

25 February 2010

Bangkok Life Assurance

Insurance
Overweight

Lower ROI than expected

26% below our estimate: BLA posted a 4Q09 profit of Bt182m, down 15% QoQ but up 142% YoY. The result was 26% below our estimate and the consensus because of lower returns on investments (ROI) than expected. The firm's revenue from investments declined 12% QoQ, but rose 134% YoY to Bt707m (we expected Bt783m), due to lower investment gains. BLA's FY09 profit grew 58% YoY to Bt1.2bn (5% below our estimate).

Results highlights: 4Q09 FYPs climbed 6% QoQ and 34% YoY to Bt1.8bn, due to seasonality. 4Q09 total premiums grew 10% QoQ and 32% YoY to Bt5.3bn, making for a 7.5% market share (against 6.8% in FY08), boosted by both agent sales, and bancassurance. Note that bancassurance contributed about 44% of total premiums in FY09, up from 33% in FY08. FY09 FYPs shot up 64% YoY to 6.9bn, a 7.8% market share, while FY09 total premiums rose 33% YoY to Bt19.9bn, a 7.7% market share.

4Q09 ROI dipped to 4.72% (from 5.63% in 3Q09), below our estimate of 5% because of weaker investment gains and lower investment yields than expected. BLA will need time to find enough appropriate high-yielding assets in which to re-invest its excess cash in 1Q10. Note that the firm booked investment gains of only Bt12m for 4Q09, down 79% QoQ.

Outlook: The 1Q10 operation should report a QoQ rise on seasonality and economic recovery. The Thai Life Assurance Association forecasts 15% industry growth in FY10.

What's changed? We maintain our FY10 BLA profit forecast at Bt1.6bn (EPS of Bt1.33), up 35% YoY.

Recommendation: Apart from a promising industry outlook, the rally in BLA's share price was prompted by an increasing market share of FYPs and total premiums and rising economies-of-scale, brought about by bancassurance sales. Given high risk-based capital of 200%, BLA is well positioned to operate without need for a cash call. We reiterate our BUY rating with a YE10 target price of Bt29.50, based on economic value.

BUALUANG RESEARCH

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BUY (maintained)

Target price: Bt29.50
Price (24/02/10): Bt23.90
BLA TB / BLA.BK

Key Ratios & Statistics

Market cap	Bt28.68bn
12-mth price range	Bt13.50/Bt27.00
3-mth avg daily volume	Bt124.08m
# of shares (m)	1,000.0
Est. free float (%)	-
Foreign limit (%)	25.0

Share price perf. (%)	1M	3M	12M
Relative to SET	5.5	54.6	
Absolute	6.2	60.4	

Financial summary

FY Ended 31 Dec	2008	2009	2010E	2011E
Total rev (Btm)	16,804	20,060	23,162	29,220
Net profit (Btm)	752	1,186	1,600	2,000
Fully diluted EPS (Bt)	0.75	0.99	1.33	1.67
BLS/Consensus(x)	n.m.	0.90	1.10	1.23
EPS Consensus (Bt)	n.m.	1.10	1.22	1.36
EPS growth (%)	(2.37)	31.44	34.91	25.06
PER (x)	32.32	24.59	18.23	14.58
EV/EBITDA (x)	27.09	19.80	14.97	12.62
PBV (x)	8.05	4.03	3.46	2.98
Dividend (Bt)	0.38	0.30	0.53	0.67
Dividend yield (%)	1.55	1.23	2.19	2.74
ROE (%)	24.90	16.40	18.96	20.42
ROA (%)	1.46	1.74	1.98	2.12
Net gearing (x)	15.3	8.2	8.3	8.3
Total loss ratio (%)	10.7	9.3	9.5	8.9
Total premium Mkt (%)	6.7	7.7	7.7	7.7

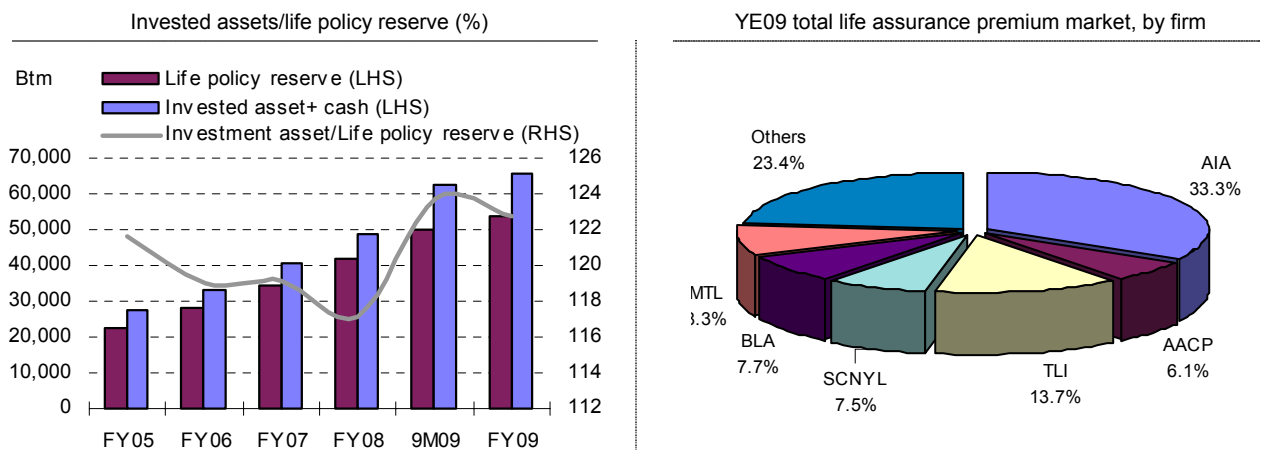
CG Rating - 2009 N/A

Figure 1: 4Q09 and FY09 results

Consolidated								
BLA								
	4Q09	3Q09	%QoQ	4Q08	%YoY	FY09	FY08	%YoY
Net insurance premium revenue	5,337	4,872	9.6	4,033.2	32.3	19,632	14,732	33.3
Less provision for life policy reserve	3,278	3,133	4.7	1,974.9	66.0	11,666	7,670	52.1
Revenue realization on premium	2,059	1,739	18.4	2,058.3	0.0	7,966	7,062	12.8
Underwriting expenses	2,219	2,038	8.9	2,043.8	8.6	8,287	7,173	15.5
Profit from insurance business	(160)	(299)	-46.3	14.5	-1,205.0	(322)	-111	190.3
Net investment income	695	742	-6.3	613.1	13.4	2,760	2,430	13.6
Gain on investment	12	58	-79.4	-311.2	103.8	236	-359	-165.8
Total revenue from investment	707	799	-11.6	301.9	134.1	2,996	2,071	44.6
Other income	10	4	129.2	6.7	47.7	26	26	2.2
Total revenues	556	505	10.2	323.1	72.2	2,701	1,986	36.0
Total operating expenses	295	269	9.7	240.2	22.8	1,123	958	17.2
EBT	262	236	10.7	82.9	215.4	1,578	1,028	53.4
Income tax	79	22	259.1	7.7	936.8	392	277	41.7
Net profit	182	214	-15.0	75.3	141.9	1,186	752	57.7
EPS	0.15	0.18	-15.0	0.06	141.9	0.99	0.63	57.7
Investment assets	64,045	57,751	10.9	46,657	37.3	64,045	46,657	37.3
Total Assets	68,339	64,683	5.7	51,482	32.7	68,339	51,482	32.7
Life policy reserve	55,898	50,280	11.2	45,876	21.8	55,898	45,876	21.85
Premium/life policy reserve (%)	38.19	38.76	nm	35.17	nm	35.12	32.11	nm
Life policy provision/Premium (%)	61.42	64.30	nm	48.97	nm	59.42	52.06	nm
Total loss ratio (%)	10.13	10.21	nm	12.59	nm	9.34	10.74	nm
ROAE (%)	10.07	12.13	nm	9.97	nm	16.40	24.90	nm
ROI (%)	4.72	5.63	nm	2.49	nm	4.85	4.52	nm
D/E (x)	8.5	8.2	nm	16.1	nm	8.5	16.1	nm
Cost to income %	53.0	53.2	nm	74.3	nm	41.6	48.2	nm

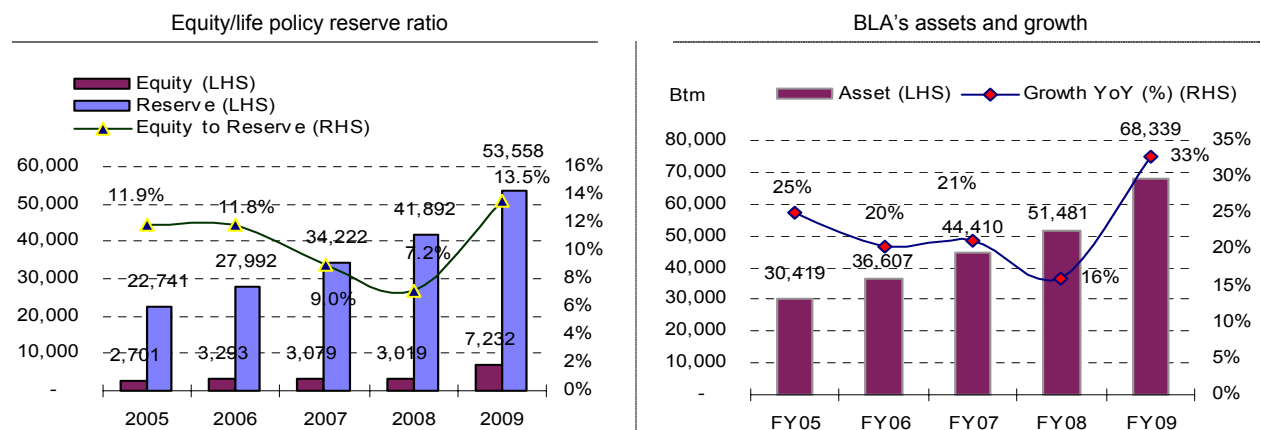
Sources: Company data & Bualuang Research

Figure 2: Movement of Life policy reserve and invested assets and BLA's total premium market share at YE09



Sources: Company data, Bualuang Research

Figure 3: Equity, life policy reserve and risk-based capital ratio (%) and BLA's assets and growth



Sources: Company data, Bualuang Research

Financial tables					
PROFIT & LOSS (Btm)	2007	2008	2009	2010 E	2011 E
Insurance premium	12,296	14,732	19,632	22,421	24,664
Less Life policy reserve	(6,230)	(7,670)	(11,666)	(13,004)	(14,366)
Net premium	6,066	7,062	7,966	9,417	10,297
Underwriting expenses	(6,254)	(7,173)	(8,287)	(9,703)	(10,673)
Profit from insurance	(187)	(111)	(322)	(286)	(376)
Revenue on investment	2,116	2,071	2,996	3,833	4,557
Other income /exp .	15	26	26	30	33
Net revenue	1,943	1,987	2,701	3,577	4,214
Operating expenses	(883)	(958)	(1,123)	(1,419)	(1,568)
EBIT	1,061	1,028	1,578	2,158	2,646
Minority interest	(0)	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(291)	(277)	(392)	(559)	(645)
Net profit (loss)	770	752	1,186	1,600	2,000
Reported EPS	0.77	0.75	0.99	1.33	1.67
Fully diluted EPS	0.77	0.75	0.99	1.33	1.67
Core net profit	755	726	1,159	1,570	1,967
Core EPS	0.75	0.73	0.97	1.31	1.64
EBITDA	1,156	1,124	1,673	2,254	2,742
KEY RATIOS					
Revenue growth (%)	22.6	2.2	36.0	32.4	17.8
Gross margin (%)	13.5	11.8	11.9	13.6	14.4
EBITDA margin (%)	8.0	6.7	7.4	8.6	9.4
Operating margin (%)	5.2	4.3	5.1	6.0	6.7
Net margin (%)	5.3	4.5	5.2	6.1	6.8
Core profit margin (%)	5.2	4.3	5.1	6.0	6.7
ROA (%)	1.7	1.5	1.7	2.0	2.1
ROE (%)	25.0	24.9	16.4	19.0	20.4
Commission /Insurance premi	14.5	13.5	12.7	12.5	12.5
Life policy Provision /insuran	50.7	52.1	59.4	58.0	58.3
Cost /income	45.4	48.2	41.6	40.0	37.5
Total Loss ratio (benefit payr	11.4	10.7	9.3	9.5	8.9
BALANCE SHEET (Btm)					
Cash & Equivalent	760	2,382	1,718	2,794	2,763
Total investment in securities	40,009	44,858	62,141	73,100	85,650
Total net loans	1,502	1,801	1,907	2,026	2,369
Premises & equipment (Net	261	325	334	354	539
Other assets	1,878	2,116	2,240	2,714	3,041
Total assets	44,410	51,482	68,339	80,988	94,362
Life policy reserve	34,222	41,892	53,558	62,975	73,272
Unpaid benefit to life policy	3,311	3,984	4,680	5,717	6,799
Premium received in advance	1,699	1,551	1,417	1,701	1,786
Other liabilities	2,098	1,036	1,452	2,157	2,707
Total liabilities	41,330	48,463	61,108	72,550	84,564
Paid -up capital	1,000	1,000	1,200	1,200	1,200
Share premium	275	275	2,700	2,700	2,700
Retained earnings	1,805	1,744	3,332	4,538	5,899
Shareholders equity	3,080	3,019	7,232	8,438	9,798
Minority interests	0	0	0	0	0
Total Liab .&Shareholders '	44,410	51,482	68,339	80,988	94,362

Sources: Company data, Bualuang Research estimates

Financial tables

QUARTERLY PROFIT & LOSS (Btm)	4Q08	1Q09	2Q09	3Q09	4Q09
Net insurance premium revenue	4,033	4,722	4,701	4,872	5,337
Less provision for life policy reserve	1,975	2,434	2,822	3,133	3,278
Revenue realization on premium	2,058	2,289	1,879	1,739	2,059
Underwriting expenses	2,044	1,999	2,032	2,038	2,219
Profit from insurance business	15	290	(153)	(299)	(160)
Net investment income	613	635	688	742	695
Gain on investment	(311)	125	41	58	12
Total revenue from investment	302	761	729	799	707
Other income	7	7	6	4	10
Total revenues	323	1,057	582	505	556
Total operating expenses	240	284	276	269	295
Exceptional items	0	0	0	0	0
EBT	83	773	307	236	262
Income tax	7.67	217	73	22	79
Minority Interest	0.00	0.00	0	0.00	0
Net profit	75	556	233	214	182
EPS	0.08	0.56	0.23	0.18	0.15
Core profit before tax	387	641	260	174	240
Core EPS	0.39	0.64	0.26	0.15	0.20

KEY RATIOS	4Q08	1Q09	2Q09	3Q09	4Q09
Premium/life policy reserve (%)	9.63	10.65	9.97	9.89	9.97
Life policy provision/Premium (%)	48.97	51.53	60.03	64.30	61.42
Total loss ratio (%)	12.59	9.92	10.59	10.21	10.13
Net margin (%)	3.16	16.63	9.47	9.55	6.96
Equity/Life policy reserve (%)	7.2	7.3	8.2	13.9	13.5
BV (Bt)	3.02	3.26	3.87	5.72	6.03
ROE (%)	10.0	68.3	24.1	12.5	10.1
ROA (%)	0.6	4.0	1.6	1.3	1.1
D/E (x)	16.1	15.9	14.1	8.3	8.5
Cost to Income (%)	74.3	26.9	47.3	53.2	53.0
Asset/Equity (%)	17.1	16.90	15.1	9.28	9.5

QUARTERLY BALANCE SHEET (Btm)	4Q08	1Q09	2Q09	3Q09	4Q09
Cash & Equivalent	2,382	3,657	3,748	4,002	1,718
Total investment in securities	44,858	47,135	50,131	54,995	62,141
Total net loans	1,798	1,825	1,848	1,894	1,904
Premises & equipment (Net)	325	321	319	319	334
Other assets	2,119	2,082	2,379	2,431	2,242
Total assets	51,482	55,021	58,425	63,640	68,339
Life policy reserve	41,892	44,325	47,147	49,246	53,558
Unpaid benefit to life policy	3,984	4,106	4,333	4,463	4,680
Premium received in advance	1,551	1,528	1,516	1,516	1,417
Other liabilities	1,036	1,805	1,555	1,555	1,183
Total liabilities	48,463	51,765	54,551	56,781	61,108
Paid-up capital	1,000	1,000	1,000	1,200	1,200
Share premium	275	275	275	2,775	2,700
Retained earnings	950	1,479	1,565	1,851	1,776
Shareholders equity	3,019	3,256	3,874	6,859.67	7,231.60
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	51,482	55,021	58,425	63,640	68,339

Sources: Company data, Bualuang Research

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90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.