

16 July 2010

Bangkok Life Assurance

Insurance
Overweight

Market share increase prompts earnings forecast upgrade

Investment thesis: BLA's 5M10 total market share rose to 9.1%, up from 7.74% for FY09. As such, we have raised our YE10 target price to Bt37.25, based on economic value (EV+VNB). Our upgrade reflects an increased FY10 insurance premium market share assumption of 8.75%, up from 7.74% previously. The market share expansion was facilitated by bancassurance sales via BBL. We expect economic recovery and anticipation of further interest rate increases in 2H10 to boost BLA's earnings and share price.

FY10 profit upgraded 3%: Despite its rising market share, we have revised up BLA's FY10-11 profit forecasts by only 3% each to Bt1.65bn and Bt2.05bn, respectively. We anticipate that BLA will set greater life policy reserves in order that it can swiftly meet future commitments to life policyholders.

Market share hit a record high: We expect BLA to report a market share of 8.75% of total premiums for FY10, up from 7.74% last year. Note that in 5M10, BLA ranked third with a 9.1% market share of total premiums and 10% of FYPs.

Heavier life policy provisioning: BLA has increased provision for its life policy reserve to 63% of total insurance premiums in FY10 from 59.4% in FY09. As such, we expect this expense to rise 44% YoY to Bt16.8bn this year, which will largely offset the effect of the increased market share on the bottom-line.

ROI on the way up: Given that interest rates have started to rise, return on investment should increase to 5.25% for FY10 from 5.02% in 1Q10. We estimate that every 0.25% interest rate increase adds 3.8% to its 12-month forward profit.

BUALUANG RESEARCH

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BUY (maintained)

Target price: Bt37.25
Price (15/07/10): Bt28.00
BLA TB / BLA.BK

Key Ratios & Statistics

Market cap	Bt33.60bn
12-mth price range	Bt13.50/Bt29.00
3-mth avg daily volume	Bt84.19m
# of shares (m)	1,200.0
Est. free float (%)	28.5
Foreign limit (%)	25.0

Share price perf. (%)	1M	3M	12M
Relative to SET	(4.2)	14.6	
Absolute	0.9	26.1	

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	1,650	2,050	2,400
Fully diluted EPS (Bt)	0.99	1.37	1.71	2.00
BLS/Consensus (x)	0.9	1.1	1.3	n.m.
EPS Consensus (Bt)	1.1	1.2	1.4	n.m.
EPS growth (%)	31.4	39.1	24.3	17.1
PER (x)	28.3	20.4	16.4	14.0
EV/EBITDA (x)	22.46	17.53	13.91	12.29
PBV (x)	4.6	4.0	3.4	2.9
Dividend (Bt)	0.3	0.5	0.7	0.8
Dividend yield (%)	1.1	2.0	2.4	2.9
ROE (%)	16.4	19.4	20.8	20.9
ROA (%)	1.7	2.0	2.1	2.1
Net gearing (x)	8.2	8.6	8.7	8.6
Total loss ratio (%)	9.3	8.6	8.1	7.6
Total premium Mkt (%)	7.7	8.8	8.8	8.8

CG Rating - 2009 N/A

Company profile

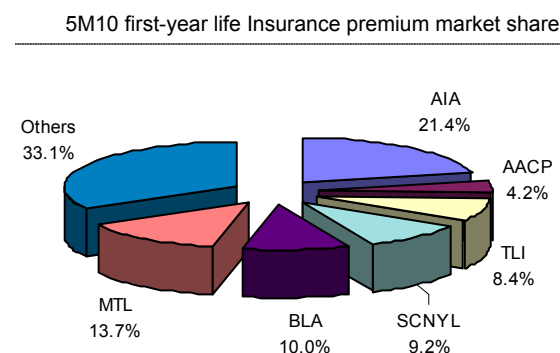
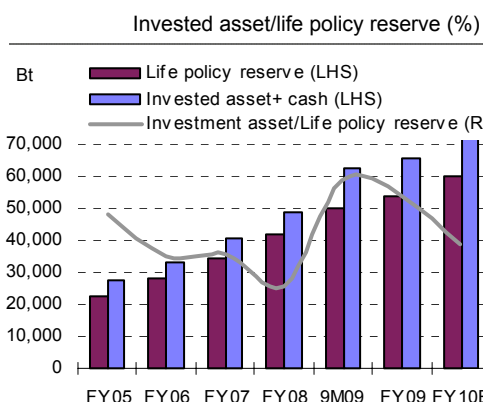
Bangkok Life Assurance Plc (BLA) is one of Thailand's largest pure life assurance players and a subsidiary of Bangkok Bank. Its FYP revenue growth is currently about twice the industry average.

Figure 1: 2Q10 earnings preview

BLA	2Q10E	1Q01	%QoQ	2Q09	%YoY	1H10E	1H09	%YoY
Net insurance premium revenue	6,351	6,849	-7.3	4,701	35.1	13,200	9,423	40.1
Less provision for life policy reserve	4,128	4,287	-3.7	2,822	46.3	8,416	5,255	60.1
Revenue realization on premium	2,223	2,561	-13.2	1,879	18.3	4,784	4,168	14.8
Underwriting expenses	2,379	2,588	-8.1	2,032	17.1	4,967	4,030	23.2
Profit from insurance business	-157	-26	494.9	-153	2.6	-183	137	-233.2
Net investment income	873	773	12.8	688	26.8	1,646	1,324	24.3
Gain on investment	79	87	-9.2	41	93.7	166	166	-0.2
Total revenue from investment	952	860	10.6	729	30.5	1,812	1,490	21.6
Other income	7	7	6.6	6	23.5	14	12	11.0
Total revenues	802	841	-4.6	582	37.8	1,642	1,639	0.2
Total operating expenses	293	295	-0.9	276	6.2	588	560	5.1
EBT	509	545	-6.6	307	66.2	1,054	1,080	-2.3
Income tax	120	104	14.7	73	62.9	224	290	-22.8
Net profit	390	441	-11.6	233	67.2	830	789	5.2
EPS	0.32	0.37	-11.6	0.19	67.2	0.69	0.79	-12.3
Investment assets	72,422	70,173	3.2	50,131	44.5	72,422	50,131	44.5
Total Assets	79,127	74,057	6.8	58,425	35.4	79,127	58,425	35.4
Life policy reserve	67,568	62,711	7.7	47,147	43.3	67,568	47,147	43.3
Premium /life policy reserve (%)	37.60	43.69	nm	9.97	nm	39.07	19.99	nm
Life policy provision /Premium (%)	65.00	62.60	nm	60.03	nm	63.75	55.77	nm
Claim /life policy (%)	9.34	10.02	nm	10.59	nm	7.59	9.96	nm
Net margin (%)	12.88	12.96	nm	9.47	nm	12.92	13.59	nm
ROAE (%)	19.07	22.14	nm	24.07	nm	20.32	40.76	nm
ROI (%)	5.03	4.96	nm	5.72	nm	5.00	5.78	nm
Equity /Life policy reserve (%)	12.09	12.70	nm	8.22	nm	12.09	8.22	nm
D/E (x)	8.68	8.30	nm	14.08	nm	8.68	14.08	nm
Cost to income %	36.50	35.15	nm	47.35	nm	35.81	34.15	nm

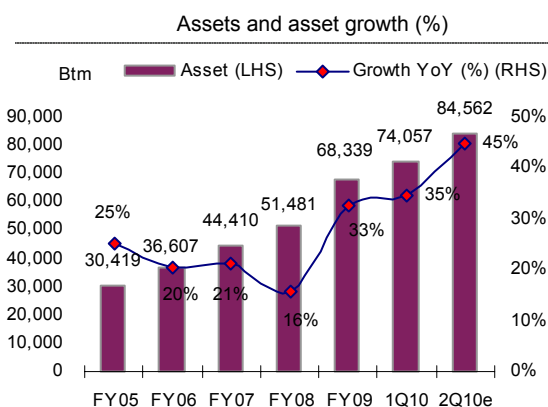
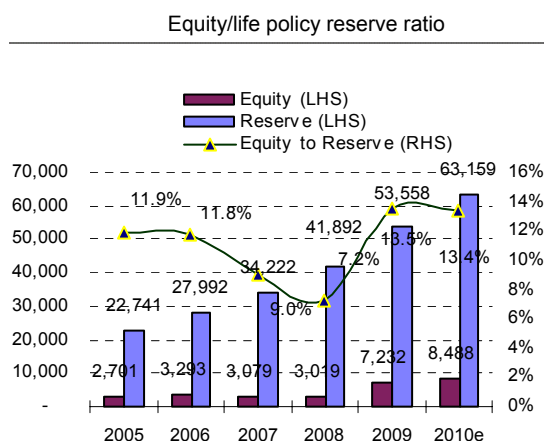
Sources: Bualuang estimates, Bloomberg and Reuters

Figure 2: Life policy reserve and invested assets during FY05-10E and BLA's total premium market share in 5M10



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: BLA's parent company, BBL, plans to boost fee-based income—mostly through bancassurance sales. We, therefore, expect the firm's FY10 life insurance premium market share to make a new high of 8.75%, up from 7.74% last year. The bancassurance channel now contributes 60% of its total life insurance premium revenue, up from 44% in FY09 and 33% in FY08. Although BLA's share price has jumped a spectacular 115% since it debuted on the SET in September 2009, it should rise further this year on an expanding market share, strong industry growth of 18% and increasing profitability brought about by rising economies-of-scale and an ongoing structural decline in cost of sales, facilitated by bancassurance sales through BBL.

Moreover, after months of speculation, the Bank of Thailand finally increased the one-day Repurchase Rate by 25 bps on Wednesday. We anticipate at least one more rate increase by year-end. *Ceteris paribus*, higher interest rates mean a higher ROI. Note that BLA doesn't mark-to-market (it holds to maturity), so doesn't realize an asset value decline when interest rates increase.

The stock currently trades at an inexpensive price of Bt28—an FY10 PER of 20x. We have upgraded our YE10 target price by 27% to Bt37.25 (based on an FY10 EV of Bt16.2 plus VNB of Bt21.0), premised on a rising market share and an implied PER target of 27x. Our targeted PER is in line with the regional peer average of 27.1x. Note that BLA's forecast FY10 ROE of 19.4% is significantly higher than the regional mean of 15.6%. Our BUY rating stands.

Figure 5: Sector valuation PER, FY09-10

15/7/2010	Bloomberg Code	Price (local curr.)	PER (x)		PBV (x)		ROE (%)		Div yield (%)	
			FY09	FY10E	FY09	FY10E	FY09	FY10E	FY09	FY10E
AMP Limited	AMP AU	5.42	15.6	14.34	4.86	4.48	33.0	33.1	5.50	5.76
Axa Asia Pacific Holding	AXA AU	5.35	19.5	17.95	2.68	2.54	14.3	14.5	3.51	3.83
Cathay Financial Holding	2882 TT	50.80	35.8	25.31	3.21	2.98	11.8	12.0	0.63	1.49
China Life Insurance	601628 CH	22.38	30.2	24.12	3.87	3.79	12.9	14.5	1.64	2.05
China Pacific Insurance	601601 CH	20.92	44.1	71.1	2.93	2.68	6.0	7.6	0.72	0.98
Insurance Australia Group	IAG AU	3.41	22.0	12.31	1.56	1.58	6.5	12.2	3.28	5.34
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	28.00	28.3	20.37	4.65	3.96	16.4	19.4	1.07	1.96
Simple average			29.0	27.1	3.5	3.2	13.9	15.6	2.2	2.8

Sources: Bualuang estimates, Bloomberg and Reuters

Financial tables

PROFIT & LOSS (Btm)	2007	2008	2009	2010E	2011E
Insurance premium	12,296	14,732	19,632	26,449	29,094
Less Life policy reserve	(6,230)	(7,670)	(11,666)	(16,848)	(18,329)
Net premium	6,066	7,062	7,966	9,601	10,765
Underwriting expenses	(6,254)	(7,173)	(8,287)	(9,991)	(10,991)
Profit from insurance	(187)	(111)	(322)	(390)	(226)
Revenue on investment	2,116	2,071	2,996	3,648	4,457
Other income/exp.	15	26	26	28	31
Net revenue	1,943	1,987	2,701	3,286	4,262
Operating expenses	(883)	(958)	(1,123)	(1,173)	(1,523)
EBIT	1,061	1,028	1,578	2,113	2,739
Minority interest	(0)	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(291)	(277)	(392)	(463)	(689)
Net profit (loss)	770	752	1,186	1,650	2,050
Reported EPS	0.77	0.75	0.99	1.37	1.71
Fully diluted EPS	0.77	0.75	0.99	1.37	1.71
Core net profit	755	726	1,159	1,622	2,019
Core EPS	0.75	0.73	0.97	1.35	1.68
EBITDA	1,156	1,124	1,673	2,209	2,835

KEY RATIOS	2007	2008	2009	2010E	2011E
Revenue growth (%)	22.6	2.2	36.0	21.7	29.7
Gross margin (%)	13.5	11.8	11.9	10.9	12.7
EBITDA margin (%)	8.0	6.7	7.4	7.3	8.4
Operating margin (%)	5.2	4.3	5.1	5.4	6.0
Net margin (%)	5.3	4.5	5.2	5.5	6.1
Core profit margin (%)	5.2	4.3	5.1	5.4	6.0
ROA (%)	1.7	1.5	1.7	2.0	2.1
ROE (%)	25.0	24.9	16.4	19.4	20.8
Commission/Insurance prer	14.5	13.5	12.7	12.5	12.5
Life policy Provision/insurar	50.7	52.1	59.4	63.7	63.0
Cost/income	45.4	48.2	41.6	36.0	36.0
Total Loss ratio (benefit pay	11.4	10.7	9.3	8.6	8.1

BALANCE SHEET (Btm)	2007	2008	2009	2010E	2011E
Cash & Equivalent	760	2,382	1,718	2,736	2,448
Total investment in securitie	40,009	44,858	62,141	76,500	90,113
Total net loans	1,502	1,801	1,907	2,026	2,369
Premises & equipment (Net	261	325	334	354	539
Other assets	1,878	2,116	2,240	2,947	3,041
Total assets	44,410	51,482	68,339	84,562	98,511
Life policy reserve	34,222	41,892	53,558	63,159	73,924
Unpaid benefit to life policy	3,311	3,984	4,680	9,058	10,208
Premium received in advan	1,699	1,551	1,417	1,701	1,786
Other liabilities	2,098	1,036	1,452	2,157	2,715
Total liabilities	41,330	48,463	61,108	76,074	88,633
Paid-up capital	1,000	1,000	1,200	1,200	1,200
Share premium	275	275	2,700	2,700	2,700
Retained earnings	1,805	1,744	3,332	4,588	5,978
Shareholders equity	3,080	3,019	7,232	8,488	9,878
Minority interests	0	0	0	0	0
Total Liab.&Shareholders'	44,410	51,482	68,339	84,562	98,511

Sources: Company data, Bualuang Research

Financial tables

QUARTERLY PROFIT & LOSS (Btm)	1Q09	2Q09	3Q09	4Q09	1Q10
Net insurance premium revenue	4,722	4,701	4,872	5,337	6,849
Less provision for life policy reserve	2,434	2,822	3,133	3,278	4,287
Revenue realization on premium	2,289	1,879	1,739	2,059	2,561
Underwriting expenses	1,999	2,032	2,038	2,219	2,588
Profit from insurance business	290	(153)	(299)	(160)	(26)
Net investment income	635	688	742	695	773
Gain on investment	125	41	58	12	87
Total revenue from investment	761	729	799	707	860
Other income	7	6	4	10	7
Total revenues	1,057	582	505	556	841
Total operating expenses	284	276	269	295	295
Exceptional items	0	0	0	0	0
EBT	773	307	236	262	545
Income tax	217	73	22	79	104
Minority Interest	0	0	0	0	0
Net profit	556	233	214	182	441
EPS	0.56	0.23	0.18	0.15	0.37
Core profit before tax	641	260	174	240	451
Core EPS	0.64	0.26	0.15	0.20	0.38

KEY RATIOS	1Q09	2Q09	3Q09	4Q09	1Q10
Premium/life policy reserve (%)	10.65	9.97	9.89	9.97	43.69
Life policy provision/Premium (%)	51.53	60.03	64.30	61.42	62.60
Claim/life policy (%)	9.92	10.59	10.21	10.13	10.02
Net margin (%)	16.63	9.47	9.55	6.96	12.96
Equity/Life policy reserve (%)	7.3	8.2	13.9	13.5	14.9
BV (Bt)	3.26	3.87	5.72	6.03	6.64
ROE (%)	68.35	24.07	12.49	10.07	22.14
ROA (%)	4.04	1.60	1.35	1.07	2.38
D/E (x)	15.9	14.1	8.3	8.5	8.3
Cost to Income (%)	26.9	47.3	53.2	53.0	35.2
Asset/Equity (%)	16.9	15.1	9.3	9.5	9.3

QUARTERLY BALANCE SHEET (Btm)	1Q09	2Q09	3Q09	4Q09	1Q10
Cash & Equivalent	3,657	3,748	4,002	1,718	1,718
Total investment in securities	47,135	50,131	54,995	62,141	68,229
Total net loans	1,825	1,848	1,894	1,904	1,944
Premises & equipment (Net)	321	319	319	334	336
Other assets	2,082	2,379	2,431	2,242	1,829
Total assets	55,021	58,425	63,640	68,339	74,057
Life policy reserve	44,325	47,147	49,246	53,558	53,558
Unpaid benefit to life policy	4,106	4,333	4,463	4,680	4,866
Premium received in advance	1,528	1,516	1,516	1,417	1,434
Other liabilities	1,805	1,555	1,555	1,183	1,597
Total liabilities	51,765	54,551	56,781	61,108	66,095
Paid-up capital	1,000	1,000	1,200	1,200	1,200
Share premium	275	275	2,775	2,700	2,700
Retained earnings	1,479	1,565	1,851	1,776	2,217
Shareholders equity	3,256	3,874	6,860	7,232	7,962
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	55,021	58,425	63,640	68,339	74,057
	(0)	(0)	0	(0)	0

Sources: Company data, Bualuang Research

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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.