Bangkok Life Assurance PCL

Earnings Preview – Expect another net loss due to lower bond yield

Ticker: BLA TB (Bt47.75, Neutral, Fair price Bt54.00, Upside: 13.1%) 3 February 2016

Anti-Corruption Indicator: 4

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Performance highlights

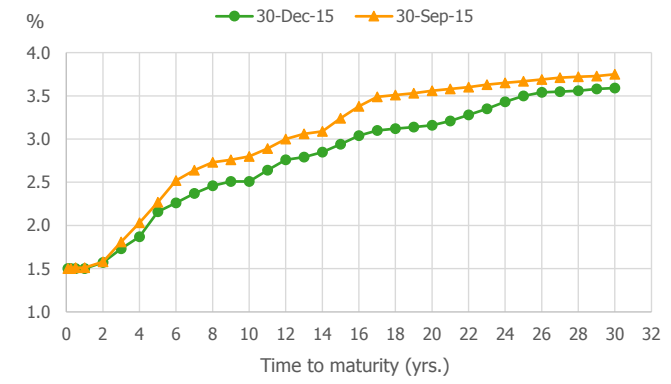
- **Another quarterly net loss.** We expect BLA to report a 4Q15 net loss of Bt721mn compared to a net loss of Bt786mn in 3Q15 and net profit of Bt2.28bn in 4Q14. The key reason for the net loss is high policy reserve expense following a lower bond yield in 4Q15. For full-year 2015, we expect a net profit of Bt1.1bn, down 59% YoY. BLA is expected to announce 4Q15 results on 26 February.
- **NEP boosted by short-term endowments.** We estimate BLA to report net earned premiums (NEP) of Bt12.8bn in 4Q15, up 72% YoY and 53% QoQ. The strong NEP growth is supported by short-term endowment products launched during the quarter, including 10/1, 5/2 and 10/3 products. Sales of these products are made via both the bancassurance and agent channel. According to industry data during Oct-Nov, BLA held a 10.1% market share (ranked 4th) in terms of total industry premiums compared to a market share of 8.48% (6th) in 3Q15. We believe the launch of short-term endowment products is an attempt to ramp up NEP as well as market share, but this will be offset by higher reserve expense.
- **Expect reserve of 87% to NEP from 29 bps decline in bond yield.** According to data from the Thai Bond Market Association (ThaiBMA), the 10-year bond yield stood at 2.51% at end-4Q15, down 29 bps QoQ. As a result, BLA is required to book a special policy reserve expense due to the lower yield that is used for its reserve calculation. For 4Q15, we expect it to report policy reserve expense totaling Bt11.1bn or 87.0% of NEP. Of this reserve expense, we expect an extra policy reserve of roughly Bt2.5bn, which is in line with management's expectation that every 25 bps decrease in 10-year bond yield will result in additional reserve expense by Bt2bn. Benefit payment to NEP should stay at 29%.
- **Net investment return to be flat QoQ at 4.8%.** We expect total investment income of Bt2.88bn, down 11% YoY but up 3% QoQ. The expected lower YoY growth is based on a lower gain on investments in securities. The QoQ growth should be supported by a shift in investment from equity to unit trusts that should provide a better return. As a result, we expect net investment return to be stable QoQ at 4.8%.
- **Low earnings to continue for the next two quarters, maintain Neutral.** Even though BLA is currently trading at a one-year forward PBV of 2.5x that is almost a five-year low, we maintain our view that earnings will remain low until 2Q16 due to the current low interest rate environment. We therefore maintain a Neutral rating and target price of Bt54.00.

Fig 1 Earnings Preview

	4Q14A	1Q15A	2Q15A	3Q15A	4Q15E	%YoY	%QoQ	2014A	2015E	% change	Prev. 15E
Financials											
Net earned premium : NEP (Btmn)	7,446	15,711	7,252	8,368	12,826	72.3	53.3	51,172	44,157	-13.7	41,353
Total underwriting expense (Btmn)	-7,306	-17,850	-7,033	-11,710	-16,113	-120.5	-37.6	-56,349	-52,706	6.5	-49,554
Total investment income (Btmn)	3,234	3,542	2,564	2,782	2,879	-11.0	3.5	10,374	11,768	13.4	11,936
Operating profit (Btmn)	2,835	905	2,211	-1,111	-975	-134.4	12.2	3,180	1,031	-67.6	1,513
Net profit (Btmn)	2,278	765	1,844	-786	-721	-131.6	8.4	2,662	1,103	-58.6	1,472
Net EPS (Bt)	1.57	0.45	1.09	-0.46	-0.42	-127.0	8.4	1.83	0.65	-64.6	0.87
Performance Drivers											
Investment securities (Btmn)	198,238	212,733	224,442	226,543	234,776	18.4	3.6	198,238	234,776	18.4	233,856
Policy reserves (Btmn)	178,492	190,784	193,664	200,820	211,979	18.8	5.6	178,492	211,979	18.8	209,626
First-year premium (% share)	17.2	13.2	21.5	36.0	42.0			36.8	27.2	-26.1	22.2
Premium from bancassurance (% share)	43.3	79.2	59.0	62.8	60.0			72.6	67.1	-7.5	70.4
Ratios						**Change**		**2014A**	**2015E**	**Change**	**Prev. 15E**
Net investment return (%)	6.3	6.6	4.6	4.8	4.8	-1.4	0.0	5.6	5.3	-6.0	5.4
Increase in reserves to NEP (%)	42.8	77.0	40.1	86.5	87.0	44.2	0.5	79.8	75.7	-5.1	74.9
Benefit payment to NEP (%)	46.5	30.4	46.8	44.2	29.3	-17.2	-14.9	24.2	35.4	46.2	37.1
Operating margin (%)	26.5	4.7	22.5	-10.0	-6.2	-32.7	3.8	5.2	1.8	-64.3	2.8
ROAE (%)	36.8	11.9	27.8	-11.9	-11.5	-48.3	0.4	11.1	4.4	-60.7	5.7
Equity to policy reserves (%)	14.3	13.5	14.1	12.6	11.7	-2.6	-0.9	14.3	11.7	-18.3	12.4
CAR under Risk-Based Capital (%)	409.0	407.0	347.0	309.0	297.6	-111.4	-11.4	409.0	297.6	-27.2	278.3

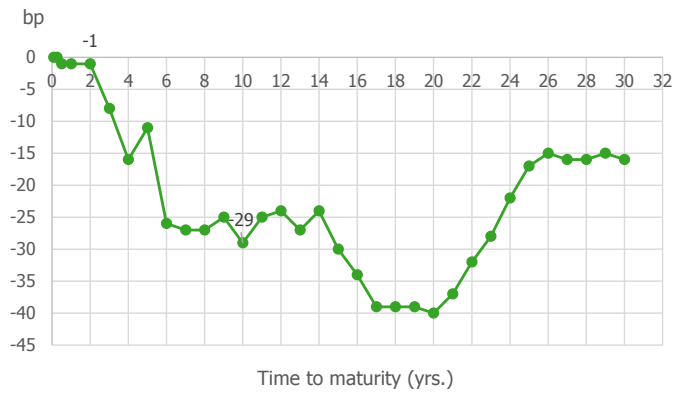
Source: BLA and KS

Fig 2 Yield curve – 3Q15 vs 4Q15



Source: ThaiBMA and KS

Fig 3 Change in yield curve - 3Q vs 4Q15



Source: ThaiBMA and KS

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