BUY (Unchanged)

Change in Numbers

TP: Bt 57.00 (From: Bt 52.00)

Upside : 27.4%

22 APRIL 2022

Thanachart Securities

Bangkok Life Assurance (BLA TB)

A rare breed

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We reiterate our BUY call on BLA and lift our TP to Bt57 from Bt52 on higher VONB margin. We see a strong growth outlook with 33% and 25% EPS growth in 2022-23F. Its valuation remains attractive at less than 1.1x P/EV vs. 1.3x in 2012-19 and 2x during the last rate upcycle in 2014. Rising bond yields and earnings growth are key catalysts.

Riding multiple tailwinds

We see multiple tailwinds for BLA which should help drive 33% and 25% earnings growth in 2022-23F. These include higher margins (from improved sales mix) and higher investment returns (from rising long-term yields). Its valuation remains attractive at less than 1.1x 2022F price-to-embedded value (P/EV), compared to as much as 2x during the last rate upcycle in 2014 and 1.3x in 2012-19 (we exclude 2020-21 due to COVID-19 impact).

Margin expansion the key driver

We believe margin expansion from improved product mix will be BLA's biggest earnings driver. We forecast combined ratio (benefit payments and insurance reserves as a portion of premiums received) to fall significantly over the next 3 years from about 113% to 112%, 110% and 108% in 2022-24F. This is due to a greater mix of high-margin products (such as health riders) being sold since 2021 and maturity of older, less profitable policies. Note that our forecasts remain highly conservative compared to management's target of 100% combined ratio by 2024F.

Rising long-term rates a tailwind

BLA remains one of the few SET-listed names that benefits directly from rising long-term interest rates. Thailand 10Y bond yield is now over 2.75%, having risen by about 85bps YTD. Rising bond yields globally and expectation of BoT rate hikes next year may keep long-dated bond yields at elevated levels. For BLA, this will gradually translate into higher investment yield, though in the near term it could mean limited trading gains. We estimate a 50bps rise in yield will eventually lift BLA's annual profit by 25% (vs. 2022F base line), though this is likely to take several years for the full impact to be seen.

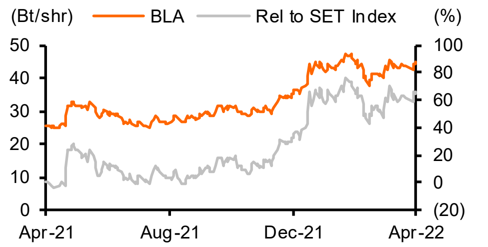
Slow premium growth

Based on industry data, BLA's premiums received have shrunk by about 10% y-y in Jan/Feb 2022. We think this is due in part to the impact of Omicron (total industry premium also showed negative growth). Our conversation with the company suggests premiums have resumed growth y-y in March. Still, we cut our total premium assumption by 3-11% in 2022-24F. Our forecast now assumes 0% first-year premium (FYP) growth in 2022F vs. management target of low teens. As such, we think we are being highly conservative.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Insurance premium	34,664	34,696	35,438	37,033
Profit from operation	4,235	5,067	6,355	7,781
Net profit	3,196	4,256	5,338	6,536
Consensus NP	—	4,999	6,711	7,083
Diff frm cons (%)	—	*(14.9)*	*(20.5)*	*(7.7)*
Norm profit	3,196	4,256	5,338	6,536
Prev. Norm profit	—	4,861	5,571	6,088
Chg frm prev (%)	—	*(12.4)*	*(4.2)*	*7.4*
Norm EPS (Bt)	1.9	2.5	3.1	3.8
Norm EPS grw (%)	98.7	33.2	25.4	22.4
Norm PE (x)	23.9	17.9	14.3	11.7
P/BV (x)	1.6	1.5	1.4	1.3
Div. yield (%)	1.3	1.4	1.9	2.6
ROE (%)	6.8	8.6	10.1	11.4
ROA (%)	0.9	1.2	1.4	1.6

PRICE PERFORMANCE



COMPANY INFORMATION

Price: (Bt) *as of* 22-Apr-22	44.75
Market Cap (US$ m)	2,250.2
Listed Shares (m shares)	1,707.6
Free Float (%)	44.6
Avg. Daily Turnover (US$ m)	6.7
12M Price H/L (Bt)	47.50/24.80
Sector	INSUR
Major Shareholder	Sophonpanich Family 16.78%

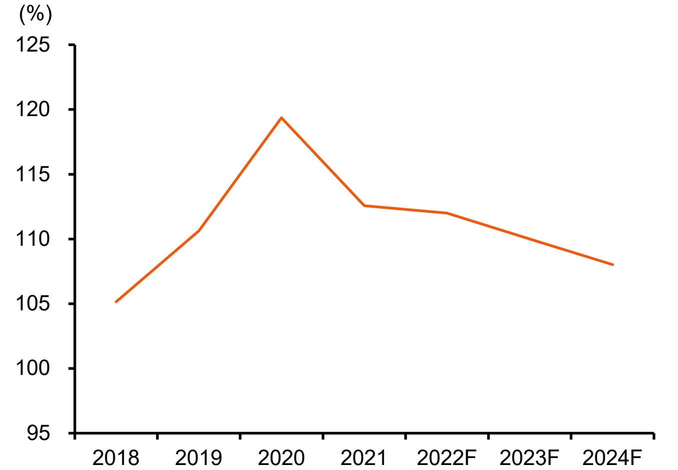
Sources: Bloomberg, Company data, Thanachart estimates

Margin expansion the key driver

We expect combined ratio to decline meaningfully in the next 3 years

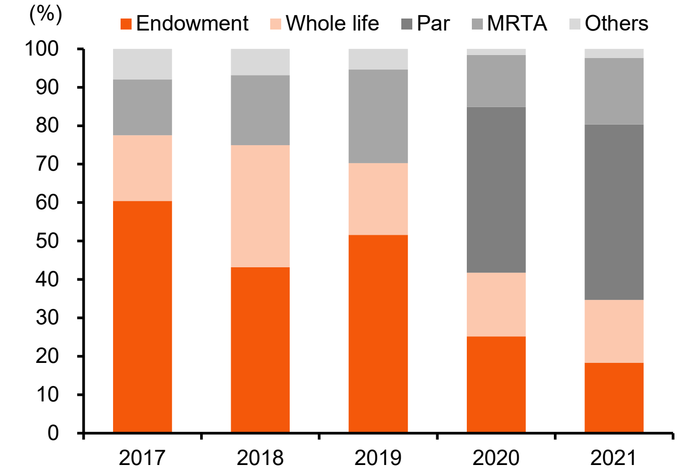
Over the next 3 years, we expect margin expansion to be BLA's main earnings growth driver. We forecast combined ratio to decline to 110% and 108% in 2023-24F. Note that our assumption is still much higher than management's target of 100% by 2024F. This means there is still a significant room for potential upside to our forecasts.

Ex 1: Lower Combined Ratio



Sources: Company data; Thanachart estimates

Ex 2: Improved Product Mix



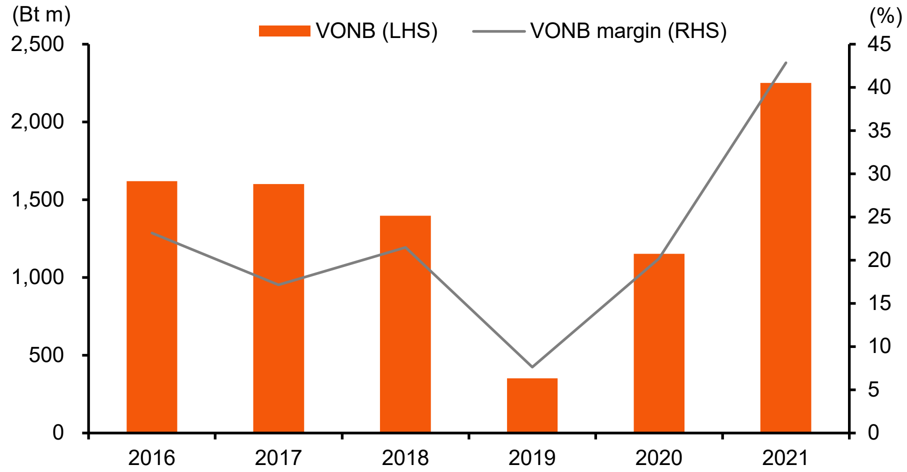
Sources: Company data; Thanachart

Record-high VONB margin of 43% in 2021 (vs 18% in 2016-20) bodes well for future profitability

In 2021, the value of new business (VONB) reached a new record of Bt2.25bn, nearly double from the 2020 level. This was achieved despite an 8% decline in annual premium equivalent (APE), which is the value of first-year premium plus 10% of single premium. The key driver was a significant improvement in product mix as BLA sold more high-margin products, such as whole life policies or health riders and less low-margin products such as traditional endowments. For example, the portion of endowment total new business premium (NBP) fell to below 20% in 2021 compared to almost 60% back in 2017 as the company shifted to higher-margin participating ("Par") products. Meanwhile, the portion of health rider attachments increased to almost 30% in 2021 from less than 15% 5 years ago.

As a result, VONB margin (VONB as a % of APE) also reached a record high of 43%. This is much higher than the 18% average in the preceding 5 years. The high VONB and VONB margin are the most important forward indicators of earnings in the periods ahead. As such, these stats bode well for BLA's profit outlook over the next 3-5 years and support our view of margin expansion.

Ex 3: Big Jump In VONB Margin Bodes Well For Future Profitability



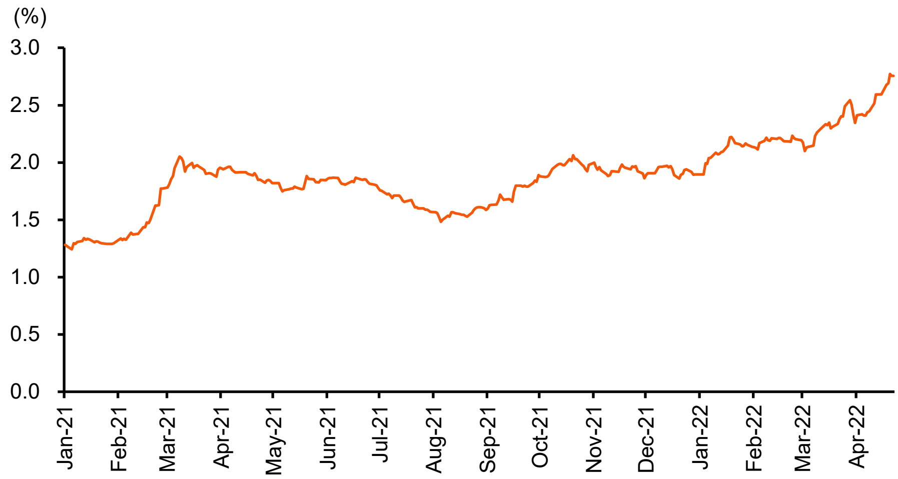
Sources: Company data, Thanachart

Rising long-term rates a tailwind

BLA is one of the few SET-listed stocks to benefit directly from rising long-term yields

We expect rising long-term bond yields in Thailand to be a major tailwind for BLA. YTD, Thailand 10Y government bond yield has risen by about 85bps to stand at over 2.75% currently, surpassing our medium-term forecast of 2.5% (our assumption for 2022-24F). The higher bond yield means BLA will earn higher investment return on its fixed-income portfolio (over 80% of total investments). However, the impact will likely be felt gradually as new investments are made and old ones mature. We also note that rapid increase in bond yields could lead to lower trading gains, but this is likely to be the case only in the short term. We estimate a 50bps rise in yield will eventually lift BLA's annual profit by 25%, though this is likely to be spread out over 4-5 years.

Ex 4: Thailand 10Y Government Bond Yield



Sources: Bloomberg, Thanachart

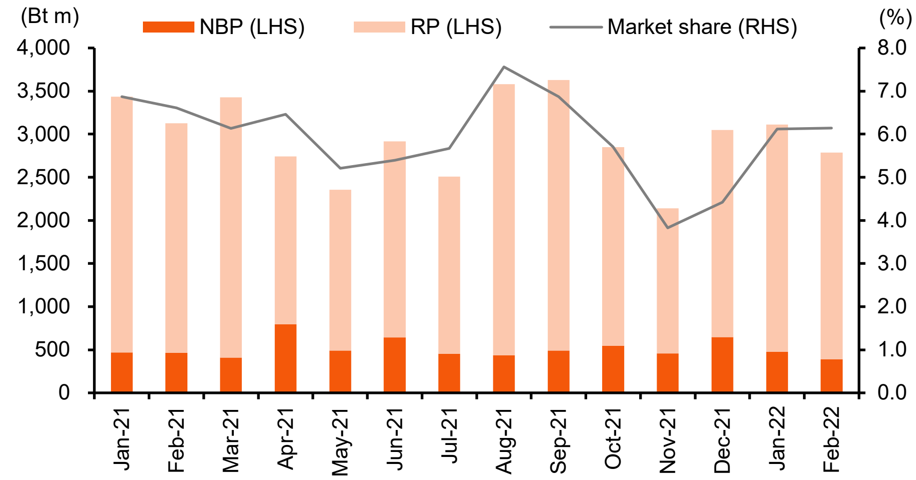
Slow premium growth

Premium growth was negative y-y in Jan/Feb though it has turned positive in March

In the first two months of the year, BLA's total premiums declined by about 10%. However, this is due in part to shrinking industry premiums given the impact of Omicron spread. In terms of market share, BLA has actually improved its position from late-2021. Its total premium market share now stands at about 6.1% vs. an average of 4.7% in 4Q21 and 5.9% in 2021. Our conversation with the company suggests premiums have resumed growth in March though the monthly industry data has yet to be released.

For full-year 2022F, we expect a 3% decline in premium with 0% FYP growth and a 4% decline in renewal premiums (due to negative FYP growth in 2021). In 2023-24F, we forecast 2.1% and 4.5% total premium growth, driven mainly by a 10% and 5% growth in FYP, respectively.

Ex 5: BLA Premiums And Market Share



Sources: Company data, Thanachart

The table below outlines our key assumption changes.

Ex 6: Key Assumption Changes

		2022F	2023F	2024F	2025F
Premiums					
New					
New business	(Bt m)	6,550	7,205	7,565	7,943
Renewal	(Bt m)	27,049	27,113	28,297	29,567
Total	(Bt m)	33,599	34,317	35,862	37,510
Old					
New business	(Bt m)	7,085	8,110	8,516	8,941
Renewal	(Bt m)	27,556	29,401	31,822	34,253
Total	(Bt m)	34,641	37,511	40,338	43,195
Change					
New business	*(%)*	*(7.6)*	*(11.2)*	*(11.2)*	*(11.2)*
Renewal	*(%)*	*(1.8)*	*(7.8)*	*(11.1)*	*(13.7)*
Total	*(%)*	*(3.0)*	*(8.5)*	*(11.1)*	*(13.2)*
Combined ratio					
New	(%)	112	110	108	107
Old	(%)	114	113	113	113
Change	*(% pt)*	*(2.0)*	*(3.0)*	*(5.0)*	*(6.0)*
Expense ratio					
New	(%)	10.5	11.8	13.0	14.3
Old	(%)	9.9	9.9	9.9	9.9
Change	*(% pt)*	*0.6*	*1.9*	*3.1*	*4.4*
Investment returns					
New	(%)	4.2	4.3	4.5	4.6
Old	(%)	4.4	4.5	4.5	4.6
Change	*(% pt)*	*(0.2)*	*(0.2)*	*(0.1)*	*(0.0)*

Sources: Company data, Thanachart estimates

EPS downgrades in 2022-23F due to conservative premium growth and trading gain assumptions

Given the above changes, we have cut our earnings by 12% and 4% in 2022-23F. This is mostly a function of: 1) lower premiums received, and 2) lower trading gains. However, we upgrade our earnings in 2024-25F due mainly to lower combined ratio (i.e., higher margins) and continued increase in return on investments.

Ex 7: Earnings Revisions

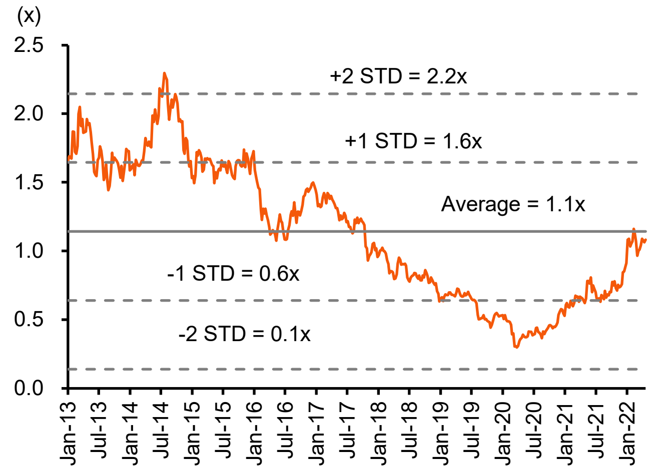
(Bt/shr)	2020	2021	2022F	2023F	2024F	2025F
New	0.94	1.87	2.49	3.13	3.83	4.29
Old			2.85	3.27	3.57	3.93
Change (%)			*(12.4)*	*(4.2)*	*7.4*	*9.1*

Sources: Company data, Thanachart estimates

Despite near-term earnings downgrades, we lift our TP to Bt57 from Bt52. This is due to higher VONB margin of 25% compared to 15% previously, and partially offset by lower new business premium (NBP) growth. The higher TP also reflects our longer-term positive view on BLA's earnings outlook.

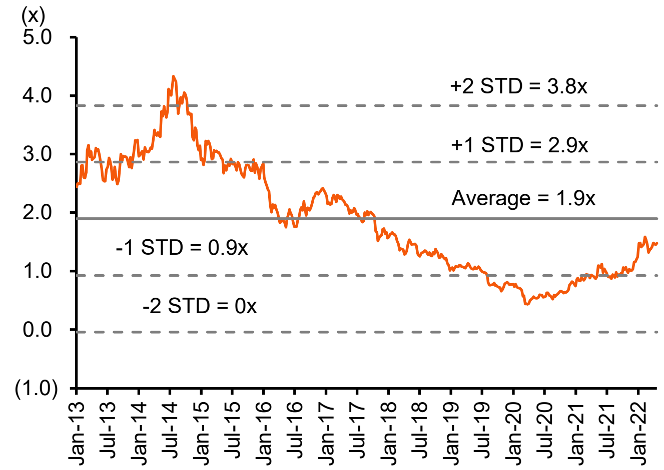
In terms of valuation, BLA remains attractive, trading at less than 1.1x price-to-embedded value (P/EV). This is much lower than 2x during the last rate upcycle in 2014 and 1.3x average in 2012-19.

Ex 8: Price-To-Embedded Value (P/EV)



Sources: Bloomberg; Thanachart estimates

Ex 9: Price-To-Book (P/BV)



Sources: Bloomberg; Thanachart estimates

Ex 10: 12-month DDM-based Valuation Using A Base Year Of 2023F

(Bt m)	PV	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	Terminal value
Value-in-force													
Future profit		4,389	7,517	7,048	6,202	5,324	4,420	3,494	2,549	1,588	675	(373)	
Cost of capital		818	731	645	615	527	440	352	264	176	92	0	
FP-COC		3,572	6,787	6,404	5,586	4,796	3,981	3,142	2,285	1,412	583	(373)	
VIF	**26,758**	3,281	5,724	4,958	3,900	3,061	2,322	1,675	1,114	629	227	(132)	
VIF/sh	15.7												
Value of new business													
First year premium		7,205	7,565	7,943	8,340	8,757	9,195	9,655	10,138	10,645	11,177	11,736	
VONB margin		25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	
VONB		1,801	1,891	1,986	2,085	2,189	2,299	2,414	2,534	2,661	2,794	2,934	37,881
PV of VONB	**27,009**	1,654	1,595	1,538	1,456	1,397	1,341	1,287	1,235	1,185	1,087	1,038	12,196
PV of VONB / sh	15.8												
Risk-free rate (%)	2.5%												
Market risk premium (%)	8.0%												
Beta	0.80												
Cost of equity (%)	8.9%												
Terminal growth (%)	2.0%												
Equity value per share													
EV	40.91												
PV of VONB	15.83												
Equity value per share	**56.74**												

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 11: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	ROE 22F (%)	ROE 23F (%)	Div. Yield 22F (%)	Div. Yield 23F (%)
China Life Insurance	601628 CH	China	3.7	12.9	13.1	11.6	1.4	1.3	11.7	10.9	2.7	2.6
China Pacific Insurance	601601 CH	China	3.7	15.6	7.5	6.4	0.9	0.8	12.5	11.7	6.0	4.9
Ping An Insurance Group	601318 CH	China	10.3	13.8	6.4	5.6	0.9	0.8	14.4	15.0	4.9	5.3
China Life Insurance	2628 HK	Hong Kong	0.2	15.2	6.0	5.2	0.7	0.6	11.8	11.1	6.0	5.9
Ping An Insurance Group	2318 HK	Hong Kong	17.4	14.5	7.1	6.2	1.1	1.0	14.7	15.5	4.4	4.7
LPI Capital	LPI MK	Malaysia	(10.9)	14.2	17.6	15.4	2.4	2.3	16.5	14.7	5.2	4.7
Dongbu Insurance	005830 KS	South Korea	(3.4)	6.3	5.7	5.4	0.6	0.6	12.7	11.1	4.4	4.8
Hyundai Marine & Fire	001450 KS	South Korea	na	13.7	6.0	5.2	0.5	0.5	na	9.2	4.1	4.5
Meritz Fire & Marine	000060 KS	South Korea	na	na	na	na	na	na	na	na	1.5	1.3
Samsung Fire & Marine	000810 KS	South Korea	(3.9)	7.1	9.0	8.4	0.6	0.5	7.3	6.5	6.2	5.6
Cathay Financial Holding	2882 TT	Taiwan	(22.5)	5.9	8.3	7.8	0.9	0.9	15.8	11.2	5.3	4.7
China Life Insurance	2823 TT	Taiwan	na	na	na	na	na	na	12.7	12.9	na	na
Shin Kong Financial	2888 TT	Taiwan	(31.1)	(2.2)	9.9	10.1	0.5	0.5	8.7	5.1	4.0	2.7
Bangkok Life Assurance	BLA TB*	Thailand	33.2	25.4	17.9	14.3	1.5	1.4	8.6	10.1	1.4	1.9
TQM Corporation Pcl	TQM TB*	Thailand	22.2	26.3	26.7	21.2	8.4	7.8	34.3	38.2	3.0	3.8
Thai Reinsurance	THRE TB	Thailand	na	150.0	56.0	22.4	1.4	1.3	(6.0)	2.1	0.0	0.9
Thaire Life Assurance	THREL TB	Thailand	25.0	36.0	24.4	17.9	2.4	2.2	8.0	10.1	2.3	3.0
Average			**3.4**	**23.7**	**14.8**	**10.9**	**1.6**	**1.5**	**12.2**	**12.2**	**3.8**	**3.8**

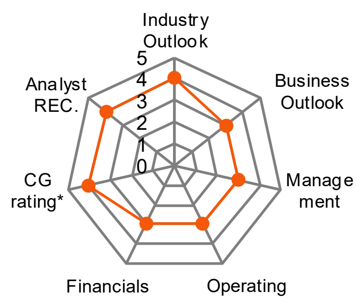
Source: Bloomberg
Note: * Thanachart estimates, using Thanachart normalized EPS
Based on 22 April 2022 closing prices

COMPANY DESCRIPTION

Bangkok Life Assurance Pcl's (BLA) core business is life insurance. The company provides a wide range of savings and life protection products, including healthcare products, retirement savings, mortgage and credit life products, etc. BLA is in a partnership with Bangkok Bank Pcl (BBL TB, Bt132.50, BUY) for product development and product distribution. The company primarily sells insurance policies through bancassurance and agent channels.

Source: Thanachart

COMPANY RATING



Rating Scale	
Excellent	5
Good	4
Fair	3
Weak	2
Very Weak	1
None	0

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Ability to sell its insurance policies via BBL at more than 1,000 branches nationwide.
- Nippon Life Insurance Company as a strategic shareholder.

W — Weakness

- Over-reliance on the banking channel.
- Lowest CAR ratio among the big players.

O — Opportunity

- Fast-growing life insurance industry with more room to grow.
- Growing numbers of financial adviser agents allowing BLA to sell more sophisticated products.

T — Threat

- The upcoming RBC Phase II that could have a negative effect on BLA.
- Swings in market interest rates.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	54.33	57.00	5%
Net profit 22F (Bt m)	4,999	4,256	-15%
Net profit 23F (Bt m)	6,711	5,338	-20%
Consensus REC	**BUY: 4**	**HOLD: 0**	**SELL: 0**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022-23F earnings forecasts are lower than consensus likely due to lower premium growth assumptions.
- However, our TP is higher than consensus as we see an improved long-term outlook.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Swings in market interest rates that might force BLA to set aside more reserves would represent a downside risk.
- Changes in policy mix which might not be in line with our expectations. As a result, BLA's reserve-to-premium ratio might be higher than we currently forecast.
- A slower-than-expected recovery of bond yields would provide downside potential to our earnings forecasts.

Source: Thanachart

We expect strong earnings growth in 2022-23F

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Insurance premium	33,828	34,664	34,696	35,438	37,033
Less Life policy reserve	4,919	5,364	4,638	4,060	4,243
Net insurance premium	**28,909**	**29,299**	**30,058**	**31,377**	**32,790**
% of life policy reserve	12.0%	11.7%	11.4%	11.4%	11.8%
Underwriting expenses	38,784	36,922	37,645	38,893	40,366
Profit from insurance	**(9,875)**	**(7,622)**	**(7,587)**	**(7,516)**	**(7,576)**
Revenue on investment	13,381	13,385	14,403	15,760	17,400
Others	128	120	35	35	37
Non-underwriting Income	**13,509**	**13,505**	**14,438**	**15,796**	**17,437**
% of total income	371.7%	229.6%	210.7%	190.8%	176.8%
Total Income	3,634	5,883	6,851	8,280	9,861
Operating Expenses	1,534	1,647	1,784	1,925	2,080
Profit from operation	2,100	4,235	5,067	6,355	7,781
Obligation expenses	**339**	**472**	**0**	**0**	**0**
Pre-tax Profit	1,761	3,764	5,067	6,355	7,781
Income Tax	**153**	**568**	**811**	**1,017**	**1,245**
After Tax Profit	1,608	3,196	4,256	5,338	6,536
Equity Income	0	0	0	0	0
Minority Interest	(0)	(0)	0	0	0
Extraordinary Items	0	0	0	0	0
NET PROFIT	**1,608**	**3,196**	**4,256**	**5,338**	**6,536**
Normalized Profit	**1,608**	**3,196**	**4,256**	**5,338**	**6,536**
EPS (Bt)	0.9	1.9	2.5	3.1	3.8
Normalized EPS (Bt)	0.9	1.9	2.5	3.1	3.8

Balance sheet remains strong with CAR ratio of over 300%

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Liquid Items	**12,122**	**11,577**	**10,983**	**12,688**	**14,920**
cash & cash equivalents	8,072	7,637	5,500	7,000	9,000
accrued investment income	1,647	1,599	1,860	2,011	2,170
Securities under resale agreement	1,786	1,648	2,929	2,968	3,009
Investments	310,811	318,939	346,465	369,629	393,837
Net loans	**11,314**	**12,129**	**7,794**	**8,315**	**8,859**
Gross and accrued interest	11,314	12,129	7,794	8,315	8,859
Provisions for doubtful	0	0	0	0	0
Fixed assets - net	2,188	2,283	2,270	2,238	2,208
Other assets	3,343	2,214	2,578	3,116	3,711
Total assets	**339,778**	**347,143**	**370,089**	**395,986**	**423,535**
LIABILITIES:					
Liquid Items	**799**	**1,243**	**1,269**	**1,315**	**1,393**
Securities sold under repurchase	0	0	0	0	0
Income tax payable	0	58	82	103	127
Amount due to reinsurer	799	1,185	1,186	1,212	1,266
Life policy reserve	282,407	295,480	305,482	309,543	313,786
Other liabilities	1,552	2,454	2,527	2,603	2,681
Total liabilities	**293,680**	**299,177**	**318,932**	**340,959**	**363,932**
Minority interest	0	0	0	0	0
Shareholders' equity	**46,098**	**47,966**	**51,157**	**55,027**	**59,602**
Preferred capital	0	0	0	0	0
Paid-in capital	1,708	1,708	1,706	1,706	1,706
Share premium	3,361	3,361	3,361	3,361	3,361
Surplus/ Others	9,301	8,375	8,375	8,375	8,375
Retained earnings	31,729	34,522	37,714	41,584	46,160
Liabilities & equity	**339,778**	**347,143**	**370,089**	**395,986**	**423,535**

Sources: Company data, Thanachart estimates

Valuation remains attractive at less than 1.1x P/EV vs 1.3x average in 2012-19

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	47.5	23.9	17.9	14.3	11.7
Normalized PE - at target price (x)	60.5	30.4	22.8	18.2	14.9
PE (x)	47.5	23.9	17.9	14.3	11.7
PE - at target price (x)	60.5	30.4	22.8	18.2	14.9
P/PPP (x)	36.4	18.0	15.1	12.0	9.8
P/PPP - at target price (x)	46.3	23.0	19.2	15.3	12.5
P/BV (x)	1.7	1.6	1.5	1.4	1.3
P/BV - at target price (x)	2.1	2.0	1.9	1.8	1.6
Dividend yield (%)	0.5	1.3	1.4	1.9	2.6
Market cap / total premium (x)	2.3	2.2	2.2	2.2	2.1
Market cap / life policy reserve (x)	0.3	0.3	0.3	0.2	0.2
(Bt)					
Normalized EPS	0.9	1.9	2.5	3.1	3.8
EPS	0.9	1.9	2.5	3.1	3.8
DPS	0.2	0.6	0.6	0.9	1.1
PPP/Share	1.2	2.5	3.0	3.7	4.6
BV/share	27.0	28.1	30.0	32.3	34.9

We expect higher margin from improved sales mix

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Net premium written (%)	(2.4)	2.5	0.1	2.1	4.5
Life policy reserves (%)	37.4	9.1	(13.5)	(12.5)	4.5
Underwriting expenses (%)	1.1	(4.8)	2.0	3.3	3.8
Insurance profits (%)	na	na	na	na	na
Net profit (%)	(63.3)	98.7	na	na	22.4
Normalized profit growth (%)	(63.3)	98.7	33.2	25.4	22.4
EPS (%)	(63.3)	98.7	na	na	22.4
Normalized EPS (%)	(63.3)	98.7	33.2	25.4	22.4
Dividend payout ratio (%)	24.4	29.9	25.0	27.5	30.0
Total FYP (%)	20.2	81.0	(28.5)	(51.9)	0.0
Total premium (%)	12.8	32.6	(13.5)	(22.5)	(3.3)
Total investment assets (%)	3.5	2.8	7.0	6.7	6.5
Total assets (%)	1.8	2.2	6.6	7.0	7.0
Total equity (%)	4.2	4.1	6.7	7.6	8.3
Operating Ratios (%)					
Profit on underwriting to net earned prem.	(29.2)	(22.0)	(21.9)	(21.2)	(20.5)
Underwriting exp. to net earned premium	129.2	122.0	121.9	121.2	120.5
Investment yield (ROI)	4.2	4.1	4.2	4.3	4.5
Net profit margin	3.4	6.7	8.7	10.4	12.0
ROE	3.6	6.8	8.6	10.1	11.4
Loss ratio	104.8	97.1	98.0	98.0	96.0
Expense ratio	1.6	1.6	1.5	1.8	2.0
Commission ratio	8.2	7.8	9.0	10.0	11.0
ROA	0.5	0.9	1.2	1.4	1.6
ROE	3.6	6.8	8.6	10.1	11.4
D/E (x)	6.4	6.2	6.2	6.2	6.1
Policy reserve to capital fund (x)	6.1	6.2	6.0	5.6	5.3
Insurance contract liab. to invest. asset (x)	0.9	0.9	0.9	0.9	0.9
Total CAR	268.0	247.0	23.3	48.2	74.3

Sources: Company data, Thanachart estimates

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