

22 January 2021

Financial Services | Banks

Siam Commercial Bank (SCB TB)

Buy (Maintained)

Staying Vigilant On Asset Quality; Keep BUY

Target Price (Return): THB107.00 (+14%)
 Price: THB93.80
 Market Cap: USD10,640m
 Avg Daily Turnover (THB/USD) 1,377m/45.5m

• **Maintain BUY with THB107.00 TP, 14% upside with c.3% FY21F yield.**

Siam Commercial Bank's FY20 results were within expectations. Sequential recovery in 4Q20 was underpinned by robust fee income and tight cost control. Management remains vigilant on asset quality as evident by further qualitative downgrade of accounts. With economic recovery an increasing certainty due to the availability of effective vaccines, we expect asset quality concerns to gradually recede. This would provide catalysts for further share price re-rating.

• **FY20 in line.** 4Q20 net profit was THB4.96bn (+7% QoQ, -10% YoY) and FY20 earnings of THB27.22bn (-33% YoY). The FY20 net profit was 97% of our forecast and 103% of consensus. Excluding a THB24bn gain from the sale of SCB Life and one-time THB9.1bn provision in 3Q19. PIOP was up 12% YoY. ROAE was 6.7%. CET-1 ratio was a strong 18.2%.

• **4Q20 PIOP grew 8% QoQ.** Operating income was up 5.5% QoQ solely on the 18% QoQ increase in non-II. Net fee income was +33% QoQ as economic reopening led to recovery in wealth management and bancassurance businesses. This was somewhat mitigated by the 18% QoQ drop in marked-to-market gains from investments. NII was flat QoQ as NIM fell 10bps QoQ to 3.02% offsetting the 4% QoQ loan growth. Expected credit loss (ECL) remained on an upward trajectory in 4Q20, with the 10% QoQ increase pushing credit cost to 257bps (3Q20: 240bps). For FY20, credit cost averaged at 214bps vs guidance of >165bps.

• **Asset quality.** Gross NPLs, which rose 13% QoQ in 3Q20, increased a further 13% YoY in 4Q20. About c.60% of the new NPLs were from qualitative downgrades of customers across its loan book, and the balance from normal new NPL formation. NPL ratio edged up to 3.68% (3Q20: 3.32%; 4Q19: 3.41%). Loans under forbearance dropped to 18% (or THB402bn) of total loans in 4Q20 vs 29% (or THB636bn) in 3Q20 and 39% or THB839bn) in 2Q20. For customers whose relief terms ended in 2H20, 67% resumed repayments on original terms while 33% resumed repayments with term modifications. LLR decline QoQ to 140.8% (3Q20: 145.7%) but remained higher than 4Q19's 134.1%.

• **Guidance for 2021.** With a focus on quality growth, management aims to enlarge its loan portfolio by 3-5%. NIM is expected to narrow to 3.0-3.2% (FY19: 3.34%), non-II would be flattish, CIR to improve to low-to-mid 40% and credit cost of no more than 200bps. See page 3 for details.

• **Earnings and TP.** With our FY21 assumptions broadly in line with guidance, we make no changes to our forecasts pending the analyst briefing on 22 Jan. Our THB107.00 TP is based on a GGM-derived P/BV of 0.8x, which is -1SD from the historical mean (Figure 2).

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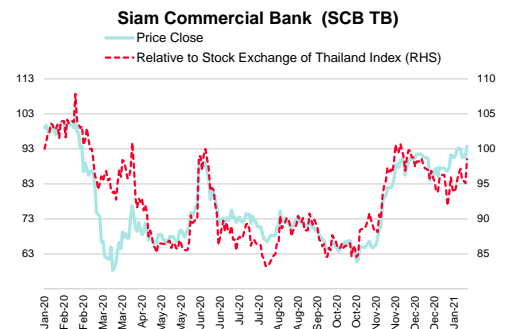


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	7.1	11.6	44.2	27.1	(6.7)
Relative	2.7	3.6	19.8	17.2	(2.8)
52-wk Price low/high (THB)	58.3 – 103				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported net profit (THBm)	40,068	40,436	27,218	29,222	31,550
Net profit growth (%)	(7.1)	0.9	(32.7)	7.4	8.0
Recurring net profit (THBm)	40,068	40,436	27,218	29,222	31,550
Recurring EPS (THB)	11.79	11.90	8.01	8.60	9.28
BVPS (THB)	111.80	117.78	121.04	129.94	135.93
DPS (THB)	5.50	5.50	2.50	3.00	3.50
Recurring P/E (x)	7.95	7.88	11.71	10.91	10.10
P/B (x)	0.84	0.80	0.77	0.72	0.69
Dividend Yield (%)	5.9	5.9	2.7	3.2	3.7
Return on average equity (%)	10.8	10.4	6.7	6.9	7.0

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	8.01	8.60	9.28
Financial Services	Recurring EPS	11.79	11.90	8.01	8.60	9.28
Siam Commercial Bank	DPS	5.50	5.50	2.50	3.00	3.50
SCB TB	BVPS	111.80	117.78	121.04	129.94	135.93
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	7.95	7.88	11.71	10.91	10.10
Our GGM assumptions include:	P/B (x)	0.8	0.8	0.8	0.7	0.7
i. COE of 8.1%;	Dividend Yield (%)	5.9	5.9	2.7	3.2	3.7
ii. ROE of 7.0%;						
iii. 2.5% long term growth						
	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key drivers	Interest income	129,127	135,025	118,371	125,502	133,174
Our FY20 forecast is most sensitive to changes in:	Interest expense	(32,758)	(35,624)	(21,472)	(24,236)	(30,307)
i. Credit cost;	Net interest income	96,369	99,401	96,899	101,266	102,867
ii. NIM;	Non interest income	41,855	66,697	47,869	45,825	47,447
iii. Fee income from bancassurance and wealth management.	Total operating income	138,225	166,098	144,768	147,091	150,314
	Overheads	(64,639)	(70,538)	(64,330)	(66,851)	(69,329)
	Pre-provision operating profit	73,586	95,560	80,438	80,240	80,985
	Loan impairment allowances	(24,023)	(36,211)	(46,649)	(43,578)	(41,398)
	Pre-tax profit	49,563	59,349	33,788	36,662	39,587
	Taxation	(9,468)	(19,098)	(6,794)	(7,552)	(8,115)
	Minority interests	(28)	185	224	112	78
	Reported net profit	40,068	40,436	27,218	29,222	31,550
	Recurring net profit	40,068	40,436	27,218	29,222	31,550
	Profitability ratios	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Company Profile	Return on average assets (%)	1.3	1.3	0.9	0.9	0.9
Siam Commercial Bank is Thailand's third-largest commercial bank by asset size. It provides a full range of financial services, including corporate and personal lending, retail and wholesale banking, foreign currency operations, international trade financing, cash management, custodial services, credit and charge card services, and investment banking services	Return on average equity (%)	10.8	10.4	6.7	6.9	7.0
	Return on IEAs (%)	4.3	4.5	4.0	3.9	4.0
	Cost of funds (%)	1.4	1.5	0.8	0.9	1.0
	Net interest spread (%)	2.9	3.1	3.1	3.1	2.9
	Net interest margin (%)	3.2	3.3	3.2	3.2	3.1
	Non-interest income / total income (%)	30.3	40.2	33.1	31.2	31.6
	Cost to income ratio (%)	46.8	42.5	44.4	45.4	46.1
	Credit cost (bps)	115	170	214	191	175
	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total gross loans	2,140,561	2,113,787	2,255,242	2,307,900	2,423,295
	Other interest earning assets	946,758	745,575	859,300	968,780	1,008,973
	Total gross IEAs	3,087,319	2,859,362	3,114,542	3,276,680	3,432,268
	Total provisions	(103,273)	(114,272)	(139,442)	(135,244)	(138,824)
	Net loans to customers	2,041,156	2,002,637	2,117,924	2,174,780	2,286,595
	Total net IEAs	2,984,046	2,745,090	2,975,100	3,141,436	3,293,443
	Total non-IEAs	203,293	218,656	303,284	284,380	283,807
	Total assets	3,187,340	2,963,746	3,278,383	3,425,816	3,577,250
	Customer deposits	2,159,631	2,159,425	2,420,455	2,593,146	2,722,803
	Other interest-bearing liabilities	264,034	235,592	275,993	261,018	261,980
	Total IBLs	2,423,664	2,395,018	2,696,448	2,854,164	2,984,784
	Total non-IBLs	382,692	167,882	170,106	129,553	129,991
	Total liabilities	2,806,357	2,562,900	2,866,554	2,983,717	3,114,775
	Share capital	33,992	33,992	33,992	33,992	33,992
	Shareholders' equity	380,027	400,358	411,430	441,693	462,060
	Minority interests	956	489	399	407	415
	Asset quality and capital	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Reported NPLs / gross cust loans (%)	3.3	4.0	4.5	4.1	3.9
	Total provisions / reported NPLs (%)	146.7	134.1	0.0	0.0	0.0
	CET-1 ratio (%)	15.1	17.0	17.2	16.5	16.4
	Tier-1 ratio (%)	15.1	17.0	17.2	16.5	16.4
	Total capital ratio (%)	17.1	18.1	18.2	17.5	17.3

Source: Company data, RHB

Results At a Glance

Figure 1: SCB's 4Q20 and FY20 results summary

FYE Dec (THBm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments FY20 vs. FY19
NII	22,961	23,724	23,621	0	3	99,401	96,899	-3	Down YoY mainly on multiple policy rate cuts in 1H20 and divestment of SCB Life which affected investment income.
<i>NIM (%) - reported</i>	3.20%	3.12%	3.02%			3.34%	3.24%		NIM down 11bps YoY mainly due to the multiple rate cuts. This was mitigated by lower funding cost from reduction in the FIDF rate in 1Q20.
Non-Il	12,074	10,761	12,745	18	6	66,697	47,869	-28	Down YoY mainly from a one-time gain of THB24.0bn from the sale of SCB Life in Sep 2019. Excluding the gain, non-Il was up 12% YoY.
<i>Non-Il/total income (%)</i>	34.5%	31.2%	35.0%			40.2%	33.1%		
Operating income	35,035	34,485	36,366	5	4	166,098	144,768	-13	
Overhead expenses	(18,483)	(15,747)	(16,050)	2	-13	(70,538)	(64,330)	-9	Down YoY on broad-based reduction in costs. Employee expenses -6% YoY while premises and equipment expenses -8% YoY.
<i>CIR (%)</i>	52.8%	45.7%	44.1%			42.5%	44.4%		
PIOP	16,552	18,738	20,316	8	23	95,560	80,438	-16	Excluding a one-time gain, PIOP was up 12% YoY.
Impairment allowances	(9,608)	(12,955)	(14,234)	10	48	(36,211)	(46,649)	29	Impairment charges on the adoption of TFRS 9, and management overlay for the deteriorating economy.
<i>Annualised credit cost (bps)</i>	180	240	257			170	214		
Pre-tax profit	6,944	5,783	6,081	5	-12	59,349	33,788	-43	
Tax	(1,536)	(1,204)	(1,164)	-3	-24	(19,098)	(6,794)	-64	
<i>Effective tax rate (%)</i>	22.1%	20.8%	19.1%			32.2%	20.1%		
Minority interest	98	62	48			185	224		
Net profit	5,506	4,641	4,965	7	-10	40,436	27,218	-33	
Other key data and ratios									
Gross loans (THBbn)	2,114	2,171	2,255	4	7				Up 7% YoY, driven by lending to corporates (+12%) and SMEs (+5%). Retail loans rose 3.5% YTD, led by growth in housing and auto loans.
Customer deposits (THBbn)	2,159	2,407	2,420	1	12				Growth boosted by increase in CASA deposits (+27% YoY). The CASA ratio was a higher 76.5%, from 67.4% in Dec 2019.
Gross impaired loans (THBbn)	85	90	101	13	19				Increase was mainly due to pro-active debt management, namely the qualitative downgrades of loans under relief programmes and partly from higher NPL formation.
Total assets (THBbn)	2,964	3,225	3,278	2	11				
Shareholders' funds (THBbn)	400	406	411	1	3				
ROAA (%)	0.74	0.59	0.61			1.31	0.87		
ROAE (%)	5.5	4.6	4.9			10.4	6.7		
LDR (%)	97.9	90.2	93.2						
GIL ratio (%)	3.41	3.32	3.68						
Loan loss reserves (%)	134.1	142.5	137.4						
Tier-1 capital ratio (%)	17.0	17.6	17.1						
Total capital ratio	18.1	18.7	18.2						

Source: Company data, RHB

Management guidance for 2021

GDP growth of 2.2%. SCB expects the Thai economy to recovery from the projected sharp contract of 6.5% in 2020 to grow by 2.2% in 2021. Its 2021 GDP forecast is a downward revision from an earlier projected growth of 3.8%, after taking into account a slowdown in global growth, slower exports, lower tourist arrivals and softer domestic consumption following the second wave COVID-19 cases since Dec 2020.

Loan growth. Given the still challenging environment, management will focus on quality growth. Loan growth is expected to be moderate at 3-5% for 2021 (FY20: +6.7% YoY).

NIM will continue to be under pressure (flight to quality led to excess liquidity and low-yield soft loans granted to SME customers) and is expected to range at 3.0-3.2% (FY20: 3.23%).

Non-II. As there were a couple of non-recurring items booked in FY20, management expects non-II to remain flat although recurring fee income is expected to grow at mid-to-high single digit. Management will focus on growing fee income from wealth management and bancassurance via its partnership with FWD Group Financial Services Pte Ltd.

Cost discipline will remain a priority given the pressures on topline growth. Management believes this would see CIR improve to low-to-mid-40% (FY20: 44.4%).

On asset quality, NPL is expected to rise to 4.0-4.5% in 2021. Provisions could remain elevated but credit cost should not exceed 200bps. LLR will be maintained at no less than 130% to safeguard against potential risks from the pandemic and expiry of relief programmes.

Valuation and TP

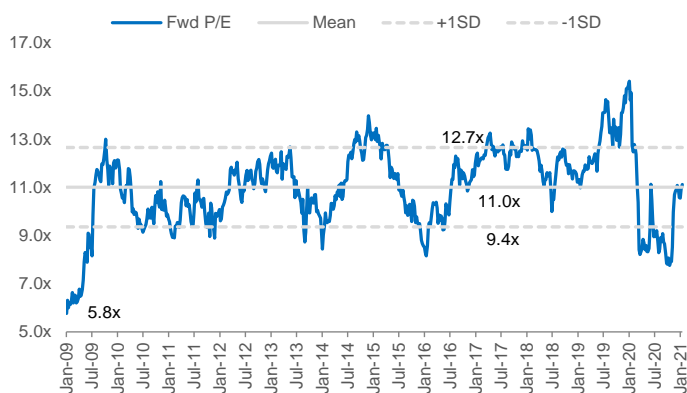
Our TP of THB107.00 is based on a GGM-derived P/BV of 0.8x, which is below -1SD from its historical mean.

Figure 2: SCB – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	7.0
Risk free rate (%)	1.30	COE (%)	8.09
Equity premium (%)	6.46	Long-term growth (g)	2.50
Beta (x)	1.05	Implied P/BV (x)	0.81
Cost of equity - CAPM (%)	8.09	BVPS – FY21F average	THB133.26
		Target price	THB107.34
		TP (rounded)	THB107.00

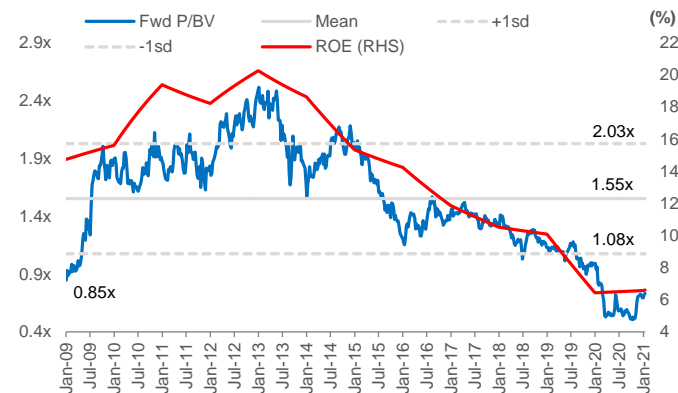
Source: Company data, RHB

Figure 3: SCB’s 12-month forward P/E



Source: Bloomberg, RHB

Figure 4: SCB’s 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-17	Buy	107	91
2020-10-21	Buy	73	65
2020-07-22	Buy	87	73
2020-04-20	Buy	92	72
2019-10-24	Buy	140	107
2019-09-18	Buy	141	121
2019-07-22	Neutral	148	141
2019-01-18	Neutral	137	129
2018-10-26	Buy	161	138
2018-07-24	Neutral	143	132

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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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		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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- ได้ประกาศเจตนาธรรมนี้เข้าร่วม CAC
- ได้รับการรับรอง CAC

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