COMPANY UPDATE

Bangkok Life Assurance

Tuesday, September 08, 2015

SCB Securities

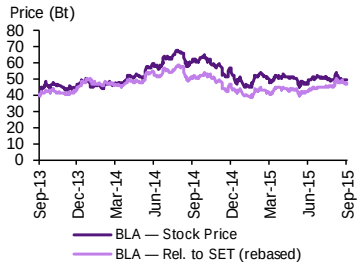
SELL

Stock Data

Last close (Sep 7) (Bt)	48.00
12-m target price (Bt)	45.00
Upside (Downside) to TP (%)	(6.25)
Mkt cap (Btbn)	81.74
Mkt cap (US$mn)	2,264

Bloomberg code	BLA TB
Reuters code	BLA.BK
Risk rating	L
Mkt cap (%) SET	0.63
Sector % SET	1.48
Shares issued (mn)	1,703
Par value (Bt)	1
12-m high / low (Bt)	64.5 / 44
Avg. daily 6m (US$mn)	1.21
Foreign limit / actual (%)	25 / 25
Free float (%)	41.6
Dividend policy (%)	≥ 25

Share performance



Source: SET, SCBS Investment Research

Price performance

	1M	3M	12M
Absolute	(7.2)	(2.5)	(22.8)
Relative to SET	(3.4)	7.2	(10.7)

Source: SET, SCBS Investment Research

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Still in the doldrums

We continue to shy away from BLA, as the climate for net premium growth is poor and ROI is being pressured by falling bond yield. The exceptional 75% profit growth in 2015F will not be repeated as it came from a large investment gain in 1Q15 and normalization of life policy reserve on an accounting change.

Cut 2015F premium growth. Data from the Thai Life Assurance Association shows that BLA's new business premiums surged 170% YoY and 115% QoQ to Bt1.3bn in July, this year's highest. However, premiums for the 7M15 were still far behind its target - which was our original forecast. In 7M15, new business premiums plunged 71% YoY, renewal premiums fell 3% YoY and total premiums shrank 25% YoY. In 7M15, new business premiums accounted for merely 29% of its original full-year forecast (-11%) and 7M15 total premiums for 62% (-7%). We cut our 2015F new business premium growth to -30% from the original forecast of -11%, pulling our 2015F total premium growth to -15% from the original forecast of -7%. Recall that last year BLA booked record-high single premiums on savings products in 1Q14 so that 74% of 2014 new business premiums were single premium. This year, BLA has put the launch of S-T savings products (particularly single premium) on hold and instead offer L-T savings and life protection products to bulk up underwriting margin. Thus, the contraction in net premiums is both by intention and also the unfavorable environment (i.e. prolonged economic slump, declining purchasing power as a result of rising household debt, and low bond yield).

Lower reserve on an accounting change. Starting 3Q15, BLA will change its accounting policy for life policy reserve by using the best estimate assumption for bond yield instead of an 8-quarter average yield on zero coupon bonds. This will make its life policy reserve less sensitive to fluctuations in bond yield. Although L-T bond yield declined in 3Q15 (-9 bps QTD for 10-year government bond yield), we expect a normal life policy reserve of 69% in 2H15 vs. 65% in 1H15 (40% for 2Q15 and 77% for 1Q15). We lower our 2015 assumption on life policy reserve ratio to 67% from 68% to offset the cut in 2015F premiums. The fall in life policy reserve from 80% in 2014 (hit by falling bond yield) to 67% in 2015F (partly as a result of the accounting change) is key for the good earnings growth in 2015F.

ROI down on falling bond yield. Thus far in 3Q15, L-T government bond yield has fallen by 32 bps for 5-year bonds, 9 bps for 10-year bonds and 24 bps for 20-year bonds from end-2Q15. This suggests it will be unable to sustain yield on investment in 3Q15.

Maintain Sell with unchanged TP. We maintain Sell on BLA with an unchanged target price of Bt45 (EV plus 15x VNB for mid-2016F) as it faces sluggish premium growth, unsustainable ROI in a low interest rate environment and tighter capital requirement regulations. We note that the exceptional 75% earnings growth in 2015F will not be sustained, as it is off non-recurring large investment gain in 1Q15 and a normalization of life policy reserve partly as a result of the accounting change.

Forecasts and Valuation

FY Dec	Unit	2013	2014	2015F	2016F	2017F
Net profit	(Btmn)	4,381	2,662	4,660	4,263	4,611
EPS	(Bt)	2.58	1.57	2.74	2.51	2.72
BVPS	(Bt)	13.12	15.06	17.18	19.07	21.19
DPS	(Bt)	0.91	0.51	0.82	0.75	0.81
ROE	(%)	21.00	11.13	17.02	13.85	13.49
EV/share	(Bt)	19.24	28.14	30.26	32.15	34.27
1-year VNB/share	(Bt)	1.10	0.67	0.87	1.03	1.14
EPS growth	(%)	32.83	(39.28)	75.09	(8.54)	8.19
PER	(x)	18.59	30.62	17.49	19.12	17.67
PBV	(x)	3.66	3.19	2.79	2.52	2.27
Dividend yields	(%)	1.90	1.06	1.72	1.57	1.70
P/EV	(x)	2.50	1.71	1.59	1.49	1.40
P/VNB	(x)	43.74	71.30	55.40	46.63	42.06

Source: SCBS Investment Research

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Financial statement

Profit and Loss Statement (Btmn)

FY December 31	2013	2014	2015F	2016F	2017F
Net premiums written	38,795	51,172	43,804	49,712	55,396
Net investments income	7,056	8,812	10,086	11,163	12,236
Gains (losses) on investment in sec.	545	1,443	1,400	500	500
Other Income	39	48	50	53	58
Total Revenue	**46,435**	**61,475**	**55,341**	**61,429**	**68,190**
Total underwriting expenses	39,296	56,349	47,558	53,972	60,143
Total operating expenses	1,828	2,018	2,099	2,258	2,423
Corporate income tax	930	446	1,023	936	1,012
Net Profit	**4,381**	**2,662**	**4,660**	**4,263**	**4,611**
EPS (Bt)	2.58	1.57	2.74	2.51	2.72
DPS (Bt)	0.91	0.51	0.82	0.75	0.81

Profit and Loss Statement (Btmn)

FY December 31	2Q14	3Q14	4Q14	1Q15	2Q15
Net premiums written	9,769	7,245	7,446	15,711	7,252
Net investments income	2,153	2,386	2,259	2,511	2,466
Gains (losses) on investment in sec.	330	162	943	1,010	113
Other Income	9	10	21	15	18
Total Revenue	12,260	9,804	10,669	19,248	9,849
Total underwriting expenses	11,596	10,507	7,306	17,850	7,033
Total operating expenses	501	482	539	498	571
Corporate income tax	(6)	(304)	546	135	400
Net Profit	169	(881)	2,278	765	1,844
EPS (Bt)	0.14	(0.73)	1.34	0.45	1.08

Balance Sheet (Btmn)

FY December 31	2013	2014	2015F	2016F	2017F
Total investments in securities	161,126	198,238	222,026	243,119	266,701
Total loans - net	3,526	4,735	5,209	5,729	6,302
Total Assets	**172,234**	**215,590**	**235,635**	**257,505**	**281,902**
Total Liabilities	**149,971**	**190,013**	**206,462**	**225,129**	**245,930**
Paid-up capital	1,697	1,698	1,698	1,698	1,698
Total Equity	**22,264**	**25,576**	**29,173**	**32,376**	**35,972**
BVPS (Bt)	13.12	15.06	17.18	19.07	21.19

Balance Sheet (Btmn)

FY December 31	2Q14	3Q14	4Q14	1Q15	2Q15
Total investments in securities	190,289	196,098	198,238	212,733	224,442
Total loans - net	3,939	4,323	4,735	4,938	5,430
Total Assets	**205,003**	**210,428**	**215,590**	**230,061**	**238,561**
Total Liabilities	**180,683**	**186,434**	**190,013**	**204,293**	**211,167**
Paid-up capital	1,212	1,213	1,698	1,698	1,702
Total Equity	**24,320**	**23,994**	**25,576**	**25,768**	**27,394**
BVPS (Bt)	20.06	19.79	15.06	15.18	16.09

Key Financial Ratios and Assumptions

	2013	2014	2015F	2016F	2017F
Net insurance premium growth (%)	13.68	31.90	(14.40)	13.49	11.43
Underwriting margin (%)	(1.29)	(10.12)	(8.57)	(8.57)	(8.57)
Net profit margin (%)	9.43	4.33	8.42	6.94	6.76
Yield on investment (%)	4.77	4.90	4.80	4.80	4.80
Return on investment (%)	5.13	5.71	5.47	5.01	5.00
Underwriting expense ratio (%)	101.29	110.12	108.57	108.57	108.57
Cost to income ratio (%)	3.98	3.36	3.89	3.71	3.58
ROA (%)	2.77	1.37	2.07	1.73	1.71
ROE (%)	21.00	11.13	17.02	13.85	13.49
Equity to Life policy reserve (%)	16.30	14.41	15.10	15.34	15.57

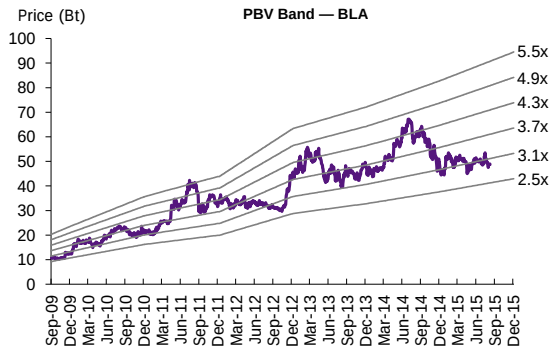
Key Financial Ratios

	2Q14	3Q14	4Q14	1Q15	2Q15
Net insurance premium growth (%)	7.40	(13.46)	(10.82)	(41.18)	(25.76)
Underwriting margin (%)	(18.71)	(45.01)	1.88	(13.62)	3.02
Net profit margin (%)	1.38	(8.98)	21.35	3.98	18.73
Yield on investment (%)	4.62	4.94	4.58	4.89	4.51
Return on investment (%)	5.33	5.28	6.50	6.86	4.72
Underwriting expense ratio (%)	4.62	4.94	4.58	4.89	4.51
Cost to income ratio (%)	4.20	5.00	5.54	2.73	5.87
ROA (%)	0.34	(1.70)	4.70	1.37	3.15
ROE (%)	2.79	(14.58)	36.76	11.92	27.76
Equity to Life policy reserve (%)	14.55	13.77	14.41	13.60	14.23

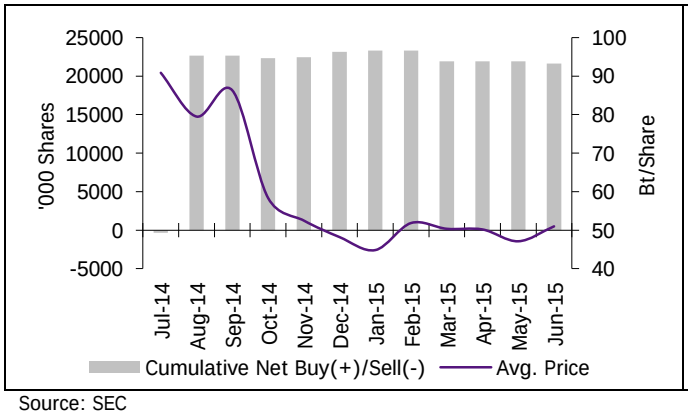
Valuation Assumptions

	2013	2014	2015F	2016F	2017F
Embedded value	32,641	47,785	51,382	54,585	58,181
Embedded value/share (Bt)	19.24	28.14	30.26	32.15	34.27
1-year VNB	1,862	1,143	1,471	1,748	1,938
1-year VNB per share (Bt)	1.10	0.67	0.87	1.03	1.14
Discount rate (%)	10.00	10.00	10.00	10.00	10.00

PBV Band Chart

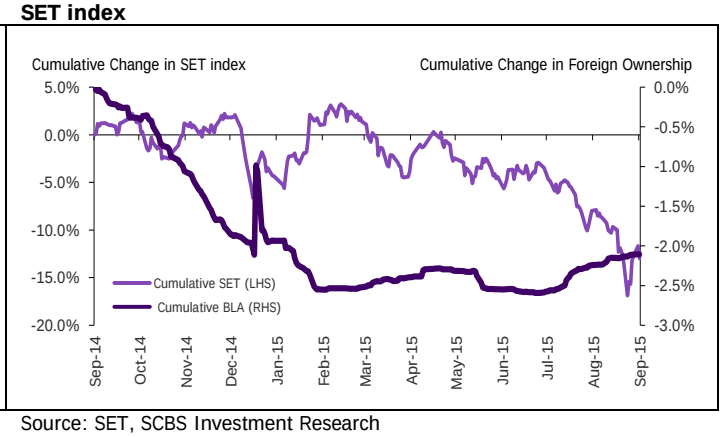


12-month cumulative directors trade



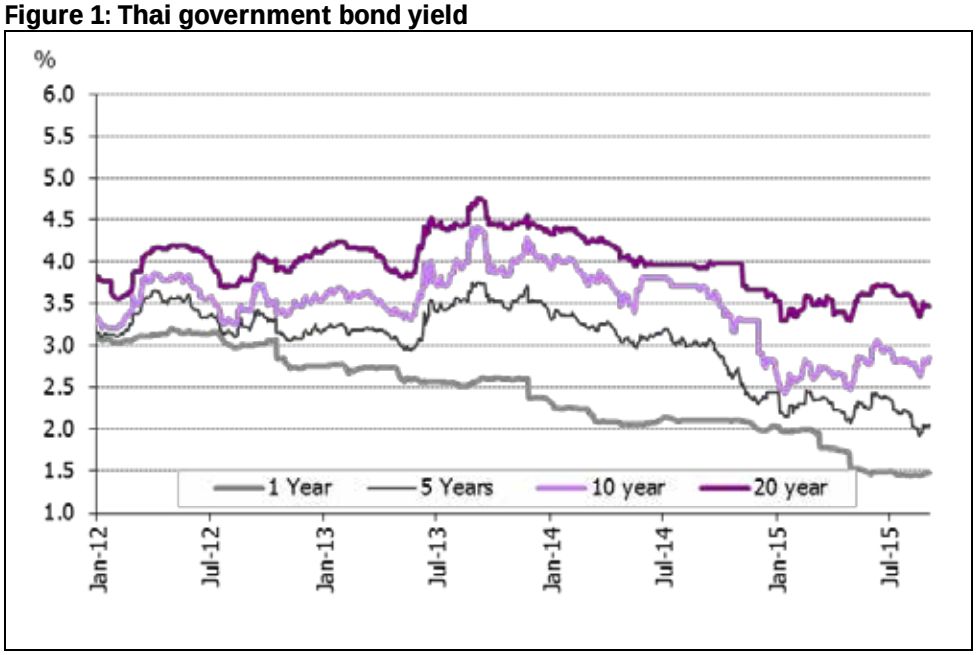
Source: SEC

Cumulative chg in foreign ownership versus cumulative chg in SET index



Source: SET, SCBS Investment Research

Figure 1: Thai government bond yield



Source: Thai BMA and SCBS Investment Research

Figure 2: Valuation summary (Closing price as of Sep 7, 2015)

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					14A	15F	16F	14A	15F	16F	14A	15F	16F	14A	15F	16F	14A	15F	16F
BLA	Sell	48.00	45.0	(4.5)	30.6	17.5	19.1	(39)	75	(9)	3.2	2.8	2.5	11	17	14	1.1	1.7	1.6
THRE	Buy	2.84	3.4	21.6	n.m.	16.9	13.8	42	n.m.	23	3.2	1.8	1.6	(59)	14	12	0.0	1.9	2.2
THREL	Buy	12.40	15.0	25.1	20.0	17.1	14.9	(3)	17	15	6.3	5.5	4.8	33	34	34	3.6	4.1	4.7
Average					**25.3**	**17.2**	**15.9**	**(0)**	**46**	**10**	**4.2**	**3.4**	**3.0**	**(5)**	**22**	**20**	**1.6**	**2.6**	**2.8**

Source: SCBS Investment Research

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

Corporate Governance Report disclaimer

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