment return but ROAE to rise due to a larger asset size.** Despite an expected decline in net investment return from 5.4% to 5.0% in the next two years, we foresee total investment income rising from Bt10.4bn in 2014 to Bt14.7bn in 2017E. This will be supported by an increase in investment securities to Bt307bn. ROAE should thus recover from 11.1% in 2014 to 18.9% in 2017E.

Valuation

- We reinitiate coverage of BLA with an Outperform rating and a 2016 fair price of Bt59.00 based on the DDM methodology. At the current price, BLA is trading at a one-year forward PER of 15.6x and PBV of 2.7x. In terms of PBV trading band, BLA is trading at -1SD its five-year historical mean. We see an investment opportunity for BLA as it is now trading at a discount with high profitability outlook.

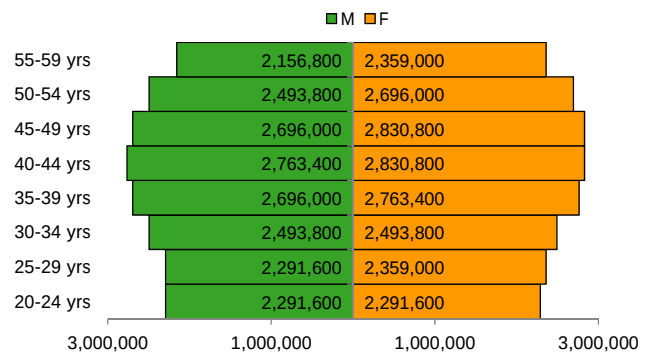
Over the hump and on a growth track

Underpenetrated market, even increased penetration rate in Thailand

We reinitiate coverage of BLA with an Outperform rating and 2016 fair price of Bt59.0 based on the DDM methodology. We have a positive view of the insurance industry as it is still underpenetrated with strong growth potential from a change in demographic structure to an older population and expected total industry premium growth of 12% p.a. in 2016-17E. Despite a continuing trend of a flat yield curve through 1H16 and a lower return on investment, we believe downside risk for BLA to set aside extra policy reserve like it did last year is limited. Moreover, since KBANK forecasts the trend of yield curve will be steepening since 2H16, earnings pressure will be limited. Also, BLA is focusing on selling high-margin insurance products rather than single endowment products last year. This will result in earnings growth returning to a normal pace again of 13%/28% in 2016/17E following a turnaround this year.

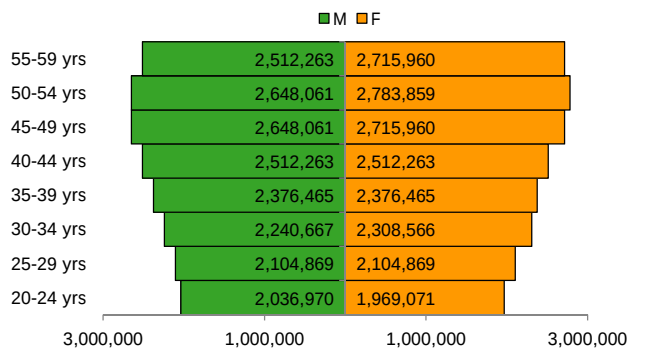
There is strong potential for insurance products given a changing demographic in the next 10 years. In 2015, the majority or 17mn people are in the 35-49-year old bracket. According to a UN forecast, in next 10 years (year 2025) this 17mn people of Thai population group will be in the 45-59 year-old age bracket. This implies higher potential demand for insurance products for life protection purposes. Over the past 10 years (2004-2014), the rising trend was seen in terms of both a higher number of policies per population – from 17% to 33% – and total premiums to GDP – from 2.33% to 4.07%.

Fig 1 Thailand population pyramid in 2015



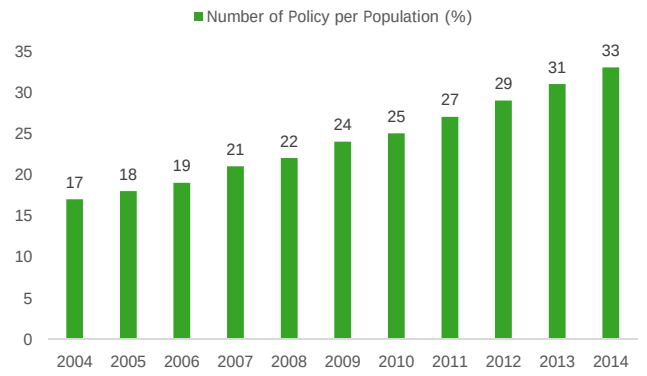
Source: UN, NSO, Population Pyramid and KS

Fig 2 Thailand population pyramid in 2025



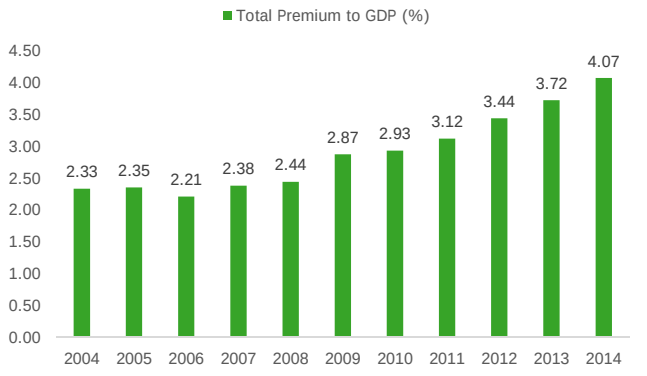
Source: UN, NSO, Population Pyramid and KS

Fig 3 Total number of policies per population - Thailand



Source: Thai Life Assurance Association (TLAA) NESDB and KS

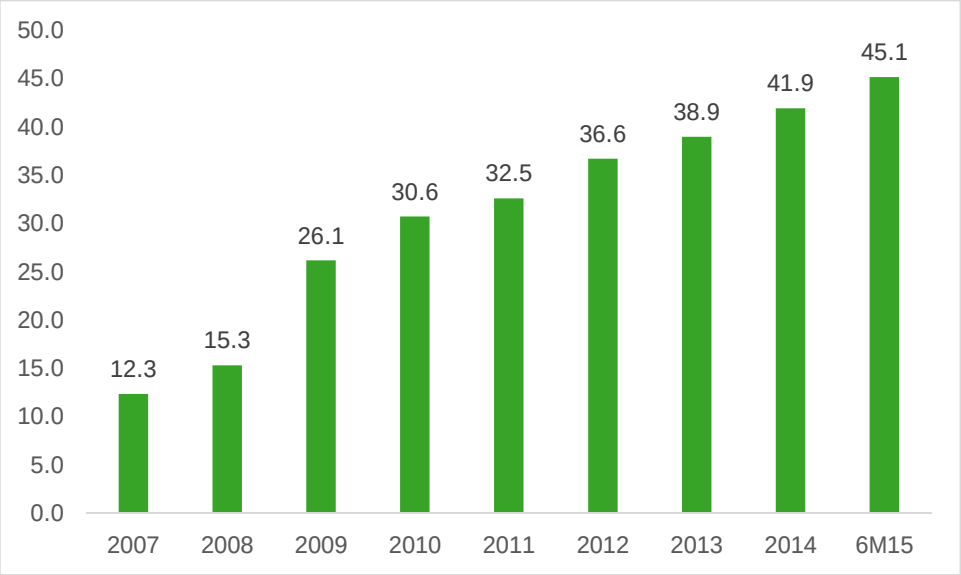
Fig 4 Total premiums to GDP - Thailand



Source: TLAA, NESDB and KS

We believe the rising trend of policies per population and premiums to GDP will be due to rising demand from the mid- to high-income group with the aim to obtain a tax-deductible privilege for personal tax expense, and from more liberalization of bancassurance sales since 2005 as an alternative investment to deposits. Industry data show that bancassurance has become the major channels for insurance products, as its contribution rose from only 12.3% in 2007 to 45.1% in 6M15. We believe the life insurance business is still in a growth stage and will continue on the expectation of premium growth of 12% p.a. in 2016-17E.

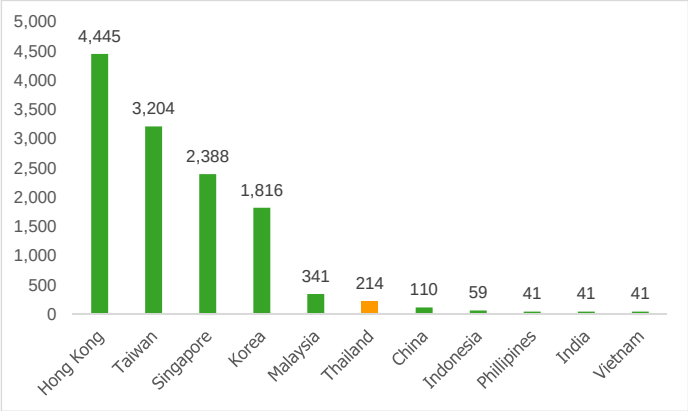
Fig 5 Bancassurance premiums as a percent of total premiums – Industry



Source: TLAA and KS

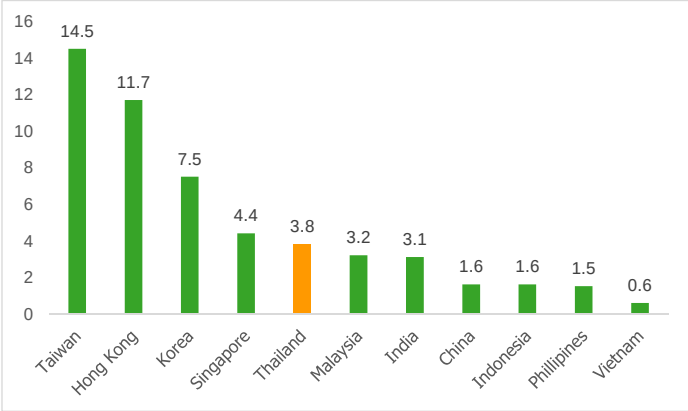
On a regional perspective, Thailand has a lower penetration rate compared to other countries. In terms of total premiums to GDP in 2013, Thailand's penetration was 3.8% compared to 4.4% for Singapore, 7.5% for Korea, 11.7% for Hong Kong and 14.5% for Taiwan. Note that Thailand ranks higher than China, which is another high-potential market in the region.

Fig 6 2013 Regional premiums per capita (USD)



Source: Swiss Re Sigma and KS

Fig 7 2013 regional premiums to GDP (%)



Source: Swiss Re Sigma and KS

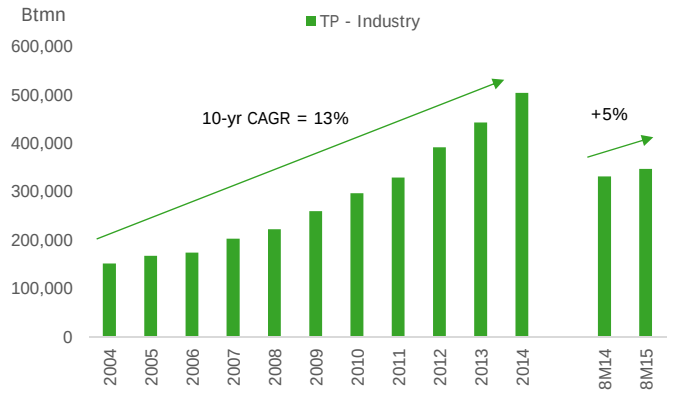
Industry premiums – low impact from an economic downturn

Industry premiums over the past 10 years (2004-2014) posted positive growth with no negative period – total premium (TP) growth was convincing at 13% p.a. and first-year premium (FYP) growth was 14% p.a. FYP jumped almost every two years, i.e., in 2007, 2009, 2012, and 2014.

Strong FYP growth indicates a sustainable outlook for the insurance industry as it represents new money entering the industry and reflects new demand for insurance products. Another source of new money for the industry is single premiums (SP), but these are one-time payments in a year and would not create continuous payments or renewable year premiums (RYP) in years ahead. As such, the movement of SPs is volatile over time.

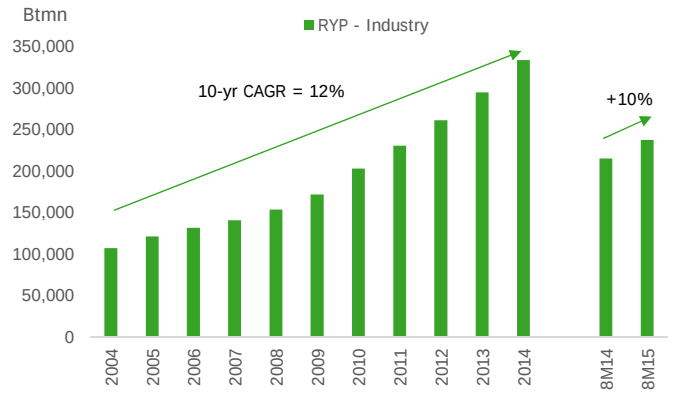
In 8M15 insurance industry TP growth was only 5% YoY. However, this is still above the lowest growth of 4% in 2006. Similarly for FYP, 8M15 growth of 8% is well above the lowest point of 2% in 2008. This confirms a solid outlook for insurance premiums, despite the sluggish economy this year. We thus expect TP growth of 8% this year and then 12% p.a. in 2016-17E.

Fig 8 Total premiums - Industry



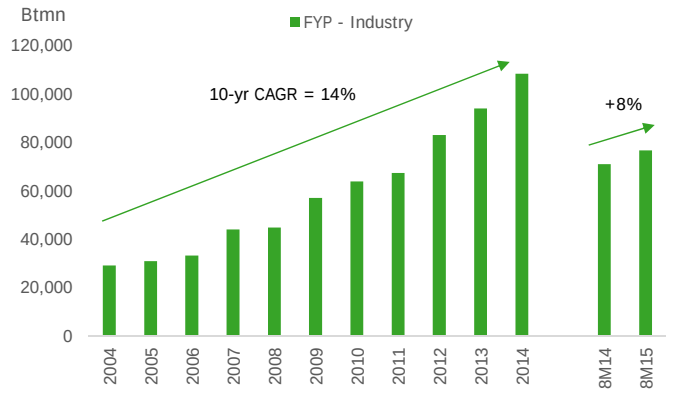
Source: TLAA and KS

Fig 9 Renewable year premiums - Industry



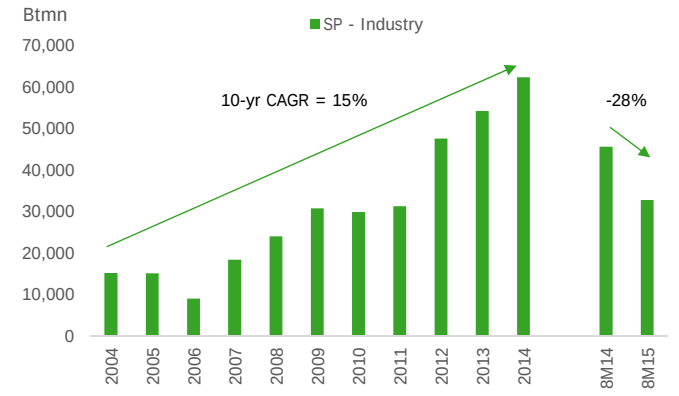
Source: TLAA and KS

Fig 10 First year premiums - Industry



Source: TLAA and KS

Fig 11 Single premiums - Industry



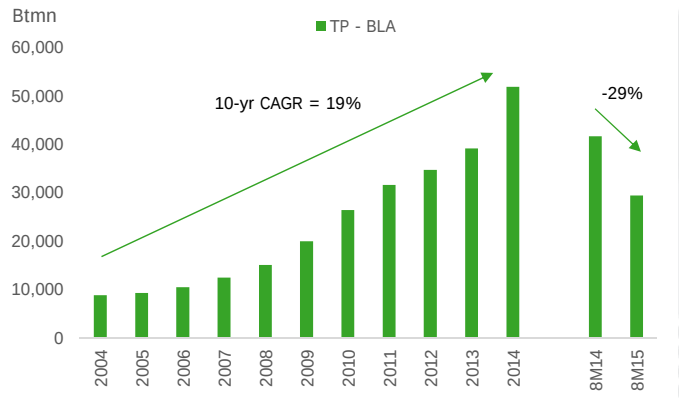
Source: TLAA and KS

BLA premiums – shifting focus to high-margin products

BLA posted TP growth in every year during the past 10 years (2004-2014) at a convincing CAGR of 19% but declined by 29% YoY in 8M15. The key reason for this was overwhelming successful sales of low-margin 5/1 single premium policies in 2014 totaling roughly Bt11.5bn. As such, BLA's TP in 2015 is expected to show negative growth for the first time in 10 years at -19% before recovering to 13% growth in 2016E. BLA also posted negative RYP growth in 8M15 for the first time in the past 10 years of 4%. This was due to the end of payment periods for some insurance policies.

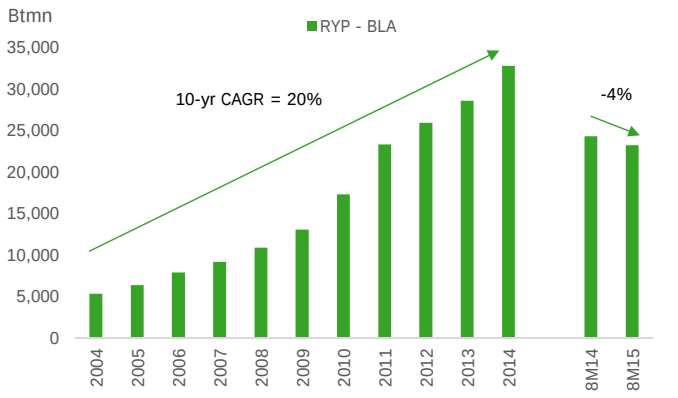
As discussed earlier, strong FYP growth indicates a sustainable outlook for the insurance industry/companies. As for BLA, despite a 10-year growth CAGR of 11%, the momentum of BLA's FYPs – new money for BLA – is quite volatile. To reduce volatility, BLA adjusted its strategy to sell longer endowment products in order improve its underwriting margin as well as net profit returns. We therefore believe FYP will return to growth of 13-16% in the next two years.

Fig 12 Total premiums - BLA



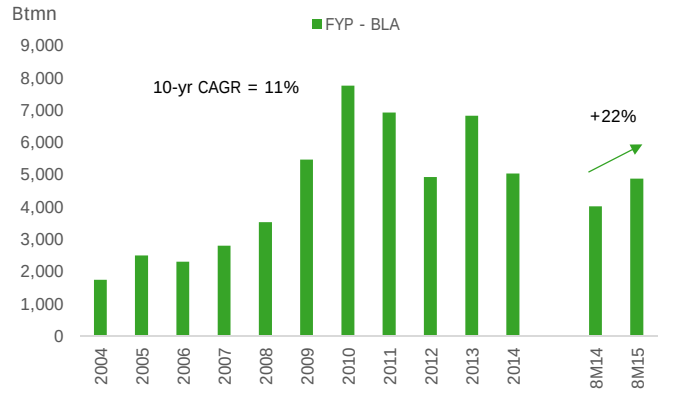
Source: TLAA, BLA and KS

Fig 13 Renewable year premiums - BLA



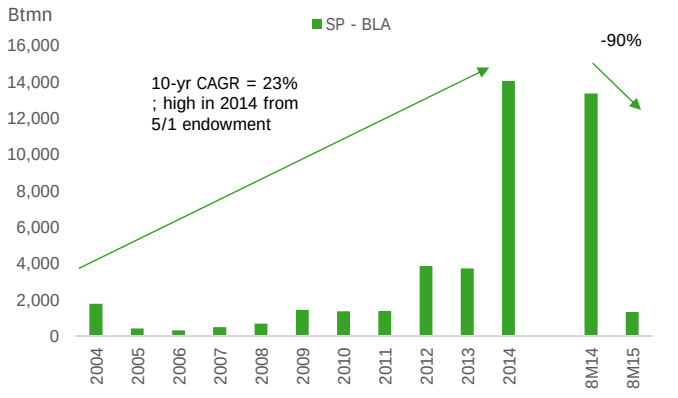
Source: TLAA, BLA and KS

Fig 14 First year premiums - BLA



Source: TLAA, BLA and KS

Fig 15 Single premiums - BLA



Source: TLAA, BLA and KS

Life insurance market – still dominated by endowment products

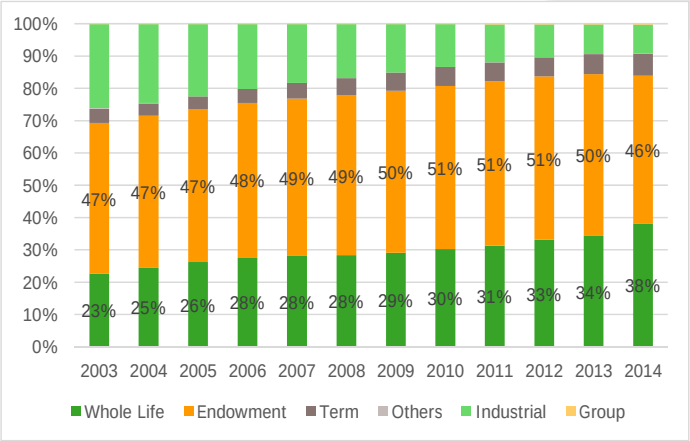
Ordinary life insurance policies can be classified into four categories:

- 1) Whole life insurance – life-time protection (to age 90 or 99) with benefits paid to the beneficiary once the insured dies.
- 2) Endowment/Saving life insurance – products that return designated payments to the policyholder within the policy life or benefits paid to the beneficiary once the insured person dies within the insured period.
- 3) Term life insurance – temporary protection without a designated return. Benefits can be claimed if and only if death occurs within the stated term period. Credit life insurance, which offers protection coverage for loss of life or disability of loan borrowers, is the example of term life insurance.
- 4) Rider or additional coverage products, such as medical expense, accident insurance.

For Thailand, the top-selling insurance product is endowment/saving life insurance (around 46% of total industry premiums), as this has a feature to return the designated amount of money back to the policyholder within the policy life. Moreover, an endowment product has a shorter premium payment period and a shorter policy life compared to whole life insurance. Thus, endowment has become a popular insurance product in Thailand, especially via the bancassurance channel as an alternative investment to deposits. Also, in terms of insurance companies, endowment can create a large volume of premiums.

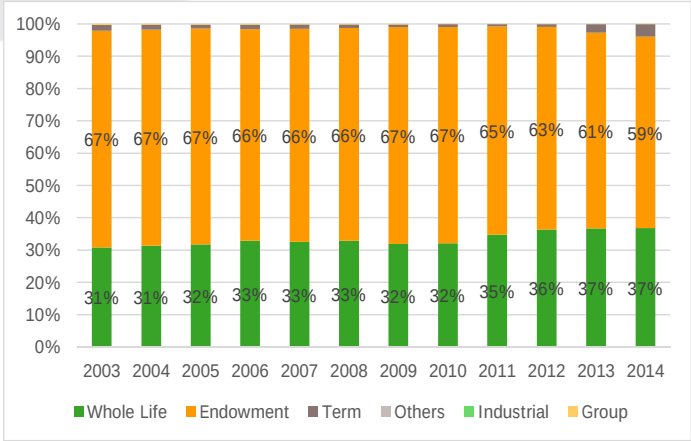
However, committed returns and shorter payment period require a higher policy reserve expense, which results in a lower margin for endowment insurance products compared to whole life products. So, a high contribution from endowment products, especially short-term payment features, are not supportive for insurance companies' earnings due to their low margin. An endowment with a longer payment period and whole life insurance are good-margin products for companies, but these are not easy to generate a sufficient premium compared to short-term endowments.

Fig 16 Product segmentation - Industry



Source: TLAA and KS

Fig 17 Product segmentation - BLA



Source: TLAA and KS

As seen in the graphs above, popular insurance products in Thailand remain endowment products with a market share of 46% in 2014. However, whole life products becomes increasingly popular because they have more comprehensive protection features and therefore have had an improved perception to insurance products among Thai people. This segment increased from 23% in 2003 to 38% in 2014.

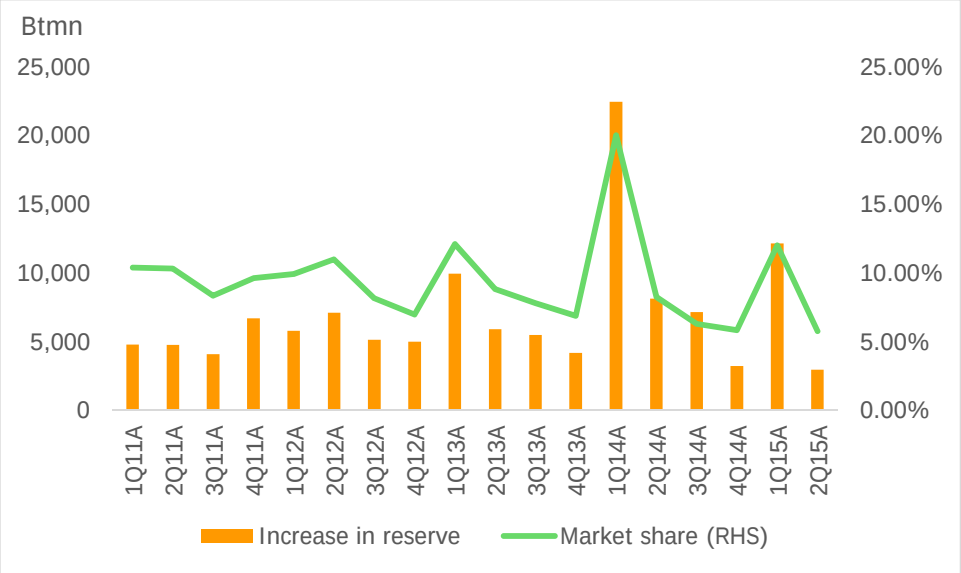
BLA is also focusing on a higher contribution from whole life products that provide better margins than endowment products. Nevertheless, the contribution from these products to BLA has grown at a slower pace from 31% in 2003 to 37% in 2014 compared to the industry dynamic from 23% to 38%.

From a trade-off perspective between endowment products (high premium volume but high provisions for policy reserve and thus a low margin) and whole life products (hard to create volume but good margin), we believe it will be a struggle for BLA to purely push whole life products, as this would lower its market share of total premiums.

We notice a direct relationship between BLA increasing expense for insurance reserve and market share of total premiums. A higher market share of total premiums will result in a higher increase in reserve expense for BLA and eventually a lower net profit. BLA's launch of single endowment products last year, which resulted in a huge boost in market share, resulted in a significant increase in provisions for its policy reserve and eventually a lower margin. BLA's latest strategy is to concentrate more on high-margin products such as whole life and mid- to- long-term endowment insurance products. Launching short-term endowment products will still occur from time to time in order to maintain market share.

In 3Q15, BLA launched a mid-term Gain 1st 350 (10/5) endowment product via bancassurance. The feedback was positive and resulted in higher FYP in July and August. This is an example of BLA's attempt to improve its margin. Another attempt to improve its margin is building its agent force. Most insurance products sold via the agent channel are whole life insurance. A higher agent force thus implies a better margin improvement.

Fig 18 BLA Increase in policy reserve vs market share



Source: TLAA, BLA and KS

Tentative tax privilege for health assurance to provide potential upside

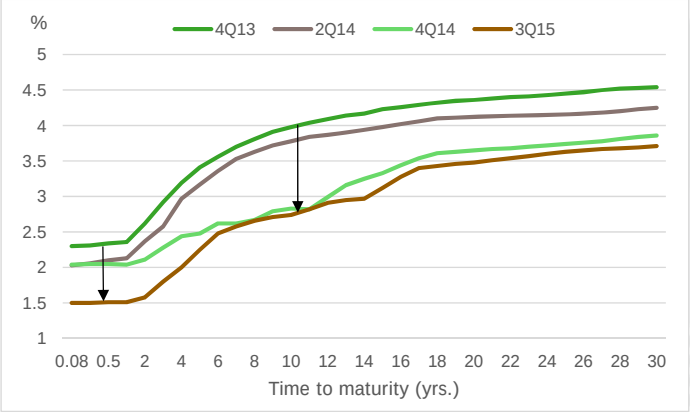
According to a report from the Office of Insurance Commission (OIC), health assurance (HA) – one kind of rider – performed well in 6M15 with growth of 14% YoY valued at Bt25bn. Of this, Bt21bn is from life insurance companies (84%) and the remainder from non-life insurance. The OIC is now requesting the Revenue Department to provide a tax deductible incentive of up to Bt100,000 per year for health assurance policy holders in addition to the existing Bt100,000 incentive for ordinary life insurance. If this request is endorsed and takes effect next year (2016), this will be a key positive for overall insurance industry.

Flat yield curve until 1H16 to have a limited impact on BLA

Rising interest rates benefit insurance companies in terms of a better re-investment yield, and thus a steepening yield curve is preferable for insurance companies. On the other hand, a flat yield curve will depress investment returns. For endowment insurance products, which promise to return cash benefits annually, we see a cash return of 2.5-3.0% p.a. depending on endowment features. This range of cash return seems like the cost of funding for insurance companies with a high exposure to endowment products.

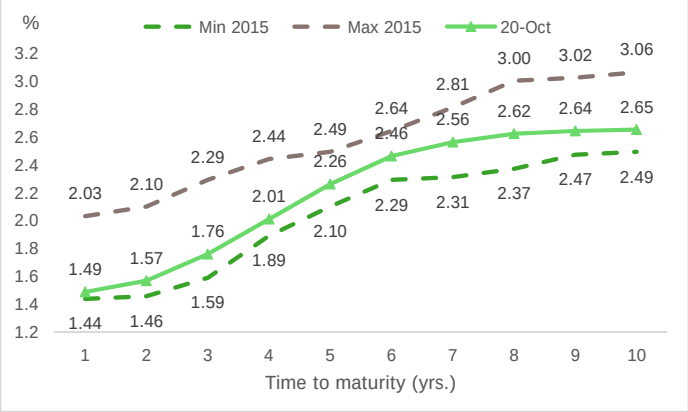
Over the past two years we saw a lower yield curve with the 10-year yield dropping by a larger amount compared to the short-term yield. The large drop in yield curve by 150 bps resulted in BLA setting aside an extra policy reserve due to accounting policy to reflect a rise in the value of investment assets based on mark-to-market basis. Therefore, a lower interest rate trend will be harmful for insurance earnings due to the potential need to set aside extra reserves.

Fig 19 Change in yield curve



Source: Thai BMA, KBANK and KS

Fig 20 Yield curve band for 2015



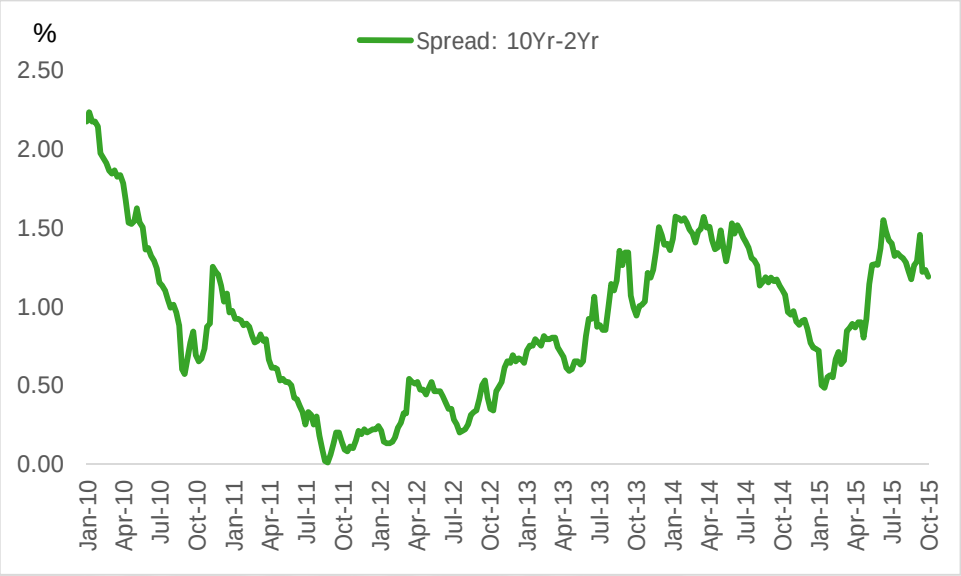
Source: Thai BMA, KBANK and KS

According to KBANK's research on interest rates, the yield curve trend may remain flat until mid-2016 given a minimal change in two-year yield but a lower 10-year yield. Nevertheless, the current 10-year yield of 2.65% would not result in a new low below the lowest point of 2.49% seen in 2015. We believe there is limited downside risk for BLA to set extra policy reserves again, as management suggested this level of reserve bears a lower interest rate of up to 100 bps from the current level (roughly 1.70%).

KBANK research suggests the bond market could be under the most pressure during 1H16 as it coincides with a potential increase in the Fed funds rate. Nevertheless, the Public Debt Management Office (PDMO) announced a higher bond supply for FY2016 of 13% (Bt500bn), most of which will be released in 2Q-3Q16. A higher bond supply suggests a steepening yield curve for next year at least 2H16. KBANK expects the 10-year yield to rise to 2.90% at end-2015 and to 3.7% by end-2016.

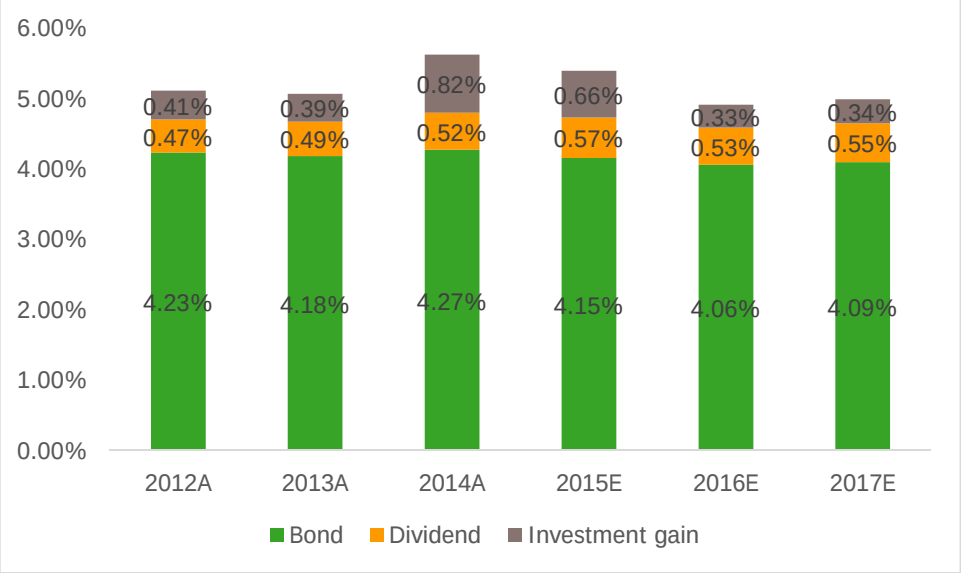
We believe insurance companies, including BLA, will face pressure from interest rates and lower ROI until 1H16. Given a KBANK forecast, we expect the yield curve will begin to steepen in 2H16 and ROI will eventually improve. This reconciles with the 2-10 year bond yield spread that currently stands at 120 bps and is facing a downward trend. The spread will be as low as 50 bps and is then expected to rebound to 160 bps by the end of 2016. The bottom line is that we see limited downside risk for BLA to set aside contingency policy reserves again.

Fig 21 2-10 year spread – to decline before rebounding to 160 bps by end-2016



Source: Thai BMA

Fig 22 BLA's investment return



Source: BLA and KS

Good 2Q15 result from a reversal of policy reserve; high-margin products to result in 2H15 earnings returning to normal

BLA's 1H15 net profit accounts for 60% of our full-year 2015 forecast of Bt4.38bn. The massive profit in 2Q15 was mainly due to a reversal of contingency life insurance reserve of Bt1.32bn. During the low interest environment in 2014-1Q15A, BLA set aside a higher amount of extra policy reserve of Bt5.03bn (Bt3.3bn in 2014, Bt1.73bn in 1Q15)

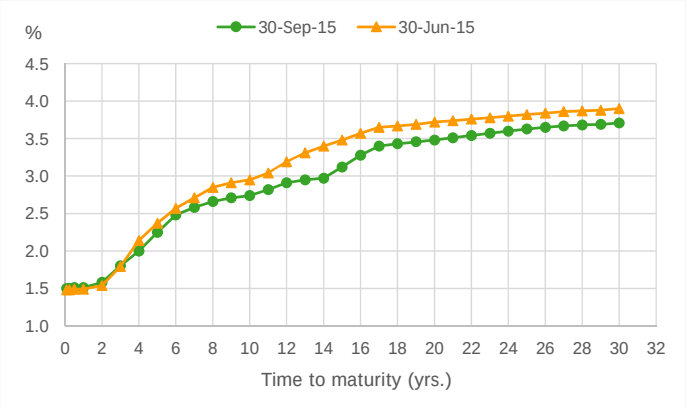
Fig 23 BLA quarterly performance

	3Q14A	4Q14A	1Q15A	2Q15A	3Q15E	%YoY	%QoQ	%YTD 2015E	2015E
Financials									
Net earned premium : NEP (Btmn)	7,245	7,446	15,711	7,252	8,884	22.6	22.5	77.0	41,353
Total underwriting expense (Btmn)	-10,507	-7,306	-17,850	-7,033	-10,283	2.1	-46.2	-76.6	45,907
Total investment income (Btmn)	2,588	3,234	3,542	2,564	2,956	14.2	15.3	76.0	11,922
Operating profit (Btmn)	-1,155	2,835	905	2,211	989	185.6	-55.3	79.8	5,147
Net Profit (Btmn)	-881	2,278	765	1,844	877	199.6	-52.5	79.6	4,379
Net EPS (Bt)	-0.73	1.57	0.45	1.09	0.52	170.9	-52.5	79.5	2.58
Performance Drivers									
Investment securities (Btmn)	196,098	198,238	212,733	224,442	225,620	15.1	0.5	97.0	232,526
Policy reserves (Btmn)	175,381	178,492	190,784	193,664	199,705	13.9	3.1	96.9	206,074
First Year Premium (% share)	16.7	17.2	13.2	21.5	32.5				
Premium from bancassurance (% share)	57.6	43.3	79.2	59.0	70.0				
Ratios						**Change**		**Avg YTD**	**2015E**
Net investment return (%)	5.2	6.3	6.6	4.6	5.1	-0.1	0.5	5.4	5.4
Increase in reserves to NEP (%)	98.2	42.8	77.0	40.1	68.0	-30.2	27.9	61.7	66.3
Benefit payment to NEP (%)	37.4	46.5	30.4	46.8	39.3	2.0	-7.5	38.8	36.9
Operating margin (%)	-11.7	26.5	4.7	22.5	8.4	20.1	-14.2	11.9	9.7
ROAE (%)	-14.6	36.8	11.9	27.8	12.7	27.3	-15.0	17.5	16.3
Equity to policy reserves (%)	13.7	14.3	13.5	14.1	13.9	0.2	-0.3	13.8	13.7
CAR under Risk based capital (%)	282.0	409.0	407.0	347.0	307.4	25.4	-39.6	353.8	304.6

Source: BLA and KS

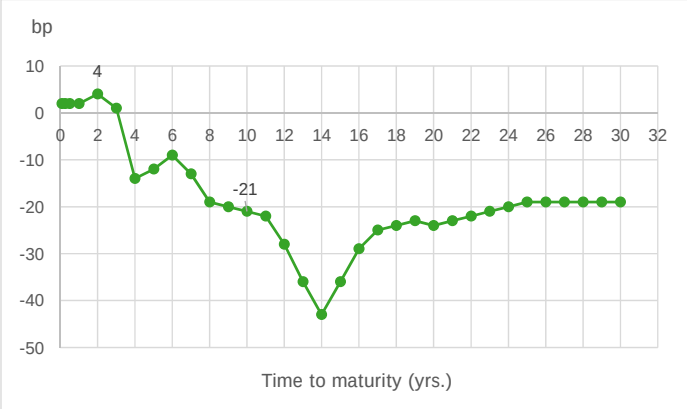
We expect BLA to report a 3Q15 net profit of Bt877mn, which marks a turnaround from a loss of Bt881mn last year. However, this is significantly lower QoQ due to a reversal of additional policy reserve in 2Q15. Despite a lower yield curve from 2Q to 3Q15, we do not expect this to impact BLA as it already set aside a high cushion. Also, we expect an increase in policy reserve/NEP will return to a normal level of 67-70% since BLA shifted its strategy to selling mainly mid-term endowment products (10/5) in the quarter. This should boost NEP in 3Q by 22% QoQ.

Fig 24 Yield curve – 2Q vs 3Q15



Source: Thai BMA and KS

Fig 25 Change in yield curve – 2Q vs 3Q15

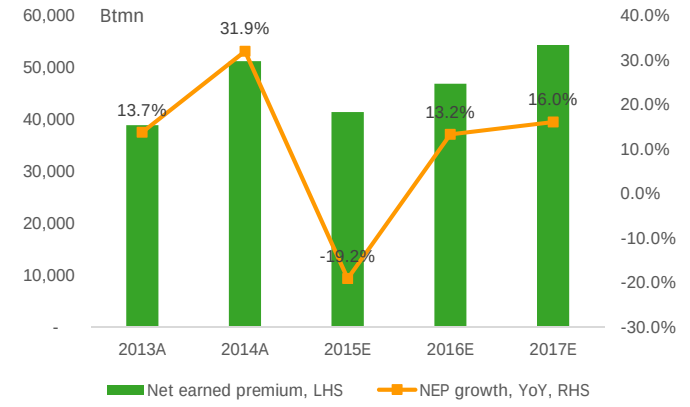


Source: Thai BMA and KS

Normalized NEP growth is still in positive territory

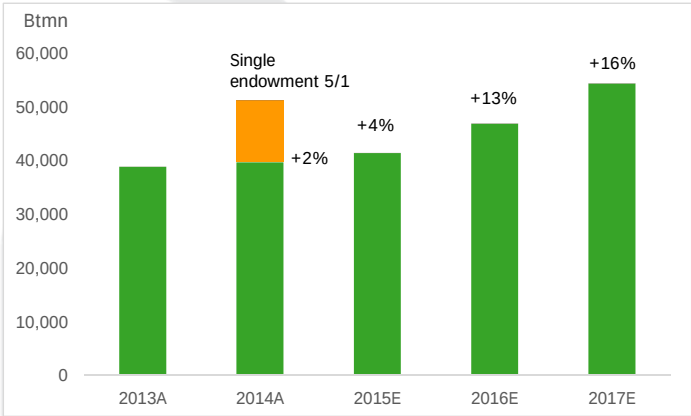
The huge sales of its 5/1 single endowment product in 1Q14 will distort net earned premium (NEP) growth this year to a negative 19% YoY. Excluding this product, NEP would have grown by 2% last year. We expect 4% normalized growth this year. We assume BLA's NEP growth will return to a normal level in 2016-2017E of 13-16% on a low penetration rate for the insurance market in Thailand and increasing awareness of life insurance products among the aging society. We believe economic conditions will have a limited impact on premium growth.

Fig 26 Net earned premiums (NEP) and growth



Source: BLA and KS

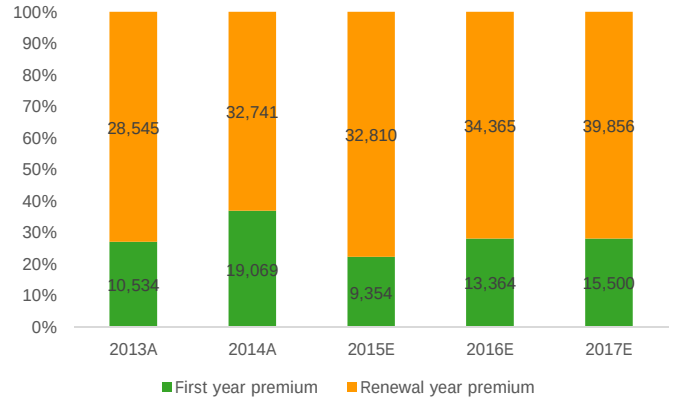
Fig 27 NEP and growth – excluding SP in 2014



Source: BLA and KS

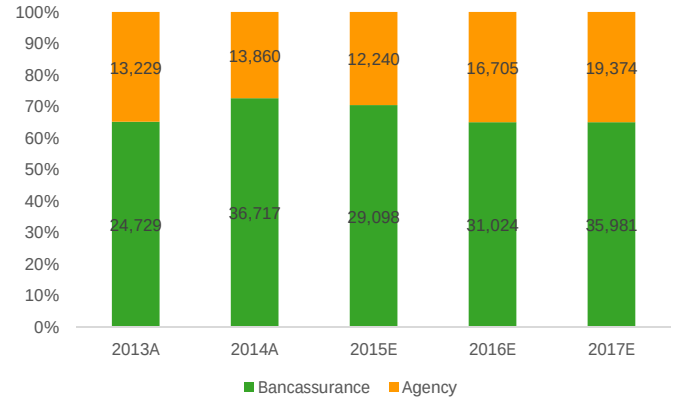
In terms of distribution channel, we expect the majority of BLA's premiums will be derived from bancassurance, as this provides a massive volume compared to the agent channel. In 2014-15, bancassurance contributed 70% of NEP driven by short-term endowments. With a strategy to improve product margin, we expect contribution from bancassurance will decline to 65% and contribution from the agent channel will rise to 35% from 30%. We expect contribution from first-year premiums will be roughly 28% in 2016-17E vs 22% this year.

Fig 28 Premium breakdown – by FYP and RYP



Source: BLA and KS

Fig 29 Premium breakdown – by channel

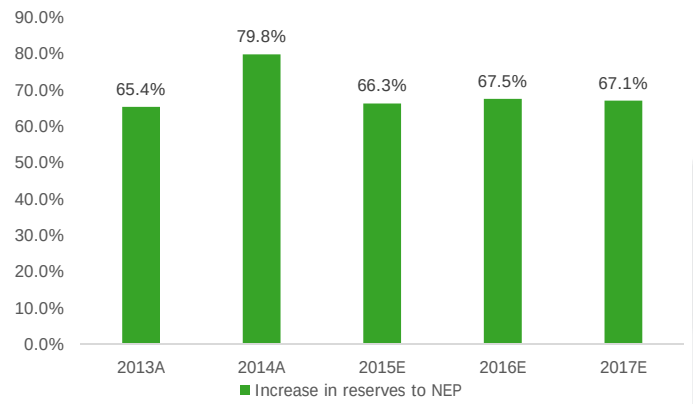


Source: BLA and KS

Shift to longer endowments should smooth reserve expense, while benefit payments may increase

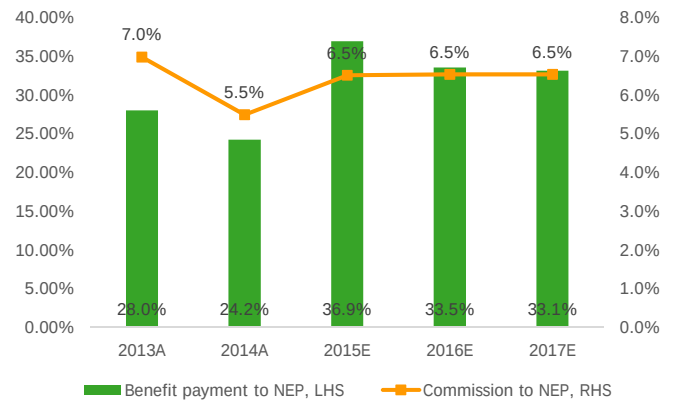
Rising expense from an increase in policy reserve to NEP to almost 80% in 2014 was due to a high reserve requirement from short-term endowment products as well as a lower interest rate trend last year. This year, given a product shift to longer-term endowment and whole life products, we expect an increase in reserve to NEP will return to a normal level of 66-68%. Moreover, limited lower interest rates this year and the probability of a steepening yield curve next year would not cause BLA to set aside higher reserve.

Fig 30 Increase in reserve to NEP



Source: BLA and KS

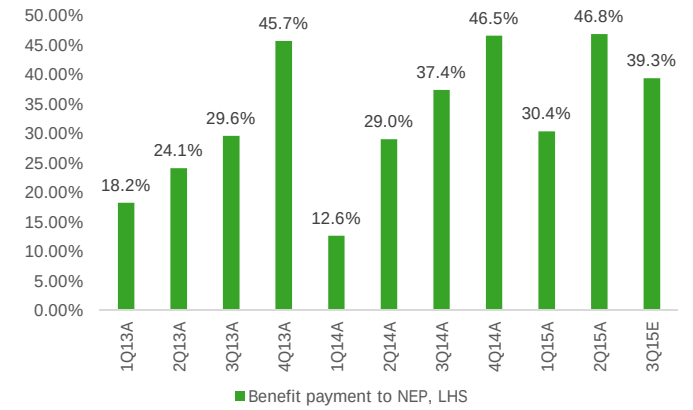
Fig 31 Benefit payment and Commission to NEP



Source: BLA and KS

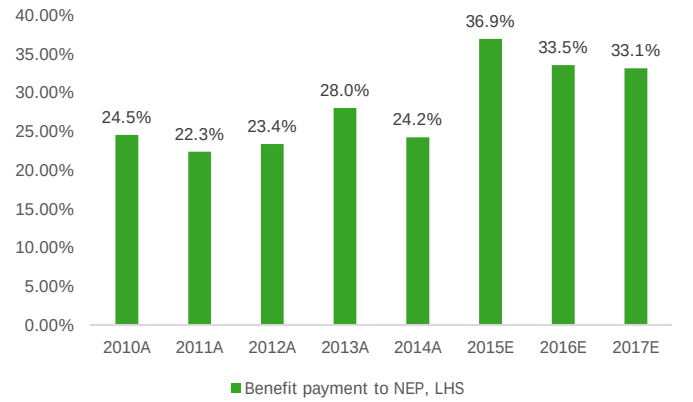
We conservatively assume a high benefit payment to NEP ratio of 33-37% in 2015-17E as data on a quarterly basis over the past two years show that 1Q tends to be the lowest level and rises to the highest level in 4Q. We believe this trend occurred because of a high exposure to endowment products that caused BLA to pay a designated payment return to policyholders. If the ratio falls below our forecast of 33% to 30%, it will raise our net profit forecast by 15%.

Fig 32 Benefit payment to NEP - quarter



Source: BLA and KS

Fig 33 Benefit payment to NEP - annual

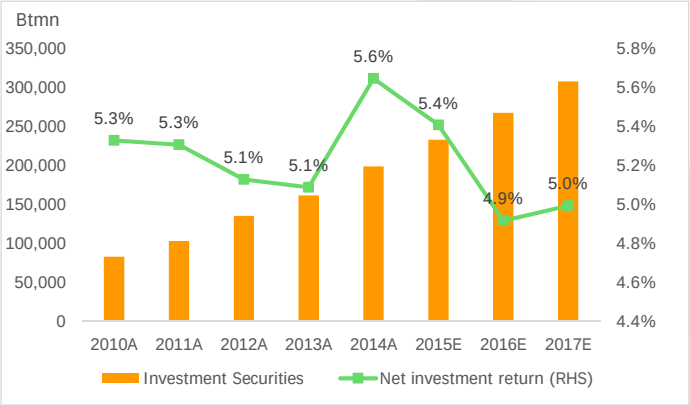


Source: BLA and KS

Lower rate of investment return but larger income due to bigger investment assets

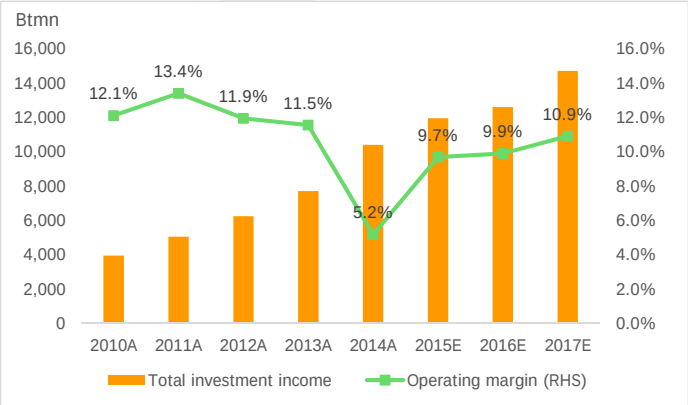
Despite an expected lower net investment return from 5.4% to 5.0% in the next two years, we expect total investment income to rise from Bt10.4bn in 2014 to Bt14.7bn in 2017E, equivalent to a CAGR of 12.3%. Higher investment income will be supported by increasing investment in securities from Bt198bn in 2014 to Bt307bn. The contribution from total investment income will result in the operating margin returning to 10-11% in 2015-17E from 5.2% when it was depressed by high expense for policy reserve.

Fig 34 Investment assets and investment return



Source: BLA and KS

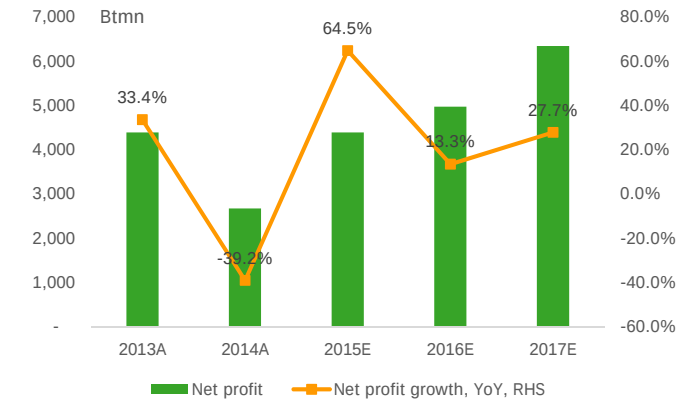
Fig 35 Investment income and operating margin



Source: BLA and KS

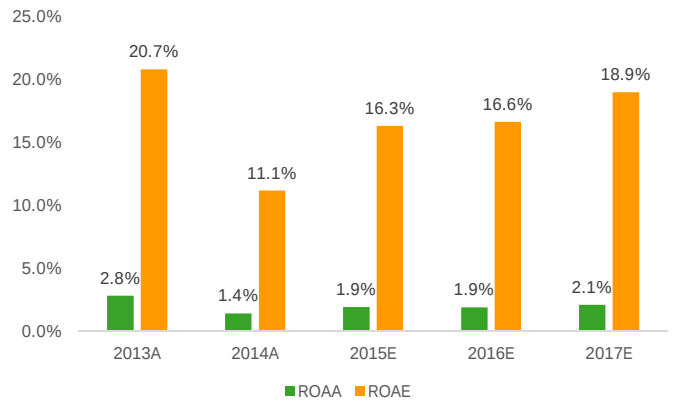
At the net profit level, this year will be a turnaround for BLA with net profit to rise from Bt2.7bn to Bt4.4bn (+65% YoY). We expect 2016E net profit to return to a normal level of 13% on a gradual recovery of premiums. If the economic situation returns to normal in 2017E, net profit should again return to strong growth of 28% and ROAE rise from 11.1% in 2014 to 18.9% in 2017E.

Fig 36 Net profit and growth



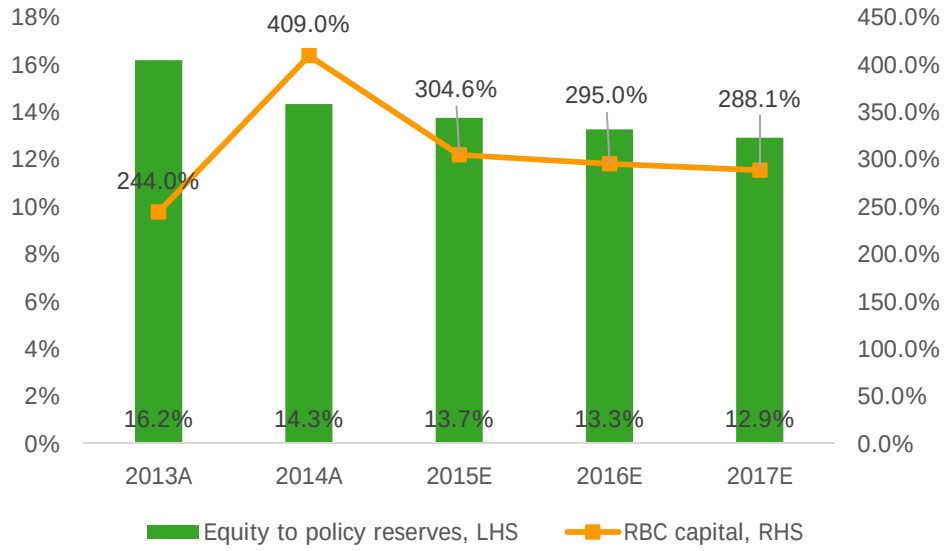
Source: BLA and KS

Fig 37 ROAA and ROAE



Source: BLA and KS

Fig 38 Equity to policy reserve and capital adequacy ratio (CAR)



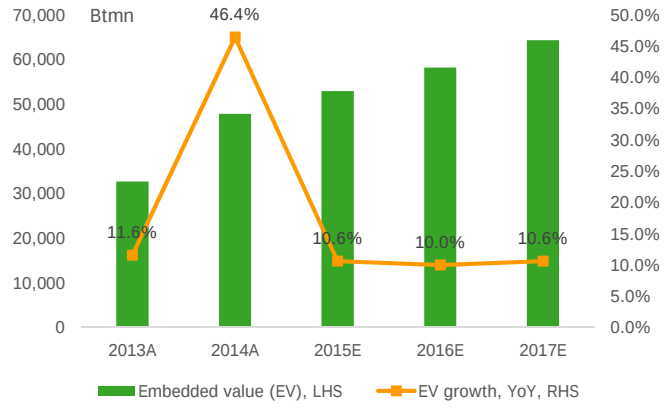
Source: BLA and KS

We expect BLA will maintain a capital adequacy ratio (CAR) of roughly 300% next year given a strong contribution from a higher net profit each year. This is well above the regulatory requirement of 140%, and thus BLA will not have to raise capital for at least the next three years.

The substantial growth of Embedded Value (EV) in 2014A by 46% mainly comes from an increase in the fair value of bonds due to a drop in market interest rate. Once operations return to normal, we expect EV to grow by roughly 10% p.a.

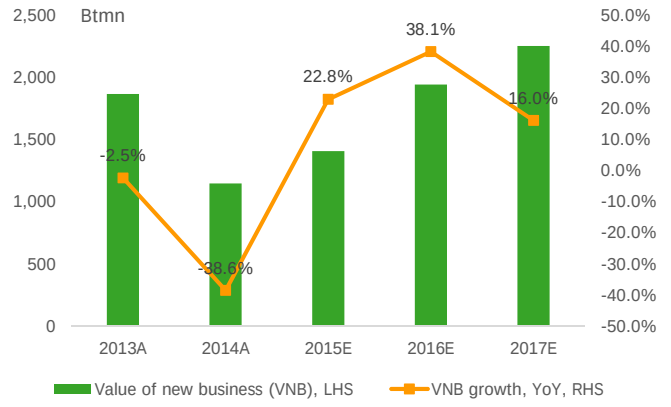
BLA's large drop in the value of new business (VNB) in 2014 resulted from 1) a lower ROI assumption from 5% to 4.75% following the low interest rate environment; and 2) large sales of single endowment products that largely impacted operating profit. Since BLA changed its focus to high-margin products, we expect VNB will turn around as products provide more value creation.

Fig 39 Embedded value (EV)



Source: BLA and KS

Fig 40 Value of new business (VNB)



Source: BLA and KS

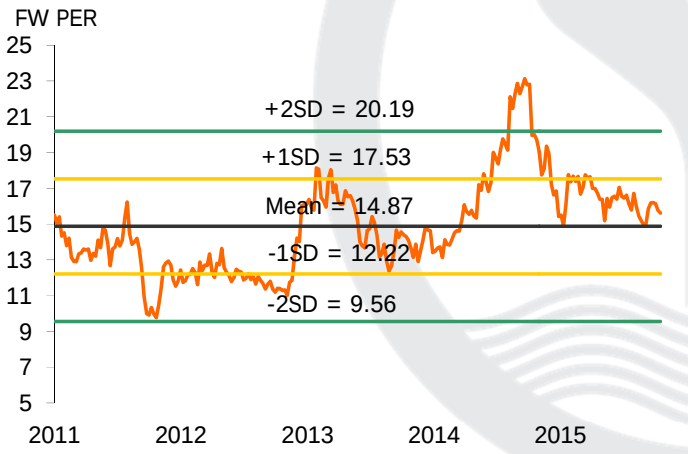
Valuation and recommendation

Outperform rating with fair price of Bt59.00

We reinitiate coverage of BLA with an Outperform rating and 2016 fair price of Bt59.00 based on the DDM methodology. Our valuation assumes a sustainable ROE of 16% vs the average expected ROE for 2016-17E of 17.5%. We assume a cost of equity of 10.8% with a beta of 1.1. Our Bt59.00 fair price implies a PER of 22.9x and PBV of 3.55x in 2015 and PER of 20.3x and PBV 3.2x in 2016.

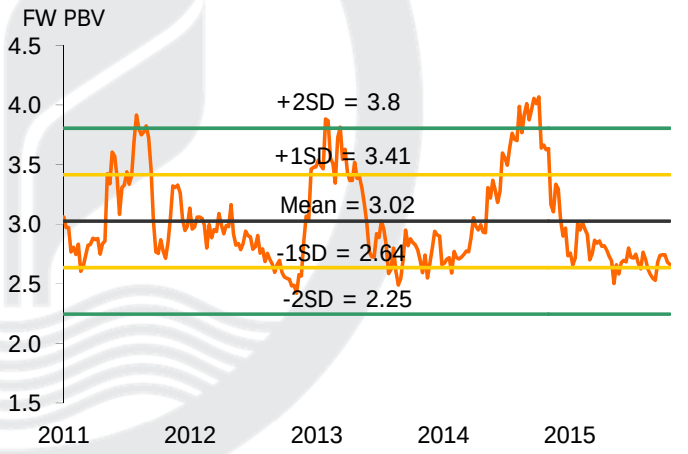
At the current price, BLA is trading at a one-year forward PER of 15.6x and PBV of 2.7x. In terms of PBV band, BLA is trading at -1SD its five-year historical mean. We believe the low band is due to concern over low profitability last year. With our expectation that profitability will return this year and ahead, we see BLA as an investment opportunity as it is now trading at a discount with a strong profitability outlook.

Fig 41 1-year forward PER band



Source: Bloomberg and KS

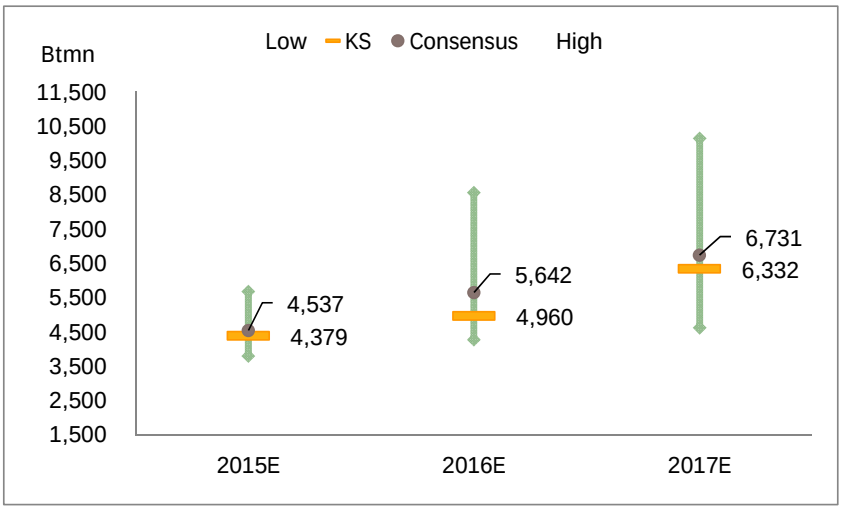
Fig 42 1-year forward PBV band



Source: Bloomberg and KS

Note that our 2015-17E net profit forecast is 3-12% lower than Bloomberg consensus.

Fig 43 Net profit forecast – KS vs consensus



Source: Bloomberg and KS

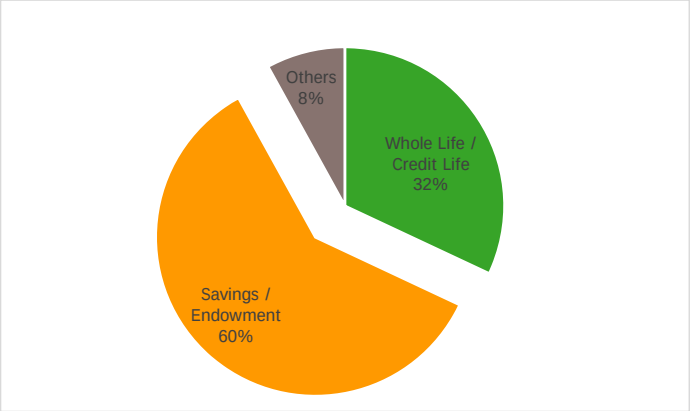
Fig 44 Peer comparison

Ticker	Name	Price (LC)	PER (x) 15E	PER (x) 16E	PER (x) 17E	PBV (x) 15E	PBV (x) 16E	PBV (x) 17E	EPS Growth (%) 15E	EPS Growth (%) 16E	EPS Growth (%) 17E	ROE (%) 15E	ROE (%) 16E	ROE (%) 17E	Dividend Yield (%) 15E	Dividend Yield (%) 16E	Dividend Yield (%) 17E
China																	
601628 CH	China Life	27.54	16.98	15.24	13.30	2.41	2.12	1.96	42.28	11.41	14.61	15.42	15.32	15.20	1.68	1.94	2.25
601601 CH	China Pacific	25.53	14.52	13.68	12.22	1.78	1.61	1.54	44.10	6.14	12.00	12.57	12.80	12.60	2.24	2.54	3.43
601318 CH	Ping An	33.57	10.84	9.75	8.35	1.72	1.48	1.31	25.60	11.18	16.79	15.89	15.46	15.35	1.36	1.46	1.87
Hong Kong																	
2628 HK	China Life	30.80	15.23	14.00	12.67	2.20	1.97	1.75	45.35	8.81	10.48	15.00	14.12	14.79	2.04	2.27	2.56
2318 HK	Ping An	43.95	11.84	11.32	10.24	1.76	1.58	1.41	23.45	4.60	10.46	15.67	15.39	14.45	1.32	1.42	1.57
1299 HK	AIA Group	46.65	19.29	16.96	15.32	2.21	2.00	1.83	7.59	13.78	10.70	11.93	12.34	12.29	1.21	1.41	1.64
1336 HK	New China Life	36.55	9.99	9.73	8.56	1.58	1.38	1.22	n.a.	2.70	13.60	16.80	15.39	14.84	1.01	1.09	1.31
945 HK	Manulife	131.10	12.70	10.76	9.80	1.21	1.13	1.07	18.31	17.99	9.83	9.87	11.00	11.08	3.01	3.34	3.78
Korea																	
032830 KS	Samsung Life	109,500	16.12	16.12	15.34	0.87	0.83	0.78	-3.81	0.02	5.05	5.96	5.57	5.66	1.55	1.68	1.81
082640 KS	Tongyang Life	13,950	7.71	8.36	7.17	0.71	0.67	0.65	13.70	-7.78	16.54	10.50	7.70	8.20	4.18	4.06	4.51
Taiwan																	
2882 TT	Cathay	46.9	10.33	11.78	10.74	1.29	1.21	1.13	15.23	-12.29	9.69	13.13	10.61	10.80	4.16	3.94	4.02
2888 TT	Shin Kong	8.06	8.73	7.95	7.01	0.69	0.64	0.60	37.24	9.86	13.31	7.88	8.12	9.32	1.07	1.35	1.60
Thailand																	
BLA TB	Bangkok Life	51.75	19.14	15.15	12.78	3.03	2.62	2.26	72.23	26.29	18.59	16.40	17.14	17.90	1.47	1.87	2.25
THREL TB	Thaire Life	13.70	18.77	16.21	14.05	6.06	5.31	4.64	17.74	15.75	15.38	35.47	36.17	36.35	3.92	4.45	5.04
Simple average			**13.73**	**12.64**	**11.25**	**1.96**	**1.75**	**1.58**	**27.62**	**7.75**	**12.65**	**14.46**	**14.08**	**14.20**	**2.16**	**2.34**	**2.69**

Source: Bloomberg and KS

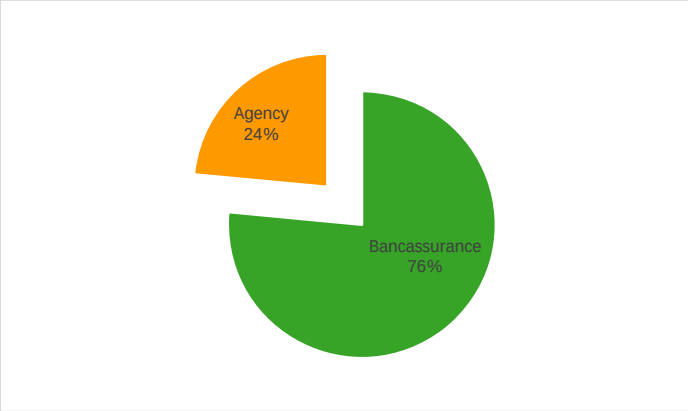
Appendix – company background

Fig 45 FYP Breakdown by product – 1H15



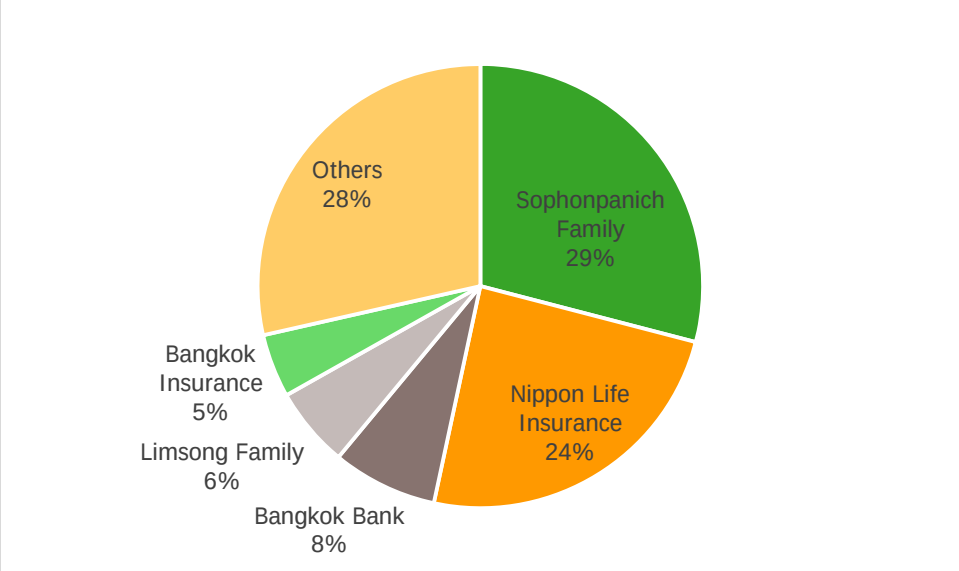
Source: BLA

Fig 46 FYP Breakdown by channel – 1H15



Source: BLA

Fig 47 BLA shareholder structure



Source: BLA

Year-end 31 Dec

Income Statement (Btmn)	2013A	2014A	2015E	2016E	2017E
Net earned premium (NEP)	38,795	51,172	41,353	46,814	54,293
Increase in policy reserves	-25,357	-40,818	-27,420	-31,606	-36,408
Benefit payments	-10,851	-12,384	-15,261	-15,692	-17,975
Commission expenses	-2,705	-2,807	-2,689	-3,055	-3,543
Other underwriting expenses	-383	-339	-536	-664	-762
Underwriting income	-501	-5,177	-4,554	-4,204	-4,395
Total investment income	7,688	10,374	11,922	12,575	14,677
Operating expenses	-1,828	-2,018	-2,221	-2,509	-2,774
Operating profit	5,359	3,180	5,147	5,863	7,508
Equity earnings	0	0	0	0	0
Pre-tax profit	5,359	3,180	5,147	5,863	7,508
Income tax	-930	-446	-796	-903	-1,176
NPAT	4,428	2,734	4,351	4,960	6,332
Minority interests	0	0	0	0	0
Core Profit	4,428	2,734	4,351	4,960	6,332
Extraordinary items	0	0	0	0	0
FX gain (loss)	-48	-72	28	0	0
Reported net profit	4,381	2,662	4,379	4,960	6,332
Balance Sheet (Btmn)					
Cash & equivalents	1,331	5,708	1,969	2,261	2,600
Investment in securities	161,126	198,238	232,526	267,074	307,069
Net loans	3,526	4,735	5,619	6,453	7,420
Fixed assets-net	327	389	456	526	606
Reinsurers assets	790	764	1,051	1,212	1,398
Premium receivables	1,840	1,725	2,761	3,185	3,673
Accrued investment income	1,863	2,344	2,761	3,185	3,673
Other assets	1,433	1,687	2,091	2,412	2,781
Total assets	172,235	215,590	249,235	286,308	329,221
Policy & premium reserves	137,638	178,492	206,074	237,680	274,088
Other insurance liabilities	7,779	8,074	9,371	10,809	12,464
Other liabilities	4,554	3,447	5,477	6,317	7,284
Total liabilities	149,971	190,013	220,922	254,806	293,837
Paid up capital	1,212	1,698	1,702	1,702	1,702
Share premium	2,846	2,988	3,158	3,158	3,158
Other equity items	4,459	5,642	5,457	5,457	5,457
Retained earnings	13,747	15,248	17,995	21,185	25,066
Minority interests	0	0	-0	-0	-0
Total shareholders' equity	22,264	25,576	28,313	31,503	35,383
Total equity & liabilities	172,235	215,590	249,235	286,308	329,221
Key Assumptions					
Number of share outstanding (mn)	1,212	1,698	1,702	1,702	1,702
Net earned premium growth (%)	13.68	31.90	-19.19	13.21	15.98
Net investment return (%)	5.09	5.64	5.41	4.92	4.99
Increase in policy reserves/NEP (%)	65.36	79.77	66.31	67.52	67.06
Benefit payments/NEP (%)	27.97	24.20	36.90	33.52	33.11

Key Statistics & Ratios	2013A	2014A	2015E	2016E	2017E
Per share (Bt)					
Reported EPS	3.63	1.83	2.58	2.91	3.72
Core EPS	3.67	1.88	2.56	2.91	3.72
DPS	0.91	0.51	0.68	1.17	1.48
BV	15.06	16.63	18.51	20.79	23.50
Embedded value (EV)	26.94	28.14	31.05	34.15	37.77
Value of new business (VNB)	1.54	0.67	0.82	1.14	1.32
Valuation analysis					
Reported P/E (x)	14.07	27.87	19.80	17.50	13.71
Core P/E (x)	13.92	27.14	19.93	17.50	13.71
P/BV (x)	3.39	3.07	2.76	2.45	2.17
Price / EV (x)	1.89	1.81	1.64	1.49	1.35
Dividend yield (%)	1.78	1.00	1.33	2.29	2.90
Profitability ratio					
Operating margin (%)	11.53	5.17	9.66	9.87	10.89
Net profit margin (%)	9.42	4.32	8.22	8.35	9.18
Effective tax rate (%)	20.34	20.81	20.37	20.00	20.00
ROAA (%)	2.78	1.37	1.88	1.85	2.06
ROAE (%)	20.74	11.13	16.25	16.58	18.93
Operating ratio					
Net investment return (%)	5.09	5.64	5.41	4.92	4.99
Increase in policy reserves/NEP (%)	65.36	79.77	66.31	67.52	67.06
Benefit payments/NEP (%)	27.97	24.20	36.90	33.52	33.11
Commission/NEP (%)	6.97	5.49	6.50	6.53	6.53
EV, VNB and Solvency ratio					
Embedded value : EV (Btmn)	32,640	47,785	52,853	58,129	64,283
Value of new business : VNB (Btmn)	1,862	1,143	1,403	1,938	2,247
Equity to policy reserves (%)	16.2	14.3	13.7	13.3	12.9
CAR under Risk Based Capital (%)	244.0	409.0	304.6	295.0	288.1
Debt/equity (x)	6.74	7.43	7.80	8.09	8.30
Premium Breakdown					
First year premium (% share)	27.0	36.8	22.2	28.0	28.0
Premium - bancassurance (% share)	65.1	72.6	70.4	65.0	65.0
Growth					
Investment in securities (%)	19.37	23.03	17.30	14.86	14.98
Policy & premium reserves (%)	22.52	29.68	15.45	15.34	15.32
Net earned premium : NEP (%)	13.68	31.90	-19.19	13.21	15.98
Operating profit (%)	11.35	-40.66	61.86	13.90	28.07
Reported net profit (%)	33.37	-39.23	64.51	13.27	27.65
Reported EPS (%)	32.73	-49.53	40.79	13.13	27.65
Core profit (%)	32.88	-38.27	59.17	14.00	27.65
Core EPS (%)	32.23	-48.73	36.21	13.86	27.65
Embedded value : EV (%)	11.55	46.40	10.61	9.98	10.59
Value of new business : VNB (%)	-2.51	-38.61	22.76	38.10	15.98

Source: Company, KS estimate

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