

5 February 2010

Bangkok Life Assurance

Insurance
Overweight

Sustaining strong momentum

Investment thesis: With the active support of BBL, we forecast that BLA's profit will jump 28% in FY10, following on a phenomenal 66% leap in earnings last year. The impressive bottom-line growth is attributable to an expanding market, a rising market share (driven by bancassurance sales through BBL) and the building of economies-of-scale. We expect BLA's track record and forward earnings profile to trigger substantial further share price appreciation. We reiterate our BUY rating with a YE10 target price of Bt29.25 (based on YE10 economic value). The target price implies a target PER of 22x, which remains lower than the 30x regional average.

Sustained strong 4Q09 operation: After achieving a 7.6% market share of total premiums in 11M09, up from 6.8% in FY08, BLA has boosted sales through agents in order to rebalance its revenue channels (also, BBL achieved its FY09 bancassurance sales target in Sept). Thus, its 4Q09 first-year premium (FYP) revenue is estimated at Bt1.2bn, flat QoQ and up 25% YoY. We expect that 4Q09 total premiums rose 7% QoQ and 29% YoY to Bt5.2bn—a sustained 7.6% market share.

Investment yield dipped to 5%: BLA is expected to post an investment yield of 5.0% for 4Q09, down from 5.79% in 9M09. Note that the investment gain declined and there has been swift growth in invested assets this year, which is currently mostly in cash and short-term instruments. BLA will take some time to find enough appropriately yielding assets in which to re-invest the cash. Note that short-term investments and cash represented 17% of total invested assets at end-Sept. BLA plans to reduce this proportion to 5% of invested assets by switching funds to long-term fixed instruments with higher yields in 1Q10. We estimate net 4Q09 investment income (excluding investment gains) of Bt752m, flat QoQ, and up 23% YoY.

Expect moderate profit growth: We forecast 4Q09 earnings of Bt246m, up by 15% QoQ and 227% YoY, due to swift total premium growth and a declining cost/income ratio with the building of economies-of-scale. We assume a 4Q09 cost/income ratio of 43%, down from 53% the previous quarter because total income expansion has outpaced the increase in OPEX.

BUALUANG RESEARCH

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BUY (maintained)

Target price: Bt29.25
Price (04/02/10): Bt25.00
BLA TB / BLA.BK

Key Ratios & Statistics

Market cap	Bt30.60bn		
12-mth price range	Bt13.50/Bt25.50		
3-mth avg daily volume	Bt89.09m		
# of shares (m)	1,000.0		
Share price perf. (%)	1M	3M	12M
Relative to SET	51.5	72.3	
Absolute	47.4	74.7	

Financial summary

FY Ended 31 Dec	2008	2009E	2010E	2011E
Total rev (Btm)	16,804	20,060	23,162	29,220
Net profit (Btm)	752	1,250	1,600	2,000
Fully diluted EPS (Bt)	0.75	1.04	1.33	1.67
BLS/Consensus (x)	n.m.	0.9	1.1	1.2
EPS Consensus (Bt)	n.m.	1.1	1.2	1.4
EPS growth (%)	-2.4	38.5	28.1	25.0
PER (x)	33.3	24.0	18.7	15.0
EV/EBITDA (x)	27.71	18.90	15.67	13.09
PBV (x)	8.3	4.2	3.6	3.1
Dividend (Bt)	0.4	0.4	0.5	0.7
Dividend yield (%)	1.5	1.7	2.1	2.7
ROE (%)	24.9	17.4	19.1	20.6
ROA (%)	1.5	1.8	2.0	2.1
Net gearing (x)	15.3	8.2	8.4	8.4
Total loss ratio (%)	10.7	9.3	9.5	9.0
Total premium Mkt (%)	6.8	7.7	7.7	7.7

CG Rating - 2009 N/A

Company profile

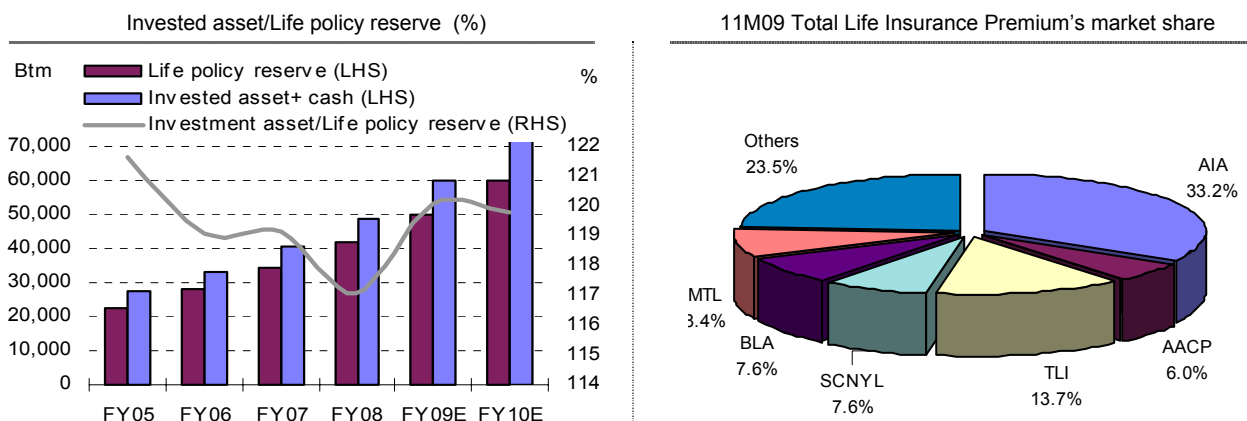
Bangkok Life Assurance Plc (BLA) is one of Thailand's largest pure life assurance players and a subsidiary of Bangkok Bank. Its FYP revenue growth is currently about twice the industry average.

Figure 1: 4Q09 & FY09 earnings preview

Consolidated								
BLA								
	4Q09E	3Q09	%QoQ	4Q08	%YoY	FY09E	FY08	% YoY
Net insurance premium revenue	5,202	4,872	6.8	4,033.2	29.0	19,497	14,732	32.3
Less provision for life policy reserve	3,213	3,133	2.6	1,974.9	62.7	11,601	7,670	51.2
Revenue realization on premium	1,989	1,739	14.4	2,058.3	-3.3	7,896	7,062	11.8
Underwriting expenses	2,111	2,038	3.6	2,043.8	3.3	8,179	7,173	14.0
Profit from insurance business	(122)	(299)	-59.1	14.5	-940.7	(283)	-111	155.7
Net investment income	752	742	1.5	613.1	22.7	2,817	2,430	15.9
Gain on investment	31	58	-46.5	-311.2	-109.9	255	-359	-171.1
Total revenue from investment	783	799	-2.0	301.9	159.4	3,072	2,071	48.3
Other income	18	4	330.3	6.7	177.3	35	26	35.7
Total revenues	680	505	34.6	323.1	110.4	2,824	1,986	42.2
Total operating expenses	294	269	9.3	240.2	22.3	1,122	958	17.1
EBT	386	236	63.3	82.9	365.6	1,702	1,028	65.5
Income tax	140	22	533.1	7.7	1,728.3	453	277	63.6
Net profit	246	214	14.8	75.3	226.7	1,250	752	66.2
EPS	0.20	0.18	14.8	0.06	226.7	1.04	0.63	66.2
Investment assets								
Total Assets	63,379	57,751	9.7	46,657	35.8	63,379	46,657	35.8
Life policy reserve	54,019	50,280	7.4	45,876	17.8	54,019	45,876	17.75
Premium/life policy reserve (%)	38.52	38.76	nr	35.17	nr	36.09	32.11	nm
Life policy provision/Premium (%)	61.76	64.30	nr	48.97	nr	59.50	52.06	nm
Total loss ratio (%)	9.69	10.21	nr	12.59	nr	9.28	10.74	nm
ROAE (%)	13.73	12.13	nm	9.97	nm	17.45	24.90	nm
ROAA (%)	1.44	1.32	nm	0.58	nm	1.83	1.46	nm
D/E (x)	8.5	8.2	nm	16.1	nm	8.5	16.1	nm
Cost to income %	43.2	53.2	nm	74.3	nm	39.7	48.2	nm

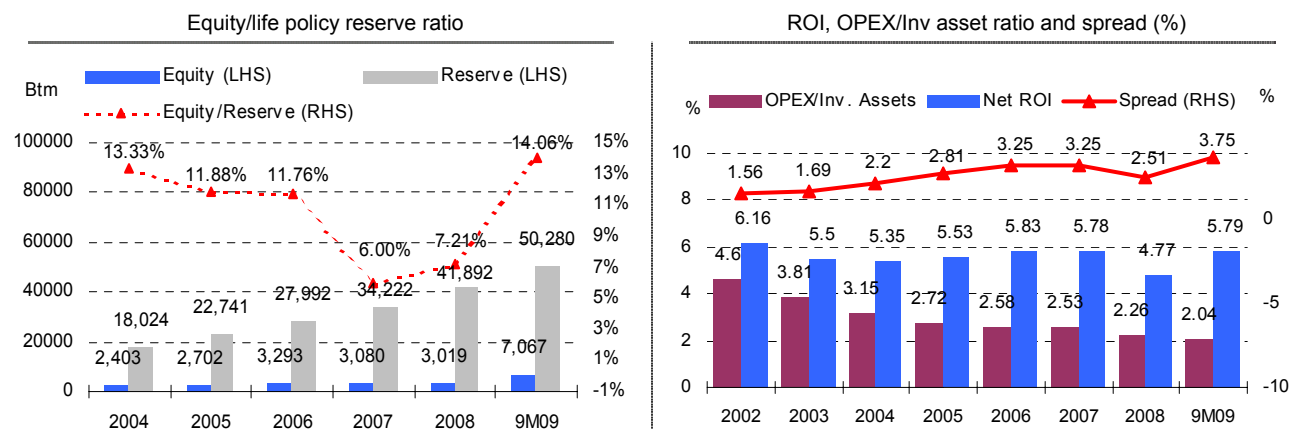
Sources: Company data & Bualuang Research

Figure 2: Life policy reserve and invested assets and BLA's total premium market share in 11M09



Sources: Company data, Bualuang Research

Figure 3: Equity, life policy reserve & equity/total life policy reserve ratio and ROI, OPEX/invested assets ratio & spread (%)



Sources: Company data, Bualuang Research

Recommendation and valuation

Reiterate BUY with TP of Bt29.25: BBL's decision to aggressively expand its fee-based income through bancassurance sales has proved a boon for BLA. We maintain our FY09 earnings estimate at Bt1.28bn, up 66% YoY, and our FY10 forecast at Bt1.6bn, growth of a further 28% YoY. The firm should continue building market share this year. Its share price, which has jumped a spectacular 85% since it debuted on the SET in September 2009, should rise further this year. BLA trades at a cheap price of Bt25—an FY10 PER of 18.8x. Our YE10 target price is Bt29.25 (economic value), an implied PER target of 22x. Both BLA's current PER and our target PER are much lower than the regional peer average of 30x. We maintained our BUY rating.

Figure 4: Sector valuation PER, FY09-10

	Bloomberg Code	Price (local curr.)	PER (x)		PBV (x)		ROE (%)		Div yield (%)	
			FY09E	FY10E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
AMP Limited	AMP AU	6.26	18.0	16.56	5.61	5.17	33.0	33.1	4.76	4.98
Axa Asia Pacific Holding	AXA AU	6.54	23.9	21.95	3.28	3.10	14.3	14.5	2.87	3.13
Cathay Financial Holding	2882 TT	53.20	37.5	26.51	3.36	3.12	11.8	12.0	0.61	1.42
China Life Insurance	601628 CH	27.42	37.0	29.55	4.74	4.64	12.9	14.5	1.34	1.67
China Pacific Insurance	601601 CH	24.03	50.7	81.6	3.37	3.08	6.0	7.6	0.63	0.85
Insurance Australia Group	IAG AU	3.92	25.3	14.15	1.80	1.82	6.5	12.2	2.86	4.64
Ping An Insurance	601318 CH	49.30	38.6	32.95	4.08	3.74	10.6	11.2	0.95	1.25
Bangkok Life Assurance	BLA	25.00	24.0	18.75	4.19	3.59	17.4	19.1	1.67	2.13
Simple average			31.9	30.3	3.8	3.5	14.1	15.5	2.0	2.5

Sources: Bualuang estimates, Bloomberg and Reuters

Financial tables						
PROFIT & LOSS (Btm)	2006	2007	2008	2009 E	2010 E	2011 E
Insurance premium	10,434	12,296	14,732	19,497	22,421	24,664
Less Life policy reserve	(5,251)	(6,230)	(7,670)	(11,601)	(13,004)	(14,366)
Net premium	5,183	6,066	7,062	7,896	9,417	10,297
Underwriting expenses	(5,345)	(6,254)	(7,173)	(8,179)	(9,743)	(10,717)
Profit from insurance	(161)	(187)	(111)	(283)	(326)	(420)
Revenue on investment	1,726	2,116	2,071	3,072	3,815	4,557
Other income /exp.	21	15	26	35	40	44
Net revenue	1,585	1,943	1,987	2,824	3,529	4,181
Operating expenses	(718)	(883)	(958)	(1,122)	(1,396)	(1,551)
EBIT	868	1,061	1,028	1,702	2,134	2,630
Minority interest	(0)	(0)	0	0	0	0
Extra items	0	0	0	0	0	0
Income tax	(215)	(291)	(277)	(453)	(533)	(629)
Net profit (loss)	652	770	752	1,250	1,600	2,000
Reported EPS	0.65	0.77	0.75	1.04	1.33	1.67
Fully diluted EPS	0.65	0.77	0.75	1.04	1.33	1.67
Core net profit	632	755	726	1,215	1,560	1,956
Core EPS	0.63	0.75	0.73	1.01	1.30	1.63
EBITDA	963	1,156	1,124	1,798	2,229	2,726
KEY RATIOS	2006	2007	2008	2009 E	2010 E	2011 E
Revenue growth (%)	41.7	22.6	2.2	42.2	25.0	18.5
Gross margin (%)	13.0	13.5	11.8	12.5	13.4	14.3
EBITDA margin (%)	7.9	8.0	6.7	8.0	8.5	9.3
Operating margin (%)	5.2	5.2	4.3	5.4	5.9	6.7
Net margin (%)	5.4	5.3	4.5	5.5	6.1	6.8
Core profit margin (%)	5.2	5.2	4.3	5.4	5.9	6.7
ROA (%)	1.8	1.7	1.5	1.8	2.0	2.1
ROE (%)	19.8	25.0	24.9	17.4	19.1	20.6
Commission /Insurance premi	15.3	14.5	13.5	12.5	12.5	12.5
Life policy Provision /insuran	50.3	50.7	52.1	59.5	58.0	58.3
Cost /income	45.3	45.4	48.2	41.0	40.0	37.5
Total Loss ratio (benefit payr	11.8	11.4	10.7	9.3	9.5	9.0
BALANCE SHEET (Btm)	2006	2007	2008	2009 E	2010 E	2011 E
Cash & Equivalent	634	760	2,382	2,450	2,300	2,418
Total investment in securities	32,689	40,009	44,858	61,459	73,100	85,650
Total net loans	1,344	1,502	1,801	1,924	2,047	2,398
Premises & equipment (Net	276	261	325	330	350	539
Other assets	1,665	1,878	2,116	2,129	2,864	3,041
Total assets	36,608	44,410	51,482	68,292	80,661	94,046
Life policy reserve	27,992	34,222	41,892	50,288	59,705	70,002
Unpaid benefit to life policy	2,626	3,311	3,984	7,463	8,501	9,583
Premium received in advance	1,843	1,699	1,551	1,590	1,907	2,003
Other liabilities	855	2,098	1,036	1,789	2,185	2,736
Total liabilities	33,315	41,330	48,463	61,130	72,298	84,324
Paid-up capital	1,000	1,000	1,000	1,200	1,200	1,200
Share premium	275	275	275	2,700	2,700	2,700
Retained earnings	2,018	1,805	1,744	3,262	4,462	5,823
Shareholders equity	3,293	3,080	3,019	7,162	8,362	9,723
Minority interests	0	0	0	0	0	0
Total Liab .&Shareholders '	36,608	44,410	51,482	68,292	80,661	94,046
CASH FLOW (Btm)	2006	2007	2008	2009 E	2010 E	2011 E
Net income	652	770	752	1,250	1,600	2,000
Depreciation and amortization	104	101	106	112	117	123
Change in working capital	5,546	6,692	7,850	11,941	13,420	14,873
FX, non-cash adjustment &	(0)	(1)	1,090	1,142	1,413	876
Cash flows from operating a	6,302	7,563	8,708	13,303	15,138	16,996
Capex (Invest)/Divest	(23)	(27)	(113)	(5)	(20)	(189)
Others	(6,150)	(7,190)	(57,849)	(14,983)	(11,243)	(12,357)
Cash flows from investing a	(6,173)	(7,217)	(7,331)	(14,988)	(11,263)	(12,546)
Debt financing (repayment)	0	0	0	0	0	0
Equity financing	0	0	0	2,625	0	0
Dividend payment	(200)	(250)	(1,000)	(376)	(500)	(640)
Others	0	0	0	0	0	0
Cash flows from financing a	(200)	(250)	(1,000)	2,249	(500)	(640)
Net change in cash	(71)	96	377	563	3,376	3,810
Free cash flow (Btm)	6,279	7,536	8,595	13,297	15,118	16,807
FCF per share (Bt)	6.28	7.54	8.60	11.08	12.60	14.01

Sources: Company data, Bualuang Research estimates

Financial tables

QUARTERLY PROFIT & LOSS (Btm)	3Q08	4Q08	1Q09	2Q09	3Q09
Net insurance premium revenue	4,129	4,033	4,722	4,701	4,872
Less provision for life policy reserve	2,391	1,975	2,434	2,822	3,133
Revenue realization on premium	1,738	2,058	2,289	1,879	1,739
Underwriting expenses	1,831	2,044	1,999	2,032	2,038
Profit from insurance business	(93)	15	290	(153)	(299)
Net investment income	648	613	635	688	742
Gain on investment	(60)	(311)	125	41	58
Total revenue from investment	588	302	761	729	799
Other income	15	7	7	6	4
Total revenues	511	323	1,057	582	505
Total operating expenses	251	240	284	276	269
Exceptional items	0	0	0	0	0
EBT	259	83	773	307	236
Income tax	84	8	217	73	22
Minority Interest	0	0	0	0	0
Net profit	176	75	556	233	214
EPS	0.18	0.08	0.56	0.23	0.18
Core profit before tax	305	387	641	260	174
Core EPS	0.30	0.39	0.64	0.26	0.15

KEY RATIOS	3Q08	4Q08	1Q09	2Q09	3Q09
Premium/life policy reserve (%)	10.34	9.63	10.65	9.97	9.89
Life policy provision/Premium (%)	57.91	48.97	51.53	60.03	64.30
Total loss ratio (%)	11.77	12.59	9.92	10.59	10.21
Net margin (%)	7.81	3.16	16.63	9.47	9.55
Equity/Life policy reserve (%)	7.0	7.2	7.3	8.2	13.9
BV (Bt)	2.81	3.02	3.26	3.87	5.72
ROE (%)	25.02	9.97	68.35	24.07	12.49
ROA (%)	1.43	0.58	4.04	1.60	1.35
D/E (x)	16.6	16.1	15.9	14.1	8.3
Cost to Income (%)	49.2	74.3	26.9	47.3	53.2
Asset/Equity (%)	17.6	17.1	16.9	15.1	9.3

QUARTERLY BALANCE SHEET (Btm)	3Q08	4Q08	1Q09	2Q09	3Q09
Cash & Equivalent	533	2,382	3,657	3,748	4,002
Total investment in securities	44,859	44,858	47,135	50,131	54,995
Total net loans	1,635	1,798	1,825	1,848	1,894
Premises & equipment (Net)	293	325	321	319	319
Other assets	1,965	2,119	2,082	2,379	2,431
Total assets	49,285	51,482	55,021	58,425	63,640
Life policy reserve	39,917	41,892	44,325	47,147	49,246
Unpaid benefit to life policy	3,842	3,984	4,106	4,333	4,463
Premium received in advance	1,594	1,551	1,528	1,516	1,516
Other liabilities	1,125	1,036	1,805	1,555	1,555
Total liabilities	46,478	48,463	51,765	54,551	56,781
Paid-up capital	1,000	1,000	1,000	1,000	1,200
Share premium	275	275	275	275	2,775
Retained earnings	879	950	1,479	1,565	1,851
Shareholders equity	2,808	3,019	3,256	3,874	6,860
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	49,285	51,482	55,021	58,425	63,640
	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.