

21 April 2020

Financial Services | Banks

Siam Commercial Bank (SCB TB)

Buy (Maintained)

Pro-active In Managing Asset Quality; Keep BUY

Target Price (Return): THB92.00 (28.1%)
 Price: THB71.80
 Market Cap: USD7,499m
 Avg Daily Turnover (THB/USD) 1,699m/53.9m

- **Maintain BUY with revised THB92.00 TP from THB124.00, 28% upside with c.5% yield.** SCB's share price has underperformed large cap peers on concerns over its higher exposure to the retail segment. Still, the bank is proactive in managing its loan portfolio. This will help keep asset quality in check while high LLC ratio of 140% provides added comfort. Capital position is robust with CET-1 ratio at 16%. At a current P/BV of 0.6x, which is close to the 2009 low, the risk return appears favourable.
- **1Q20 results not fully reflective.** Siam Commercial Bank (SCB) reported net profit of THB9,252m (+68% QoQ, +1% YoY) for 1Q20. This was c.30% of consensus' FY20 net profit of THB30,456m, seemingly strong as effects from the COVID-19 pandemic have not been fully reflected yet.
- **PIOP up 27% YoY** on healthy income growth and lower opex. Operating income grew 9% YoY on 20% YoY jump in non-II and 4% YoY rise in NII. Non-II was boosted by strong contributions from bancassurance (+417% YoY) and wealth management (+31% YoY), which offset the 22% YoY drop in loan-related fees. NII uplift came mainly from the 34bps YoY NIM expansion that offset the 1.4% decline in loans. Opex fell 8% YoY on lower staff cost, and marketing and promotion expenses. CIR improved to 43.6% (1Q19: 51.6%). Still, net profit growth was capped by impairment charges of THB9.73bn (up 79% YoY), based on Thai Financial Reporting Standard 9 (TFRS 9) and included additional provisions for the deteriorating economic environment. Annualised credit cost was 185bps (1Q19: 102bps; 4Q19: 180bps).
- **Broad strokes on 2020 targets.** With impact from COVID-19 still evolving, management will only provide revised guidance for 2020 targets after the 2Q20 results. Management provided some observations on key earnings drivers. Loan demand will likely be weak although management sees some opportunity with the rollover of corporate bonds and Bank of Thailand's (BOT) soft loans. NIM will trend lower in quarters ahead given the 40bps cut in lending rates, and shift to higher quality loans. While management does not expect credit cost to stay at 180bps, impact on asset quality and impairment charges will depend on when and how long before the situation normalises.
- **Immediate priorities.** Management is currently focussed on providing proactive assistance to customers, close monitoring of loan portfolio, accelerate adoption of digital channel, and staying disciplined on costs. Management will also be on the lookout for inorganic growth opportunities.
- **Earnings and TP lowered.** We have lowered our FY20F-21F earnings by 30% and 21% after factoring in lower operating income and higher credit cost. Our TP is revised to THB92.00 (from THB124.00) based on GGM-derived P/BV of 0.74, which is at -2SD historical mean.

Analyst

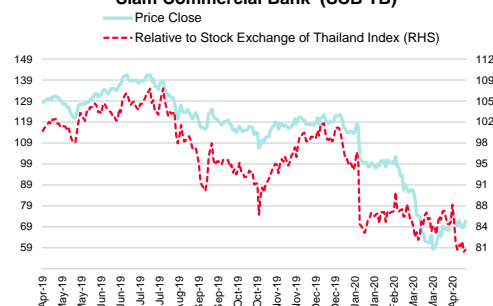
Kasamapon Hamnilrat
 +66 2088 9739
kasampon.ha@rhbgroupp.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(41.2)	10.4	(29.7)	(38.4)	(44.4)
Relative	(21.4)	(1.9)	(9.4)	(16.0)	(20.0)
52-wk Price low/high (THB)					58.3 – 142

Siam Commercial Bank (SCB TB)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported net profit (THBm)	40,068	40,436	29,097	34,994	39,855
Net profit growth (%)	(7.1)	0.9	(28.0)	20.3	13.9
Recurring net profit (THBm)	40,068	40,436	29,097	34,994	39,855
Recurring EPS (THB)	11.79	11.90	8.56	10.29	11.72
BVPS (THB)	111.80	117.78	123.48	129.17	135.66
DPS (THB)	5.50	5.50	4.00	4.79	5.45
Recurring P/E (x)	6.09	6.03	8.38	6.97	6.12
P/B (x)	0.64	0.61	0.58	0.56	0.53
Dividend Yield (%)	7.7	7.7	5.6	6.7	7.6
Return on average equity (%)	10.8	10.4	7.1	8.1	8.9

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	EPS	11.79	11.90	8.56	10.29	11.72
Financial Services	Recurring EPS	11.79	11.90	8.56	10.29	11.72
Siam Commercial Bank	DPS	5.50	5.50	4.00	4.79	5.45
SCB TB	BVPS	111.80	117.78	123.48	129.17	135.66
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	6.09	6.03	8.38	6.97	6.12
	P/B (x)	0.6	0.6	0.6	0.6	0.5
	Dividend Yield (%)	7.7	7.7	5.6	6.7	7.6
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Interest income	129,127	135,025	123,580	134,340	146,513
	Interest expense	(32,758)	(35,624)	(31,474)	(36,462)	(42,443)
	Net interest income	96,369	99,401	92,106	97,877	104,069
	Non interest income	41,855	66,697	46,889	49,098	51,524
	Total operating income	138,225	166,098	138,995	146,976	155,593
	Overheads	(64,639)	(70,538)	(66,645)	(68,439)	(70,453)
	Pre-provision operating profit	73,586	95,560	72,350	78,537	85,140
	Loan impairment allowances	(24,023)	(36,211)	(36,204)	(35,014)	(35,536)
	Pre-tax profit	49,563	59,349	36,146	43,523	49,603
	Taxation	(9,468)	(19,098)	(7,229)	(8,705)	(9,921)
	Minority interests	(28)	185	179	176	172
	Reported net profit	40,068	40,436	29,097	34,994	39,855
	Recurring net profit	40,068	40,436	29,097	34,994	39,855
	Profitability ratios	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Return on average assets (%)	1.3	1.3	1.0	1.1	1.2
	Return on average equity (%)	10.8	10.4	7.1	8.1	8.9
	Return on IEAs (%)	4.3	4.5	4.2	4.4	4.5
	Cost of funds (%)	1.4	1.5	1.3	1.4	1.6
	Net interest spread (%)	2.9	3.1	2.9	3.0	2.9
	Net interest margin (%)	3.2	3.3	3.1	3.2	3.2
	Non-interest income / total income (%)	30.3	40.2	33.7	33.4	33.1
	Cost to income ratio (%)	46.8	42.5	47.9	46.6	45.3
	Credit cost (bps)	115	170	170	160	155
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total gross loans	2,140,561	2,113,787	2,145,494	2,231,314	2,354,036
	Other interest earning assets	946,758	745,575	859,333	916,655	1,000,077
	Total gross IEAs	3,087,319	2,859,362	3,004,827	3,147,969	3,354,113
	Total provisions	(103,273)	(114,272)	(135,354)	(158,369)	(181,905)
	Net loans to customers	2,041,156	2,002,637	2,010,140	2,072,945	2,172,131
	Total net IEAs	2,984,046	2,745,090	2,869,473	2,989,600	3,172,208
	Total non-IEAs	203,293	218,656	285,665	291,744	289,610
	Total assets	3,187,340	2,963,746	3,155,138	3,281,344	3,461,818
	Customer deposits	2,159,631	2,159,425	2,270,364	2,366,186	2,402,078
	Other interest-bearing liabilities	264,034	235,592	257,831	262,209	267,100
	Total IBLs	2,423,664	2,395,018	2,528,195	2,628,395	2,669,178
	Total non-IBLs	382,692	167,882	206,649	213,270	330,846
	Total liabilities	2,806,357	2,562,900	2,734,844	2,841,665	3,000,024
	Share capital	33,992	33,992	33,992	33,992	33,992
	Shareholders' equity	380,027	400,358	419,717	439,073	461,146
	Minority interests	956	489	577	605	648
	Asset quality and capital	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Reported NPLs / gross cust loans (%)	3.3	4.0	4.2	4.2	4.2
	CET-1 ratio (%)	15.1	17.0	17.2	16.8	16.6
	Tier-1 ratio (%)	15.1	17.0	17.2	16.8	16.6
	Total capital ratio (%)	17.1	18.1	18.2	17.8	17.5

Source: Company data, RHB

Results At a Glance

Figure 1: SCB's 1Q20 results summary

FYE Dec (THBm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments – 1Q20 vs. 4Q19
NII	24,713	22,961	25,777	12.3	4.3	Sharp QoQ increase due to higher interest income from loans as income recognition under TFRS 9 was changed to the "Effective Interest Rate" principle, and improved funding cost, which offset the loan contraction and cuts in policy rate in Feb and Marc 2020.
<i>NIM (%) - reported</i>	3.20%	3.20%	3.54%			Yield on loans rose 28bps QoQ, mitigating lower yields from interbank and money market, and investments. Cost of funds declined by a sharper 40bps QoQ on a 40bps QoQ drop in in cost of deposits (including contributions to Deposits Protection Agency and Financial Institutions Development Fund (FIDF)).
Non-II	9,857	12,074	11,864	-1.7	20.4	Down QoQ mainly due to the 68% QoQ decline in net gains on investments. Recurring non-II grew a moderate 8% QoQ helped by growth in bancassurance (+76% QoQ) and wealth management (+9% QoQ).
<i>Non-II/total income (%)</i>	28.5%	34.5%	31.5%			
Operating income	34,570	35,035	37,641	7.4	8.9	
Overhead expenses	(17,835)	(18,483)	(16,393)	-11.3	-8.1	Lower QoQ on 11% QoQ decline in seasonal marketing and promotional expenses, slower business activities and lower staff cost.
<i>CIR (%)</i>	51.6%	52.8%	43.6%			
PIOP	16,735	16,552	21,248	28.4	27.0	Positive JAWS helped by sharp QoQ decline in operating expenses.
Impairment allowances	(5,420)	(9,608)	(9,726)	1.2	79.4	Impairment charge of THB9.73bn in 1Q20 takes into account the ECL models under TFRS 9 and management has decided to set aside additional allowance for the severe economic downturn.
<i>Annualised credit cost (bps)</i>	102	180	185			
Pretax profit	11,315	6,944	11,522	65.9	1.8	
Tax	(2,155)	(1,536)	(2,316)	50.8	7.5	
<i>Effective tax rate (%)</i>	19.0%	22.1%	20.1%			
Minority interest	(3)	98	46			
Net profit	9,156	5,506	9,252	68.0	1.0	
Other key data and ratios						
Gross loans	2,126,283	2,113,787	2,095,504	-0.9	-1.4	Contraction of 1% QoQ was led by the 2% QoQ drop in retail loans, namely auto (-2.9% QoQ) and unsecured (-7% QoQ) loans.
Customer deposits	2,118,058	2,159,425	2,275,960	5.4	7.5	Uplift came from healthy growth in CASA deposits. CASA ratio improved to 72.7% from 67.4% in Dec 2019.
Gross impaired loans	67,904	85,212	83,613	-1.9	23.1	Down QoQ with pro-active debt management and the suspension of stage downgrades with BOT's relief measures.
Total assets	3,199,884	2,963,746	3,136,027	5.8	-2.0	
Shareholders' funds	391,422	400,358	395,223	-1.3	1.0	
ROAA (%)	1.15	0.74	1.21			
ROAE (%)	9.5	5.5	9.3			
LDR (%)	100.4	97.9	92.1			
GIL ratio (%)	2.77	3.41	3.17			
Loan loss reserves (%)	152.8	134.1	139.6			
Tier-1 capital ratio (%)	15.2	17.0	16.1			
Total capital ratio	17.1	18.1	17.2			

Source: Company data, RHB

Management Guidance

Figure 2: SCB – management guidance and financial targets

	2019 Achieved	2020 Targets	1Q20 Actual	Comments
Loan growth (YoY)	-1.3%	3-5%	-1.4%	See opportunities in corporate lending given expected rollover of corporate bonds. BOT's soft loan programme may also lift demand from SMEs.
NIM	3.34%	3.2-3.4%	3.54%	Expected to trend lower in quarters ahead. Although FIDF fee reduction will help offset the 40bps reduction in lending rates on back of rate cuts, management expects margin pressure from shift to higher quality loans.
Non-II growth (YoY)	59% (+2% excluding gain from sale of SCB Life)	7-10%	+20%	Expects bank sales to be impacted by social distancing measures. Its wealth management business may also be affected by the volatility in equities market may also deter clients for investing.
CIR	42.5%	High 40%	44%	Likely to trend higher in quarters ahead due to weakness in operating income.
NPLs (gross)	3.41%	About 3.4%	3.17%	Suspension of NPL downgrades from BOT measures should help keep NPLs in check. Still, too early to ascertain impact.
Credit cost (bps)	170	120-130	185	Will depend significantly on when the pandemic can be brought under control and operating environment normalises.
Coverage ratio	134%	≥ 130%	140%	Will depend significantly on when the pandemic can be brought under control and operating environment normalises.

Source: Company data, RHB

Earnings Revisions

We lowered our net profit by 30.5% for FY20F and 21% for FY21F after factoring in:

- Higher credit costs of 160-170bps vs. 87bps previously; and
- Lower net interest income, given expectations of NIM contraction.

Figure 3: SCB – revisions to forecasts

FYE Dec	Net profit (THBm)			EPS (THB)			DPS (THB)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2020F	41,889	29,097	-30.5	12.32	8.56	-30.5	5.85	4.00	-31.7
2021F	44,230	34,994	-20.9	13.01	10.29	-20.9	6.18	4.79	-22.5
2022F	n.a.	39,855	n.m.	n.a.	11.72	n.m.	n.a.	5.45	n.m.

Source: RHB

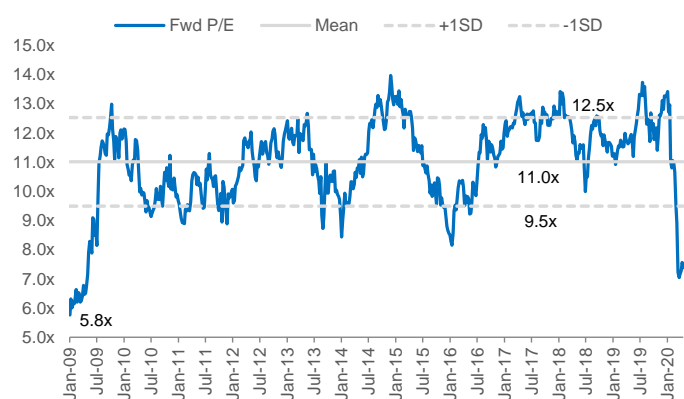
Valuation

Figure 4: SCB – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	9.0
Risk free rate (%)	1.40	COE (%)	11.4
Equity premium (%)	9.10	Long-term growth (g)	2.0
Beta (x)	1.10	Implied P/BV (x)	0.74
Cost of equity - CAPM (%)	11.41	BVPS – FY20F	THB123.48
		Target price	THB91.85
		TP (rounded)	THB92.00

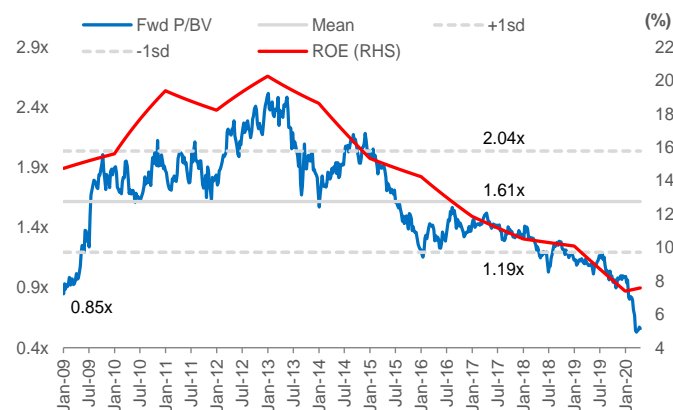
Source: Company data, RHB

Figure 5: SCB's 12-month forward P/E



Source: Bloomberg, RHB

Figure 6: SCB's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-01-20	Buy	140	102
2019-10-24	Buy	140	107
2019-09-18	Buy	141	121
2019-07-22	Neutral	148	141
2019-07-05	Neutral	137	139
2019-07-02	Neutral	137	141
2019-04-22	Neutral	137	129
2019-01-18	Neutral	137	129
2018-10-26	Buy	161	138

Source: RHB, Bloomberg

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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.
12th 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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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

ประกาศเจตนารมณ์ 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	WIIK
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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- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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