13 August 2015 | 7 pages

Insurance - Life
Asia | Thailand

Bangkok Life Assurance (BLA.BK)

Alert: Takeaways from Management Briefing

We met with Khun Chone, President, and Khun Sanor, Chief Investment Officer of BLA post-2Q results to discuss the 2H outlook. Key takeaways follow:

- **Proposed change in reserves calculation under way to reduce volatile accounting adjustment** – The company explained that since 2H14 when GPV reserves (which mark to market its liabilities with zero coupon on different tenure but not re-value asset prices) were adopted, along with a volatile yield curve, has caused BLA reserves adjustments almost every quarter with additional reserves in 2014 up to 1Q15 and reversal in 2Q15. Mgmt said that it is discussing with auditors to change 'best estimate' discount rate to value old policies based on lock-in yield. This would lower existing GPV liabilities estimate (by adjusting up discount rate from risk-free to secured ROI) and make earnings less sensitive to bond yield with a larger buffer between reserves on the book vs. best estimates of insurance liability at current market rate. Mgmt also notes that this change of assumption will not result in reserve release in 2H but rather ensure enough of a cushion to allow earnings to reflect ongoing business rather than technical estimate of reserves.

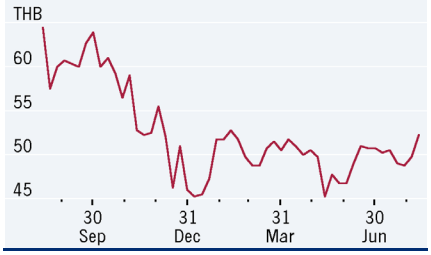
- **Core businesses: Affected by sluggish economy –** Mgmt acknowledged that FYP has been behind plan with -11% YoY growth in 2Q15 as BLA sticks to profitability and opts not to launch too aggressive endowment product with guaranteed return in a low yield environment. Meanwhile, credit life (-5% YoY), usually cross-sold with retail and SME loans, has slowed down in line with slower loan growth as economic momentum moderates.

- **…But product pipeline should improve in 2H** – Mgmt noted that BLA will launch medium-term savings product (5 years payment, 10 years coverage) to retain market position and to ensure consistent renewal premium, which also dipped -28% in 2Q15 due to end of premium payments of products sold 2-4 years ago. Lapse/ Policy surrender rate also rose slightly but not at an alarming rate. BLA noted that it needs to balance growth vs. profitability as too slow FYP generation will cause renewal premium drag in subsequent periods, which would eventually cause slower investment asset and earnings growth.

- **CAR: drop from change in regulation** - BLA also noted that its CAR dropped moderately from 407% in 1Q15 to 347% in 2Q (vs. regulatory min 140%) due to regulator change from issuer rating to issue rating for some of its foreign bond holdings of Thai issuer in USD. These bonds tend to generate higher yield than local corporate bonds (even after swap back to THB to fully hedged) but get lower international ratings for issue compared with local ratings of top corporate issuers.

Sell	**3**
Price (13 Aug 15)	Bt50.75
Target price	Bt45.00
Expected share price return	-11.3%
Expected dividend yield	1.5%
Expected total return	**-9.8%**
Market Cap	Bt86,421M
	US$2,450M

Price Performance
(RIC: BLA.BK, BB: BLA TB)



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Bangkok Life Assurance

Valuation

Our target price of BLA is Bt45 is based on 1.5x 2016E Embedded Value (EV), equivalent to 14x 2016E one-year new business value (NBV). We value BLA at a rather low EV due to gains on revaluation of bond portfolio during the low yield period, which boosts EV value but is subject to risk on rising yield curve. BLA premium growth should continue to grow in line with middle-class income growth, which creates demand for tax-saving bancassurance products.

Risks

Key upside risks that could mean the BLA shares trade above our target price include: 1) the insurer generates better than expected FYP during a recovery in the economy; and 2) higher volumes are sold of protection products, which are less capital intensive and carry higher margins. This could create upside to EV and VNB.

Key downside risks to our target price include: 1) competitive pressure from deposit products which will limit FYP growth; and 2) interest rates at the long-end remain low for longer than expected, resulting in re-investment risk of old policies written on the assumption of higher returns on investment.

Appendix A-1

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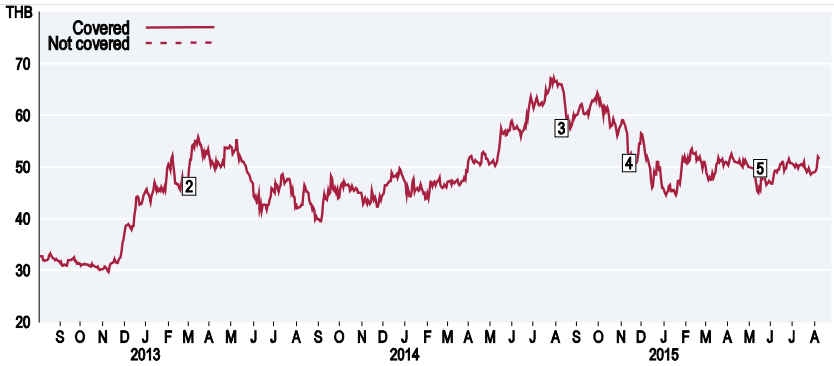
Bangkok Life Assurance (BLA.BK)

Ratings and Target Price History

Fundamental Research

Analyst: Kritapas Siripassom, CFA



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	3-Mar-13	*1	*55.00	47.86
3	11-Aug-14	*3	*59.29	65.89
4	13-Nov-14	3	*50.00	52.25
5	17-May-15	3	*45.00	46.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bangkok Life Assurance (BLA.BK)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Kritapas Siripassorn, CFA

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	12 Month Rating			*Relative Rating*		
Data current as of 30 Jun 2015	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	46%	41%	13%	0%	100%	0%
% of companies in each rating category that are investment banking clients	65%	64%	60%	0%	64%	0%

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