

1 March 2021

Consumer Non-cyclical | Food & Beverage Products

Charoen Pokphand Foods (CPF TB)

Buy (Maintained)

Inorganic Growth Driver With Horizontal Expansion

- **Keep BUY and THB38.00 TP, 32% upside.** Margins should remain solid despite the rise in raw material costs – thanks to swine prices, which are expected to remain at upper-bound levels. Synergies from recent M&A should be growth drivers while horizontal expansion ought to be upsides.
- **FY20's earnings hit record highs**, rising 41% YoY to THB26bn despite softened profit contributions from CP ALL (CPALL TB, BUY, TP: THB77.00) – largely on the stellar performances of the overseas livestock divisions, widened profitability margins, and one-time gain on Chia Tai Investment's (CTI) deconsolidation. While FY20 revenue rose 11% YoY to THB589bn on improvements of volume and ASPs in the farming segments, GPM also stood at record levels (18.2%: +390bps YoY), dominated by the swine businesses that continue to benefit from global supply constraints.
- **Likely gradual margins normalisation.** While soft commodities like corn and soybean's price rise on logistics and supply disruptions should slightly tone down the swine wing's margins, attempts to change feed formation, breeding process improvements, and still-low local herd population should help Charoen Pokphand Foods stabilise margins. We expect regional swine prices to remain in the upper ranges, where the ramping up of breeding herds from large-scale Chinese producers should not create significant impacts to short-term sales price momentum. This is thanks to a relatively fragmented supply structure and production constraints in neighbourhoods that have yet to see a recovery. We remain optimistic on the scaling up of CPF's Vietnam production capacity, its export unit's positive momentum, and gradual private consumption rebound. These factors should allow the swine business to continue outperforming in FY21.
- **Inorganic growth drivers.** The significant distribution channel increases and strategy shift at Lotus's to ramp-up revenue proportions from fresh food to c.40% from 18% should be upsides for CPF's local 2021 business. While we stay cautious over CP Retail's earnings contributions (it may be overwhelmed by short-term funding costs), we are optimistic on the long-term indirect synergies, ie food waste reduction, inventory turnover, and logistics cost-sharing. Other FY21 bottomline catalysts: CTI's full-year profit share contributions, the retail arm's rebound, and HyLife's growth.
- **Horizontal expansion upsides.** Aside from CPF's optimistic guidance, it highlighted 2Q21 plans to launch its plant-based products globally. It has set up a team to seek potential in cannabis-related industry opportunities too. While no details were disclosed, we think CPF has a competitive edge in scaling, thanks to its group structure and strong distribution channels.
- **BUY; still our sector Top Pick.** Although CPF announced a FY20 DPS of THB1.00 (c.3.4% yield), the farming unit's solid performance, food services' recovery, and positive contributions from recent deals should allow FY21 earnings to remain intact. Key risks: Softening private consumption, raw material price fluctuations, and the THB's appreciation.

Target Price (Return):	THB38.00 (+31.9%)
Price:	THB28.80
Market Cap:	USD7,967m
Avg Daily Turnover (THB/USD)	1,319m/43.9m

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.5	0.9	(1.7)	(14.2)	(0.9)
Relative	4.2	1.2	(7.4)	(27.9)	(4.9)
52-wk Price low/high (THB)				20.3	34.5

Charoen Pokphand Foods (CPF TB)



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
Total turnover (THBm)	532,573	589,713	583,415	584,752	586,475
Recurring net profit (THBm)	20,583	20,539	23,134	23,963	24,822
Recurring net profit growth (%)	32.5	(0.2)	12.6	3.6	3.6
Recurring P/E (x)	12.98	13.01	11.55	11.15	10.76
P/B (x)	1.5	1.4	1.3	1.2	1.1
P/CF (x)	7.60	4.45	7.45	7.35	7.15
Dividend Yield (%)	2.9	4.3	3.8	4.0	4.1
EV/EBITDA (x)	13.55	6.04	6.02	5.86	5.69
Return on average equity (%)	12.6	13.6	11.4	11.1	10.8
Net debt to equity (%)	137.3	122.9	113.9	105.4	97.3

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
Thailand	Recurring EPS	2.22	2.21	2.49	2.58	2.67
Consumer Non-cyclical	DPS	0.84	1.24	1.10	1.14	1.18
Charoen Pokphand Foods	BVPS	19.23	21.06	22.45	23.89	25.39
CPF TB	Return on average equity (%)	12.6	13.6	11.4	11.1	10.8
Buy						
	Valuation metrics	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	12.98	13.01	11.55	11.15	10.76
BV multiples.	P/B (x)	1.5	1.4	1.3	1.2	1.1
	FCF Yield (%)	3.2	7.3	3.3	3.5	3.9
Key drivers	Dividend Yield (%)	2.9	4.3	3.8	4.0	4.1
i. Uptrend cycle on its farm business;	EV/EBITDA (x)	13.55	6.04	6.02	5.86	5.69
ii. Average local feed costs remain at a lower-bound level;	EV/EBIT (x)	25.69	9.02	9.11	8.95	8.76
iii. Protein shortage in Asia.						
	Income statement (THBm)	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
Key risks	Total turnover	532,573	589,713	583,415	584,752	586,475
i. Meat price volatility;	Gross profit	76,304	107,243	105,139	105,056	105,033
ii. Softened consumption due to COVID-19.	EBITDA	35,847	67,534	66,255	66,522	66,757
	Depreciation and amortisation	(16,938)	(22,312)	(22,474)	(22,964)	(23,401)
Company Profile	Operating profit	18,909	45,222	43,781	43,558	43,356
CPF is Asia-Pacific's leading agro-industrial and food conglomerate. The company operates in both livestock and aquaculture businesses. The vertically integrated divisions incorporate the manufacturing of animal feed, animal farming, and production of cooked meat.	Net interest	(13,784)	(16,818)	(16,109)	(16,589)	(16,491)
	Pre-tax profit	32,769	54,457	51,242	52,329	53,468
	Taxation	(5,445)	(11,001)	(10,232)	(10,449)	(10,676)
	Reported net profit	21,682	25,387	23,134	23,963	24,822
	Recurring net profit	20,583	20,539	23,134	23,963	24,822
	Cash flow (THBm)	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	(1,963)	4,738	492	(126)	(159)
	Cash flow from operations	35,163	60,036	35,867	36,350	37,385
	Capex	(26,647)	(40,569)	(27,048)	(27,048)	(27,048)
	Cash flow from investing activities	(26,647)	(75,918)	(27,048)	(27,048)	(27,048)
	Dividends paid	(7,766)	(11,481)	(10,206)	(10,571)	(10,950)
	Cash flow from financing activities	(4,516)	33,169	(19,865)	9,199	(1,916)
	Cash at beginning of period	31,478	32,094	57,035	49,852	69,889
	Net change in cash	4,000	17,287	(11,046)	18,501	8,421
	Ending balance cash	32,094	51,416	46,276	66,268	74,032
	Balance sheet (THBm)	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	33,496	57,997	50,813	70,850	78,703
	Tangible fixed assets	197,430	200,138	205,480	210,257	214,529
	Total investments	132,329	251,757	251,757	251,757	251,757
	Total assets	634,050	761,718	758,336	782,679	794,454
	Short-term debt	137,406	144,222	121,906	133,241	128,388
	Total long-term debt	196,495	235,968	242,256	241,779	244,421
	Total liabilities	415,178	499,540	483,230	494,184	492,091
	Total equity	218,872	262,179	275,105	288,495	302,363
	Total liabilities & equity	634,050	761,718	758,336	782,679	794,454
	Key metrics	Dec-19	Dec-20F	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(1.7)	10.7	(1.1)	0.2	0.3
	Recurrent EPS growth (%)	32.5	(0.2)	12.6	3.6	3.6
	Gross margin (%)	14.3	18.2	18.0	18.0	17.9
	Operating EBITDA margin (%)	6.7	11.5	11.4	11.4	11.4
	Net profit margin (%)	4.1	4.3	4.0	4.1	4.2
	Dividend payout ratio (%)	35.8	45.2	44.1	44.1	44.1
	Capex/sales (%)	5.0	6.9	4.6	4.6	4.6
	Interest cover (x)	1.37	2.69	2.72	2.63	2.63

Source: Company data, RHB

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Figure 1: Sales breakdown by product category

Feed	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Thailand – domestic	12,419	9,133	9,442	10,172	9,682	9,429	9,451	9,911	9,772
Thailand – export	18	16	18	29	13	5	9	23	21
Thailand (total)	12,437	9,149	9,460	10,201	9,695	9,434	9,460	9,934	9,793
China	29,393	23,804	25,785	24,357	24,243	26,360	30,363	35,099	25,608
Vietnam	7,594	6,656	7,919	6,811	6,166	6,313	7,427	7,567	6,737
Others	8,589	7,899	10,162	9,248	8,314	8,303	8,074	8,684	9,035
Total	58,013	47,508	53,326	50,617	48,418	50,410	55,324	61,284	51,173
Farm	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Thailand – domestic	20,861	19,810	20,823	19,746	20,987	22,261	21,236	23,612	22,843
Thailand – export	1,953	1,490	1,900	2,031	2,621	1,742	2,398	2,086	2,280
Thailand (total)	22,814	21,300	22,723	21,777	23,608	24,003	23,634	25,698	25,123
China	5,888	4,286	5,384	5,890	6,580	6,074	7,748	8,706	7,545
Vietnam	13,501	12,128	10,852	13,255	18,525	18,730	18,018	19,325	19,107
Others	17,280	16,925	18,489	17,316	16,901	15,932	16,769	18,549	19,730
Total	59,483	54,639	57,448	58,238	65,614	64,739	66,169	72,278	71,505
Food	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Thailand – domestic	6,277	5,953	6,146	5,895	6,118	5,826	5,309	5,808	5,971
Thailand – export	6,243	5,475	5,569	5,787	7,111	5,085	4,668	5,193	5,631
Thailand (total)	12,520	11,428	11,715	11,682	13,229	10,911	9,977	11,001	11,602
China	1,982	1,849	1,887	2,289	3,103	1,967	2,436	2,793	2,989
Vietnam	695	657	659	830	932	983	1,019	1,238	1,329
Others	10,983	9,205	8,861	8,942	9,497	9,123	8,882	9,211	11,370
Total	26,180	23,139	23,122	23,743	26,761	22,984	22,314	24,243	27,290

Source: Company data, RHB

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Figure 2: Sales breakdown by type

	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Livestock									
Thailand – domestic	34,474	30,180	30,931	30,391	31,935	32,491	30,501	33,531	31,935
Thailand – export	6,574	5,937	6,175	6,529	8,104	5,906	5,545	6,165	8,104
Local livestock	41,048	36,117	37,106	36,920	40,039	38,397	36,046	39,696	40,039
China	35,944	28,991	29,821	29,258	32,879	33,390	37,629	43,037	32,879
Vietnam	18,207	16,321	14,298	16,445	21,891	22,153	21,200	23,205	21,891
Others	31,482	29,206	30,135	28,866	29,644	28,436	28,044	31,303	29,644
Overseas livestock	85,633	74,518	74,254	74,569	84,414	83,979	86,873	97,545	84,414
	126,681	110,635	111,360	111,489	124,453	122,376	122,919	137,241	124,453
Aquaculture									
Thailand – domestic	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Thailand – export	5,083	4716	5480	5422	4852	5025	5495	5800	4852
Local aquaculture	1,640	1044	1312	1318	1641	926	1530	1137	1641
China	6,723	5,760	6,792	6,740	6,493	5,951	7,025	6,937	6,493
Vietnam	1,319	948	3235	3278	1047	1011	2918	3561	1047
Others	3,583	3120	5132	4451	3732	3873	5264	4925	3732
Total aquaculture	5,370	4823	7377	6639	5069	4924	5679	5141	5069

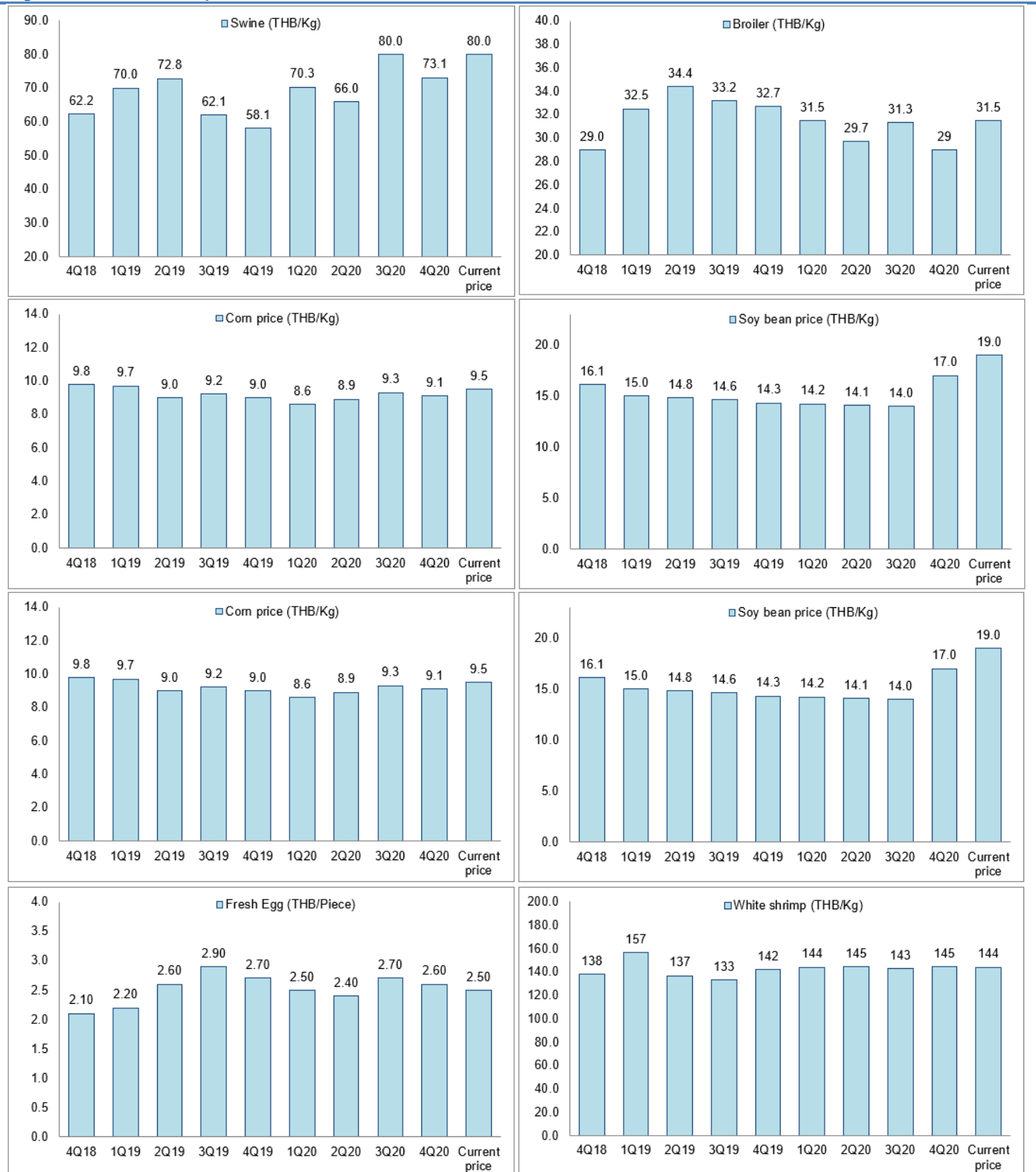
Source: Company data, RHB

Figure 3: Sales contribution by type

	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
Livestock									
Thailand – domestic	24%	24%	23%	23%	23%	24%	21%	21%	23%
Thailand – export	5%	5%	5%	5%	6%	4%	4%	4%	6%
Local livestock	29%	29%	28%	28%	28%	28%	25%	25%	28%
China	25%	23%	22%	22%	23%	24%	26%	27%	23%
Vietnam	13%	13%	11%	12%	16%	16%	15%	15%	16%
Others	22%	23%	23%	22%	21%	21%	20%	20%	21%
Total livestock	60%	59%	55%	56%	60%	61%	60%	62%	60%
Aquaculture									
Thailand – domestic	4%	4%	4%	4%	3%	4%	4%	4%	3%
Thailand – export	1%	1%	1%	1%	1%	1%	1%	1%	1%
Local aquaculture	5%	5%	5%	5%	5%	4%	5%	4%	5%
China	1%	1%	2%	2%	1%	1%	2%	2%	1%
Vietnam	2%	2%	4%	3%	3%	3%	4%	3%	3%
Others	4%	4%	6%	5%	4%	4%	4%	3%	4%
Total aquaculture	7%	7%	12%	11%	7%	7%	10%	9%	7%

Source: Company data, RHB

Figure 4: Commodities price trackers



Source: Company data, RHB

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Figure 5: FY20 results breakdown

Income statement	4Q19	3Q20	4Q20	QoQ%	YoY%	Remark
Revenue	140,794	157,805	149,968	-5.0%	6.5%	Increased YoY largely due to the strong performance of its overseas livestock businesses on the back of favourable regional swine prices.
Cost of goods sold	(118,712)	(127,664)	(124,263)			
Gross profit	22,082	30,141	25,706	-14.7%	16.4%	GPM reach its recorded high level (16.2% vs 14.3% YoY), driven largely by swine prices that remain at high levels due to the supply constraints – impacted by African Swine Fever.
Other income	1,692	1,131	11,557	921.7%	583.0%	
Interest income	250	270	45			
Dividend income	37	2	39			
FX gain	95	278	294			
Investment gain	28	(53)	9,678			
Others	1,282	635	1,502			
Gain on fair value of biological assets	4,124	320	209			
SG&A	(15,304)	(15,890)	(18,928)	19.1%	23.7%	Increased QoQ and YoY from one-off items on CTI's deconsolidation and higher sales performances.
Selling expenses	(5,806)	(6,244)	(6,298)			
Administrative expenses	(9,498)	(9,646)	(12,630)			
EBIT	12,594	15,702	10,825	-31.1%	-14.0%	
Equity income	2,416	2,028	2,964	46.1%	22.7%	Equity income increased QoQ and YoY from recent M&A.
Interest expenses	(3,524)	(4,186)	(4,211)	0.6%	19.5%	Higher YoY% due to cash accumulation for the Lotus's M&A.
Income taxes	(2,188)	(2,998)	(3,089)			
Net profit after tax	6,702	10,545	15,781	49.7%	135.5%	
Minority interest	(2,692)	(3,070)	(9,372)			
Reported net profit	4,010	7,474	6,409	-14.3%	59.8%	FY20's earnings increased 60% YoY from the stronger revenue, widened GPM, and positive contributions from new associates.
EPS	0.47	0.91	0.79	-13.2%	68.1%	

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-08-17	Buy	38.0	33.3
2020-02-23	Buy	35.0	29.8
2019-08-15	Buy	31.0	28.8
2019-05-16	Neutral	31.0	26.5
2019-02-28	Trading Buy	29.5	26.3
2018-08-21	Trading Buy	na	26.5
2018-08-20	Trading Buy	29.5	26.3

Source: RHB, Bloomberg

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Analyst	Company
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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		พอใช้	Satisfactory
50 - 59		ผ่าน	Pass
ต่ำกว่า 50	No logo give	N/A	N/A

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ข้อมูล Anti-Corruption Progress Indicator 2560

ประกาศเจตนาธรรม CAC

A	ASK	CHG	FC	GREEN	JUTHA	MATCH	NINE	PIMO	RWI	SPPT	TFI	TU	VNT
AI	AU	CHOTI	FER	GSTEL	KASET	MATI	NMG	PK	SANKO	SPRC	THE	TVD	WAVE
AIE	BCH	CHOW	FPI	GUNKUL	KBS	MBAX	NNCL	PL	SAUCE	SR	TICON	TVO	WHA
AIRA	BJC	CIG	FSMART	HARN	KCAR	MC	NTV	PLANB	SC	SRICHA	TIP	TVT	WICE
AJ	BJCHI	COL	GEL	IFS	KTECH	MFEC	NUSA	POST	SCCC	SST	TKN	TWPC	WIJK
ALUCON	BLAND	COM7	GFPT	ILINK	KWC	MIDA	NWR	PRINC	SCN	STA	TLUXE	U	TRUE
AMATAV	BR	CPALL	GGC	INET	KYE	MILL	OGC	PRO	SEAOIL	SUPER	TMILL	UPA	
AOT	BROCK	CPF	GIFT	IRC	L&E	ML	PACE	PSTC	SE-ED	SUSCO	TMT	UREKA	
APCO	BRR	CPR	GJS	J	LEE	MTLS	PAF	PYLON	SENA	SWC	TNP	UWC	
AQUA	CEN	CSC	GLOBAL	JMART	LIT	NBC	PAP	QTC	SIRI	SYMC	TPA	VGI	
ARROW	CGH	EKH	GOLD	JMT	LVT	NCL	PATO	ROH	SMART	TAKUNI	TSE	VIBHA	
ASIA	CHEWA	EPCO	GPSC	JUBILE	MAKRO	NEP	PCSGH	ROJNA	SPACK	TBSP	TTI	VIH	

ได้รับการรับรอง CAC

ADVANC	BKI	CPN	FE	INTUCH	LANNA	MSC	PLAT	PTT	SAT	SNP	TCMC	TMD	UOBKH
AKP	BLA	CSL	FNS	IRPC	LHBANK	MTI	PM	PTTEP	SCB	SORKON	TFG	TNITY	WACOAL
AMANAH	BROOK	DCC	FSS	IVL	LHK	NKI	PPP	PTTGC	SCC	SPC	TGCI	TNL	
AP	BTS	DEMCO	GBX	K	LPN	NSI	PPS	Q-CON	SCG	SPI	THANI	TOG	
ASP	BWG	DIMET	GCAP	KBANK	MBK	OCC	PRANDA	QH	SGP	SSF	THCOM	TOP	
AYUD	CENTEL	DRT	GLOW	KCE	MBKET	OCEAN	PREB	QLT	SINGER	SSI	THRE	TPCORP	
BAFS	CFRESH	DTAC	HANA	KGI	MCOT	PB	PRG	RATCH	SIS	SSSC	THREL	TRU	
BANPU	CIMBT	DTC	HMPRO	KKP	MFC	PDI	PSH	RML	SITHAI	SVI	TIPCO	TSC	
BAY	CM	EASTW	HTC	KSL	MINT	PE	PSL	ROBINS	SMIT	SYNTEC	TISCO	TSSTH	
BBL	CNS	ECL	ICC	KTB	MONO	PG	PT	S & J	SMPC	TAE	TKT	TTCL	
BCP	CPI	EGCO	IFEC	KTC	MOONG	PHOL	PTG	SABINA	SNC	TCAP	TMB	TVI	

N/A

2S	ARIP	BSM	CSS	FMT	INOX	LTX	NPK	RCL	SFP	SUC	TITLE	TSR	VPO
AAV	AS	BTC	CTW	FN	INSURE	M	NPP	RICH	SGF	SUN	TIW	TSTE	VTE
ABICO	ASAP	BTNC	CWT	FOCUS	IRCP	MACO	NVD	RICHY	SHANG	SUTHA	TK	TTA	WG
ACAP	ASEFA	BTW	D	FORTH	IT	MAJOR	NYT	RJH	SIAM	SVH	TKS	TTL	WHAUP
ACC	ASIAN	BUI	DCON	FTE	ITD	MALEE	OHTL	ROCK	SIMAT	SVOA	TM	TTTM	WIN
ADAM	ASIMAR	CBG	DCORP	FVC	ITEL	MANRIN	OISHI	RP	SKE	SYNEX	TMC	TTW	WINNER
ADB	ASN	CCET	DDD	GC	JAS	MAX	ORI	RPC	SKN	T	TMI	TUCC	WORK
AEC	ATP30	CCP	DELTA	GENCO	JCT	M-CHAI	OTO	RPH	SKR	TACC	TMW	TWP	WORLD
AEONTS	AUCT	CGD	DIGI	GL	JKN	MCS	PAE	RS	SKY	TAPAC	TNDT	TWZ	WP
AF	BA	CHARAN	DNA	GLAND	JSP	MDX	PDG	RSP	SLP	TASCO	TNH	TYCN	WPH
AFC	BAT-3K	CHO	DTCI	GPI	JTS	MEGA	PERM	S	SMK	TC	TNPC	UAC	WR
AGE	BCPG	CHUO	EA	GRAMMY	JWD	METCO	PF	S11	SMM	TCB	TNR	UBIS	XO
AH	BDMS	CI	EARTH	GRAND	KAMART	MGT	PICO	SAFARI	SMT	TCC	TOA	UEC	YCI
AHC	BEAUTY	CITY	EASON	GTB	KC	MJD	PJW	SALEE	SOLAR	TCCC	TOPP	UKEM	YNP
AIT	BEC	CK	ECF	GULF	KCM	MK	PLANET	SAM	SPA	TCJ	TPAC	UMI	YUASA
AJA	BEM	CKP	EE	GYT	KDH	MM	PLE	SAMART	SPALI	TCOAT	TPBI	UMS	ZIGA
AKR	BFIT	CMO	EFORL	HFT	KIAT	MODERN	PMTA	SAMCO	SPCG	TEAM	TPCH	UNIQU	ZMICO
ALLA	BGRIM	CMR	EIC	HOTPOT	KKC	MPG	POLAR	SAMTEL	SPG	TFD	TIPL	UP	
ALT	BGT	CNT	EMC	HPT	KOOL	MPIC	POMPUI	SAPPE	SPORT	TFMAMA	TIPIP	UPF	
AMA	BH	COLOR	EPG	HTECH	KTIS	NC	PORT	SAWAD	SPVI	TGPRO	TPOLY	UPOIC	
AMARIN	BIG	COMAN	ERW	HUMAN	KWG	NCH	PPM	SAWANG	SQ	TH	TPP	UT	
AMATA	BIZ	CPH	ESSO	HYDRO	LALIN	NDR	PRAKIT	SCI	SSC	THAI	TR	UTP	
AMC	BKD	CPL	ESTAR	ICHI	LDC	NETBAY	PRECHA	SCP	SSP	THANA	TRC	UV	
ANAN	BLISS	CPT	ETE	ICN	LH	NEW	PRIN	SDC	STANLY	THG	TRITN	UVAN	
APCS	BM	CRANE	EVER	IEC	LOXLEY	NEWS	PRM	SE	STAR	THIP	TRT	VARO	
APEX	BOL	CRD	F&D	IHL	LPH	NFC	PTL	SEAFCO	STEC	THL	TRUBB	VCOM	
APURE	BPP	CSP	FANCY	III	LRH	NOBLE	RAM	SELIC	STHAI	THMUI	TSF	VI	
AQ	BSBM	CSR	FLOYD	INGRS	LST	NOK	RCI	SF	STPI	TIC	TSI	VNG	

Source: Thai Institute of Directors

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