

1 November 2010

Bangkok Life Assurance

Insurance
Overweight

The growth story continues ...

Investment thesis: Given the favorable industry outlook—the Thai Life Assurance Association forecasts 18% YoY industry growth in FY10 total premiums—we forecast that BLA's profit will jump 51% in FY10 and a further 14% in FY11. The flooding won't impact the firm's bottom-line, as the death toll is only about 100 (and few of the victims are likely to have life assurance). However, the disaster might prompt more people upcountry to consider the advantages of the various assurance products available. We expect BLA's market share to continue to rise and the (temporarily halted) uptrend in interest rates to resume next year, boosting its share price further. Our BUY rating stands.

Improved YoY profit growth: We anticipate that the firm will post a 3Q10 profit of Bt430m, up 101% YoY, on an expanded ROI and a rising market share. Note that in QoQ terms, our earnings estimate represents a 29% fall, mostly due to seasonality.

Market share on the way up: BLA should report a market share of 8.75% of total premiums for FY10, above the 7.74% it posted for FY09. Note that that firm ranked fifth with an 8.7% market share of total insurance premiums for 7M10.

ROI dipped: We estimate a slight decline in return on investment to 4.72% in 3Q10 from 5% the previous quarter, due to a fall in the 5-year bond yield (brought about by heavy foreign buying of the tenor) and lower dividend payments on equity investments during the quarter. Our 3Q10 net investment income projection (excluding investment gains) is Bt846m, flat QoQ but up 14% YoY. We also expect investment gains of Bt40m for the quarter, down by 70% QoQ and 31% YoY.

BUALUANG RESEARCH

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

BUY (maintained)

Target price: Bt37.25
Price (29/10/10): Bt27.50
BLA.TB / BLA.BK

Key Ratios & Statistics

Market cap	Bt33.00bn
12-mth price range	Bt14.30/Bt33.50
3-mth avg daily volume	Bt67.61m
# of shares (m)	1,200.0
Est. free float (%)	28.5
Foreign limit (%)	25.0

Share price perf. (%)	1M	3M	12M
Relative to SET	(16.7)	(21.2)	45.7
Absolute	(14.1)	(6.0)	88.4

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	1,800	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)	27.8	18.3	16.1	13.8
EV/EBITDA (x)	22.10	15.58	13.66	12.08
PBV (x)	4.56	3.69	3.31	2.86
Dividend (Bt)	0.3	0.6	0.7	0.8
Dividend yield (%)	1.1	2.2	2.5	2.9
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

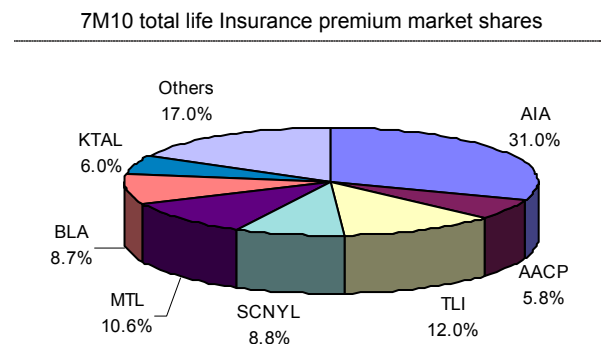
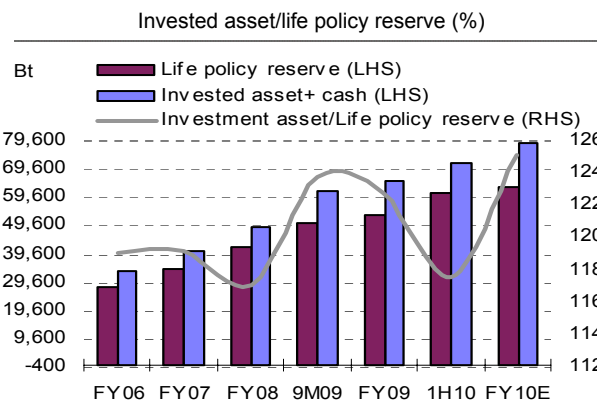
Bangkok Life Assurance Plc (BLA) is one of Thailand's largest pure life assurance players and a subsidiary of Bangkok Bank. Its FYP revenue growth is currently about twice the industry average.

Figure 1: 3Q10 earnings preview

BLA	3Q10E	2Q10	%QoQ	3Q09	%YoY	9M10E	9M09	%YoY
Net insurance premium revenue	5,115	5,473	-6.5	4,872	5.0	17,437	14,295	22.0
Less provision for life policy reserve	3,069	3,192	-3.8	3,133	-2.0	10,548	8,388	25.8
Revenue realization on premium	2,046	2,281	-10.3	1,739	17.7	6,889	5,907	16.6
Underwriting expenses	2,055	2,192	-6.2	2,038	0.9	6,835	6,068	12.6
Profit from insurance business	-9	90	-110.1	-299	-97.0	54	-161	-133.6
Net investment income	846	847	-0.1	742	14.1	2,466	2,065	19.4
Gain on investment	40	137	-70.8	58	-30.8	264	224	17.9
Total revenue from investment	886	984	-9.9	799	10.9	2,730	2,289	19.3
Other income	5	5	0.0	4	12.0	16	17	-2.0
Total revenues	882	1,078	-18.2	505	74.6	2,801	2,144	30.6
Total operating expenses	300	303	-1.3	269	11.5	899	828	8.5
EBT	582	775	-24.9	236	146.3	1,902	1,316	44.5
Income tax	153	172	-11.4	22	589.1	429	312	37.4
Net profit	430	603	-28.7	214	100.6	1,473	1,004	46.8
EPS	0.36	0.50	-28.7	0.18	100.6	1.23	0.84	46.8
Performance Ratios								
Premium /life policy reserve (%)	29.72	33.13	nm	38.76	nm	101.31	9.48	nm
Life policy provision /Premium (%)	60.00	58.32	nm	64.30	nm	60.49	58.68	nm
Claim /life policy (%)	8.61	9.34	nm	10.21	nm	9.32	7.88	nm
Net margin (%)	14.68	17.94	nm	9.55	nm	15.20	12.47	nm
Profitability Ratios								
ROAE (%)	20.09	28.83	nm	12.13	nm	23.69	18.93	nm
ROI (%)	4.72	5.03	nm	5.62	nm	4.90	5.43	nm
Capital Position								
Equity /Life policy reserve (%)	12.43	12.65	nm	14.06	nm	12.43	14.06	nm
D/E (x)	8.41	8.27	nm	8.15	nm	8.41	8.15	nm
Cost to income %	33.98	28.14	nm	53.20	nm	32.08	38.63	nm

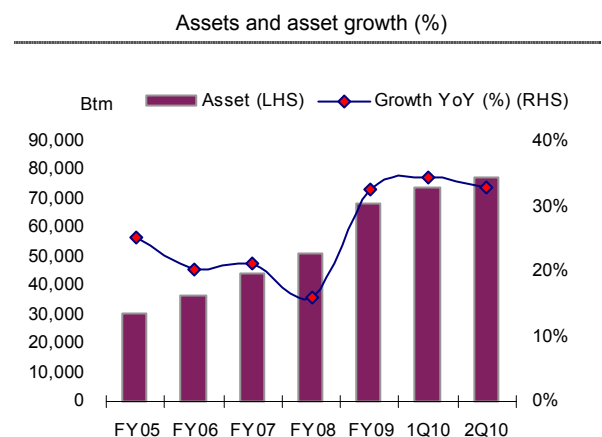
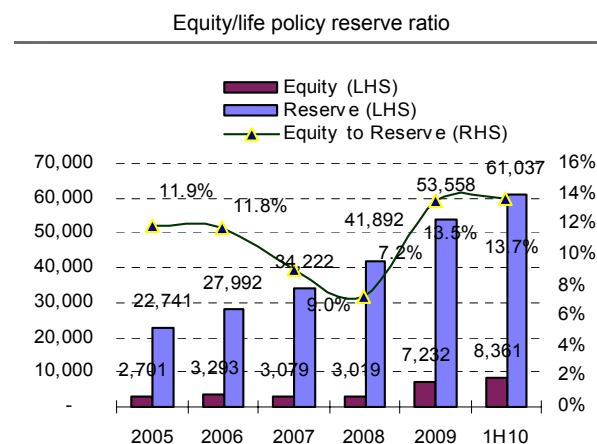
Sources: Bualuang estimates, Bloomberg and Reuters

Figure 2: Life policy reserve and invested assets, FY06-10E and BLA's total premium market share for 7M10



Sources: Company data, Bualuang Research

Figure 3: Equity, life policy reserve & equity/total life policy reserve ratio and assets and asset growth (%)



Sources: Company data, Bualuang Research

Figure 4: Sector valuation PER, FY09-10

Bangkok Life Assurance Plc., (BLA)	2006	2007	2008	2009	2010F	2011F
Net assets (Equity-unrealized gain)	2,431	1,951	2,702	4,998	7,488	8,878
Adjusted net worth		3,080	3,019	7,232	8,488	9,878
Value of in-force before cost of solvenc	3,200	10,000	10,415	11,886	14,360	17,958
Cost of solvency margin		-1,672	-1,741	-1,987	-2,401	-3,002
Value of in-force after cost of solvency margin		8,328	8,674	9,899	11,959	14,955
Embedded value		10,279	11,376	14,897	19,447	23,833
EV per share		10.28	9.48	12.41	16.21	19.86
Shares (Million)	1,000	1,000	1,200	1,200	1,200	1,200
VIF (need to double check with Actuary on calculation).						
VIF at begin		3,200	8,328	8,674	9,899	11,959
VNB		1,000	1,111	2,143	3,201	4,445
		406	976	1,069	1,260	1,554
Other changes		5,394				
Before cost of solvency		10,000	10,415	11,886	14,360	17,958
Cost of solvency margin		-1,672	-1,741	-1,987	-2,401	-3,002
VIF at end		8,328	8,674	9,899	11,959	14,955
VIF per share						
VIF / Liability						
No. of policies						
Per policy						
VNB						
VNB before cost of solvency margin		1,000	1,111	2,143	3,201	4,445
		-166	-186	-429	-531	-738
VNB after cost of solvency margin		834	925	1,714	2,670	3,707
VNB per share						
VNB growth						
New business premiums (pure new business)						
New business premiums (based on con	2,433	3,272	4,269	7,214	10,051	14,111
VNB margin (pure new business)						
NB margin (based on Ping An Calc)						
Change in NB margin						
New business premium growth		34%	30%	69%	39%	40%
VIF		8,328	8,674	9,899	11,959	14,955
NAV adjust		1,951	2,702	4,998	7,488	8,878
VIF Valuation/Share		8.33	7.23	8.25	9.97	12.46
NAV Valuation/Share		1.95	2.25	4.17	6.24	7.40
Embedded value/Share		10.28	9.48	12.41	16.21	19.86
VNB Value of future business (THBmn)		834	925	1,714	2,670	3,707
VNB Valuation (times multiles)		7.85	7.26	13.44	20.94	29.07
Economic value/share (NPV)		18.13	16.74	25.86	37.15	48.94
BV		3.08	3.02	6.03	7.07	8.23
Fair price/BV		5.89	5.54	4.29	5.25	5.94
			17.73			
EV assumptions						
	Multiple valuation premium					
VNB	9.4x	0%				
VIF Multiple	1.0x	0%				
Book value	1.0x	0%				
Discount rate	11.00%					
Investment return						
Payout	40.00					
Ke	14.25					
Growth	10.00					
Multiple of VNB	9.41					
Risk fee	5.00					
Risk premium	6.00					
Beta	1.00					
Re	11.00					

Sources: Bualuang estimates, Bloomberg and Reuters

Recommendation and valuation

Reiterate BUY with new TP of Bt37.25: Neither delayed fallout from the April-May Red Shirt uprising nor the recent flooding will have any real effect on BLA's numbers. The firm's FYP growth is driven by bancassurance sales through BBL's branch network, which is building market share for the firm in a market which is itself expanding (bancassurance sales are also a lot cheaper than commissioned agent sales). We maintain our earnings forecasts at Bt1.8bn for FY10 and Bt2.1bn for FY11—bottom-line expansion of 51% and 14%, respectively. BLA's share price has rallied 115% since its debut on the SET in September 2009.

But the stock is still only Bt27.50—inexpensive PERs of 18.3x for FY10, and 16.1x for FY11. There is 35% upside to our YE10 target price of Bt37.25 (based on FY10 embedded value [EV] of Bt16.2 plus the value of new business [VNB] of Bt21.0 = fair value of BLA). Our target PER is below the regional peer averages of 32x for FY10, and 23x for FY11, despite the fact that BLA has much stronger FY10 and FY11 ROE. Our BUY rating stands

Figure 5: Sector valuation PER, FY10-11

Company	Ticker	PER		2-Yr EPS		PBV		Div Yld (%)		ROE (%)	
		FY10	FY11	FY12	Growth (%)	FY10	FY11	FY10	FY11	FY10	FY11
AIA Group Ltd	1299 HK	18.58	16.52	14.16	15.6%	2.04	1.76	0.807	0.975	11.55	11.0
AMP LTD	AMP AU	13.3	14.4	13.3	8.5%	4.0	3.9	2.5%	5.6%	32.1	28.3
AXA ASIA PACIFIC	AXA AU	18.0	19.8	16.9	-1.1%	2.5	2.4	0.9%	3.4%	17.6	12.3
CATHAY FINANCIAL	2882 TT	44.2	47.9	27.3	24.3%	2.6	2.2	3.4%	1.1%	18.8	5.9
CHINA LIFE INSURANCE	601628 CH	22.3	21.6	18.1	11.0%	3.8	3.2	1.2%	1.6%	17.1	14.8
CHINA PACIFIC INSURANC	601601 CH	27.5	27.2	22.2	19.7%	3.0	2.7	1.4%	1.2%	11.9	11.3
INSURANCE AUSTRALIA	IAG AU	89.1	12.8	11.9	174.9%	1.8	1.7	3.7%	4.6%	2.0	13.2
PING AN INSURANCE	601318 CH	24.5	28.2	23.7	18.6%	4.4	5.7	0.4%	0.9%	18.6	15.9
BANGKOK LIFE ASSURANC	BLA TB	18.3	16.1	13.8	35.9%	3.7	3.3	2.2%	2.5%	20.1	20.6
Average		32.1	22.7	17.9	34.2%	3.1	3.0	10.7%	13.1%	16.6	14.8

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						
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)						
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

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
Asset 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 Liab & Shareholder's equity	58,425	63,640	68,339	74,057	77,498

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 based 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.