

10 November 2010

Bangkok Life Assurance

Insurance
Overweight

Earnings in line with estimate

Earnings as expected: BLA posted a 3Q10 profit of Bt454m, up 112% YoY, but down 25% QoQ. The result was in line with our estimate and with the consensus. 9M10 earnings jumped 49% YoY and represent 83% of our FY10 projection.

Results highlights: Total premiums in 3Q10 soared by 15% YoY and 2.5% QoQ to Bt5.6bn, driven by aggressive agent sales and bancassurance. 9M10 total premiums grew 25% YoY to Bt17.9bn, in line with our full-year forecast.

3Q10 ROI dipped to 4.72% from 4.96% the previous quarter and 5.62% in 3Q09. The ROI number, which was in line with our estimate, was impacted by low investment gains of Bt61m (compared with Bt137m in 2Q10) and a lower reinvestment yield for new money.

Outlook: Despite the fourth-quarter being the high season for the life assurance industry, BLA is likely to be impacted somewhat by the recent flooding. As such, its 4Q10 operation will probably be flat QoQ.

What's changed? We maintain our FY10 BLA profit forecast at Bt1.8bn (EPS: Bt1.50), up 52% YoY. We plan to visit management this week before we make any amendments to our model.

Recommendation: BLA is well-positioned to gain on the favorable industry outlook, sustained GDP growth, active bancassurance sales through BBL's branch network and the building of economies-of-scale. The firm also stands to benefit when the BOT resumes ratcheting up its policy interest rate. Given BLA's substantial risk-based capital of about 200%, it can continue expanding its operation without need for a capital increase from some years to come. We reiterate our BUY with a YE10 target price of Bt37.25, based on economic value.

BUALUANG RESEARCH

Suwat Bumrungratudom
suwat@bualuang.co.th
+662 618 1341

BUY (maintained)

Target price: Bt37.25
Price (09/11/10): Bt29.50
BLA TB / BLA.BK

Key Ratios & Statistics

Market cap	Bt35.40bn
12-mth price range	Bt14.60/Bt33.50
3-mth avg daily volume	Bt66.55m
# of shares (m)	1,200.0
Est. free float (%)	28.5
Foreign limit (%)	25.0

Share price perf. (%)	1M	3M	12M
Relative to SET	(12.0)	(24.5)	51.2
Absolute	(4.8)	(4.8)	98.0

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	+1.23	+1.26	+1.15
EPS Consensus(Bt)	1.1	1.22	1.36	1.74
EPS growth (%)	31.44	51.83	13.86	17.09
PER (x)	29.9	19.7	17.3	14.8
EV/EBITDA (x)	23.53	16.58	14.51	12.82
PBV (x)	4.90	3.96	3.55	3.07
Dividend (Bt)	0.3	0.6	0.7	0.8
Dividend yield(%)	1.0	2.0	2.3	2.7
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

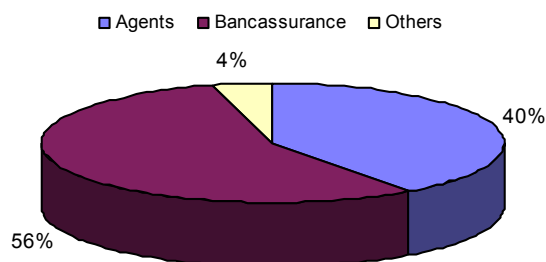
Figure 1: 3Q10 results

Consolidated						
BLA						
	3Q10	2Q10	%QoQ	3Q09	%YoY	Comments
Net insurance premium revenue	5,609	5,473	2.5	4,872	15.1	Sales in line
Less provision for life policy reserve	3,480	3,192	9.0	3,133	11.1	
Revenue realization on premium	2,129	2,281	-6.7	1,739	22.4	
Underwriting expenses	2,289	2,192	4.5	2,038	12.3	
Profit from insurance business	(160)	90	-278.6	-299	-46.4	
Net investment income	948	847	11.9	742	27.8	
Gain on investment	61	137	-55.3	58	6.2	Lower investment gain
Total revenue from investment	1,009	984	2.6	799	26.3	
Other income	6	5	14.6	4	28.4	
Total revenues	855	1,078	-20.7	505	69.2	
Total operating expenses	299	303	-1.6	269	11.1	
EBT	556	775	-28.2	236	135.3	
Income tax	102	172	-40.5	22	362.7	
Net profit	454	603	-24.7	214	111.8	Profit in line
EPS	0.38	0.50	-24.7	0.18	111.8	
Investment assets						
Total Assets	78,302	73,712	6.2	50,131	56.2	
Life policy reserve	77,498	74,057	4.6	59,627	30.0	
Premium/life policy reserve (%)	64,517	61,037	5.7	50,280	28.3	
Premium/life policy reserve (%)	32.13	33.13	nm	38.76	nm	
Life policy provision/Premium (%)	62.04	58.32	nm	64.30	nm	
Claim/life policy (%)	10.52	9.34	nm	10.21	nm	
ROAE (%)	19.37	28.83	nm	12.13	nm	
ROI (%)	4.72	5.03	nm	5.62	nm	
D/E (x)	7.7	8.3	nm	8.2	nm	
Cost to income %	34.9	28.1	nm	53.2	nm	

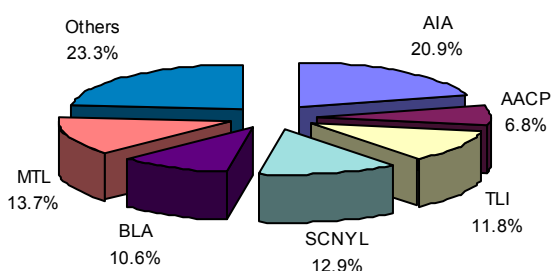
Sources: Company data & Bualuang Research

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

BLA's 9M10 total insurance premium sales by channel (%)



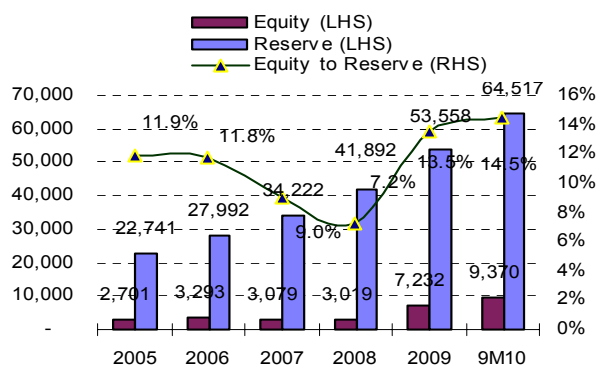
9M10 FYP market shares (%)



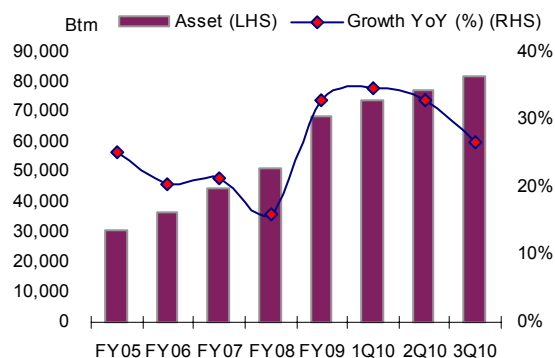
Sources: Company data, Bualuang Research

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

Equity/life policy reserve ratio



BLA's assets and growth YoY (%)



Sources: Company data, Bualuang Research

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 data, Bualuang Research estimates

Financial tables					
QUARTERLY PROFIT & LOSS (Btm)	3Q09	4Q09	1Q10	2Q10	3Q10
Net insurance premium revenue	4,872	5,337	6,849	5,473	5,609
Less provision for life policy reserve	3,133	3,278	4,287	3,192	3,480
Revenue realization on premium	1,739	2,059	2,561	2,281	2,129
Underwriting expenses	2,038	2,219	2,588	2,192	2,289
Profit from insurance business	(299)	(160)	(26)	90	(160)
Net investment income	742	695	773	847	948
Gain on investment	58	12	87	137	61
Total revenue from investment	799	707	860	984	1,009
Other income	4	10	7	5	6
Total revenues	505	556	841	1,078	855
Total operating expenses	269	295	295	303	299
Exceptional items	0	0	0	0	0
EBT	236	262	545	775	556
Income tax	22	79	104	172	102
Minority Interest	0	0	0	0	0
Net profit	214	182	441	603	454
EPS	0.18	0.15	0.37	0.50	0.38
Core profit before tax	174	240	451	633	489
Core EPS	0.15	0.20	0.38	0.53	0.41
KEY RATIOS					
Premium/Life policy reserve (%)	9.89	9.97	43.69	33.13	32.13
Life policy provision/Premium (%)	64.30	61.42	62.60	58.32	62.04
Claim/Life policy (%)	10.21	10.13	10.02	9.34	10.52
Net margin (%)	9.55	6.96	12.96	17.94	15.21
Equity/Life policy reserve (%)	13.9	13.5	13.8	12.65	14.52
BV (Bt)	5.72	6.03	6.64	6.97	7.81
ROE (%)	12.49	10.07	22.14	28.83	19.37
ROA (%)	1.35	1.07	2.38	5.03	2.22
D/E (x)	8.3	8.5	8.3	8.3	7.7
Cost to Income (%)	53.2	53.0	35.2	28.1	34.9
Asset/Equity (%)	9.3	9.5	9.3	9.3	8.7
QUARTERLY BALANCE SHEET (Btm)					
Cash & Equivalent	4,002	1,718	773	758	624
Total investment in securities	54,995	62,141	68,229	71,729	76,243
Total net loans	1,894	1,904	1,944	1,983	2,060
Premises & equipment (Net)	319	334	336	337	332
Other assets	2,431	2,242	2,774	2,692	2,664
Total assets	63,640	68,339	74,057	77,498	81,923
Life policy reserve	49,246	53,558	57,845	61,037	64,517
Unpaid benefit to life policy	4,463	4,680	4,866	5,040	5,311
Premium received in advance	1,516	1,417	1,434	1,393	1,334
Other liabilities	1,555	1,183	1,950	1,667	1,390
Total liabilities	56,781	61,108	66,095	69,137	72,552
Paid-up capital	1,200	1,200	1,200	1,200	1,200
Share premium	2,775	2,700	2,700	2,700	2,700
Retained earnings	1,851	1,776	2,739	3,162	3,377
Shareholders equity	6,860	7,232	7,962	8,361	9,370
Minority interests	0	0	0	0	0
Total Liab & Shareholder equity	63,640	68,339	74,057	77,498	81,923

Sources: Company data, Bualuang Research

BUALUANG SECURITIES PUBLIC COMPANY LIMITED – DISCLAIMER






BUALUANG SECURITIES PUBLIC COMPANY LIMITED (BLS) is a subsidiary of BANGKOK BANK PUBLIC COMPANY LIMITED (BBL). This document is produced based upon sources believed to be reliable but their accuracy, completeness or correctness is not guaranteed. The statements or expressions of opinion herein were arrived at after due and careful consideration to use as information for investment. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. The use of any information shall be at the sole discretion and risk of the user.

This research report was prepared by Bualuang Securities Public Company Limited and refers to research prepared by Morgan Stanley. Morgan Stanley does not warrant or guarantee the accuracy or completeness of its research reports. Morgan Stanley reserves copyright and other proprietary rights in the material reproduced in this report. Morgan Stanley is under no obligation to inform Bualuang Securities or you if the views or information referred to or reproduced in this research report change.

Corporate Governance Report disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association (“IOD”) regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not base on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. Bualuang Securities Public Company Limited does not conform nor certify the accuracy of such survey result.

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.