

18 August 2010

Bangkok Life Assurance

Insurance
Overweight

Earnings and market share
continue to expand

Investment thesis: We reiterate our BUY rating on BLA, premised on: 1) a favorable industry outlook, 2) strong earnings growth and a rising market share, 3) good ROI management and 4) a high equity/life policy reserve ratio of 13.7% (the minimum requirement is 2%). We have raised only our FY10 profit forecast by 9% to Bt1.8bn to fine-tune for a lower life policy reserve in 2Q10 than expected.

Outperforming industry: Bancassurance sales through BBL have proved to be a boon to BLA, whose 1H10 total premium revenue growth outperformed—up 31% YoY to Bt12.6bn compared with 14.8% growth for the industry as a whole.

Well-managed ROI: Unlike many foreign insurance players, BLA reported ROI of 5.00% for 1H10, despite the prevailing low interest rates. The firm has set an ROI target range of 5.2-5.3 for FY10.

Size does matter: BLA ranks 4th in terms of market share with 9.1% of total premiums in 1H10 (up from 8.0% for the same period last year). Its size enabled a margin of 15.4% for 1H10 against 11.1% in FY09 because investment portfolio revenue growth outpaced OPEX.

Strong capital base: Post-IPO, BLA's equity is comfortably within the parameters of risk-based capital (RBC) regulations that will become effective in FY11. Most other life insurance firms will require capital increases, whereas BLA will be able to continue as normal with a risk-based capital (RBC) ratio of 225%, substantially more than the minimum requirement of 100%.

BUALUANG RESEARCH

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BUY (maintained)

Target price to Bt37.25
Price (17/08/10): Bt32.00
BLA.TB / BLA.BK

Key Ratios & Statistics

Market cap	Bt38.40bn
12-mth price range	Bt13.50/Bt32.25
3-mth avg daily volume	Bt94.24m
# of shares (m)	1,200.0
Est. free float (%)	28
Foreign limit (%)	25.0

Share price perf. (%)	1M	3M	12M
Relative to SET	2.4	27.9	100.1
Absolute	6.7	42.9	137.0

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	1,800	2,050	2,400
Fully diluted EPS (Bt)	0.99	1.50	1.71	2.00
BLS/Consensus (x)	0.9	+1.13	+1.03	+0.95
EPS Consensus (Bt)	1.1	1.33	1.67	2.10
EPS growth (%)	31.44	51.83	13.86	17.09
PER (x)	32.4	21.3	18.7	16.0
EV/EBITDA (x)	25.33	17.82	15.57	13.74
PBV (x)	5.31	4.30	3.85	3.33
Dividend (Bt)	0.3	0.6	0.7	0.8
Dividend yield (%)	0.9	1.9	2.1	2.5
ROE (%)	16.4	20.1	20.6	20.8
ROA (%)	1.7	2.1	2.1	2.1
Net gearing (x)	8.2	8.2	8.6	8.5

CG Rating - 2009 N/A

Company profile

Bangkok Life Assurance Public Company Limited (BLA) is one of Thailand's largest pure life assurance players and a subsidiary of Bangkok Bank. Its FYP revenue growth is currently about twice the industry average.

Outlook

To set new records: With its impressive first year premium (FYP) and total premium performance in 1H10, BLA anticipates that more records will be broken this year, driven by bancassurance sales. BBL plans to use BLA as gateway to generate more fee-based income in FY10. The bank targets bancassurance sales growth of more than 50% to Bt6-6.4bn in FY10, up from Bt4bn in FY09. Thus, BLA's 1H10 total insurance premium revenue rose 31% to Bt12.6bn, more than twice life assurance industry growth of 14.8%. Furthermore, its market share of total life assurance premiums grew to 9.1% in 1H10 from 8.0% for the same period last year

We believe that BLA's full-year target is achievable, given the strong support of BBL—particularly as the biggest life assurance player, AIG, is losing market share to bank-backed life assurance firms, perhaps due in part to diminished confidence in its parent company and because its branch network isn't as convenient to use as bank branch networks.

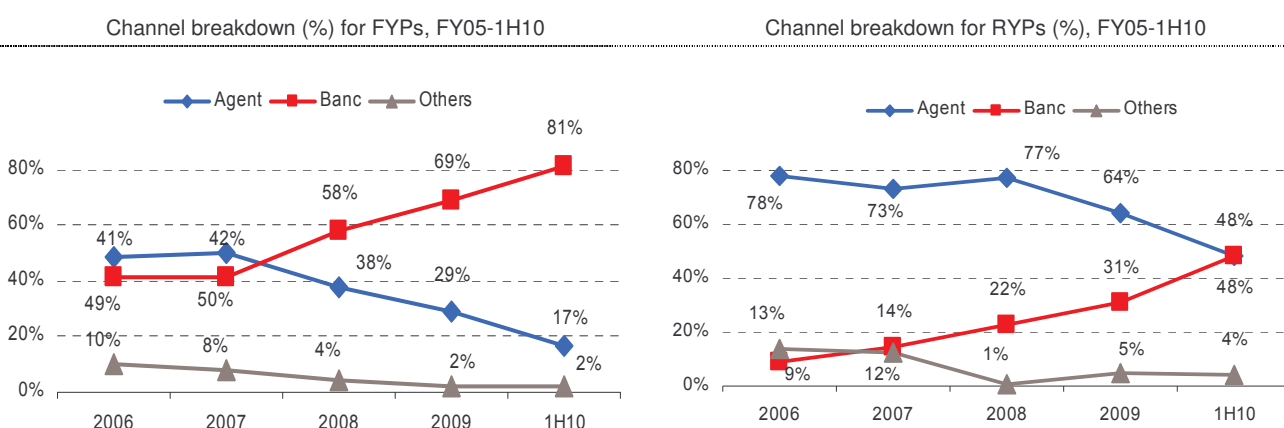
The big get bigger and the small are squeezed out: In the life assurance industry, scale does matter in terms of the size of the life policy reserve, income flows and servicing expenses. BLA aims to become a bigger player through bancassurance sales. Most of the fund managers at the analyst meeting appeared confident that the firm will continue to benefit substantially from its relationship with its parent company, BBL. They also viewed that bank-backed life assurance firms will expand as they have major competitive advantages over small firms—their costs as a percentage of revenue are lower, clients have more confidence in them (because they are backed by established banks) and they have superior after-sales service and much bigger branch networks.

Figure 1: Breakdown of total life assurance premium market share (%), FY03-09 and 1H10

Market share of Total premium (%)	FY03	FY04	FY05	FY06	FY07	FY08	FY09	1H10
American International Assurances (AIA)	46.7	45.0	42.7	41.9	38.9	37.9	33.3	30.6
Audhya Allianz C.P Life Plc., (AACP)	11.1	12.2	11.8	10.6	9.5	6.5	6.1	5.7
Thai Life Insurance	17.0	15.1	15.6	14.1	15.2	14.4	13.7	11.8
Siam Commercial New York Life Insurance Plc	2.0	3.9	5.2	5.8	6.0	6.8	7.5	8.9
Muang Thai Life Assurance	4.4	4.8	4.9	5.8	6.8	7.7	8.3	10.9
Bangkok Life Assurance Plc.,	4.9	5.8	5.5	6.0	6.1	6.7	7.7	9.1
Krungthai AXA Life Insurance	0.8	1.0	1.7	2.1	2.9	4.1	4.9	6
Ocean Life Insurance	5.3	5.0	4.8	5.1	4.6	4.3	4.1	4
ING Life Limited	0.9	1.2	1.5	2.0	2.4	2.8	3.0	2.8
Prudential Life Assurance (Thailand) Plc.,	0.7	0.6	0.6	0.7	0.9	1.1	1.2	1.3
Thai Cardif Life Assurance	-	0.1	0.2	0.4	0.7	0.6	0.6	0.8
Generali Life Assurance	0.2	0.2	0.2	0.3	0.5	0.5	0.6	0.6
Finansa Life Assurance	1.5	1.2	1.4	1.1	1.0	0.8	0.7	0.5
Siam City Life Assurance	1.2	1.0	0.9	0.8	0.8	0.8	1.1	1.1
ACE Life Assurance	0.1	0.2	0.4	0.5	0.5	0.8	0.7	0.7
Others	3.2	2.7	2.6	2.8	3.2	4.2	6.6	5.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100

Sources: TLAA and Bualuang estimates

Figure 2: BLA's premium revenue channels between FY05-6M10



Sources: Company and TLAA

Well-managed ROI: During FY05-1H10, BLA has posted a good return on invested assets (ROI) of 5.00-5.79%. We conservatively assume ROI of 4.8% this year and 5.1% in FY11. The low interest rate trend during 1H10 squeezed the firm's ROI to about 5%. Note that around 16% of total invested assets are short-term instruments, such as bills of exchange (B/Es), which are normally rolled over every three months. B/Es rolled over in the first few months of the year were rolled over at lower rates.

BLA management believes that the up-trend in interest rates will improve its ROI. Note that BLA operates a conservative hold-to-maturity approach (not marked-to-market) for long-term debt instruments. As such, the firm doesn't book investment losses on long-term bonds if interest rates increase. We calculate that every 0.25% increase in the BOT's policy interest rate would boost BLA's profit by 4%.

Figure 3: BLA's net investment income (Btm) and net ROI (%), FY05-1H10

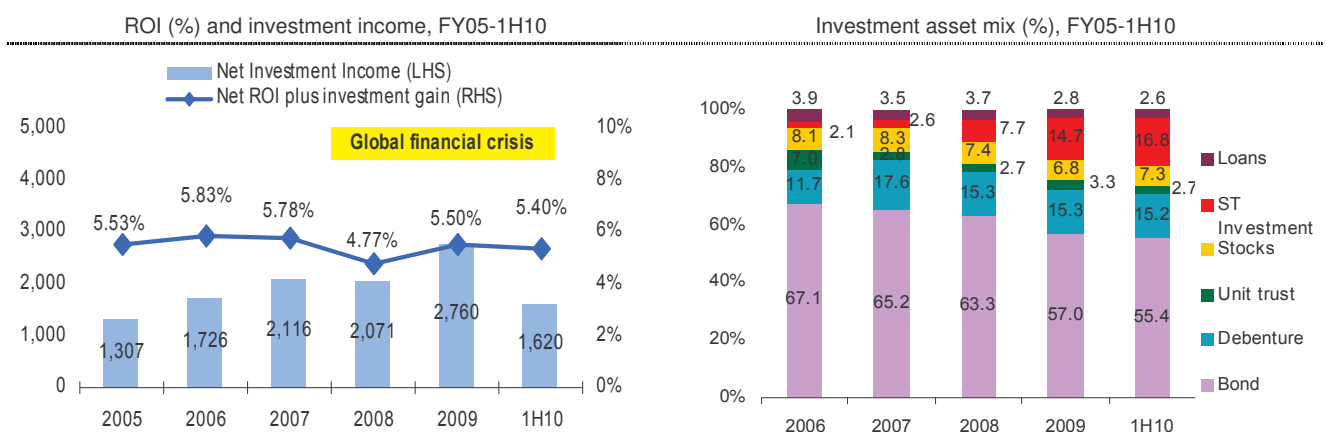
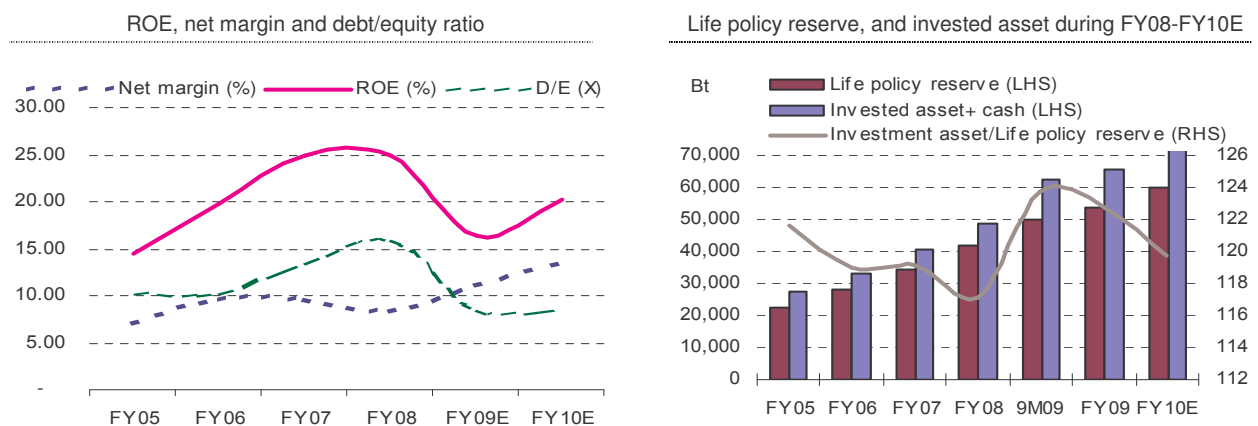


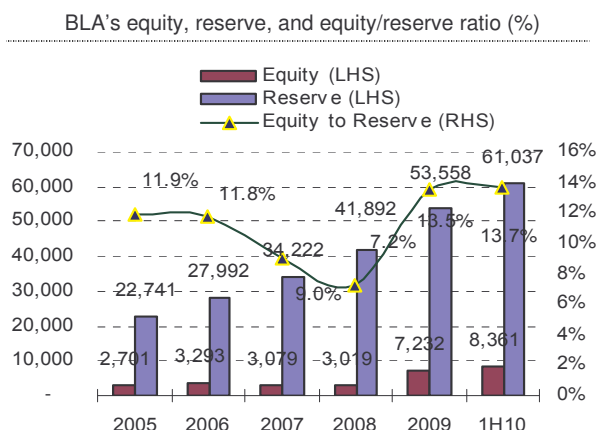
Figure 4: Net margin (%), ROE (%) and debt/equity ratio, FY05-10f, and life policy reserve, and invested assets (Btm)



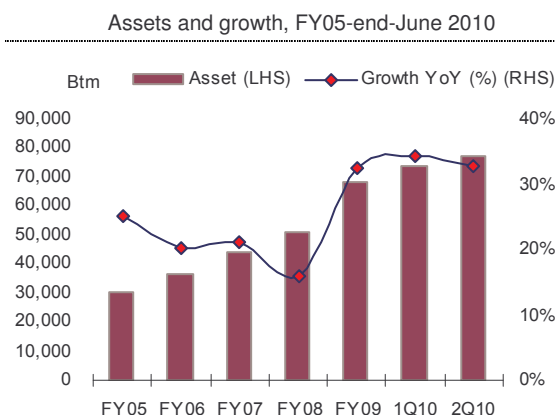
Sources: Company and TLAA

Well-capitalized company: BLA won't need a capital increase for some time. The firm listed on the stock market well before the introduction of risk-based capital (RBC) regulations in FY11. Note that BLA's current capital requirement ratio of 225% is twice the RBC minimum of 100%. In our view, the incoming RBC rules will present problems for small, undercapitalized players and newcomers. Under-capitalized firms will have to either make cash calls or shut down. Management anticipates industry consolidation. We view that BLA will have further opportunities to build market share as second-tier players exit the market.

Figure 5: Equity-to-life policy reserve, YE05 to end-June 2010



Assets and growth, YE05 to end-June 2010



Sources: That BMA and Bloomberg

Recommendation and valuation

Reiterate BUY with target price of Bt37.25: We believe that BLA's 146% stock price rally since its IPO reflects confidence in BBL's support for its subsidiary. That support manifested in the life assurance company's industry-beating FYP performance in 1H10 (BBL has set an ambitious bancassurance sales target of 50% YoY growth, which we believe is achievable). Our BLA target price has been appraised at Bt37.25 (with 16% upside from the current price), based on the economic value approach for YE10 to reflect the firm's impressive revenue and earnings expansion profile. BLA currently trades at cheap multiples—an FY10 PER of 21x compared with regional means of 29x. We maintain our BUY rating with a YE10 target price of Bt37.25, implying a relatively conservative PER target of 24.8x.

Figure 6: Sector valuation PER, FY09-10

17/08/2010	Bloomberg Code	Price (local curr.)	PER (x)		PBV (x)		ROE (%)		Div yield (%)	
			FY09	FY10E	FY09	FY10E	FY09	FY10E	FY09	FY10E
AMP Limited	AMP AU	5.35	15.4	14.15	4.79	4.42	33.0	33.1	5.57	5.83
Axa Asia Pacific Holding	AXA AU	5.54	20.2	18.59	2.78	2.63	14.3	14.5	3.39	3.70
Cathay Financial Holding	2882 TT	49.50	34.9	24.66	3.13	2.90	11.8	12.0	0.65	1.53
China Life Insurance	601628 CH	23.98	32.3	25.84	4.14	4.06	12.9	14.5	1.53	1.91
China Pacific Insurance	601601 CH	24.19	51.0	82.2	3.39	3.10	6.0	7.6	0.62	0.85
Insurance Australia Group	IAG AU	3.46	22.3	12.49	1.59	1.60	6.5	12.2	3.24	5.26
Ping An Insurance	601318 CH	46.81	36.7	31.29	3.87	3.55	10.6	11.2	1.00	1.32
Bangkok Life Assurance	BLA	32.00	32.4	21.33	5.31	4.30	16.4	20.1	0.94	1.88
Simple average			30.6	28.8	3.6	3.3	13.9	15.7	2.1	2.8

Sources: Bualuang estimates, Bloomberg and Reuters

Financial tables

PROFIT & LOSS (Btm)	2007	2008	2009	2010E	2011E	2012E
Insurance premium	12,296	14,732	19,632	25,699	29,094	31,276
Less Life policy reserve	(6,230)	(7,670)	(11,666)	(16,059)	(18,329)	(19,704)
Net premium	6,066	7,062	7,966	9,640	10,765	11,572
Underwriting expenses	(6,254)	(7,173)	(8,287)	(9,708)	(10,991)	(11,815)
Profit from insurance	(187)	(111)	(322)	(68)	(226)	(243)
Revenue on investment	2,116	2,071	2,996	3,648	4,457	5,066
Other income/exp.	15	26	26	28	32	32
Net revenue	1,943	1,987	2,701	3,608	4,263	4,855
Operating expenses	(883)	(958)	(1,123)	(1,289)	(1,523)	(1,688)
EBIT	1,061	1,028	1,578	2,319	2,740	3,167
Minority interest	(0)	0	0	0	0	0
Extra items	0	0	0	0	0	0
Income tax	(291)	(277)	(392)	(519)	(690)	(767)
Net profit (loss)	770	752	1,186	1,800	2,050	2,400
Reported EPS	0.77	0.75	0.99	1.50	1.71	2.00
Fully diluted EPS	0.77	0.75	0.99	1.50	1.71	2.00
Core net profit	755	726	1,159	1,772	2,018	2,368
Core EPS	0.75	0.73	0.97	1.48	1.68	1.97
EBITDA	1,156	1,124	1,673	2,415	2,835	3,263

KEY RATIOS	2007	2008	2009	2010E	2011E	2012E
Revenue growth (%)	22.6	2.2	36.0	33.6	18.2	13.9
Gross margin (%)	13.5	11.8	11.9	12.3	12.7	13.3
EBITDA margin (%)	8.0	6.7	7.4	8.2	8.4	9.0
Operating margin (%)	5.2	4.3	5.1	6.0	6.0	6.5
Net margin (%)	5.3	4.5	5.2	6.1	6.1	6.6
Core profit margin (%)	5.2	4.3	5.1	6.0	6.0	6.5
ROA (%)	1.7	1.5	1.7	2.1	2.1	2.1
ROE (%)	25.0	24.9	16.4	20.1	20.6	20.8
Commission/Insurance prer	14.5	13.5	12.7	12.5	12.5	12.5
Life policy Provision/insurar	50.7	52.1	59.4	63.7	63.0	63.0
Cost/income	45.4	48.2	41.6	36.0	36.0	35.0
Total Loss ratio (benefit pay	11.4	10.7	9.3	8.4	8.1	7.6

BALANCE SHEET (Btm)	2007	2008	2009	2010E	2011E	2012E
Cash & Equivalent	760	2,382	1,718	2,573	2,573	3,997
Total investment in securitie	40,009	44,858	62,141	76,500	90,113	102,597
Total net loans	1,502	1,801	1,907	2,026	2,369	2,570
Premises & equipment (Net	261	325	334	354	539	660
Other assets	1,878	2,116	2,240	2,903	3,041	3,631
Total assets	44,410	51,482	68,339	84,355	98,636	113,455
Life policy reserve	34,222	41,892	53,558	63,198	73,963	85,535
Unpaid benefit to life policy	3,311	3,984	4,680	8,363	10,208	11,310
Premium received in advance	1,699	1,551	1,417	1,701	1,786	1,964
Other liabilities	2,098	1,036	1,452	2,157	2,711	3,098
Total liabilities	41,330	48,463	61,108	75,418	88,668	101,907
Paid-up capital	1,000	1,000	1,200	1,200	1,200	1,200
Share premium	275	275	2,700	2,700	2,700	2,700
Retained earnings	1,805	1,744	3,332	5,038	6,068	7,648
Shareholders equity	3,080	3,019	7,232	8,937	9,968	11,548
Minority interests	0	0	0	0	0	0
Total Liab.&Shareholders'	44,410	51,482	68,339	84,355	98,636	113,455

Sources: Company and BLS's forecast

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 to life policy reserve (%)	9.97	9.89	9.97	43.69	33.13
Life policy provision to premium (%)	60.03	64.30	61.42	62.60	58.32
Claim to 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 to 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
Assets to 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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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.