

Prefer life to non-life

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- The deduction of health insurance premiums is a small positive, mostly for THRE.
- **BLA: We expect continued sluggish premium growth with the risk of falling bond yield returning in 2H17. Beyond 2017, however, believe it will benefit from a L-T uptrend in bond yield.**
- **THREL: We forecast good earnings growth YoY in 2H17, backed by: 1) better combined ratio YoY, 2) one-off investment gain from the sale of an affiliate and 3) a pick-up in premium growth.**
- **THRE: Though we expect an improved combined ratio to aid recovery in 2H17 and a good recovery in premium growth in 2018, it is still expensive.**
- **We prefer THREL and BLA to THRE on the back of more attractive valuation and more visible earnings recovery.**

Health insurance premium deduction okayed. The cabinet yesterday approved an additional tax break on health insurance premiums of up to Bt15,000 as of January 1, 2017. Deductions will also be allowed for life insurance with a health insurance rider of up to Bt100,000. Impact is small, as the maximum tax deduction is unchanged at Bt100,000, but it does now allow health insurance premiums to be included. THRE will be the most benefited of those under coverage. Health insurance premiums account for around 20% of total premiums for THRE, 13-14% for THREL and 1-2% for BLA.

BLA: Sluggish premium growth with a return of risk from falling bond yield. With a drag from rising matured premiums, we expect net premiums to continue flattish in 2H17 on a HoH rise in maturing premiums. Growth in net premiums will be eroded by maturing premiums, which will rise from Bt3bn in 2016 to Bt6-7bn in each of 2017 (mainly in 2H17) and 2018 and Bt10bn in 2019. We expect BLA's life policy reserve ratio to increase HoH to 60% in 2H17 from 55% in 1H17 after L-T bond yield began to fall in 8M17 (-23 bps YTD for 10-year government bond yield). We expect a fall in ROI in 2H17 due to a lower gain on investment and a continued fall in yield on bond investment. However, beyond 2017, we expect it will benefit from a L-T uptrend in bond yield.

THREL: Expect robust YoY earnings growth in 2H17. We expect high 111% YoY growth in 2H17, underpinned by: 1) an expected YoY plunge in combined ratio to 85% in 2H17 from 94% in 2H16 as it normalizes, 2) Bt37mn one-off realized gain from the sale of its 20% in EMCS Thai Co., Ltd., and 3) a slight pick-up in premium growth to 8% for 2017 from 7% YoY in 1H17.

THRE: Weak on all fronts. 1H17 was a big disappointment for THRE with a 14% YoY fall in underwriting income, higher-than-usual combined ratio of 106% from rising property insurance claims and one-off loss on investment in THREL arising from the transfer of investment in THREL from "available for sale" to "trading portfolio". We project recovery in 2H17F earnings thanks to an improvement in combined ratio but earnings will remain weak through 2018. We forecast a 5% fall in net premiums in 2017 (vs. -14% YoY for 1H17) followed by a recovery of 10% in 2018, supported by an tax incentive for health issuance as tax deductible and an expansion of to Vietnam, Cambodia, and into Laos, which is expected to start generating revenue in 4Q17.

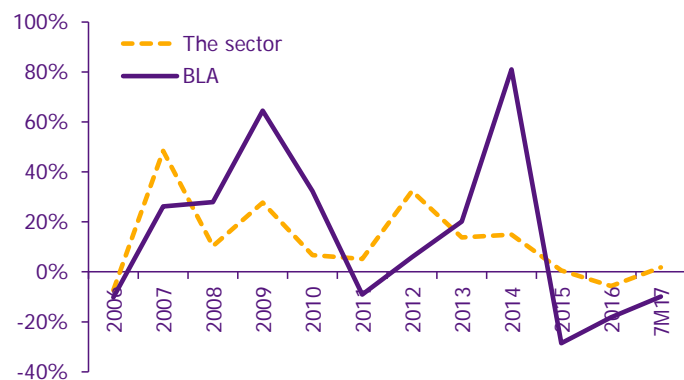
Prefer THREL and BLA to THRE. We prefer THREL and BLA to THRE for their more attractive valuations and more visible earnings recovery. A 13-15% share price weakness YTD despite on-track earnings recovery has put both into undervalued territory.

Valuation Summary

	Rating	Price (Bt/Sh)	Target (Bt/Sh)	ETR (%)	P/E (x)			EPS growth (%)			P/BV (x)			ROE (%)			Div. Yield (%)		
					16A	17F	18F	16A	17F	18F	16A	17F	18F	16A	17F	18F	16A	17F	18F
BLA	Buy	45.00	50.0	12.8	15.0	14.9	14.6	24	1	2	2.3	2.1	1.9	17	15	13	1.3	1.7	1.7
THRE	Sell	1.79	1.5	(14.5)	27.2	37.8	23.8	(53)	(28)	59	1.4	1.5	1.5	5	4	6	8.4	1.7	2.1
THREL	Buy	9.15	10.0	15.3	17.1	12.0	12.0	(17)	42	1	4.2	3.6	3.3	25	32	29	4.4	6.0	6.0
Average					19.8	21.6	16.8	(15)	5	20	2.6	2.4	2.2	16	17	16	4.7	3.1	3.3

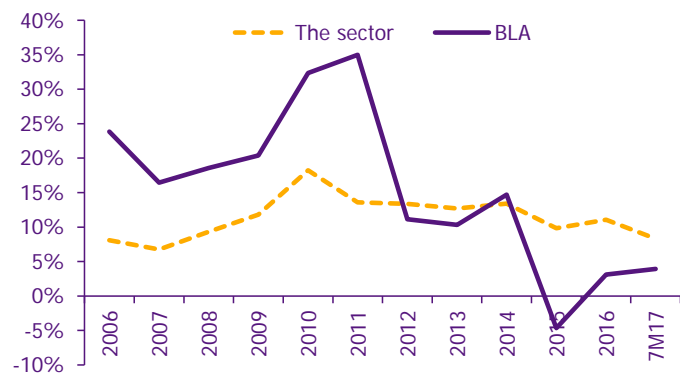
Source: SCBS Investment Research

Figure 1: New business premium growth



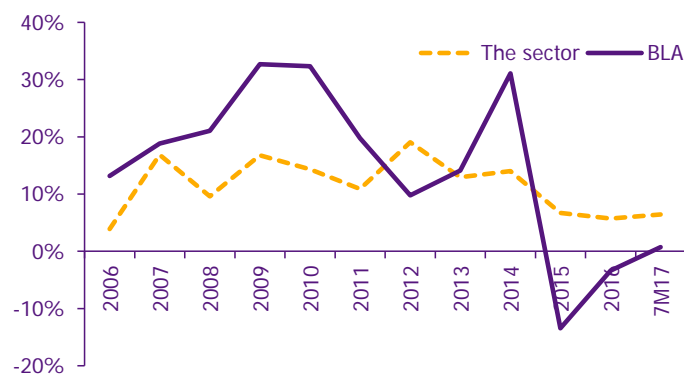
Source: The Thai Life Assurance Association and SCBS Investment Research

Figure 2: Renewal premium growth



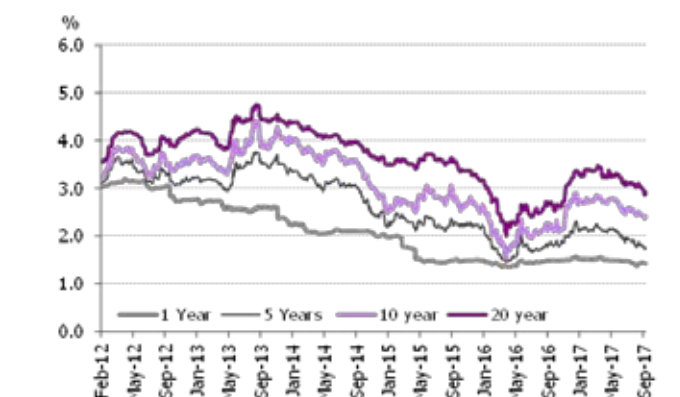
Source: Thai BMA and SCBS Investment Research

Figure 3: Total premium growth



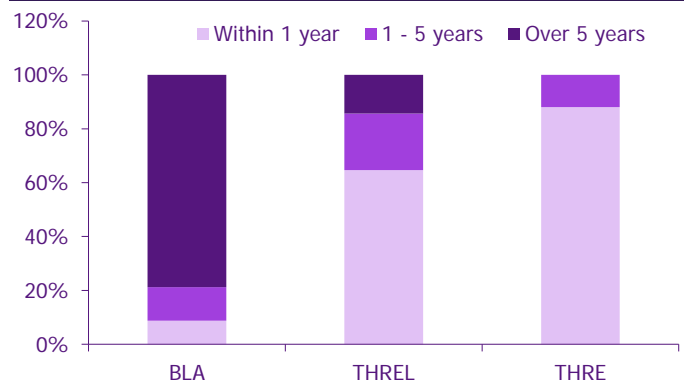
Source: The Thai Life Assurance Association and SCBS Investment Research

Figure 4: Government bond yield



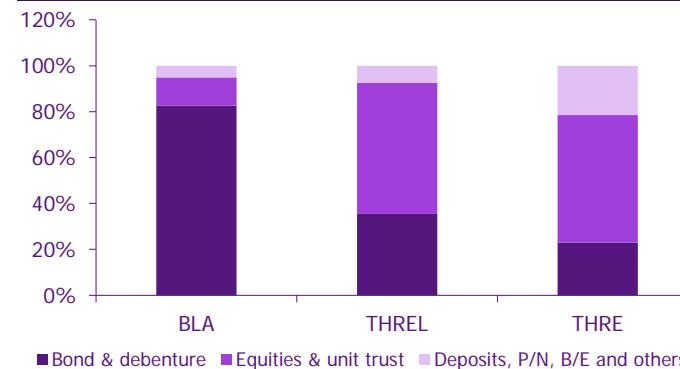
Source: Thai BMA and SCBS Investment Research

Figure 5: Investment in debt securities by maturity



Source: BLA, THRE, THREL and SCBS Investment Research

Figure 6: Investment portfolio



Source: BLA, THRE, THREL and SCBS Investment Research

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