

16 August 2010

Bangkok Life Assurance

Insurance
Overweight

Profit way above estimate

55% over estimates: BLA posted a 2Q10 profit of Bt603m, up by 37% QoQ and 159% YoY. The result was 55% above our estimate of B390m and 49% higher than the consensus of Bt404m, attributable to greater investment gains and a lower life policy reserve than expected. 1H10 profit rose 32% YoY and represents 63% of our FY10 projection.

Results highlights: 2Q10 first-year premiums grew only 7% YoY to Bt1.5bn (a 7.4% market share), due to political unrest. Total premiums in 2Q10 rose 16% YoY to Bt5.5bn (but fell 20% QoQ on low season and because of political unrest), making for an 8.1% market share (against 7.8% at 2Q09), driven by bancassurance and agency sales. Bancassurance contributed about 55% of total premiums in 2Q10, up from 44% in FY09.

ROI inched up to 5.03% from 4.96% in 1Q10. The ROI number, which was in line with our estimate, was pushed up by higher QoQ investment gains and better investment yields. Note that the firm booked investment gains of Bt137m in 2Q10, up from Bt87m in 1Q10.

Outlook: The 3Q10 operation should report a QoQ increase in earnings, due to seasonality and an improving economy. Note that the Thai Life Assurance Association forecasts 18% industry growth for FY10.

What's changed? For the moment, we maintain our FY10 BLA profit forecast at Bt1.65bn (EPS: Bt1.37), up 39% YoY. We plan to visit the company next week, after which we may alter our model.

Recommendation: The strong industry outlook and active bancassurance sales through BBL's branch network will remain the key drivers of BLA's business expansion. We anticipate greater economies-of-scale and increased profitability in 2H10 and beyond. Given the firm's substantial risk-based capital of about 200%, it can keep growing its operation without need for a capital increase from some years to come. We maintain our BUY rating with a YE10 target price of Bt37.50, based on economic value.

BUALUANG RESEARCH

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BUY (maintained)

Target price to Bt37.25
Price (11/08/09): Bt31.00
BLA.TB / BLA.BK

Key Ratios & Statistics

Market cap	Bt38.10bn
12-mth price range	Bt13.50/Bt32.25
3-mth avg daily volume	Bt90.38m
# of shares (m)	1,200.0
Est. free float (%)	28.5
Foreign limit (%)	25.0

Share price perf. (%)	1M	3M	12M
Relative to SET	(4.2)	14.6	67.7
Absolute	0.9	26.1	107.4

Financial summary

FY Ended 31 Dec	2009	2010E	2011E	2012E
Total rev (Btm)	20,060	23,162	33,551	36,342
Net profit (Btm)	1,186	1,650	2,050	2,400
Fully diluted EPS (Bt)	0.99	1.37	1.71	2.00
BLS/Consensus (x)	0.9	1.1	1.3	n.m.
EPS Consensus (Bt)	1.1	1.2	1.4	n.m.
EPS growth (%)	31.4	39.1	24.3	17.1
PER (x)	28.3	20.4	16.4	14.0
EV/EBITDA (x)	22.46	17.53	13.91	12.29
PBV (x)	4.6	4.0	3.4	2.9
Dividend (Bt)	0.3	0.5	0.7	0.8
Dividend yield (%)	1.1	2.0	2.4	2.9
ROE (%)	16.4	19.4	20.8	20.9
ROA (%)	1.7	2.0	2.1	2.1
Net gearing (x)	8.2	8.6	8.7	8.6
Total loss ratio (%)	9.3	8.6	8.1	7.6
Total premium Mkt (%)	7.7	8.8	8.8	8.8

CG Rating - 2009

N/A

Company profile

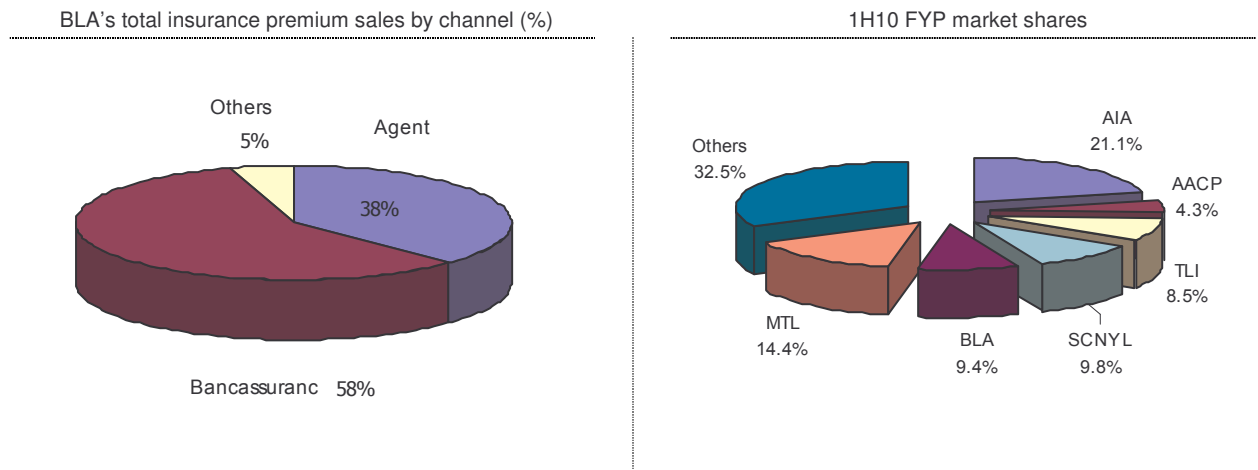
Bangkok Life Assurance Plc (BLA) is a leading pure life assurance player and a subsidiary of Bangkok.

Figure 1: 2Q10 results

Consolidated	2Q10	1Q01	%QoQ	2Q09	%YoY	Comments
BLA						
Net insurance premium revenue	5,473	6,849	-20.1	4,701	16.4	Stronger market share
Less provision for life policy reserve	3,192	4,287	-25.6	2,822	13.1	Lower provisions
Revenue realization on premium	2,281	2,561	-10.9	1,879	21.4	
Underwriting expenses	2,192	2,588	-15.3	2,032	7.9	
Profit from insurance business	90	(26)	-440.5	-153	-158.7	
Net investment income	847	773	9.5	688	23.0	Improving ROI
Gain on investment	137	87	57.7	41	236.2	Stronger Gains on equities
Total revenue from investment	984	860	14.4	729	35.0	
Other income	5	7	-26.8	6	-15.1	
Total revenues	1,078	841	28.3	582	85.2	
Total operating expenses	303	295	2.7	276	10.1	
EBT	775	545	42.2	307	152.8	
Income tax	172	104	65.1	73	134.5	
Net profit	603	441	36.7	233	158.6	55% over estimates
EPS	0.50	0.37	36.7	0.19	158.6	
Investment assets	71,729	70,173	2.2	50,131	43.1	Growing 12% YTD
Total Assets	77,498	74,057	4.6	58,425	32.6	
Life policy reserve	66,077	62,711	5.4	47,147	40.2	
Premium/life policy reserve(%)	33.13	43.69	nm	9.97	nm	
Life policy provision/Premium(%)	58.32	62.60	nm	60.03	nm	
Claim/life policy(%)	9.34	10.02	nm	10.59	nm	
ROAE(%)	28.83	22.14	nm	24.07	nm	
ROI(%)	5.03	4.96	nm	5.72	nm	
D/E (x)	8.3	8.3	nm	14.1	nm	
Cost to income(%)	28.1	35.2	nm	47.3	nm	

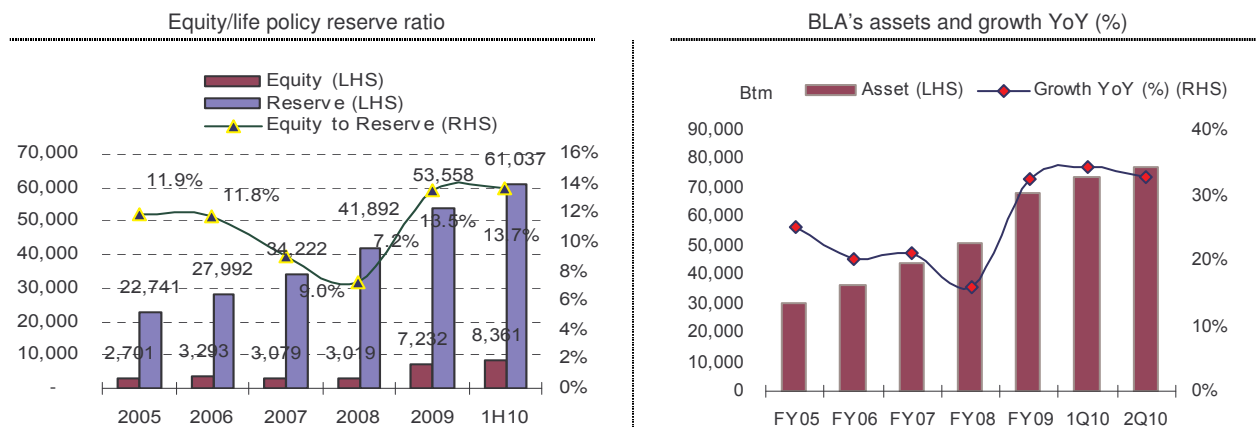
Sources: Company data & Bualuang Research

Figure 2: BLA's Insurance premium revenue by channel and FYP market share at end-June 2010



Sources: Company data, Bualuang Research

Figure 3: Capital adequacy ratio (%) and BLA's assets and growth, FY05-2Q10



Sources: Company data, Bualuang Research

Financial tables

PROFIT & LOSS (Btm)	2007	2008	2009	2010E	2011E
Insurance premium	12,296	14,732	19,632	26,449	29,094
Less Life policy reserve	(6,230)	(7,670)	(11,666)	(16,848)	(18,329)
Net premium	6,066	7,062	7,966	9,601	10,765
Underwriting expenses	(6,254)	(7,173)	(8,287)	(9,991)	(10,991)
Profit from insurance	(187)	(111)	(322)	(390)	(226)
Revenue on investment	2,116	2,071	2,996	3,648	4,457
Other income/exp.	15	26	26	28	31
Net revenue	1,943	1,987	2,701	3,286	4,262
Operating expenses	(883)	(958)	(1,123)	(1,173)	(1,523)
EBIT	1,061	1,028	1,578	2,113	2,739
Minority interest	(0)	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(291)	(277)	(392)	(463)	(689)
Net profit (loss)	770	752	1,186	1,650	2,050
Reported EPS	0.77	0.75	0.99	1.37	1.71
Fully diluted EPS	0.77	0.75	0.99	1.37	1.71
Core net profit	755	726	1,159	1,622	2,019
Core EPS	0.75	0.73	0.97	1.35	1.68
EBITDA	1,156	1,124	1,673	2,209	2,835

KEY RATIOS	2007	2008	2009	2010E	2011E
Revenue growth (%)	22.6	2.2	36.0	21.7	29.7
Gross margin (%)	13.5	11.8	11.9	10.9	12.7
EBITDA margin (%)	8.0	6.7	7.4	7.3	8.4
Operating margin (%)	5.2	4.3	5.1	5.4	6.0
Net margin (%)	5.3	4.5	5.2	5.5	6.1
Core profit margin (%)	5.2	4.3	5.1	5.4	6.0
ROA (%)	1.7	1.5	1.7	2.0	2.1
ROE (%)	25.0	24.9	16.4	19.4	20.8
Commission/Insurance prer	14.5	13.5	12.7	12.5	12.5
Life policy Provision/insurar	50.7	52.1	59.4	63.7	63.0
Cost/income	45.4	48.2	41.6	36.0	36.0
Total Loss ratio (benefit pay	11.4	10.7	9.3	8.6	8.1

BALANCE SHEET (Btm)	2007	2008	2009	2010E	2011E
Cash & Equivalent	760	2,382	1,718	2,736	2,448
Total investment in securitie	40,009	44,858	62,141	76,500	90,113
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	2,947	3,041
Total assets	44,410	51,482	68,339	84,562	98,511
Life policy reserve	34,222	41,892	53,558	63,159	73,924
Unpaid benefit to life policy	3,311	3,984	4,680	9,058	10,208
Premium received in advan	1,699	1,551	1,417	1,701	1,786
Other liabilities	2,098	1,036	1,452	2,157	2,715
Total liabilities	41,330	48,463	61,108	76,074	88,633
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	4,588	5,978
Shareholders equity	3,080	3,019	7,232	8,488	9,878
Minority interests	0	0	0	0	0
Total Liab.&Shareholders'	44,410	51,482	68,339	84,562	98,511

Sources: Company data, Bualuang Research estimates

Financial tables					
QUARTERLY PROFIT & LOSS (Btm)	2Q09	3Q09	4Q09	1Q10	2Q10
Net insurance premium revenue	4,701	4,872	5,337	6,849	5,473
Less provision for life policy reserve	2,822	3,133	3,278	4,287	3,192
Revenue realization on premium	1,879	1,739	2,059	2,561	2,281
Underwriting expenses	2,032	2,038	2,219	2,588	2,192
Profit from insurance business	(153)	(299)	(160)	(26)	90
Net investment income	688	742	695	773	847
Gain on investment	41	58	12	87	137
Total revenue from investment	729	799	707	860	984
Other income	6	4	10	7	5
Total revenues	582	505	556	841	1,078
Total operating expenses	276	269	295	295	303
Exceptional items	0	0	0	0	0
EBT	307	236	262	545	775
Income tax	73	22	79	104	172
Minority Interest	0	0	0	0	0
Net profit	233	214	182	441	603
EPS	0.23	0.18	0.15	0.37	0.50
Core profit before tax	260	174	240	451	633
Core EPS	0.26	0.15	0.20	0.38	0.53
KEY RATIOS					
Premium life policy reserve (%)	9.97	9.89	9.97	43.69	33.13
Life policy provision Premium (%)	60.03	64.30	61.42	62.60	58.32
Claim life policy (%)	10.59	10.21	10.13	10.02	9.34
Net margin (%)	9.47	9.55	6.96	12.96	17.94
Equity Life policy reserve (%)	8.2	13.9	13.5	13.8	12.65
BV (Bt)	3.87	5.72	6.03	6.64	6.97
ROE (%)	24.07	12.49	10.07	22.14	28.83
ROA (%)	1.60	1.35	1.07	2.38	5.03
D/E (x)	14.1	8.3	8.5	8.3	8.3
Cost to Income (%)	47.3	53.2	53.0	35.2	28.1
Asset Equity (%)	15.1	9.3	9.5	9.3	9.3
QUARTERLY BALANCE SHEET (Btm)					
Cash & Equivalent	3,748	4,002	1,718	773	758
Total investment in securities	50,131	54,995	62,141	68,229	71,729
Total net loans	1,848	1,894	1,904	1,944	1,983
Premises & equipment (Net)	319	319	334	336	337
Other assets	2,379	2,431	2,242	2,774	2,692
Total assets	58,425	63,640	68,339	74,057	77,498
Life policy reserve	47,147	49,246	53,558	57,845	61,037
Unpaid benefit to life policy	4,333	4,463	4,680	4,866	5,040
Premium received in advance	1,516	1,516	1,417	1,434	1,393
Other liabilities	1,555	1,555	1,183	1,950	1,667
Total liabilities	54,551	56,781	61,108	66,095	69,137
Paid up capital	1,000	1,200	1,200	1,200	1,200
Share premium	275	2,775	2,700	2,700	2,700
Retained earnings	1,565	1,851	1,776	2,739	3,162
Shareholders equity	3,874	6,860	7,232	7,962	8,361
Minority interests	0	0	0	0	0
Total Liabilities & Shareholders equity	58,425	63,640	68,339	74,057	77,498
	(0)	0	(0)	(0)	(0)

Sources: Company data, Bualuang Research

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Score Range	Number of Logo	Description
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.