

6 May 2010

Bangkok Life Assurance

Insurance
Overweight

A new market share record

Investment thesis: Given the active support of BBL and a 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 35% in FY10, following a phenomenal 58% leap in earnings last year. Our bullish earnings projection is premised on an expanding market, a rising market share (driven by bancassurance sales through BBL) and the building of economies-of-scale. We expect economic recovery and anticipation of an interest rate increase toward the end of the year to boost the share price. We reiterate our BUY rating with a YE10 target price of Bt29.25 (based on YE10 economic value). Our target price implies a target PER of 22x, which is substantially lower than the 30x regional average.

Improved QoQ profit growth: BLA should post 1Q10 earnings of Bt430m, up 136% QoQ on better ROI and a rising market share. However, that number represents a 23% YoY fall, mostly due to heavier provisioning for the life policy reserve.

Market share to hit a record high: We expect BLA to report a market share of 10% of total premiums for the quarter, above the 8.3% market share it posted for the same period last year and the 7.5% market share it achieved in 4Q09. Thus, we project that the firm's 1Q10 total premiums will post a rise of 20% QoQ and 36% YoY to Bt6.42bn.

Bigger provisions for life policies: BLA has increased provisioning for its life policy reserve to 62% of total insurance premiums in 1Q10 (compared with 51% in the same period last year and 61% in 4Q09). Thus, this expense is expected to rise by 22% QoQ and 64% YoY to Bt4bn.

ROI rise: We estimate an increased return on investment of 5.1% for 1Q10, up from 4.72% last quarter, due to a bounce in the 5-year bond yield during the quarter and higher investment gains on equities. Our 1Q10 net investment income projection (excluding investment gains) is Bt786m, up by 13% QoQ and 24% YoY. We also expect investment gains of Bt155m for the quarter, up 24% YoY.

BUALUANG RESEARCH

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BUY (maintained)

Target price: Bt29.25
Price (04/05/10): Bt24.00
BLA TB / BLA.BK

Key Ratios & Statistics

Market cap	Bt28.80bn
12-mth price range	Bt13.50/Bt27.00
3-mth avg daily volume	Bt138.23m
# of shares (m)	1,200.0
Est. free float (%)	-
Foreign limit (%)	25.0

Share price perf. (%)	1M	3M	12M
Relative to SET	(4.3)	42.3	
Absolute	5.0	51.7	

Financial summary

FY Ended 31 Dec	2009	2010E	2011E	2012E
Total rev (Btm)	20,060	23,162	29,220	31,765
Net profit (Btm)	1,186	1,600	2,000	2,450
Fully diluted EPS (Bt)	0.99	1.33	1.67	2.04
BLS/Consensus (x)	0.9	1.1	1.2	1.1
EPS Consensus (Bt)	1.1	1.2	1.4	1.9
EPS growth (%)	31.4	34.9	25.1	22.5
PER (x)	24.3	18.0	14.4	11.8
EV/EBITDA (x)	19.59	14.81	12.48	10.32
PBV (x)	4.0	3.4	2.9	2.5
Dividend (Bt)	0.3	0.5	0.7	0.8
Dividend yield (%)	1.3	2.2	2.8	3.4
ROE (%)	16.4	19.0	20.4	21.4
ROA (%)	1.7	2.0	2.1	2.3
Net gearing (x)	8.2	8.3	8.3	8.1
Total loss ratio (%)	9.3	9.5	8.9	8.3
Total premium Mkt (%)	7.7	7.7	7.7	7.7

CG Rating - 2009 N/A

Company profile

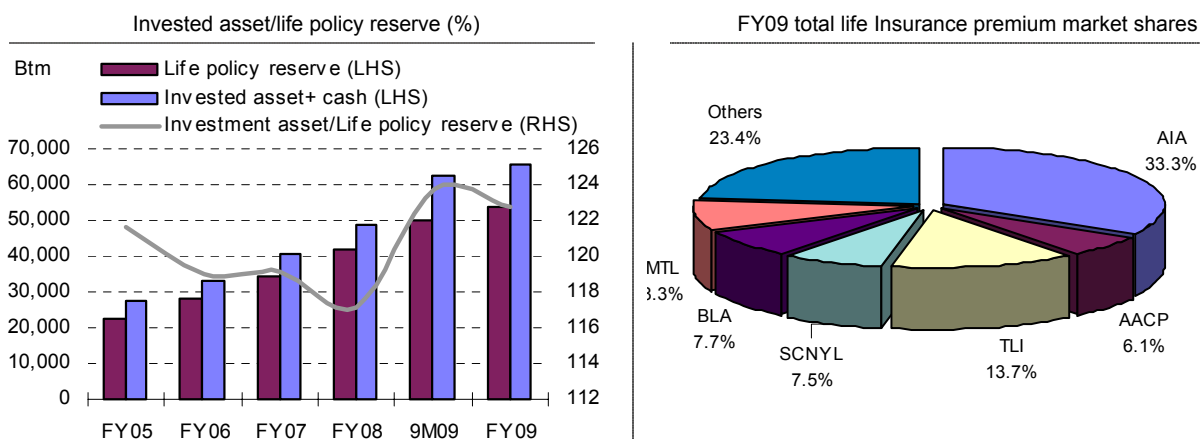
Bangkok Life Assurance Plc (BLA) is one of Thailand's largest pure life assurance players and a subsidiary of Bangkok Bank. Its FYP revenue growth is currently about twice the industry average.

Figure 1: 1Q10 earnings preview

Consolidated								
BLA	1Q01E	4Q09	%QoQ	1Q09	%YoY	FY09	FY08	% YoY
Net insurance premium revenue	6,422	5,337	20.3	4,722.3	36.0	19,632	14,732	33.3
Less provision for life policy reserve	3,982	3,278	21.5	2,433.6	63.6	11,666	7,670	52.1
Revenue realization on premium	2,440	2,059	18.5	2,288.7	6.6	7,966	7,062	12.8
Underwriting expenses	2,532	2,219	14.1	1,998.9	26.7	8,287	7,173	15.5
Profit from insurance business	(91)	(160)	-43.1	289.8	-131.5	(322)	-111	190.3
Net investment income	786	695	13.1	635.4	23.7	2,760	2,430	13.6
Gain on investment	155	12	1,204.6	125.5	23.5	236	-359	-165.8
Total revenue from investment	941	707	33.1	760.8	23.7	2,996	2,071	44.6
Other income	10	10	1.6	6.6	52.5	26	26	2.2
Total revenues	860	556	54.5	1,057.2	-18.7	2,701	1,986	36.0
Total operating expenses	305	295	3.5	284.1	7.4	1,123	958	17.2
EBT	554	262	112.0	773.1	-28.3	1,578	1,028	53.4
Income tax	125	79	56.6	216.7	-42.5	392	277	41.7
Net profit	430	182	136.1	556.3	-22.7	1,186	752	57.7
EPS	0.36	0.15	136.1	0.56	35.6	0.99	0.63	57.7
Investment assets	68,304	64,045	6.7	47,135	44.9	64,045	46,657	37.3
Total Assets	72,919	68,339	6.7	55,021	32.5	68,339	51,482	32.7
Life policy reserve	62,329	55,898	11.5	44,325	40.6	55,898	45,876	21.85
Premium/life policy reserve (%)	41.22	38.19	nrr	10.65	nrr	35.12	32.11	nm
Life policy provision/Premium (%)	62.00	61.42	nrr	51.53	nrr	59.42	52.06	nm
Claim/Life policy	10.48	10.13	nrr	9.92	nrr	9.34	10.74	nm
ROAE (%)	22.25	10.07	nm	68.35	nm	16.40	24.90	nm
ROI (%)	5.14	4.72	nm	4.04	nm	4.85	4.52	nm
D/E (x)	8.4	8.5	nm	16.9	nm	8.5	16.1	nm
Cost to income %	35.5	53.0	nm	26.9	nm	41.6	48.2	nm

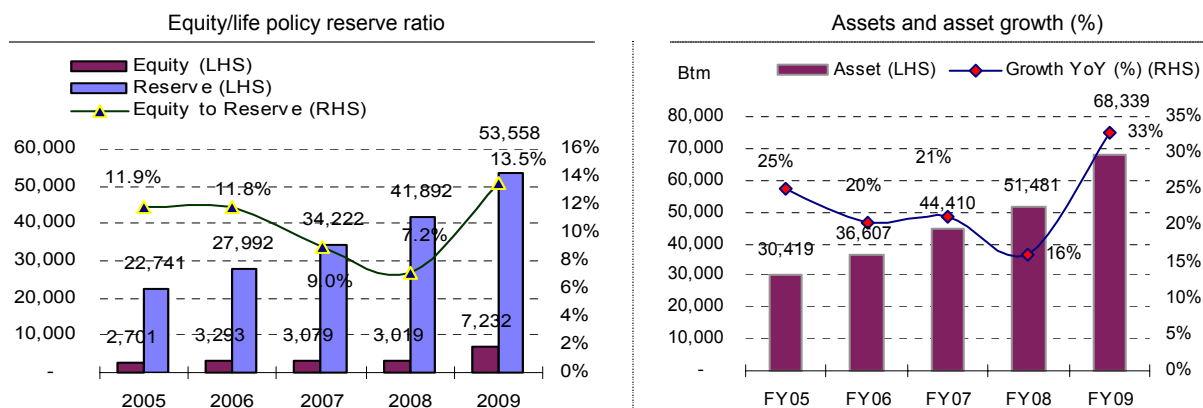
Sources: Company data & Bualuang Research

Figure 2: Life policy reserve and invested assets and BLA's total premium market share in FY09



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

Recommendation and valuation

Reiterate BUY with TP of Bt29.25: BBL's decision to expand its fee-based income through bancassurance sales has been the main driver of BLA's performance. We maintain our earnings forecast of Bt1.6bn for FY10, up 35% YoY (and Bt2.0bn for FY11, up a further 25% YoY). The firm should continue building market share. Its share price, which has jumped a spectacular 80% since it debuted on the SET in September 2009, should rise further this year on an expanding market share and increasing profitability. BLA trades at a cheap price of Bt24—an FY10 PER of 188x. 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 maintain our BUY rating.

Figure 4: Sector valuation PER, FY09-10

4/5/2010	Bloomberg Code	Price (local curr.)	PER (x)		PBV (x)		ROE (%)		Div yield (%)	
			FY09	FY10E	FY09	FY10E	FY09	FY10E	FY09	FY10E
AMP Limited	AMP AU	6.25	18.0	16.53	5.60	5.17	33.0	33.1	4.77	4.99
Axa Asia Pacific Holding	AXA AU	6.17	22.5	20.70	3.09	2.93	14.3	14.5	3.05	3.32
Cathay Financial Holding	2882 TT	50.20	35.4	25.01	3.17	2.94	11.8	12.0	0.64	1.50
China Life Insurance	601628 CH	26.24	35.4	28.28	4.54	4.44	12.9	14.5	1.40	1.75
China Pacific Insurance	601601 CH	25.22	53.2	85.7	3.54	3.23	6.0	7.6	0.60	0.81
Insurance Australia Group	IAG AU	3.87	25.0	13.97	1.78	1.79	6.5	12.2	2.89	4.70
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	24.00	24.3	18.00	3.98	3.41	16.4	19.0	1.25	2.22
Simple average			31.5	30.1	3.7	3.5	13.9	15.5	1.9	2.6

Sources: Bualuang estimates, Bloomberg and Reuters

Financial tables					
PROFIT & LOSS (Btm)	2007	2008	2009	2010 E	2011 E
Insurance premium	12,296	14,732	19,632	22,421	24,664
Less Life policy reserve	(6,230)	(7,670)	(11,666)	(13,004)	(14,366)
Net premium	6,066	7,062	7,966	9,417	10,297
Underwriting expenses	(6,254)	(7,173)	(8,287)	(9,703)	(10,673)
Profit from insurance	(187)	(111)	(322)	(286)	(376)
Revenue on investment	2,116	2,071	2,996	3,833	4,557
Other income /exp .	15	26	26	30	33
Net revenue	1,943	1,987	2,701	3,577	4,214
Operating expenses	(883)	(958)	(1,123)	(1,419)	(1,568)
EBIT	1,061	1,028	1,578	2,158	2,646
Minority interest	(0)	0	0	0	0
Extra items	0	0	0	0	0
Income tax	(291)	(277)	(392)	(559)	(645)
Net profit (loss)	770	752	1,186	1,600	2,000
Reported EPS	0.77	0.75	0.99	1.33	1.67
Fully diluted EPS	0.77	0.75	0.99	1.33	1.67
Core net profit	755	726	1,159	1,570	1,967
Core EPS	0.75	0.73	0.97	1.31	1.64
EBITDA	1,156	1,124	1,673	2,254	2,742
KEY RATIOS					
Revenue growth (%)	22.6	2.2	36.0	32.4	17.8
Gross margin (%)	13.5	11.8	11.9	13.6	14.4
EBITDA margin (%)	8.0	6.7	7.4	8.6	9.4
Operating margin (%)	5.2	4.3	5.1	6.0	6.7
Net margin (%)	5.3	4.5	5.2	6.1	6.8
Core profit margin (%)	5.2	4.3	5.1	6.0	6.7
ROA (%)	1.7	1.5	1.7	2.0	2.1
ROE (%)	25.0	24.9	16.4	19.0	20.4
Commission /Insurance premi	14.5	13.5	12.7	12.5	12.5
Life policy Provision /insuran	50.7	52.1	59.4	58.0	58.3
Cost /income	45.4	48.2	41.6	40.0	37.5
Total Loss ratio (benefit payr	11.4	10.7	9.3	9.5	8.9
BALANCE SHEET (Btm)					
Cash & Equivalent	760	2,382	1,718	2,794	2,763
Total investment in securities	40,009	44,858	62,141	73,100	85,650
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	2,714	3,041
Total assets	44,410	51,482	68,339	80,988	94,362
Life policy reserve	34,222	41,892	53,558	62,975	73,272
Unpaid benefit to life policy	3,311	3,984	4,680	5,717	6,799
Premium received in advance	1,699	1,551	1,417	1,701	1,786
Other liabilities	2,098	1,036	1,452	2,157	2,707
Total liabilities	41,330	48,463	61,108	72,550	84,564
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	4,538	5,899
Shareholders equity	3,080	3,019	7,232	8,438	9,798
Minority interests	0	0	0	0	0
Total Liab .&Shareholders '	44,410	51,482	68,339	80,988	94,362

Sources: Company data, Bualuang Research

Financial tables

QUARTERLY PROFIT & LOSS (Btm)	4Q08	1Q09	2Q09	3Q09	4Q09
Net insurance premium revenue	4,033	4,722	4,701	4,872	5,337
Less provision for life policy reserve	1,975	2,434	2,822	3,133	3,278
Revenue realization on premium	2,058	2,289	1,879	1,739	2,059
Underwriting expenses	2,044	1,999	2,032	2,038	2,219
Profit from insurance business	15	290	(153)	(299)	(160)
Net investment income	613	635	688	742	695
Gain on investment	(311)	125	41	58	12
Total revenue from investment	302	761	729	799	707
Other income	7	7	6	4	10
Total revenues	323	1,057	582	505	556
Total operating expenses	240	284	276	269	295
Exceptional items	0	0	0	0	0
EBT	83	773	307	236	262
Income tax	7.67	217	73	22	79
Minority Interest	0.00	0.00	0	0.00	0
Net profit	75	556	233	214	182
EPS	0.08	0.56	0.23	0.18	0.15
Core profit before tax	387	641	260	174	240
Core EPS	0.39	0.64	0.26	0.15	0.20

KEY RATIOS	4Q08	1Q09	2Q09	3Q09	4Q09
Premium/life policy reserve (%)	9.63	10.65	9.97	9.89	9.97
Life policy provision/Premium (%)	48.97	51.53	60.03	64.30	61.42
Total loss ratio (%)	12.59	9.92	10.59	10.21	10.13
Net margin (%)	3.16	16.63	9.47	9.55	6.96
Equity/Life policy reserve (%)	7.2	7.3	8.2	13.9	13.5
BV (Bt)	3.02	3.26	3.87	5.72	6.03
ROE (%)	10.0	68.3	24.1	12.5	10.1
ROA (%)	0.6	4.0	1.6	1.3	1.1
D/E (x)	16.1	15.9	14.1	8.3	8.5
Cost to Income (%)	74.3	26.9	47.3	53.2	53.0
Asset/Equity (%)	17.1	16.90	15.1	9.28	9.5

QUARTERLY BALANCE SHEET (Btm)	4Q08	1Q09	2Q09	3Q09	4Q09
Cash & Equivalent	2,382	3,657	3,748	4,002	1,718
Total investment in securities	44,858	47,135	50,131	54,995	62,141
Total net loans	1,798	1,825	1,848	1,894	1,904
Premises & equipment (Net)	325	321	319	319	334
Other assets	2,119	2,082	2,379	2,431	2,242
Total assets	51,482	55,021	58,425	63,640	68,339
Life policy reserve	41,892	44,325	47,147	49,246	53,558
Unpaid benefit to life policy	3,984	4,106	4,333	4,463	4,680
Premium received in advance	1,551	1,528	1,516	1,516	1,417
Other liabilities	1,036	1,805	1,555	1,555	1,183
Total liabilities	48,463	51,765	54,551	56,781	61,108
Paid-up capital	1,000	1,000	1,000	1,200	1,200
Share premium	275	275	275	2,775	2,700
Retained earnings	950	1,479	1,565	1,851	1,776
Shareholders equity	3,019	3,256	3,874	6,859.67	7,231.60
Minority interests	0	0	0	0	0
Total Liab.&Shareholders' equity	51,482	55,021	58,425	63,640	68,339

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.