

22 July 2021

Financial Services | Banks

Kasikornbank (KBANK TB)

Buy (Maintained)

Bracing For a Tougher 2H21; Stay BUY

Target Price (Return): THB150.00 (+43%)
 Price: THB105.00
 Market Cap: USD7,569m
 Avg Daily Turnover (THB/USD) 3,617m/115m

- **Stay BUY, new THB150.00 TP from THB160.00, 43% upside with c.3% yield.** Kasikornbank's (KBank) 2Q21 earnings surpassed our expectations on lower-than-expected provisions. We expect management to adopt a more cautious stance in 2H21, on concerns over slowing GDP growth and potential asset quality stress. We raised earnings estimates on the lower credit cost, but cut our TP to reflect heightened risks. At THB105.00, its valuation remains compelling at 0.5x FY21F P/BV vs ROE of c.8%.
- **2Q21 results above expectations.** KBank's net profit of THB8.89bn in 2Q21 (-16% QoQ; +309% YoY) beat our expectations on lower-than-expected provisions. 1H21 earnings of THB19.52bn are 61%/56% of our/Street FY21F earnings. 1H21 ROAE was 8.9% vs 4.7% in 1H20, and CET-1 was at 14.7%.
- **2Q21 PIOP subdued.** Operating income rose by a moderate 2% QoQ, as the higher NII was mitigated by lower non-II. NII grew 6% QoQ, as NIM edged up 6bps to 3.22%, from the depressed 3.08% in 4Q20, while loans expanded 3.5% QoQ. Non-II shrank by 6% QoQ, on a 34% QoQ decline in mark-to-market gains from investments and a 9% QoQ fall in net fee income. Opex rose 3% QoQ mainly on higher IT expenses, as personnel costs dipped 0.6% QoQ. CIR was relatively stable at 41.8% (1Q21: 41.3%).
- **Higher provisions for uncertain times.** Expected credit loss (ECL) rose 25% QoQ, as management took a prudent approach on concerns that the surge of COVID-19 infections is impacting consumption spending, dampening business sentiment and delaying the recovery in tourism. Credit cost rose to 185bps in 1Q21 and 168bps for 1H21, but stayed lower than 1H20's 311bps. Its credit cost guidance of "up to 160bps" for FY21F was maintained, but management acknowledged that more provisions may be required should the situation worsen. Still, ECL is not expected to exceed FY20's 205bps.
- **Keeping a close eye on asset quality.** Gross NPLs rose 4% QoQ but the NPL ratio was stable at 3.95% due to robust loan growth. Loans under relief measures grew 6% QoQ to THB338bn or 14% of gross loans (Mar 2021: THB319bn or 14%). The increase came mainly from home loans from its retail book, which saw a 21% QoQ jump to THB108bn. Management estimates that THB53bn (2.2% of loans) remains vulnerable, and may require further assistance, down from THB62bn (2.7% of loans) in Mar 2021.
- **Loan growth to moderate in 2H21.** After having grown its loans to above-industry levels in 2020 (+12% YoY) and 1H21 (+6% YTD), management guided that growth for FY21 would be just slightly ahead of its 4-6% target. We view the expected moderation in lending activities in 2H21 positively, in view of the challenging operating environment.
- **Earnings and TP.** We raise FY21-22F earnings by 10% and 8.5%, as our credit cost assumptions were too conservative. That said, our TP is lowered to THB150.00 from THB160.00, as we factored in a higher equity risk premium. Our GGM-derived P/BV is 0.73x, which is below -1SD from the historical mean.

Analysts

Fiona Leong
 +603 9280 8886
fiona.leong@rhbgroup.com



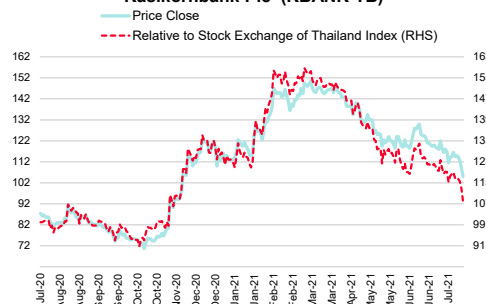
Wetid Tangjindakun
 +662 088 9745
wetid.ta@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.1)	(13.2)	(25.0)	(16.0)	20.0
Relative	(13.4)	(9.4)	(22.5)	(17.8)	8.1
52-wk Price low/high (THB)	70.8 – 151				

Kasikornbank Plc (KBANK TB)



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (THBm)	38,727	29,488	35,190	38,782	43,051
Net profit growth (%)	0.7	(23.9)	19.3	10.2	11.0
Recurring net profit (THBm)	38,727	29,488	35,190	38,782	43,051
Recurring EPS (THB)	16.18	12.32	14.70	16.20	17.99
BVPS (THB)	169.79	185.57	199.31	212.79	227.00
DPS (THB)	5.00	2.53	2.78	3.54	4.55
Recurring P/E (x)	6.49	8.52	7.14	6.48	5.84
P/B (x)	0.62	0.57	0.53	0.49	0.46
Dividend Yield (%)	4.8	2.4	2.6	3.4	4.3
Return on average equity (%)	9.9	7.0	7.7	7.9	8.3

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	EPS	16.18	12.32	14.70	16.20	17.99
Financial Services	Recurring EPS	16.18	12.32	14.70	16.20	17.99
Kasikornbank	DPS	5.00	2.53	2.78	3.54	4.55
KBANK TB	BVPS	169.79	185.57	199.31	212.79	227.00
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Recurring P/E (x)	6.49	8.52	7.14	6.48	5.84
	P/B (x)	0.6	0.6	0.5	0.5	0.5
	Dividend Yield (%)	4.8	2.4	2.6	3.4	4.3
	Income statement (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Interest income	130,178	127,592	135,100	156,024	165,930
	Interest expense	(27,490)	(18,570)	(15,669)	(30,133)	(33,589)
	Net interest income	102,688	109,022	119,431	125,891	132,341
	Non interest income	57,803	45,870	44,267	46,292	48,637
	Total operating income	160,491	154,892	163,699	172,184	180,978
	Overheads	(72,729)	(69,997)	(73,495)	(77,353)	(80,744)
	Pre-provision operating profit	87,762	84,895	90,204	94,831	100,234
	Loan impairment allowances	(34,012)	(43,548)	(41,713)	(41,747)	(41,553)
	Pre-tax profit	53,750	41,347	48,490	53,084	58,680
	Taxation	(10,309)	(7,656)	(8,971)	(9,820)	(11,003)
	Minority interests	(4,714)	(4,203)	(4,329)	(4,481)	(4,627)
	Reported net profit	38,727	29,488	35,190	38,782	43,051
	Recurring net profit	38,727	29,488	35,190	38,782	43,051
	Profitability ratios	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Return on average assets (%)	1.2	0.8	0.9	1.0	1.0
	Return on average equity (%)	9.9	7.0	7.7	7.9	8.3
	Return on IEAs (%)	4.2	3.8	3.7	4.0	4.1
	Cost of funds (%)	1.2	0.8	0.6	1.1	1.2
	Net interest spread (%)	3.0	3.1	3.1	2.9	2.9
	Net interest margin (%)	3.3	3.3	3.3	3.3	3.2
	Non-interest income / total income (%)	36.0	29.6	27.0	26.9	26.9
	Cost to income ratio (%)	45.3	45.2	44.9	44.9	44.6
	Credit cost (bps)	174	205	180	170	160
	Balance sheet (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total gross loans	2,001,956	2,244,821	2,390,000	2,521,450	2,672,737
	Other interest earning assets	1,160,580	1,239,825	1,373,800	1,447,319	1,522,638
	Total gross IEAs	3,162,536	3,484,646	3,763,800	3,968,769	4,195,375
	Total provisions	(124,879)	(134,393)	(174,090)	(178,126)	(179,799)
	Net loans to customers	1,877,077	2,110,428	2,215,910	2,343,324	2,492,938
	Total net IEAs	3,037,657	3,350,253	3,589,710	3,790,643	4,015,575
	Total non-IEAs	256,232	308,545	309,790	312,294	298,350
	Total assets	3,293,889	3,658,798	3,899,500	4,102,937	4,313,925
	Customer deposits	2,072,049	2,344,998	2,490,000	2,626,950	2,771,432
	Other interest-bearing liabilities	185,132	183,631	212,500	216,678	220,318
	Total IBLs	2,257,181	2,528,629	2,702,500	2,843,628	2,991,750
	Total non-IBLs	582,994	638,883	668,000	694,395	719,938
	Total liabilities	2,840,174	3,167,512	3,370,500	3,538,023	3,711,688
	Share capital	23,933	23,693	23,693	23,693	23,693
	Shareholders' equity	406,358	439,670	472,222	504,162	537,839
	Minority interests	47,357	51,616	56,778	60,752	64,398
	Asset quality and capital	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Reported NPLs / gross cust loans (%)	4.2	4.5	4.9	4.8	4.6
	Total provisions / reported NPLs (%)	148.6	133.1	150.0	147.9	147.4
	CET-1 ratio (%)	14.9	14.3	15.0	15.3	15.8
	Tier-1 ratio (%)	14.9	14.3	15.0	15.3	15.8
	Total capital ratio (%)	18.5	17.1	17.6	17.7	18.1

Source: Company data, RHB

Results At a Glance

Figure 1: KBank's 2Q21 and 1H21 results summary

FYE Dec (THBm)	2Q20	1Q21	2Q21	QoQ (%)	YoY (%)	1H20	1H21	YoY (%)	Comments 1H21 vs 1H20
NII	27,082	28,133	29,717	6	10	55,164	57,850	5	Up YoY on strong loan growth that offset the NIM compression.
NIM (%) - reported	3.22%	3.16%	3.22%			3.34%	3.20%		Down 14bps YoY, mainly due to lower yield on loans following interest rate cuts, deterioration in asset quality, and loans under relief programmes. These offset the decline in cost of funds.
Non-Il	14,092	11,894	11,138	-6	-21	24,063	23,032	-4	The YoY decline was mainly due to mark-to-market losses from financial assets and lower net premium earned. Net fee income rose 6.6% YoY from asset management and brokerage units.
Non-Il/total income (%)	34.2%	29.7%	27.3%			30.4%	28.5%		
Operating income	41,174	40,027	40,855	2	-1	79,227	80,882	2	
Overhead expenses	(15,796)	(16,531)	(17,069)	3	8	(33,277)	(33,600)	1	Opex growth was well-controlled as management was disciplined on spending, even as topline growth slowed.
CIR (%)	38.4%	41.3%	41.8%			42.0%	41.5%		
PIOP	25,378	23,496	23,786	1	-6	45,950	47,282	3	
Expected credit loss	(20,192)	(8,650)	(10,807)	25	-46	(32,064)	(19,457)	-39	Declined YoY, as the bank had raised provision buffers substantially in the first three quarters of FY20.
Annualised credit cost (bps)	387	152	185			311	168		
Pre-tax profit	5,186	14,846	12,979	-13	150	13,886	27,825	100	
Tax	(901)	(3,035)	(2,548)			(2,250)	(5,583)		
Effective tax rate (%)	17.4%	20.4%	19.6%			16.2%	20.1%		
Minority interest	(2,110)	(1,184)	(1,537)			(2,085)	(2,721)		
Net profit	2,175	10,627	8,894	-16	309	9,550	19,521	104	
Other key data and ratios									
Gross loans (THBbn)	2,127	2,302	2,383	4	12				Up 6% YTD or an annualised 12%, led by commercial loans and housing loans, and working capital lending.
Customer deposits (THBbn)	2,308	2,401	2,481	3	7				Up 5.8% YTD or an annualised 11.6% on growth in saving deposits.
Non-performing loans (THBbn)	94	102	107	4	13				Up 5.9% YTD, reflecting the increase in gross loans.
Total assets (THBbn)	3,586	3,767	3,887	3	8				
Shareholders' funds (THBbn)	4,024	4,520	4,568	1	14				
ROAA (%)	0.25	1.14	0.93			0.56	1.03		
ROAE (%)	2.1	9.6	8.1			4.7	8.8		
LDR (%)	92.1	95.9	96.1						
NPL ratio (%)	3.92	3.93	3.95						
Loan loss reserves (%)	140.9	154.0	154.1						
Tier-1 capital ratio (%)	15.4	14.7	14.7						
Total capital ratio	17.0	17.4	17.1						

Source: Company data, RHB

Management guidance

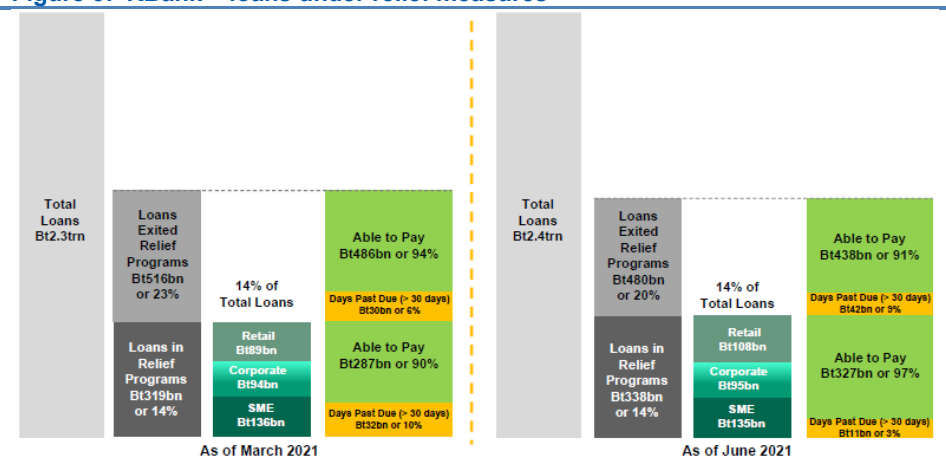
Management made no changes to its FY21 financial targets, but flagged that loan growth would be at the higher end of its guided 4-6% range. Meanwhile, its credit cost could surpass 160bps, should economic conditions deteriorate more than expected.

Figure 2: KBank – management guidance and financial targets

	2020 Achieved	2021 Targets	1H21 Actual
Loan growth (YoY)	+12.1%	4-6%	+6.2% YTD
NIM	3.27%	3.1-3.3%	3.20%
Net fee income growth (YoY)	-10.2%	Low single digit	+6.6%
CIR	45.2%	Mid-40%	41.5%
NPLs (gross)	3.68%	4.0-4.5%	3.95%
Credit cost (bps)	205	Up to 160	168
Gross NPL ratio	3.93%	4.0-4.5%	3.93%

Source: Company data, RHB

Figure 3: KBank – loans under relief measures



Source: Company data, RHB

Earnings revisions

We upgraded net profit by 10% for FY20F and 8.5% for FY21F as we:

- Lowered assumptions on credit costs to 180bps (from 190bps) for FY21F, and 170bps (from 180bps) for FY21F. Our assumptions remain above management's guidance; and
- Raised NIM to 3.30% (from 3.12%) for FY21F and 3.26% (from 3.16%) for FY22F.

Figure 4: KBANK – revisions to forecasts

FYE Dec	Net profit (THBm)			EPS (THB)			DPS (THB)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2020F	32,006	35,190	9.9	13.37	14.70	9.9	2.75	2.75	0.0
2021F	35,751	38,782	8.5	14.94	16.20	8.5	3.50	3.50	0.0
2022F	40,328	43,051	6.8	17	17.99	6.8	4.50	4.50	0.0

Source: RHB

Valuation and TP

We lower our TP to THB150.00 from THB160.00, after raising the equity risk premium to reflect heightened risks, as the Thai Government stepped up movement restrictions to combat the surge in new daily COVID-19 infections. Changes to our key GGM assumptions are:

- i. Equity risk premium raised to 7.40% from 6.40%;
- ii. Sustainable ROE of 7.70% (from 7.40%) following the upward revision in earnings forecasts; and
- iii. Higher BVPS of THB206.00 (from THB197.17) after rolling forward the base period.

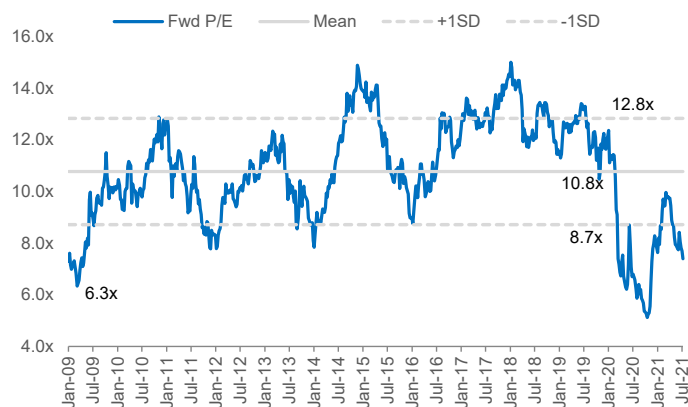
Our TP is based on a GGM-derived P/BV of 0.73x, which is below -1SD from the historical mean.

Figure 5: KBank – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	7.70
Risk free rate (%)	1.30	COE (%)	9.81
Equity premium (%)	7.40	Long-term growth (g)	2.00
Beta (x)	1.15	Implied P/BV (x)	0.73
Cost of equity - CAPM (%)	9.81	BVPS – FY20-21F average	THB206.00
		TP	THB150.26
		TP (rounded)	THB150.00

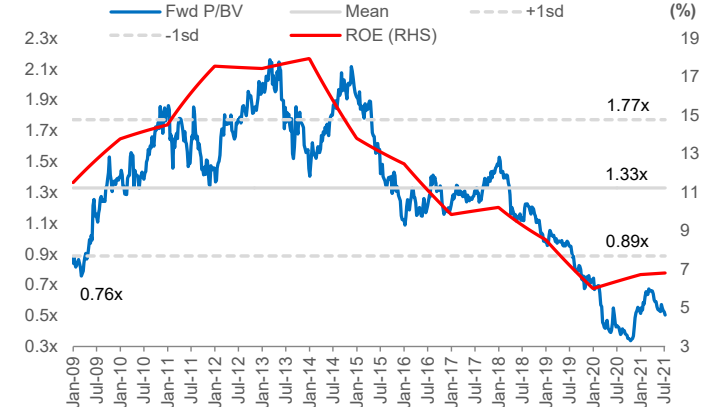
Source: Company data, RHB

Figure 6: KBank's 12-month forward P/E



Source: Bloomberg, RHB

Figure 7: KBank's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-02-01	Buy	160	132
2020-12-17	Buy	141	122
2020-10-25	Neutral	82	75
2020-07-21	Neutral	91	88
2020-04-21	Buy	124	97
2019-10-25	Buy	173	137
2019-10-22	Buy	191	149
2019-01-21	Buy	222	188
2018-10-30	Buy	242	197
2018-10-22	Buy	244	207

Source: RHB, Bloomberg

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Analyst	Company
-	-

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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

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 Bank Berhad (Singapore branch)

90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531

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90 - 100		ดีเลิศ	Excellent
80 - 89		ดีมาก	Very Good
70 - 79		ดี	Good
60 - 69		ดีพอใช้	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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