

20 October 2010

Bangkok Life Assurance

Insurance
Overweight

New opportunity presented by
pension program

What's new? The government has approved in principle for life assurance firms to offer tax-saving pension schemes through special life assurance policies. Buyers of premiums will qualify for tax deductions of up to Bt200,000 per year. In tax terms, the pension program will be calculated as a component of investment in retirement funds (RMF)—the maximum tax credit (RMF + pension) will be Bt500,000 per year, or not more than 15% of total income. Note that the current tax deduction ceiling for RMFs is Bt500,000, so the scheme doesn't represent an increase in the scope for tax savings.

Comment: Life assurance firms stand to benefit from the new scheme to some extent, as the effective maximum tax deduction for purchasing life assurance products will increase from Bt100,000 to Bt300,000 (Bt100,000 for life assurance premiums + Bt200,000 for a pension). However, we do not expect the launch of this new product to have a huge impact. Endowment funds will remain the chief source of premiums for life assurance firms because they can be monetized within 10 years of purchase regardless of age. In contrast, pension premiums will be locked up till at least the age of 55, as RMFs are currently.

Pensions won't offer any tax credit advantages over conventional RMFs. The main difference is in the payout terms—at age 55, an RMF unit holder receives a lump plus tax-free investment gains, whereas a pension policy holder will start getting a committed life period return after 55 or 65 (depending on the contract) till death (or a specified age). RMF investors will probably stay with their current vendors unless they are unhappy with them. Migration to pensions offered by life assurance firms will be gradual.

Action: The new product should gradually gain the acceptance of consumers and generate income for life assurance firms. BLA plans to start offering pension policies this year, but expects its premium growth to initially be fairly slow. Our BUY rating on BLA stands with a YE10 target price of Bt37.25.

BUALUANG RESEARCH

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BUY (maintained)

Target price to Bt37.25
Price (19/10/10): Bt29.75
BLA.TB / BLA.BK

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)	30.1	19.8	17.4	14.9
EV/EBITDA (x)	23.71	16.70	14.62	12.91
PBV (x)	4.94	3.99	3.58	3.09
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

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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.