

# Bangkok Life Assurance

SET | Reuters | Bloomberg  
BLA | BLA.BK | BLA TB



CG Rating 2009  
n.a. | n.a.

**HOLD**
**(downgraded)**

Price (14 September 2010)

**Bt31.50**

12-month target price

**Bt32 (+1.6%)**
**Company Update**

## Downgrade to HOLD on falling bond yields

**Investment yield expectations lowered; downgrade to HOLD**

We have trimmed our target price by 8% from Bt36 to Bt32 to reflect a reduced RoI expectation for the company. The average yield on BLA's bond portfolio was 5.05% in 2Q10 but with the 10-year yield currently standing at just 3%, we anticipate significant yield compression upon investment rollover. Furthermore, the 5.25% yield assumption used by the company now looks unattainable and we have instead assumed a yield of 5.00%. Consequently our 2011F EV estimate was lowered from Bt18 to Bt16 and we downgraded our rating to **Hold** until signs of bond yield recovery are apparent.

**Net RoI could fall to 5.00% in 2011F**

Though BLA has been shortening its investment assets' duration, this measure is only useful if yields are recovering and we do not expect this to happen within the next 12 months. Based on our new 12-month outlook for 10-year treasury yields, we estimate that BLA's net RoI could fall to 5.24% in 2010F and 5.01% in 2011F before recovering in 2012F (see Figure 4).

**July premium collection implies sluggish growth again**

July turned out to be another unexceptional month for the company. BLA collected 17% more premiums compared YoY, but first-year premiums showed a 12% YoY contraction. So far this year, FYP stands at 5% less than last year. We still expect Bangkok Bank to help the company register positive FYP growth (especially in 4Q10F) but have cut our full-year FYP growth (inclusive of single premium) projection from 9% to 6% YoY.

**Valuation and risk factors**

By applying a P/EV multiple of 2x over a 2011F EV of Bt16/share, we derived a target price of Bt32. Our TP carries an implied new business multiple of 10x which is similar to low-growth European insurers. Risk factors include: 1) more stringent regulations regarding capital/solvency ratios (especially after RBC standards are implemented in 2011); and 2) tougher competition from rival insurers that are backed by other leading domestic banks.

**CONSOLIDATED FINANCIAL SUMMARY**

Year	2007	2008	2009	2010F	2011F	2012F
Net written premiums	12,296	14,732	19,632	23,840	29,005	34,677
NWP growth (%)	17.8	19.8	33.3	21.4	21.7	19.6
Net profit (Bt, m)	770	752	1,186	1,608	1,636	1,985
Net profit growth (%)	18.0	(2.4)	57.7	35.6	1.8	21.3
EPS (Bt)	0.77	0.75	1.12	1.34	1.36	1.65
EPS growth (%)	18.0	(2.4)	48.9	19.7	1.8	21.3
EV per share (Bt)	10.3	11.1	12.0	14.5	16.0	19.5
BVPS (Bt)	0.0	0.0	0.0	0.4	0.0	15.1
DPS (Bt)	n.a.	n.a.	0.30	0.40	0.50	0.65
Yield (%)	n.a.	n.a.	1.7	1.2	1.5	2.0

Note : use average price for historical PER, PBV, Yield

**SHARE SUMMARY**
**Price:**

52-week high	Bt33.00
52-week low	Bt13.50
52-week average	Bt22.91

**Stock data:**

Issued shares:	1,200.0m
Par value:	Bt1.0
Market capitalization:	Bt37.8bn
Market capitalization:	US\$1,229.3m
Avg. Daily Turnover:	Bt105.3m
Avg. Daily Turnover:	US\$3.2m
Foreign Limit:	25.0%
Foreign Ownership:	25.0%
Free Float:	28.7%
NVDR:	4.50%
Beta (3 years)	0.75X

**TISCO's forecast vs. consensus**

EPS (Bt)	TISCO	Consensus	% Diff.
2010F	1.34	1.42	(5.6)
2011F	1.36	1.78	(23.2)

**Major Shareholders (03/09/10)**

Nippon Life Insurance Co	20.8%
Wattanasophonpanich Co Ltd	13.3%
Bangkok Bank	7.7%
Bangkok Insurance	5.3%
Thai NVDR Co Ltd	4.6%

**PRICE / PRICE RELATIVE**


Source: Reuters

Performance (%)	-1m	-3m	-12m
BLA	(1.56)	13.51	0.00
SET	6.42	17.96	32.70

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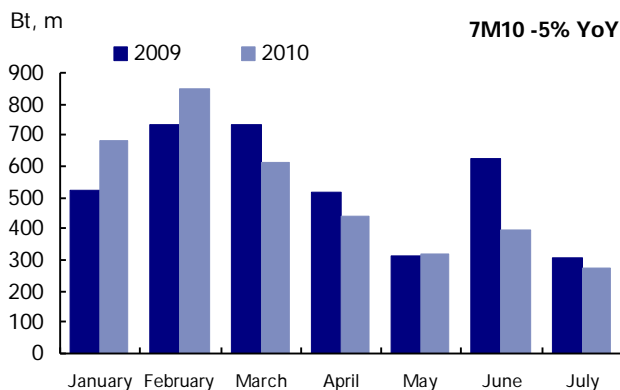
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## Low fixed income yield is a long-term worry

### Negative FYP growth in July looks bad but is not too worrisome ...

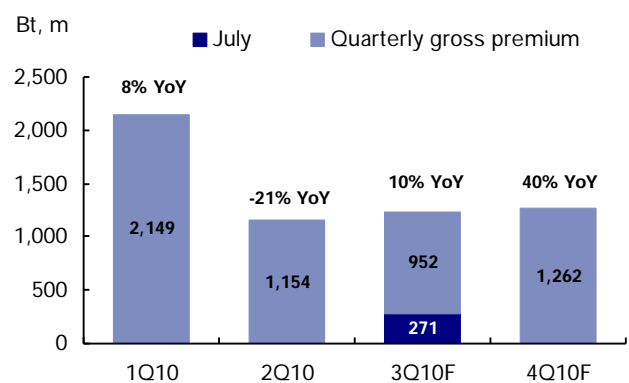
BLA reported its gross premiums totalled Bt1.7bn for July, a growth rate of 17% YoY. The renewal premium figure (up 25% YoY) continues to demonstrate the solid persistency that BLA has proved capable of sustaining. But July was another bad month in terms of new business, with first-year premiums down by 12% YoY. During 7M10 its FYP fell by 5% YoY but we still expect its Bangkok Bank affiliation to help the company register positive growth by year-end (esp. in 4Q10F). However, in view of the sluggish numbers for July, we revised down our full-year FYP growth target (inclusive of single premium) from 9% to 6%. In our view the new business slowdown is not too problematic at this point as it could be quickly reversed by a renewed marketing push by BBL.

**Figure 1. First year premium by month**



Source: The Thai Life Assurance Association

**Figure 2. Quarterly FYP breakdown**



Sources: Company data, TISCO Research

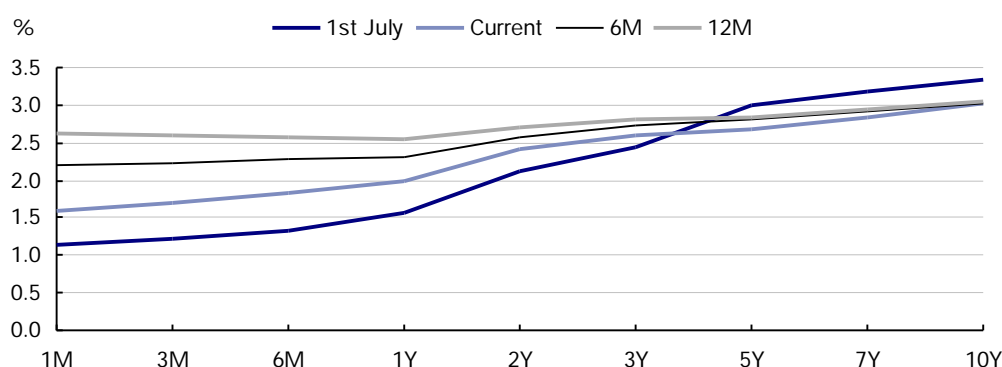
### ... but low investment returns are much harder to reverse

On the other hand we see low bond yields as posing a much bigger downside risk for life insurers given that they can persist for a long time. This issue is magnified for Thailand given the illiquid nature of the fixed income market. Once invested, low yields would have to be carried until the fixed income instrument reaches maturity.

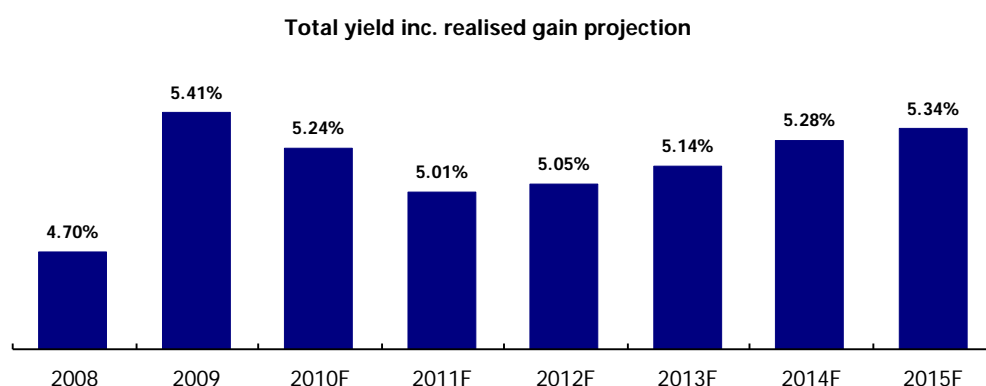
The situation appears to be more serious for BLA than other life insurers. BLA is not only a traditional life business but the company has been carrying an investment portfolio that yields an exceptionally consistent and industry-beating RoI of over 5%. By comparison AIA had a net RoI of only 4.03% and the industry average was 4.61% in 2008. We now have doubts as to whether the company can maintain this yield level. The Thai bond market has experienced a substantial influx of foreign funds lately which have been driving up long-end prices (e.g. Bt50bn net inflow in August vs. only Bt16bn into the equity market). In turn, the 10-year benchmark yield on treasury bonds has dipped by as much as 34bps QTD to only 2.95% (in spite of the 50bps policy rate rise).

### Lowering the guaranteed rates is only beneficial for marginal policies

We note that BLA has been lowering its contractual guaranteed rates by 50bps across the board (on savings products) in order to maintain its investment spread. This should have little effect on the relative attractiveness of life insurance policies compared with other investment products (i.e. tax deductibility could effectively create a 37% yield investment), but the tactic is only beneficial at the margin since the problem mostly relates to the company's locked-in back book business.

**Figure 3. Projected treasury yield curve (bear flattening outlook)**


Sources: Thai Bond Market Association, TISCO Research

**Figure 4. Net Rol forecast (inclusive of realised gains)**


Sources: BLA, TISCO Research

#### Net Rol could fall to 5% in 2011F

BLA has been active in portfolio management (i.e. temporarily investing in short-term papers whilst waiting for yields to improve), but our 12-month outlook for the yield curve implies that even with a slower rollover rate, the company's net Rol would probably fall to 5% in 2011. Since the 10-year yield for Thai bonds generally correlates with its US counterpart, the start of a gradual recovery appears most likely in 2012F when the US economy and rates should take a more positive path.

#### Reducing our EV yield assumption by 0.25% to 5.00%

Given our expectation of a bearish Rol trend up until 2012F, the 5.25% assumption used for the last annual EV disclosure now looks to be unattainable. We have therefore lowered our EV yield assumption to 5.00%.

Assuming constant growth, this would have the effect of reducing our 2010-11F EV estimates by 9% each, but if our reduced growth estimate is included (i.e. 6% FYP growth this year vs. 9% previously), our EV estimate would fall to Bt14.50/share for 2010F and Bt16/share for 2011F. We also reduced our estimate of new business value from Bt1.80 to Bt1.50/share in 2011F.

Note that although the EV sensitivity to yield assumption change seems large i.e. almost 10% for every 25bps change, we think that the company's profitability has little correlation to its interest spread. Instead the sensitivity appears to be mostly attributable to a mismatch between the duration of the insurer's assets and liabilities. This is supported by the estimate that investments account for 70% of the risk charges (with 60% due to mismatch) that BLA would incur on a risk-based capital (RBC) basis.

**Valuation and risks**

By multiplying the P/EV multiple of 2.0x for 2011F with an EV of Bt16.0, we arrived at an initial target price of Bt32. With a 2011F new business value of Bt1.52 per share, our price target suggests an implied new business multiple of 10.5x.

Upside risk factors include: 1) a faster than expected bond yield recovery; and 2) an aggressive marketing push for its insurance products by Bangkok Bank.

Downside risk factors include: 1) more stringent regulatory rules covering capital/solvency ratios especially after RBC standards are implemented in 2011; and 2) tougher competition from rival insurers that are backed by other leading Thai banks.

## CONSOLIDATED INCOME STATEMENT (Bt, m)

	Year Ended December 31,				
	2008	2009	2010F	2011F	2012F
Net premiums written	14,732	19,632	23,840	29,005	34,677
Net investment income	2,430	2,760	3,370	4,012	5,005
Gains on investments in securities	(359)	236	421	526	647
Other income	26	26	9	14	14
Total revenue	16,829	22,654	27,641	33,557	40,343
Life policy reserve increase	7,670	11,666	14,447	17,403	20,806
Benefit payments	4,926	5,437	6,680	8,806	10,903
Commissions	1,985	2,502	2,801	3,368	4,006
Other underwriting expenses	262	349	426	525	613
Personnel expenses	490	551	604	664	724
Premises and equipment expenses	108	121	135	145	155
Other operating expenses	360	451	492	555	598
Total expenses	15,801	21,077	25,586	31,466	37,806
Income tax	277	392	447	455	551
Extraordinary items	0	0	0	0	0
<b>Net profit</b>	<b>752</b>	<b>1,186</b>	<b>1,608</b>	<b>1,636</b>	<b>1,985</b>

## KEY FINANCIAL RATIOS (%)

	Year Ended December 31,				
	2008	2009	2010F	2011F	2012F
Premium receivable (days)	27.1	21.0	18.7	17.8	17.0
Gross profit margin (%)	14.5	12.8	11.2	9.5	8.5
Net profit margin (%)	4.5	5.2	5.8	4.9	4.9
Return on investment (%)	4.9	5.6	5.4	5.1	5.2
Cost to insurance income ratio (%)	21.8	20.1	18.5	18.0	17.5
Underwriting profit margin (%)	(0.8)	(1.6)	(2.2)	(3.8)	(4.8)
Investment-net expense margin (%)	7.0	8.0	8.6	7.2	7.3
Return on equity (%)	49.5	23.1	20.4	18.6	21.2
Return on asset (%)	3.1	2.0	2.1	1.7	1.7
Asset turnover (x)	0.7	0.4	0.4	0.4	0.3
Policy reserve to equity ratio (x)	13.9	7.4	7.9	9.4	11.0
Policy reserve to asset ratio (%)	0.8	0.8	0.8	0.8	0.8
Book value per share (Bt)	3.0	6.0	7.1	7.5	8.1
Earnings per share (Bt)	0.8	1.0	1.3	1.4	1.7

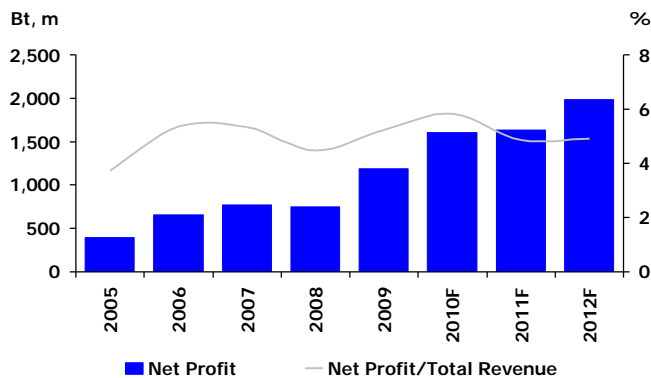
## CONSOLIDATED QUARTERLY RESULTS (Bt, m)

	2Q09	3Q09	4Q09	1Q10	2Q10
Net premiums written	4,701	4,872	5,337	6,849	5,473
Net investment income	688	742	695	773	847
Gains on investments in securities	41	58	12	87	137
Other income	6	6	8	7	3
Total revenue	5,435	5,677	6,052	7,716	6,459
Life policy reserve increase	2,822	3,133	3,278	4,287	3,192
Benefit payments	1,363	1,399	1,475	1,563	1,468
Commissions	603	553	675	898	619
Other underwriting expenses	66	86	69	126	104
Personnel expenses	139	135	141	143	152
Premises and equipment expenses	29	30	32	32	34
Other operating expenses	107	106	120	120	116
Total expenses	5,129	5,441	5,791	7,171	5,685
Income tax	73	22	79	104	172
Extraordinary items	0.00	0.00	0.00	0.00	0.00
<b>Net profit</b>	<b>233</b>	<b>214</b>	<b>182</b>	<b>441</b>	<b>603</b>
Net profit margin (%)	4.3	3.8	3.0	5.7	9.3
Return on investment (%)	5.7	5.5	4.6	4.7	4.8
Underwriting profit margin (%)	(3.2)	(6.1)	(3.0)	(0.4)	1.6

## CONSOLIDATED BALANCE SHEET (Bt, m)

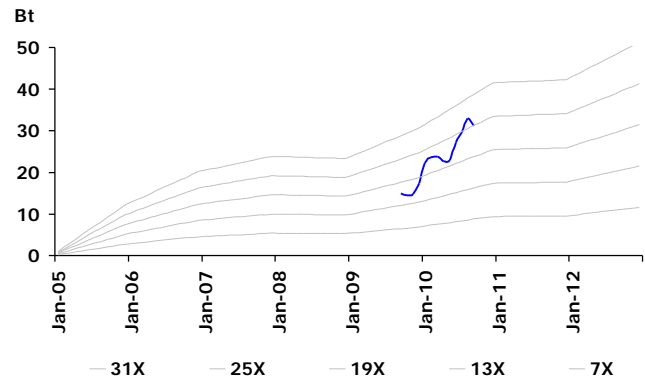
	As of December 31,				
	2008	2009	2010F	2011F	2012F
Bonds	28,449	42,951	55,155	68,941	84,795
Notes	4,058	4,696	6,287	6,866	8,445
Stocks	3,594	4,446	6,366	8,828	10,858
Debentures	7,423	7,764	8,435	10,528	12,949
Total investment in securities	44,858	62,141	78,588	98,092	120,648
Allowance for doubtful accounts	(3)	(3)	(3)	(3)	(3)
Loans net allowance	1,798	1,904	2,154	2,439	2,762
Cash and deposits	2,382	1,718	2,306	1,710	1,785
Other assets	2,443	2,576	2,937	3,336	3,847
<b>Total assets</b>	<b>51,482</b>	<b>68,339</b>	<b>85,985</b>	<b>105,576</b>	<b>129,042</b>
Life policy reserve	41,892	53,558	68,005	85,409	106,215
Unpaid policy benefits	3,984	4,680	6,461	8,114	10,090
Other	2,587	2,870	2,952	2,999	3,049
<b>Total liabilities</b>	<b>48,463</b>	<b>61,108</b>	<b>77,418</b>	<b>96,521</b>	<b>119,354</b>
Surplus on revaluation of investments	316	1,033	1,200	1,300	1,300
<b>Total shareholder's equity</b>	<b>3,019</b>	<b>7,232</b>	<b>8,567</b>	<b>9,055</b>	<b>9,687</b>

### Net profit



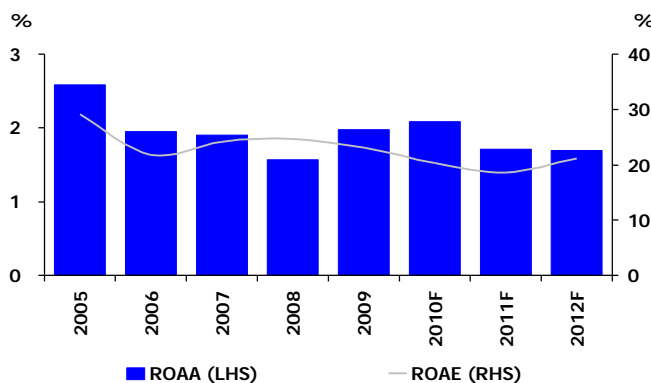
Sources : Company data, TISCO Research

### PE Band



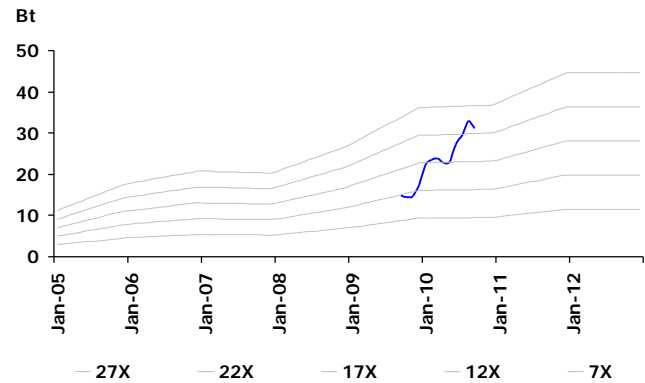
Sources : Company data, TISCO Research

### ROAA, ROAE



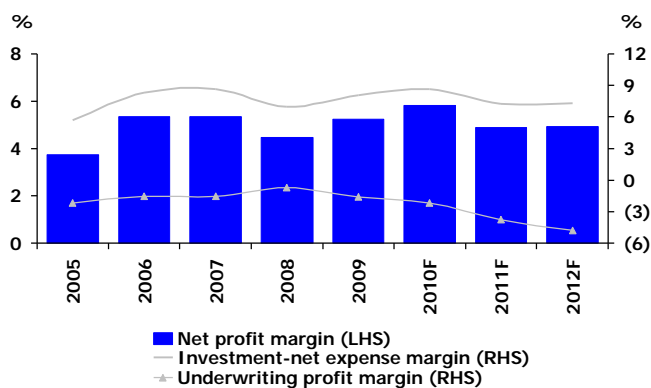
Sources : Company data, TISCO Research

### PE (forward) Band



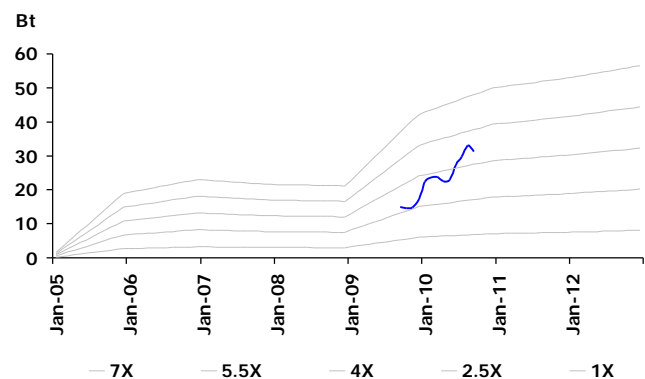
Sources : Company data, TISCO Research

### Underwriting profitability



Sources : Company data, TISCO Research

### PBV Band



Sources : Company data, TISCO Research

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Corporate Governance Report  
of Thai Listed Companies 2009

Score Range	Level	Description
90 - 100	5	Excellent
80 - 89	4	Very Good
70 - 79	3	Good
60 - 69	2	Satisfactory
50 - 59	1	Pass
< 50 or not rated	n.a.	n.a.

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