

30 July 2020

Consumer Cyclical | Retailing

## Home Product Center (HMPRO TB)

## Take Profit (Maintained)

### 2H Earnings Likely To Fall YoY; TAKE PROFIT

Target Price (Return):	THB12.60 (-18%)
Price:	THB15.40
Market Cap:	USD6,427m
Avg Daily Turnover (THB/USD)	317m/10.0m

- TAKE PROFIT, with unchanged THB12.60 FY20F TP, 18% downside.** We believe Home Product Center's quarterly performance may have bottomed out in 2Q20, but 2H20F earnings are likely to fall YoY on possible headwinds of weak local consumption towards discretionary items due to the COVID-19 pandemic. Our lower forecasted net profit by 15% this year has made its valuation (39x FY20F P/E) demanding vs peer's 32x.
- The weakest quarter.** Homepro reported 2Q20 results on Wednesday, with THB943m net profit (-38% YoY, -26% QoQ) – its lowest in the past 15 quarters or since 3Q16. However, it was still 13% above consensus forecasts, due to pent-up demand for home improvement products which boosted sales in the latter half of May and throughout June, as well as better-than-expected opex controls. 1H20 bottomline fell 25% YoY, accounting for 42% of our FY20 forecast of THB5.22bn (-15%).
- Monthly sales momentum improved.** 2Q20 total sales were -16% YoY and -5% QoQ, affected by store closures during the quarter for 1.5 months in Thailand and a month in Malaysia, but sales from online (c.5% of total revenue) and call centre channels helped limit the impact of its store shutdown. 2Q20 SSSG was c.-18.5% YoY – the steepest quarterly drop this year (1Q20: -7.0% YoY). SSSG was double-digits negative in April and May, before turning to a positive low single-digit in June.
- Weak GPM undermined net margin.** 2Q20 GPM fell 1.2ppts YoY and 1.9ppts QoQ due to an increase in sales mix of low-margin products like electrical appliances and online transactions. The closure of its two Market Village retail malls also dampened recurring income. Its efficient opex controls, which lowered variable and fixed costs during the lockdown, was impressive as the opex-to-sales ratio fell by 0.3ppt YoY and 0.8ppt QoQ, but it was not sufficient to offset the weaker margins. Rising interest expense from short-term loans and the new accounting standard of financial leases reduced NPM by 2.4ppts YoY and 1.9ppts QoQ. Net D/E ratio for the quarter rose to 0.8x (1Q20: 0.7x; 2Q19: 0.5x).
- 2H20F earnings likely to fall YoY.** We believe Homepro's quarterly earnings have bottomed out in 2Q20 and its momentum is likely improving QoQ throughout 2H20F. But, we still expect an earnings drop YoY over the period, as we have kept a view that post-pandemic challenges to the local consumption may continue affecting discretionary retail sales, thus pent-up demand boosting SSSG may be a short-term benefit. Also, its business expansion would be slow, based on the planned opening of only two new HomePro stores in Thailand this year in 2H20F, while stores in Malaysia may be suspended, causing its plan to turn operations profitable to be further delayed from within the next few years.
- TAKE PROFIT on demanding valuation.** Homepro's share price may already reflect an expectation of earnings recovery. Its current 39x FY20F P/E looks demanding amidst its earnings downturn and compared to local peer average of 32x. Prefer CP All (CPALL TB, BUY, TP: THB79) as it looks more attractive on cheaper valuation, trading at 29x FY20F P/E.

#### Analyst

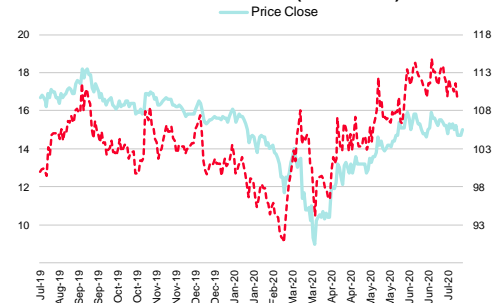
Vatcharut Vacharawongsith  
 +66 2088 9736  
[vatcharut.va@rhbgroup.com](mailto:vatcharut.va@rhbgroup.com)



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.8)	2.7	13.2	2.0	(10.5)
Relative	11.3	1.9	8.7	14.1	11.5
52-wk Price low/high (THB)				9.35	18.60

Home Product Center (HMPRO TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	61,951	63,046	58,670	61,398	64,185
Recurring net profit (THBm)	5,613	6,177	5,222	6,141	6,731
Recurring net profit growth (%)	14.9	10.0	(15.5)	17.6	9.6
Recurring P/E (x)	36.08	32.79	38.79	32.98	30.09
P/B (x)	10.1	9.6	9.0	8.4	7.9
P/CF (x)	24.06	24.67	21.79	20.83	19.04
Dividend Yield (%)	2.3	2.5	2.1	2.4	2.7
EV/EBITDA (x)	20.31	19.23	21.01	18.52	17.11
Return on average equity (%)	29.0	30.0	24.0	26.4	27.1
Net debt to equity (%)	55.3	49.7	48.2	43.0	37.4

Source: Company data, RHB

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## Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	0.43	0.47	0.40	0.47	0.51
Consumer Cyclical	DPS	0.35	0.38	0.32	0.37	0.41
<b>Home Product Center</b>	BVPS	1.52	1.61	1.70	1.83	1.95
HMPRO TB	Return on average equity (%)	29.0	30.0	24.0	26.4	27.1
Take Profit						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	36.08	32.79	38.79	32.98	30.09
DCF	P/B (x)	10.1	9.6	9.0	8.4	7.9
	FCF Yield (%)	2.5	2.4	1.9	2.3	2.8
<b>Key drivers</b>	Dividend Yield (%)	2.3	2.5	2.1	2.4	2.7
i. Opening of new stores (HomePro and Mega Home);	EV/EBITDA (x)	20.31	19.23	21.01	18.52	17.11
ii. Strong demand for home improvement products;	EV/EBIT (x)	28.81	26.30	30.79	26.41	24.22
iii. Rising sales contribution from private label products that improves profit margins.						
	<b>Income statement (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Key risks</b>	Total turnover	61,951	63,046	58,670	61,398	64,185
i. Consumption slowdown;	Gross profit	15,789	16,331	15,022	15,904	16,690
ii. Rising competition from smaller home improvement retailers;	EBITDA	10,387	10,951	10,048	11,387	12,293
iii. Delay in opening of new stores;	Depreciation and amortisation	(3,064)	(2,942)	(3,192)	(3,403)	(3,609)
iv. High-volume business (Mega Home) undermines overall gross margin.	Operating profit	7,322	8,009	6,856	7,984	8,684
	Net interest	(400)	(405)	(409)	(403)	(374)
	Pre-tax profit	6,922	7,604	6,447	7,581	8,310
	Taxation	(1,310)	(1,427)	(1,225)	(1,440)	(1,579)
	Reported net profit	5,613	6,177	5,222	6,141	6,731
	Recurring net profit	5,613	6,177	5,222	6,141	6,731
<b>Company Profile</b>						
Home Product Center was established with the objective of operating a retail business in the home improvement segment by selling goods. The business also provides a complete range of services relating to construction, in addition to refurbishment, renovation, improvement of buildings, houses and residential units through a one-stop shopping centre format under the HomePro and Mega Home trade names, the company's trademark. It currently operates HomePro stores in Thailand and Malaysia.						
	<b>Cash flow (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Change in working capital	506	(648)	1,788	(703)	119
	Cash flow from operations	8,417	8,211	9,294	9,721	10,637
	Capex	(3,315)	(3,441)	(5,347)	(5,011)	(4,990)
	Cash flow from investing activities	(3,112)	(3,254)	(5,110)	(4,800)	(4,800)
	Dividends paid	(4,340)	(4,865)	(4,433)	(4,471)	(5,101)
	Cash flow from financing activities	(1,572)	(8,335)	(5,094)	(4,471)	(5,601)
	Cash at beginning of period	2,505	6,238	2,860	1,950	2,400
	Net change in cash	3,733	(3,378)	(910)	450	235
	Ending balance cash	6,238	2,860	1,950	2,400	2,635
	<b>Balance sheet (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	6,238	2,860	1,950	2,400	2,635
	Tangible fixed assets	29,327	29,637	31,979	33,767	35,313
	Total investments	2,612	2,425	2,189	1,978	1,788
	Total assets	54,811	52,049	52,014	54,306	56,301
	Short-term debt	7,248	6,301	11,000	11,000	12,211
	Total long-term debt	10,000	7,072	1,711	1,711	0
	Total liabilities	34,897	30,911	29,698	30,321	30,686
	Total equity	19,914	21,138	22,316	23,986	25,615
	Total liabilities & equity	54,811	52,049	52,014	54,306	56,301
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	3.4	1.8	(6.9)	4.6	4.5
	Recurrent EPS growth (%)	14.9	10.0	(15.5)	17.6	9.6
	Gross margin (%)	25.5	25.9	25.6	25.9	26.0
	Operating EBITDA margin (%)	16.8	17.4	17.1	18.5	19.2
	Net profit margin (%)	9.1	9.8	8.9	10.0	10.5
	Dividend payout ratio (%)	77.3	78.8	84.9	72.8	75.8
	Capex/sales (%)	5.4	5.5	9.1	8.2	7.8
	Interest cover (x)	18.3	19.8	16.7	19.8	23.2

Source: Company data, RHB

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Figure 1: Homepro's 2Q20 and 1H20 results review

FYE Dec (THBm)	2Q19	1Q20	2Q20	YoY % chg	QoQ % chg	1H19	1H20	YoY % chg	Remarks
Turnover	16,545	14,546	13,824	(16.4)	(5.0)	32,042	28,370	(11.5)	Weak sales were affected by store closure in Thailand on 1 Apr-16 May and in Malaysia on 1-30 Apr. There was also no backlog from unshipped sales amount from the HomePro Expo event like the previous year. However, online sales (c.5% of total revenue) and call centres helped limit the impact of the shutdown.
Gross profit	4,131	3,739	3,288	(20.4)	(12.1)	8,001	7,027	(12.2)	
EBIT	1,985	1,667	1,272	(35.9)	(23.7)	3,843	2,939	(23.5)	The closure of stores and its "Market Village" retail malls in Bangkok and Hua Hin caused the company to offer rental fee discounts for tenants.
EBIT margin (%)	12.0	11.5	9.2			12.0	10.4		The opex-to-sales ratio improved, but it could not offset the weak GPM, rental and other income, which undermined the EBIT margin.
EBITDA	2,712	2,481	2,075	(23.5)	(16.4)	5,284	4,556	(13.8)	
EBITDA margin (%)	16.4	17.1	15.0			16.5	16.1		
Interest expense	(108)	(115)	(126)	16.7	9.5	(216)	(241)	11.7	
Pre-tax profit	1,877	1,552	1,146	(38.9)	(26.2)	3,627	2,698	(25.6)	
Tax	(350)	(286)	(204)	(41.9)	(28.7)	(681)	(489)	(28.1)	
Net profit	1,527	1,267	943	(38.3)	(25.6)	2,946	2,209	(25.0)	Sluggish revenue, slimmer operating margin and interest expense hike caused the drop in bottomline and NPM.
Gross margin (%)	25.0	25.7	23.8			25.0	24.8		Change in product sales mix ie.an increase in sales contribution of low-margin products such as home appliances and cooling items. Online sales also generate lower GPM vs sales at physical stores.
SG&A/sales (%)	18.1	18.6	17.8			18.4	18.2		Lowered contribution costs ie credit card fee, marketing expense, and variable costs.
Net margin (%)	9.2	8.7	6.8			9.2	7.8		
<b>Key indicators</b>									
Total store number	109	113	113	4	0	109	113	4	No new stores opened in 1H20.
- HomePro Thailand	91	93	93	2	0	91	93	2	Only 24 HomePro stores opened in April, before increasing to 51 in the first half of May 2020.
- Mega Home	12	14	14	2	0	12	14	2	Six Mega Home stores opened in April, before increasing to 10 in the first half of May 2020.
- HomePro Malaysia	6	6	6	0	0	6	6	0	HomePro stores in Malaysia were reopened from 1 May.
SSSG (%)	5.6	-7.0	-18.5			4.1	-12.8		SSSG was double-digit negative in April and May, before turning to a positive low single digit in June, from pent-up demand accumulated from May.

Source: Company data, RHB

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Figure 2: Homepro's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT	6,856	7,984	8,684	9,243	9,784	10,361	10,956	11,581	12,231	12,911
EBIT (1-t)	5,553	6,467	7,034	7,486	7,925	8,392	8,875	9,381	9,907	10,458
Depreciation & amortisation	3,192	3,403	3,609	3,815	4,021	4,228	4,434	4,667	4,927	5,189
Change in net working capital	1,788	(703)	119	19	(52)	(16)	11	(36)	26	(2)
Capex	(5,347)	(5,011)	(4,990)	(4,873)	(4,755)	(4,741)	(4,627)	(5,115)	(5,604)	(5,594)
Net free cash flow to firm	1,611	5,562	5,535	6,410	7,242	7,896	8,670	8,969	9,204	10,055
Terminal value										249,094
PV	1,556	5,011	4,652	5,026	5,296	5,387	5,518	5,325	5,098	133,884
Terminal growth	3.0%									
WACC	7.2%									
Total discounted firm value	176,752									
Less: Net debt	10,761									
Less: Minority interest	0									
Equity value	165,991									
Number of shares (m)	13,151									
Equity value per share (THB)	12.60									

Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-29	Take Profit	12.6	13.6
2020-03-04	Take Profit	13.7	14.0
2019-11-07	Take Profit	16.0	17.1
2019-08-05	Take Profit	15.0	16.6
2018-11-05	Take Profit	13.6	14.9
2018-05-03	Take Profit	12.5	14.7

Source: RHB, Bloomberg

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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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#### KUALA LUMPUR

##### RHB Investment Bank Bhd

Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

#### JAKARTA

##### PT RHB Sekuritas Indonesia

Revenue Tower, 11th Floor, District 8  
- SCBD  
Jl. Jendral Sudirman Kav 52-53  
Jakarta 12190  
Indonesia  
Tel : +6221 509 39 888  
Fax : +6221 509 39 777

#### HONG KONG

##### RHB Securities Hong Kong Ltd.

12<sup>th</sup> Floor, World-Wide House  
19 Des Voeux Road  
Central  
Hong Kong  
Tel : +852 2525 1118  
Fax : +852 2810 0908

#### BANGKOK

##### RHB Securities (Thailand) PCL

10th Floor, Sathorn Square Office  
Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
Thailand  
Tel: +66 2088 9999  
Fax :+66 2088 9799






#### SINGAPORE

##### RHB Securities Singapore Pte Ltd.

10 Collyer Quay  
#09-08 Ocean Financial Centre  
Singapore 049315  
Tel : +65 6533 1818  
Fax : +65 6532 6211





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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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ทั้งนี้บริษัทหลักทรัพย์ อาร์เอชบี (ประเทศไทย) จำกัด (มหาชน) มิได้ยืนยันหรือรับรองถึงความครบถ้วนและถูกต้องของผลสำรวจดังกล่าวแต่อย่างใด

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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- ได้รับการรับรอง CAC

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