BUY (Unchanged) | **TP: Bt 60.00** (From: Bt 65.00) | **11 DECEMBER 2015**

Change in Numbers | **Upside : 19.4%**

Bangkok Life Assurance (BLA TB)

Back to basics

We expect BLA's return to boosting short-medium term endowments in order to regain lost market share to hit its short-term profit outlook, causing a higher reserve ratio. But we believe its earnings have already passed bottom and BLA should benefit from the positive bond yield trend. Reaffirm BUY with a new DDM-based TP of Bt60.

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Boosting endowments to regain market share

After falling to sixth place with an 8.2% market share, BLA's management is looking to get back into the top five again. BLA has launched short-term endowment polices in 4Q15 and plans to launch more endowment products to serve agent and customer demand. Though we expect double-digit premium growth in 2016, we also see this putting pressure on BLA's profitability. Despite its efforts to move toward a higher-margin product mix, where we saw the proportion of life protection (i.e. whole-life, credit-life) to total premiums increase from 12% in 2014 to 14% in 9M15, more aggressive sales of short- to medium-term endowments will likely come at the expense of higher provisions. We expect its reserve ratio to be as high as 75% of total premiums in 4Q15 (vs. 62% in 9M15, excluding special reserves) and 70% in 2016. We also foresee its benefit payment ratio staying high at 32-36% in 2015-16F (vs. 25% in 2014) due to higher surrenders and maturities.

We see a lower risk of special reserves

BLA's auditor has reversed its decision to allow BLA to use best-estimate yields as a discount rate for its reserve calculation. Therefore, BLA continues to use the zero-coupon government bond yield as the discount rate benchmark which means its earnings trajectory remains sensitive to interest rates. With a drop in its bond yield of 17bps from 3.06% in 2Q15, BLA recorded Bt2.3bn of special reserves and reported a loss of Bt785 in 3Q15 vs. net profit of Bt1.8bn in 2Q15. That being said, we see a lower risk of special reserves from 4Q15 onward as bond yield is hovering around 3Q15's level of 2.8% with the possibility of a rise as soon as this month. We conservatively assume no reserve write-backs in our model. We estimate that every 10bps increase in weighted average zero-coupon yields would result in approximately a Bt1.2bn-1.3bn write-back, and vice versa.

Revising down earnings

Despite our strong premium growth assumptions, we still need to slash our earnings forecasts by an on average of 20% over 2016-18 to reflect: 1) higher-than-expected reserves; and 2) a higher benefit payment ratio. With our earnings downgrades, we cut our DDM-based 12-month TP by 8% to Bt60/share.

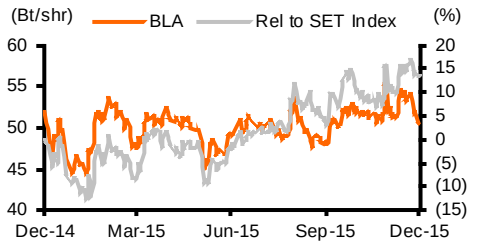
Already passed bottom; reaffirm BUY

We see signs of BLA drifting off its quality, high-margin course and back to using lower-margin endowments to boost sales. Even though we are less optimistic on the operational side, we believe BLA's earnings have already passed their bottom while we don't see its valuation as too demanding at 2016F P/BV of 3.0x. We therefore reaffirm our BUY call on BLA shares.

COMPANY VALUATION

Y/E Dec (Bt m)	2014A	2015F	2016F	2017F
Insurance premium	51,172	42,806	49,382	56,196
Profit from operation	3,245	1,536	4,315	6,792
Net profit	2,662	1,194	3,475	5,536
Consensus NP	—	3,168	4,238	5,493
Diff frm cons (%)	—	*(62.3)*	*(18.0)*	*0.8*
Norm profit	2,662	1,194	3,475	5,536
Prev. Norm profit	—	4,339	5,747	6,624
Chg frm prev (%)	—	*(72.5)*	*(39.5)*	*(16.4)*
Norm EPS (Bt)	1.8	0.7	2.0	3.3
Norm EPS growth (%)	(49.5)	(61.5)	191.2	59.3
Norm PE (x)	27.6	71.7	24.6	15.5
P/BV (x)	3.3	3.3	3.0	2.6
Div. yield (%)	1.0	0.6	1.2	1.9
ROE (%)	11.1	4.6	12.7	18.1
ROA (%)	1.4	0.5	1.3	1.8

PRICE PERFORMANCE



COMPANY INFORMATION

Price: (Bt) *as of* 9-Dec-15	50.25
Market Cap (US$ m)	2,380.9
Listed Shares (m shares)	1,703.8
Free Float (%)	41.6
Avg. Daily Turnover (US$ m)	1.2
12M Price H/L (Bt)	55.25/44.50
Sector	Insurance
Major Shareholder	Sophonpanich Family 37%

Sources: Bloomberg, Company data, Thanachart estimates

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Boosting endowments to regain market share

BLA aims to regain its top-five market position

In the wake of fierce competition among life insurance firms, Bangkok Life Assurance (BLA) fell from fourth place in 2014 with a 10.3% market share to sixth in 3Q15 with 8.2%. With its competitors offering shorter-term products, their insurance premiums have outpaced BLA's in 2015, which instead switched toward selling products that have higher margins such as whole-life protection and long-term endowments requiring greater selling efforts. However, we believe BLA now wants to reclaim its top-five position and take on its rivals with a plan to boost short- to medium-term endowments, particularly in 4Q15 and 2016.

Ex 1: 2014 Life Insurance Market Share (Total Premiums)

Total premiums (all types of premium): 2014 market share			
Company	**Bt m**	**Share (%)**	**y-y (%)**
A.I.A	114,783	22.8	3.8
Muang Thai Life (MTL)	75,234	14.9	24.9
Thai Life Insurance (TLI)	63,060	12.5	14.6
Bangkok Life (BLA)	51,810	10.3	32.6
Krungthai-Axa Life (KTAL)	48,877	9.7	29.6
Siam Commercial New York Life (SCBLife)	48,621	9.7	6.9
Ayudhya Allianz C.P. (AZAY)	26,958	5.4	7.4
Prudential Life (PLT)	15,458	3.1	50.4
FWD Life (FWD)	14,671	2.9	7.5
Ocean Life (OLIC)	14,115	2.8	8.6
Industry	**262,834**	**100.0**	**13.8**

Sources: Company data, Office of Insurance Commission (OIC)

Ex 2: 9M15 Life Insurance Market Share (Total Premiums)

Total premiums (all types of premium): 9M15 market share			
Company	**Bt m**	**Share (%)**	**y-y (%)**
A.I.A	84,119	21.5	4.0
Muang Thai Life (MTL)	65,664	16.8	14.3
Thai Life Insurance (TLI)	45,973	11.8	7.1
Siam Commercial New York Life (SCBLife)	42,747	10.9	15.9
Krungthai-Axa Life (KTAL)	40,297	10.3	15.4
Bangkok Life (BLA)	31,853	8.2	(28.1)
Ayudhya Allianz C.P. (AZAY)	20,506	5.3	6.9
Prudential Life (PLT)	12,463	3.2	10.3
FWD Life (FWD)	11,337	2.9	15.3
Ocean Life (OLIC)	10,143	2.6	(3.6)
Industry	**390,903**	**100.0**	**4.6**

Sources: Company data, Office of Insurance Commission (OIC)

A negative earnings impact but a strategic move from another perspective

Though we see this move as having a negative impact on its margin, especially in 4Q15 and 2016, BLA considers it a strategic one as size is also a key consideration in the insurance industry. Being among the top-tier insurance firms is important not only for the confidence of policy holders, but also to recruit and retain its sales agents. The company must also provide its sales force with endowments products, which are relatively easier to sell, to keep commissions for its agents competitive; otherwise they might choose to move to other companies. BLA needs to strike a good balance between premium growth and profitability and this is why we see the company occasionally swapping from life protection and long-term endowments to short- to medium-term endowments.

We saw BLA's effort to focus on quality as a proportion of life protection (i.e. whole-life, credit-life) to total premiums increase from 12% in 2014 to 14% in 9M15 with protection-based policies accounting for almost 30% of first-year premiums (FYP) in 9M15. However, we expect the company's plan to switch back to lower-margin products to hurt its margin in 4Q15 and 2016.

Ex 3: First Year Premium (FYP) Policy Mix

Proportion (%)	2013	2014	9M15
Endowment	73.42	84.09	65.87
Life protection	23.89	14.20	29.53
Group employee	2.22	1.39	3.9
Others	0.47	0.33	0.7
Total	**100**	**100**	**100**

Source: Company data

Ex 4: Total Premium (TP) Policy Mix

Proportion (%)	2013	2014	9M15
Endowment	82.67	85.47	82.74
Life protection	14.36	12.06	13.76
Group employee	2.66	2.19	3.16
Others	0.32	0.27	0.35
Total	**100**	**100**	**100**

Source: Company data

Difference in profitability of high-margin vs. low-margin products is significant

We expect BLA to enjoy double-digit life insurance premium growth in 4Q15 and 2016, but at the expense of accepting lower-margin policies. The difference in profitability of high-margin vs. low-margin products is quite notable. In 3Q15 when BLA focused on selling high-quality policies (i.e. long-term endowments and whole life), its reserve ratio was only at 59% of total premiums (and 62% in 9M15, excluding special reserves). However, we expect its reserve ratio to reach as high as 75% of total premiums in 4Q15 and around 70% in 2016 as BLA continues to boost short- to medium-term endowments. That being said, falling margin should be partly offset by higher premium sales. So, net-net, we don't expect the absolute amount of BLA's revenue realization from premiums (insurance premiums minus reserves) to be severely impacted by its shift in selling strategy.

We see a lower risk of special reserves

Special reserves: where do they come from?

The "special reserves" or "extra reserves" we have been referring to in our reports are otherwise known as Liability Adequacy Test (LAT) reserves. LAT reserves were the main culprit behind BLA's earnings being hit in 2014 as the bond yield collapsed from 4.11% at the end of 2013 to 2.92% at the end of 2014, when BLA was required to book Bt3.3bn of special reserves during the year. It is also one of the main reasons for BLA's volatile earnings pattern. But where do they come from?

Net Premium Valuation (NPV) method uses locked-in assumptions

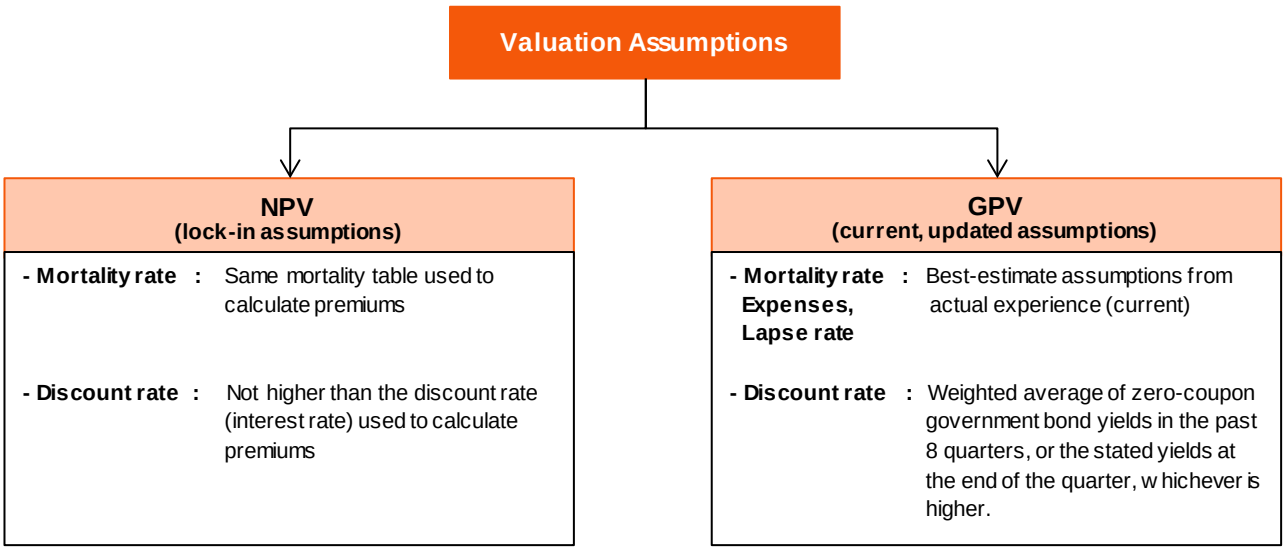
For every insurance policy sold, BLA must estimate the amount of reserves that represent its future obligation to the policy holders (such as death benefit, surrender benefit, maturity, etc.). This initial reserve booking is based on the Net Premium Valuation (NPV) method, which is calculated from BLA's own assumptions for the mortality rate and discount rate at the time. These locked-in assumptions remain unchanged regardless of actual changes in interest rates, mortality rate and other factors. BLA will then record this calculated amount to match the revenue recognized from the insurance policy sale, plus an extra 4% Provision for Adverse Deviation (PAD) to add another layer of safety cushion.

Gross Premium Valuation (GPV) method uses current, updated assumptions

Subsequently, every month BLA is required to compare its life policy reserves calculated under the NPV + PAD method with reserves that are calculated under the Gross Premium Valuation (GPV) method that takes product-related expenses into account and uses current, updated assumptions for the mortality rate, expense and lapse rate. In other words, GPV assumptions are not locked in and are subject to changes that should reflect the current situation. There is also another big difference between the two methods: the discount rate.

Unlike the NPV method where BLA uses its own discount rate for each product, the GPV method uses the zero-coupon Thai government bond yield as the discount rate, i.e. the weighted average of the past eight quarters with the most recent quarter given a 51% weighting and the rest at 7% each or simply the stated zero-coupon bond yield at the end of the quarter, whichever is higher. Each policy maturity is discounted with the corresponding bond yield maturity, but the average duration is around 10 years.

Ex 5: NPV vs GPV Method Valuation Assumptions

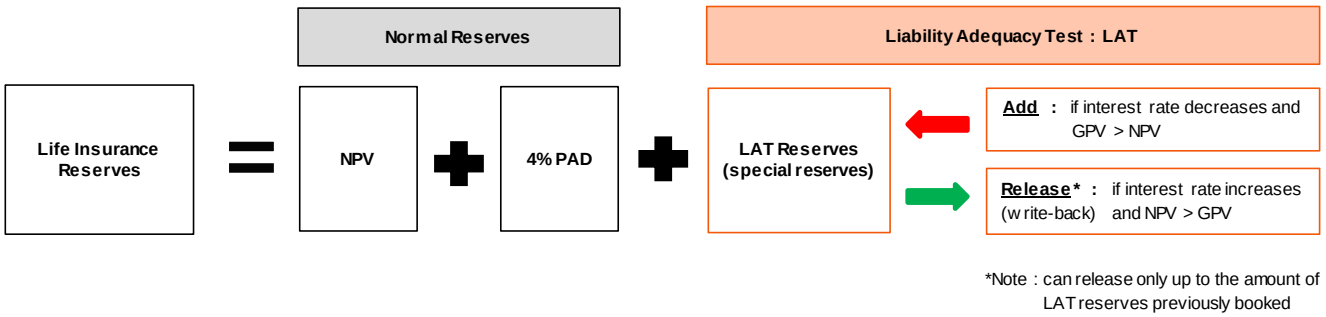


Source: Company data

If GPV > NPV, BLA has to set up special LAT reserves

At the end of the quarter, if reserves under the GPV method exceed reserves under the NPV method, BLA needs to book special LAT reserves, which usually happens when the bond yield declines (lower discount rate for GPV). On the flip side, BLA can also write back (release) its LAT reserves, up to the amount previously booked, when interest rates rise. For example, BLA recorded Bt1.3bn in LAT reserves in 1Q15 as the 10-year zero-coupon bond yield dropped from 2.92% in 2014 to 2.76% in 1Q15, but it reversed all the Bt1.3bn of LAT reserves in 2Q15 as the bond yield went back up to 3.06% at the end of quarter. BLA saw net profit jump from Bt765m in 1Q15 to Bt1.8bn in 2Q15, when in fact the company only sold half of the insurance premiums compared to 1Q15.

Ex 6: BLA's Policy for Life Insurance Reserve Accounting



Source: Company data

Special reserves: what are the implications?

Special reserves can also affect actual performance and valuation of the stock

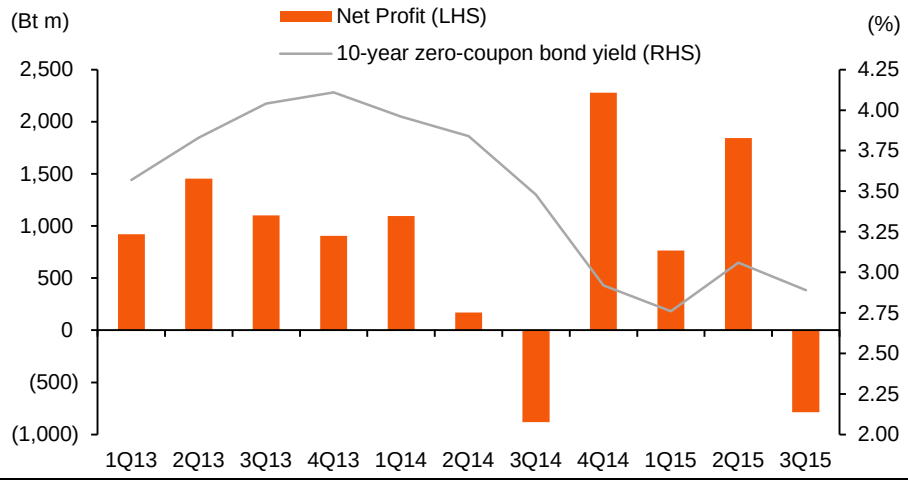
Although declines in profit due to LAT reserves are only considered as accounting losses, the drop in net profit can also affect actual performance and the valuation of the stock. Especially when the special reserves are significant, BLA can pay lower dividends to shareholders or withhold payment entirely if it makes a loss. Another implication is the impact on book value and Capital Adequacy Ratio (CAR), which ultimately affects the amount of new funds it can add to investment assets.

Earlier this year, BLA held talks with its auditor to use best-estimate yields (close to the actual rate of return) as the discount rate for the GPV reserves calculation instead of using the zero-coupon bond yield, which BLA believes is too conservative. The change, if it had been allowed, would have reduced the volatility in earnings significantly as best-estimate yields would be less affected by short-term fluctuations in bond yields.

Earnings are sensitive to interest rate movements

However, BLA's auditor reversed its decision to allow the change. The company will continue to use the zero-coupon government bond yield as its discount rate benchmark and we expect to see a volatile earnings pattern again. BLA's bottom line will likely be hit as it is required to book special reserves when interest rates decline, but see a big upswing in profit when it releases the reserves when interest rates rebound. This makes it very difficult to project the direction of BLA's earnings because it is sensitive to interest rate movements.

Ex 7: BLA's Quarterly Earnings Are Sensitive To Movements In Bond Yield



Sources: Company data, Thai Bond Market Association (ThaiBMA)

But we see a lower risk of special reserves

We expect the upward trend in the bond yield to benefit BLA

With the bond yield dropping by 17bps from 3.06% in 2Q15 to 2.89% in 3Q15, BLA recorded Bt2.3bn in special LAT reserves and reported a loss of Bt785 in 3Q15 vs. net profit of Bt1.8bn in 2Q15. However, now that the bond yield is moving in the 2.7-2.8% range with the possibility of a rise in December and next year as US interest rates look to be on the verge of being raised, we see less risk of special reserves hitting BLA's bottom line. In fact, we expect the upward bond yield trend to benefit BLA. At the current level, we roughly estimate that an increase of 10bps in weighted average zero-coupon government bond yields would allow BLA to release approximately Bt1.2bn-1.3bn of special reserves, and vice versa.

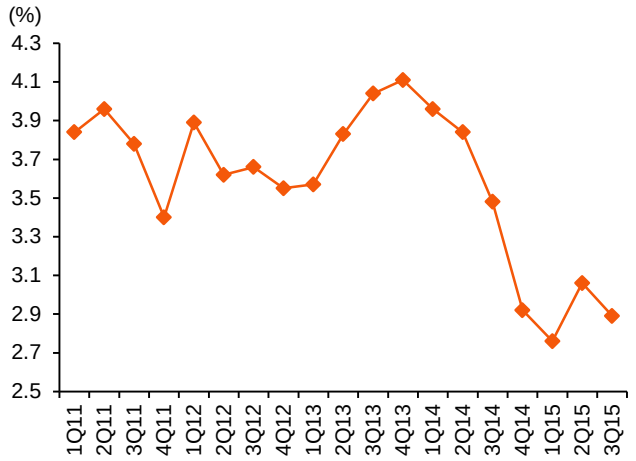
Ex 8: Weighted Average Zero-Coupon Bond Yields

TTM: 10 years	Yield (%)	Weighted average yield (%)	Change (%)	Special reserves
1Q14	3.96	3.87	(0.06)	(400)
2Q14	3.84	3.83	(0.04)	(1,450)
3Q14	3.48	3.66	(0.17)	(2,248)
4Q14*	2.92	3.37	(0.29)	798
1Q15	2.76	3.24	(0.13)	(1,319)
2Q15	3.06	3.32	0.08	1,319
3Q15	2.89	3.16	(0.16)	(2,284)

Note: *BLA revised better-than-expected assumptions at year-end that resulted in a decrease in reserves under the GPV method despite the interest rate drop

Sources: Thai Bond Market Association (ThaiBMA), Thanachart estimates

Ex 9: Thai Government 10-year Zero-Coupon Bond Yields



Source: Thai Bond Market Association (ThaiBMA)

We estimate that, for BLA to maintain the same weighted average bond yield (no special reserves, no write-backs), 4Q15 zero-coupon bond yield would have to be 3.06% at the end of the quarter. If yield increases beyond that point, we expect BLA to start benefiting from the increase in the form of reserves write-backs, which would most likely lead to a substantial increase in net profit in that quarter. However, we conservatively assume no reserve write-backs in our model.

We see limited downside to current reserves amid rising interest rates

Although we don't expect the Thai policy interest rate to rise anytime soon, the widely anticipated interest rate hike in the US by the Federal Reserve (Fed) this month could positively affect Thai bond yields. In that case, we see limited downside to the current reserves level. If the impact on the Thai bond yield is significant, causing the 10-year zero coupon bond yield to rise above 3.06%, then we could see BLA releasing its previously booked special reserves as the yield curve shifts upward.

Earnings revisions

Despite our strong premium growth assumptions, we still slash our earnings forecasts by an average of 20% over 2015-18 to reflect: 1) higher-than-expected reserves; and 2) a larger benefit payment ratio. Given our earnings downgrades, we cut our DDM-based 12-month TP by 8% to Bt60/share.

Ex 10: Changes in Key Assumptions

	2015F	2016F	2017F	2018F
Insurance premiums (Bt m)				
New	42,806	49,382	56,196	64,843
Old	43,051	48,654	56,139	65,953
Change (%)	*(0.6)*	*1.5*	*0.1*	*(1.7)*
Reserves ratio (% of total premiums)				
New	66.0	70.0	67.5	67.0
Old	65.0	65.0	65.0	64.5
Change (%)	*1.0*	*5.0*	*2.5*	*2.5*
Benefit payment ratio (% of total premiums)				
New	36.0	32.0	30.0	28.0
Old	32.5	30.0	28.0	27.0
Change (%)	*3.5*	*2.0*	*2.0*	*1.0*
Commission and brokerage ratio (% of total premiums)				
New	6.8	6.0	7.0	7.0
Old	6.0	6.5	7.0	7.0
Change (%)	*0.8*	*(0.5)*	*0.0*	*0.0*
Net profit (Bt m)				
New	1,194	3,475	5,536	7,748
Old	4,339	5,747	6,624	8,150
Change (%)	*(72.5)*	*(39.5)*	*(16.4)*	*(4.9)*

Source: Thanachart estimates

Note: *BLA booked Bt2,284m in special reserves in 3Q15

We maintain our view on premium growth, but adjust reserves ratios upward

We maintain our view on strong insurance premium growth for BLA, which is in line with our belief that Thailand's life insurance is still a sunrise industry. We see BLA's growth, however, being increasingly fueled by first year premiums (FYP), as renewal year premium (RYP) growth should slow down because of sales of relatively shorter endowment products in recent years. Meanwhile, we adjust the reserve ratio to mirror the expected change in BLA's policy mix, which is geared toward a higher proportion of short- to medium-term endowments in 2016. In the short run, we expect the company to maintain its focus on boosting market share and reclaiming its top-five position, while sacrificing some profit margin. However, we still see BLA's long-term goal to raise the quality of its product portfolio gradually reducing its reserve ratio over time.

The benefit payment ratio should settle at a higher level, in our view. We had under-estimated the effect from policy surrenders and maturities. As the company's portfolio grows by selling more endowments, the value of policy surrenders and maturities to total premiums increase. However, this rising benefit payment trend is also happening to other life insurance companies. We also adjust our commissions and brokerages expenses to more or less reflect changes in planned sales mix. Endowments are generally associated with lower commissions than whole life products, which are almost exclusively sold by agents, whereas endowments are typically sold through bancassurance.

Already passed bottom; reaffirm BUY

Valuation doesn't look too demanding to us as we see little downside to earnings

Overall, we see BLA's plan to return to selling short- to medium-term endowments as less positive for its underlying operation and likely leading to higher reserve ratios and lower profit margins. However, we believe BLA already hit bottom in 3Q15 as we see a lower risk of special reserves in 4Q15. In addition, the company looks set to benefit from the upward interest rate trend not only via its ability to write back reserves but also on higher returns on investment.

We don't view BLA's current valuation as too demanding at 3.0x P/BV and P/BV to ROE of 0.23x in 2016F. Despite our earnings and TP cuts, we see 19% potential upside to our TP of Bt60/share. We therefore reaffirm our BUY rating on BLA shares.

Ex 11: 12-month DDM-based Valuation

(Bt m)		2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	Terminal value (2036F)
Dividend of common shares		1,043	1,661	2,324	2,953	3,631	4,216	4,896	6,026	6,808	7,895	37,607
Dividend of preferred shares		0	0	0	0	0	0	0	0	0	0	0
Dividend payment		1,043	1,661	2,324	2,953	3,631	4,216	4,896	6,026	6,808	7,895	37,607
Risk-free rate (%)	4.5%											
Market risk premium (%)	7.5%											
Beta	1											
Cost of equity (%)	12.0%											
Terminal growth (%)	4.0%											
Equity value (Bt bn)	101,633											
No .of shares (m)	1,703											
Equity value/ share (Bt)	60											

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 12: Valuation Comparison With Regional Peers

			EPS growth		— PE —		— P/BV —		– ROE –		— Div. Yield —	
Name	**BBG Code**	**Country**	**15F**	**16F**	**15F**	**16F**	**15F**	**16F**	**15F**	**16F**	**15F**	**16F**
			(%)	**(%)**	**(x)**	**(x)**	**(x)**	**(x)**	**(%)**	**(%)**	**(%)**	**(%)**
China Life Insurance	601628 CH	China	37.3	9.5	18.0	16.4	2.4	2.2	15.0	14.6	1.7	1.9
China Pacific Insurance	601601 CH	China	48.4	4.1	15.0	14.4	1.9	1.7	12.8	12.7	2.2	2.4
Ping An Insurance Group	601318 CH	China	28.8	10.0	10.8	9.9	1.7	1.4	17.2	15.8	1.4	1.6
China Life Insurance	2628 HK	Hong Kong	37.3	6.1	16.1	15.1	2.2	2.0	14.8	13.8	1.9	2.1
Ping An Insurance Group	2318 HK	Hong Kong	23.6	5.1	14.0	13.3	2.2	1.9	15.9	15.4	1.1	1.2
LPI Capital	LPI MK	Malaysia	(10.2)	(1.0)	19.5	19.7	2.9	2.8	13.9	12.9	3.6	3.7
Dongbu Insurance	005830 KS	South Korea	(3.4)	14.9	10.2	8.9	1.2	1.1	12.3	12.9	2.5	2.9
Hyundai Marine & Fire	001450 KS	South Korea	27.6	16.4	8.9	7.6	1.0	0.9	11.8	12.4	2.6	3.0
LIG Insurance	002550 KS	South Korea	(4.8)	84.3	11.0	6.0	0.8	0.7	8.1	12.9	2.1	3.0
Meritz Fire & Marine	000060 KS	South Korea	36.6	16.3	9.9	8.5	1.1	1.0	11.0	12.0	3.0	3.5
Samsung Fire & Marine	000810 KS	South Korea	(0.7)	15.5	16.5	14.3	1.3	1.2	8.9	10.0	1.8	2.0
Cathay Financial Holding	2882 TT	Taiwan	18.6	(13.5)	9.2	10.6	1.2	1.1	13.2	10.7	4.8	4.5
China Life Insurance	2823 TT	Taiwan	46.7	(14.6)	9.2	10.8	1.2	1.1	12.7	9.8	2.1	1.8
Shin Kong Financial	2888 TT	Taiwan	18.2	21.1	8.7	7.2	0.6	0.5	6.8	7.9	1.0	1.3
Bangkok Life Assurance	BLA TB*	Thailand	(61.5)	191.2	71.7	24.6	3.3	3.0	4.6	12.7	0.6	1.2
Thai Reinsurance	THRE TB	Thailand	na	33.3	17.9	13.4	1.7	1.6	12.0	12.0	1.9	2.2
Thaire Life Assurance	THREL TB*	Thailand	19.8	13.9	16.8	14.8	5.8	5.3	35.8	37.2	4.5	5.1
Average			**16.4**	**24.3**	**16.7**	**12.7**	**1.9**	**1.7**	**13.3**	**13.9**	**2.3**	**2.6**

Source: Bloomberg

Note: * Thanachart estimates , using Thanachart normalized EPS

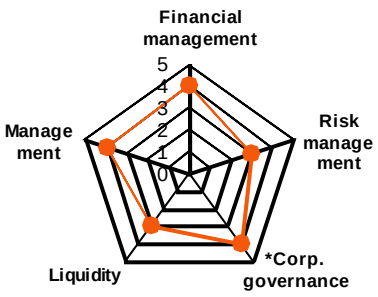
Based on 9 Oct 2015 closing prices

COMPANY DESCRIPTION

Bangkok Life Assurance's (BLA) core business is life insurance. At present, the firm operates two principal types of life insurance business, namely ordinary life insurance and group life insurance. Its major and strategic shareholders are Bangkok Bank Pcl and Nippon Life Insurance Company, which is incorporated in Japan.

Source: Thanachart

COMPANY RATING



Rating Scale	
Very Strong	5
Strong	4
Good	3
Fair	2
Weak	1
None	0

Source: Thanachart; *CG Awards

THANACHART'S SWOT ANALYSIS

S — Strength

- Nippon Life Insurance Company as a strategic shareholder.
- Ability to sell its insurance policies via BBL's branches.

W — Weakness

- Fewer sales agents almost every year.
- Inability to sell high-margin products.
- Lowest CAR ratio among the big players.
- Over-reliance on the banking channel.

O — Opportunity

- Fast-growing industry with more room to grow.
- Future M&As as the sector may undergo consolidation.

T — Threat

- The upcoming RBC Phase II that could have a negative effect on BLA.
- Changes in regulations which might pressure BLA to set aside more reserves.
- Swings in market interest rates.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	50.98	60.00	18%
Net profit 15F (Bt m)	3,168	1,194	-62%
Net profit 16F (Bt m)	4,238	3,475	-18%
Consensus REC	**BUY: 5**	**HOLD: 6**	**SELL: 4**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2016F earnings are 18% below the Bloomberg consensus, which we attribute to our assumptions of higher reserves and benefits payment ratios.
- However, we are positive on BLA's long-term earnings growth as it moves to a higher-margin product mix. Our TP is 18% above the consensus, which we attribute to the rolling over of our DDM model valuation basis into 2016.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Swings in market interest rates that might force BLA to set aside more extra reserves.
- Changes in policy mix which might not be in line with our expectations. As a result, BLA's reserve-to-premium ratio might be higher or lower than we currently forecast.

Source: Thanachart

Premiums growth should continue to be strong due to growing life insurance market

We expect investments to continue to grow moderately

INCOME STATEMENT

FY ending Dec (Bt m)	2013A	2014A	2015F	2016F	2017F
Insurance premium	38,795	51,172	42,806	49,382	56,196
Less Life policy reserve	25,357	40,818	30,950	34,567	37,932
Net insurance premium	**13,438**	**10,354**	**11,856**	**14,815**	**18,264**
% of life policy reserve	28.4%	28.8%	20.5%	20.3%	20.0%
Underwriting expenses	13,939	15,531	20,097	21,086	23,715
Profit from insurance	**(501)**	**(5,177)**	**(8,241)**	**(6,272)**	**(5,451)**
Revenue on investment	7,601	10,255	11,665	12,787	14,766
Others	39	48	43	49	56
Non-underwriting Income	**7,640**	**10,303**	**11,708**	**12,836**	**14,823**
% of total income	107.0%	201.0%	337.7%	195.5%	158.2%
Total Income	7,139	5,126	3,467	6,565	9,372
Operating Expenses	1,720	1,881	1,931	2,249	2,579
Profit from operation	5,419	3,245	1,536	4,315	6,792
Obligation expenses	**108**	**137**	**115**	**178**	**202**
Pre-tax Profit	5,311	3,108	1,421	4,137	6,590
Income Tax	**930**	**446**	**227**	**662**	**1,054**
After Tax Profit	4,381	2,662	1,194	3,475	5,536
Equity Income	0	0	0	0	0
Minority Interest	0	0	0	0	0
Extraordinary Items	0	0	0	0	0
NET PROFIT	**4,381**	**2,662**	**1,194**	**3,475**	**5,536**
Normalized Profit	**4,381**	**2,662**	**1,194**	**3,475**	**5,536**
EPS (Bt)	3.6	1.8	0.7	2.0	3.3
Normalized EPS (Bt)	3.6	1.8	0.7	2.0	3.3

BALANCE SHEET

FY ending Dec (Bt m)	2013A	2014A	2015F	2016F	2017F
ASSETS:					
Liquid Items	**5,823**	**10,541**	**8,464**	**8,451**	**8,177**
cash & cash equivalents	1,331	5,708	2,500	1,500	200
accrued investment income	1,863	2,344	2,756	3,219	3,676
Securities under resale agreement	1,840	1,725	2,569	2,995	3,463
Investments	161,637	198,238	230,858	267,245	308,298
Net loans	**3,526**	**4,735**	**6,359**	**7,009**	**8,103**
Gross and accrued interest	3,526	4,735	6,359	7,009	8,103
Provisions for doubtful	0	0	0	0	0
Fixed assets - net	327	389	466	496	524
Other assets	482	1,687	1,141	2,161	3,084
Total assets	**171,795**	**215,590**	**247,288**	**285,362**	**328,186**
LIABILITIES:					
Liquid Items	**1,657**	**879**	**572**	**1,107**	**1,597**
Securities sold under repurchase	950	0	0	0	0
Income tax payable	257	500	254	741	1,180
Amount due to reinsurer	450	380	318	366	417
Life policy reserve	136,616	177,435	208,384	242,952	280,884
Other liabilities	2,522	2,685	2,766	2,849	2,934
Total liabilities	**149,532**	**190,013**	**221,050**	**256,691**	**295,641**
Minority interest	0	0	0	0	0
Shareholders' equity	**22,264**	**25,576**	**26,238**	**28,671**	**32,546**
Preferred capital	0	0	0	0	0
Paid-in capital	1,212	1,698	1,703	1,703	1,703
Share premium	2,846	2,988	2,988	2,988	2,988
Surplus/ Others	4,459	5,642	5,642	5,642	5,642
Retained earnings	13,747	15,248	15,905	18,338	22,213
Liabilities & equity	**171,795**	**215,590**	**247,288**	**285,362**	**328,186**

Sources: Company data, Thanachart estimates

BLA's valuation is not too demanding at 3.0x P/BV

VALUATION

FY ending Dec	2013A	2014A	2015F	2016F	2017F
Normalized PE (x)	13.9	27.6	71.7	24.6	15.5
Normalized PE - at target price (x)	16.6	32.9	85.6	29.4	18.5
PE (x)	13.9	27.6	71.7	24.6	15.5
PE - at target price (x)	16.6	32.9	85.6	29.4	18.5
P/PPP (x)	11.3	22.6	55.7	19.8	12.6
P/PPP - at target price (x)	13.4	27.0	66.5	23.7	15.0
P/BV (x)	2.7	3.3	3.3	3.0	2.6
P/BV - at target price (x)	3.3	4.0	3.9	3.6	3.1
Dividend yield (%)	1.8	1.0	0.6	1.2	1.9
Market cap / total premium (x)	2.2	1.7	2.0	1.7	1.5
Market cap / life policy reserve (x)	0.6	0.5	0.4	0.4	0.3
(Bt)					
Normalized EPS	3.6	1.8	0.7	2.0	3.3
EPS	3.6	1.8	0.7	2.0	3.3
DPS	0.9	0.5	0.3	0.6	1.0
PPP/Share	4.5	2.2	0.9	2.5	4.0
BV/share	18.4	15.1	15.4	16.8	19.1

We expect higher reserves and benefit payment to pressure underwriting profit

FINANCIAL RATIOS

FY ending Dec	2013A	2014A	2015F	2016F	2017F
Growth Rate					
Net premium written (%)	13.7	31.9	(16.3)	15.4	13.8
Life policy reserves (%)	10.9	61.0	(24.2)	11.7	9.7
Underwriting expenses (%)	25.6	11.4	29.4	4.9	12.5
Insurance profits (%)	na	na	na	na	na
Net profit (%)	17.6	(39.2)	(55.2)	191.2	59.3
Normalized profit growth (%)	17.6	(39.2)	(55.2)	191.2	59.3
EPS (%)	16.8	(49.5)	(61.5)	191.2	59.3
Normalized EPS (%)	16.8	(49.5)	(61.5)	191.2	59.3
Dividend payout ratio (%)	25.2	32.5	45.0	30.0	30.0
Total FYP (%)	20.2	81.0	(44.1)	41.4	16.7
Total premium (%)	12.8	32.6	(16.2)	15.4	13.8
Total investment assets (%)	20.0	22.9	16.9	15.6	15.4
Total assets (%)	19.7	25.5	14.7	15.4	15.0
Total equity (%)	14.4	14.9	2.6	9.3	13.5
Operating Ratios (%)					
Profit on underwriting to net earned prem.	(1.3)	(10.1)	(19.3)	(12.7)	(9.7)
Underwriting exp. to net earned premium	101.3	110.1	119.3	112.7	109.7
Investment yield (ROI)	5.0	5.6	5.3	5.0	5.0
Net profit margin	9.4	4.3	2.2	5.6	7.8
ROE	21.0	11.1	4.6	12.7	18.1
Loss ratio	28.0	24.2	39.0	35.5	34.0
Expense ratio	1.0	0.7	1.2	1.2	1.2
Commission ratio	7.0	5.5	6.8	6.0	7.0
ROA	2.8	1.4	0.5	1.3	1.8
ROE	21.0	11.1	4.6	12.7	18.1
D/E (x)	6.7	7.4	8.4	9.0	9.1
Policy reserve to capital fund (x)	6.1	6.9	7.9	8.5	8.6
Insurance contract liab. to invest. asset (x)	0.9	0.9	0.9	0.9	0.9
Total CAR	268.0	247.0	286.7	271.5	268.0

Sources: Company data, Thanachart estimates

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