

8 April 2020

Consumer Cyclical | Leisure & Entertainment

The Erawan Group (ERW TB)

Sell (from Buy)

Losses Await; D/G To SELL

Target Price (Return): THB2.10 (-22%)
 Price: THB2.70
 Market Cap: USD208m
 Avg Daily Turnover (THB/USD) 72.5m/2.32m

- **Downgrade to SELL from Buy, with new DCF-based FY20F THB2.10 TP from THB7.30, 22% downside and no dividends.** COVID-19 has severely impacted Erawan as a pure hotel operator. We expect FY20F loss of THB579m, and the aftermath of the virus may last up to a year before tourism returns, likely in 2H21F. Without near-term catalysts, Erawan may see losses of THB35m in 1Q20 before heading to the worst quarter in 2Q20.
- **Adverse effect from hotel shutdown.** As Erawan is a pure hotel operator, we expect it may be the most severely impacted by the pandemic vs other hoteliers in our coverage. Its properties, including the Hop Inn budget hotels in Thailand and the Philippines, will be temporarily closed by 8 Apr (except Mercure and Ibis Siam in Bangkok), following the Government's COVID-19 measures. Conservatively, we assume the shutdown would take two months in April and May (instead of a month). The group's total occupancy rate may tumble to 49% this year (2019: 77%), with a steeper drop in average room rate by 22% (2019: -6%), resulting in a 50% plunge in RevPar (2019: -8%). We expect the worst quarterly earnings in 2Q20F.
- **1Q20F preview.** Erawan may turn to post a 1Q net loss of THB35m. Its mid- to high-end hotels had solid occupancy rates of c.80% in January before falling to c.60% in February and c.40% in March, in tandem with the rising COVID-19 spread. This may result in -40% YoY RevPar. Hotels in Bangkok were much more affected than resort destination hotels. Hop Inn Thailand may deliver flattish RevPar as its occupancy rate should stay strong at 67%, with +9% YoY in average room rate following a successful change in pricing strategy last year. Its five hotels in the Philippines were closed from 19 Mar to comply with state measures. EBITDA may remain positive at THB264m (-57% YoY), but low operating leverage and high financing cost may bring the 1Q bottomline into the red.
- **To turn to loss throughout the year.** We slash FY20F earnings to THB579m net loss and FY21-22F core profit by 77% and 37% to reflect the pandemic's impact. We assume the aftermath of COVID-19 will last from 3Q20F, and the Thai tourism industry may take a year to revive and return to normal. This, coupled with cost management pressure, would likely see Erawan delivering quarterly losses throughout the year as its non-Hop Inn hotels may run at a 45% average occupancy rate, lower than the net profit breakeven level of c.60%-65%. For 2021F, 1H may remain sluggish before improving in 2H and bring full-year earnings to net profit of THB141m, smaller than what was recorded in the past five years. We believe the losses may lead Erawan to use more debt financing to support operations, so its net D/E may surge from 1.5x in 2019 to 2.0x by 2021F.
- **D/G to SELL.** Adding a 1.5% higher market risk premium, our FY20F DCF-based TP is cut to THB2.10 from THB7.30. We see no near-term catalysts currently. The share price has plunged 55% YTD on panic, but impending negative earnings and aftereffect of COVID-19 on the industry could pave further downside. Faster-than-expected virus control is the key upside.

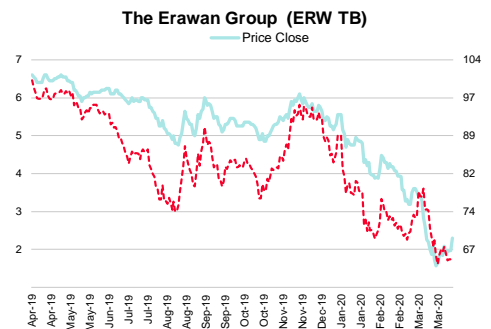
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(54.6)	(31.1)	(49.1)	(52.2)	(61.4)
Relative	(31.5)	(20.1)	(25.7)	(27.5)	(35.2)
52-wk Price low/high (THB)	1.96 – 7.00				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (THBm)	6,280	6,379	4,008	5,625	6,802
Recurring net profit (THBm)	536	463	(579)	141	444
Recurring net profit growth (%)	7.1	(13.6)	(225.0)	-	215.5
Recurring EPS (THB)	0.21	0.18	(0.23)	0.06	0.18
DPS (THB)	0.09	0.07	-	0.02	0.07
Recurring P/E (x)	12.61	14.62	na	48.13	15.26
P/B (x)	1.19	1.14	1.26	1.23	1.15
Dividend Yield (%)	3.3	2.6	na	0.8	2.6
Return on average equity (%)	9.8	7.7	(10.2)	2.6	7.8
Net debt to equity (%)	149.8	154.8	194.2	203.2	184.0

Source: Company data, RHB

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Consumer Cyclical | Leisure & Entertainment

Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	Recurring EPS	0.21	0.18	(0.23)	0.06	0.18
Consumer Cyclical	EPS	0.21	0.18	(0.23)	0.06	0.18
Erawan	DPS	0.09	0.07	-	0.02	0.07
ERW TB	BVPS	2.26	2.36	2.15	2.20	2.36
Sell	Return on average equity (%)	9.8	7.7	(10.2)	2.6	7.8
	Return on average assets (%)	3.3	2.6	(3.2)	0.7	2.3
Valuation basis						
DCF	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	12.61	14.62	na	48.13	15.26
	P/B (x)	1.2	1.1	1.3	1.2	1.1
	Dividend Yield (%)	3.3	2.6	-	0.8	2.6
	EV/EBITDA (x)	8.12	8.43	24.71	11.47	8.73
Key drivers	Income statement (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. A recovery of tourism industry post COVID-19 pandemic;	Total turnover	6,280	6,379	4,008	5,625	6,802
ii. Opening of new hotels;	Gross profit	2,669	2,650	1,063	2,032	2,723
iii. Economies of scale in operations that lead to a rise in profit margins	EBITDA	1,893	1,906	713	1,599	2,061
	Depreciation and amortisation	(776)	(830)	(883)	(937)	(964)
	Operating profit	1,118	1,077	(170)	663	1,097
	Net interest	(360)	(402)	(426)	(465)	(474)
	Pre-tax profit	757	657	(595)	197	623
	Taxation	(164)	(155)	(31)	(45)	(143)
	Reported net profit	536	446	(579)	141	444
	Recurring net profit	536	463	(579)	141	444
Key risks	Cash flow (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Weaker-than-expected tourism atmosphere and consumption;	Change in working capital	(86)	49	93	(65)	7
ii. Delays in opening of new hotel properties;	Cash flow from operations	1,767	1,808	340	1,048	1,385
iii. Rising competition and price pressure in particular hotel segments and locations;	Capex	(1,700)	(1,800)	(2,000)	(1,800)	(1,000)
iv. Unexpected incidents in Thailand and abroad eg. natural disasters, political unrest, etc.	Cash flow from investing activities	(1,727)	(1,841)	(2,000)	(1,800)	(1,000)
	Dividends paid	(225)	(226)	(176)	0	(56)
	Cash flow from financing activities	(66)	(50)	1,372	816	(375)
	Cash at beginning of period	1,077	1,051	969	681	745
	Net change in cash	(26)	(82)	(288)	64	10
	Ending balance cash	1,051	969	681	745	754
Company Profile	Balance sheet (THBm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
The Erawan Group (Erawan) invests and develops hotel properties that are strategically located to match travellers' varied demands. It owns 40 hotels with 6,229 keys nationwide and one hotel in the Philippines as of end-2016. Key properties include the Grand Hyatt Erawan Bangkok, JW Marriott Bangkok and Holiday Inn Pattaya, as well as a chain of Ibis and own-developed Hop Inn budget hotels.	Total cash and equivalents	1,051	969	681	745	754
	Tangible fixed assets	14,975	15,927	17,057	17,929	17,971
	Intangible assets	39	42	29	21	14
	Total investments	93	80	80	80	80
	Total other assets	281	328	328	328	328
	Total assets	16,949	17,834	18,630	19,639	19,747
	Short-term debt	2,274	2,038	3,917	5,223	5,176
	Total long-term debt	7,331	8,126	7,426	6,926	6,626
	Total liabilities	11,240	11,893	13,139	14,028	13,743
	Shareholders' equity	5,667	5,927	5,385	5,525	5,913
	Minority interests	165	179	271	250	256
	Total equity	5,708	5,941	5,491	5,611	6,004
	Total liabilities & equity	16,949	17,834	18,630	19,639	19,747
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	4.7	1.6	(37.2)	40.3	20.9
	Recurring net profit growth (%)	7.1	(13.6)	(225.0)	0.0	215.5
	Recurrent EPS growth (%)	6.9	(13.8)	(225.0)	0.0	215.5
	Gross margin (%)	42.5	41.5	26.5	36.1	40.0
	Recurring net profit margin (%)	8.5	7.3	(14.4)	2.5	6.5
	Dividend payout ratio (%)	42.0	50.7	(30.3)	0.0	12.7

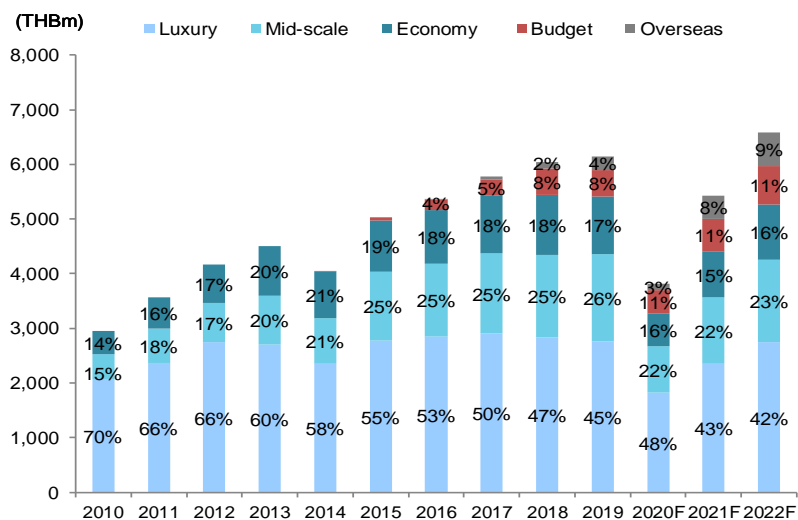
Source: Company data, RHB

Figure 1: Erawan's DCF valuation

THBm	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F
EBIT (1-t)	(184)	560	775	859	901	918	935	956	969	984
Depreciation & amortisation	883	937	964	972	981	990	1,000	1,013	1,031	1,055
Change in net working capital	93	(65)	7	14	8	1	1	(1)	0	(0)
Capex	(2,000)	(1,800)	(1,000)	(400)	(400)	(400)	(400)	(500)	(600)	(800)
Net free cash flow to firm	(1,207)	(368)	745	1,444	1,490	1,509	1,536	1,468	1,400	1,239
Terminal value										20,898
PV	(1,118)	(315)	591	1,060	1,012	949	894	791	698	10,211
Terminal growth	2.0%									
WACC	8.0%									
Total discounted firm value	14,771									
Less: Net debt	9,223									
Less: Minority interest	271									
Equity value	5,277									
Number of shares (m)	2,508									
Equity value per share (THB)	2.10									

Source: RHB

Figure 2: Erawan's hotel revenue breakdown by segment



Source: Company data, RHB

Figure 3: Revisions to our estimates

	2020F			2021F			2022F		
	Previous	Current	% chg	Previous	Current	% chg	Previous	Current	% chg
Total sales (THBm)	7,131	4,008	-44%	7,684	5,625	-27%	8,043	6,802	-15%
GPM	41.0%	26.5%	-15%	41.6%	36.1%	-5%	42.1%	40.0%	-2%
SG&A / sales ratio	25.5%	32.0%	7%	25.5%	25.5%	0%	25.5%	25.0%	-1%
EBIT margin	16.8%	-4.2%	-21%	17.4%	11.8%	-6%	17.9%	16.1%	-2%
Interest expense (THBm)	(474)	(426)	-10%	(479)	(465)	-3%	(438)	(474)	8%
Core profit (THBm)	509	(579)	n.m.	601	141	-77%	704	444	-37%
Total group									
Number of rooms	10,184	10,047	-1%	10,581	11,288	7%	10,581	11,777	11%
Hotel occupancy rate	80%	49%	-31%	83%	67%	-16%	84%	75%	-9%
Average room rate growth	-3%	-22%		2%	1%		3%	7%	
RevPar growth	2%	-50%		6%	39%		5%	19%	

Source: RHB

8 April 2020

Consumer Cyclical | Leisure & Entertainment

Figure 4: Operating performance and assumptions

Total Group	2018	2019	2020F	2021F	2022F
Number of rooms	8,485	9,569	10,047	11,288	11,777
Occupancy rate	78%	77%	49%	67%	75%
ARR (THB)	1,837	1,726	1,350	1,364	1,459
% growth	-2%	-6%	-22%	1%	7%
RevPar (THB)	1,440	1,325	659	914	1,092
% growth	-4%	-8%	-50%	39%	19%
Thailand hotels (exclude Hop Inn)	2018	2019	2020F	2021F	2022F
Number of rooms	4,832	5,343	5,343	5,343	5,343
Occupancy rate	81%	78%	45%	66%	76%
ARR (THB)	2,672	2,570	2,128	2,131	2,293
% growth	5%	-4%	-17%	0%	8%
RevPar (THB)	2,158	2,009	958	1,405	1,737
% growth	0%	-7%	-52%	47%	24%
Hop Inn budget hotels (Thailand)	2018	2019	2020F	2021F	2022F
Number of rooms	2,810	3,383	3,861	4,325	4,325
Occupancy rate	75%	73%	55%	71%	77%
ARR (THB)	580	609	548	548	576
% growth	7%	5%	-10%	0%	5%
RevPar (THB)	438	444	301	387	445
% growth	8%	1%	-32%	28%	15%

Source: Company data, RHB

Figure 5: Erawan's 1Q20F performance preview

FYE Dec (THBm)	1Q19	4Q19	1Q20F	YoY % chg	QoQ % chg	Remarks
Revenue from hotel operations	1,702	1,663	1,220	-28.3	-26.7	Its hotels in Bangkok had weaker occupancy rates than that in upcountry. The COVID-19 pandemic dramatically lowered occupancy rates, RevPar and banquet revenue in Feb-Mar 2020.
Turnover	1,758	1,727	1,272	-27.6	-26.3	
Gross profit	812	790	414	-49.1	-47.6	
EBIT	410	356	61	-85.1	-82.8	Low operating leverage may undermine EBIT growth.
EBIT margin (%)	23.3	20.6	4.8			
EBITDA	616	567	264	-57.1	-53.4	
EBITDA margin (%)	35.0	32.8	20.8			
Interest expense	(96)	(104)	(98)	1.9	-6.1	
Pretax profit	314	252	(37)	-111.8	-114.6	
Tax	(61)	(55)	(9)	-86.1	-84.4	
Core profit	235	176	(35)	n.m.	n.m.	Weak revenue and GPM drop affected by COVID-19 as well as the high opex and interest expense hike may result in a net loss.
Net profit	235	176	(35)	n.m.	n.m.	
Gross margin (%)	46.2	45.8	32.5			
SG&A/sales (%)	24.1	25.4	28.2			
Net margin (%)	13.3	10.2	n.m.			
Key indicators						
Total group excluding Hop Inn						
Total hotel rooms	4,832	5,343	5,343	10.6	0.0	
Occupancy rate (%)	86	78	60	-26.0	-18.0	Occupancy rate declined across all hotel segments. They ran at c.80% in Jan before lowering to c.60% in Feb and c.40% in Mar.
ARR (THB/day)	2,818	2,656	2,434	-13.6	-8.4	
RevPar (THB/day)	2,434	2,064	1,460	-40.0	-29.2	The COVID-19 spread severely affected its Asian guest numbers in Feb before escalating to affect most of its guest portfolio in Mar once the virus spread globally.
Hop Inn (Excluding Hop Inn Philippines)						
Total hotel rooms	2,810	3,383	3,462	23.2	2.3	Opened one Hop Inn in Phuket in 1Q20
Occupancy rate (%)	73	74	67	-6.0	-7.0	Fears over the COVID-19 spread among Thai locals escalated in Feb and Mar and may cause Hop Inn Thailand's occupancy rate to go down from c.70% in Jan and Feb to c.60% in Mar.
ARR (THB/day)	600	626	655	9.2	4.7	A change in its pricing strategy and improved service quality still facilitated the room rate hike.
RevPar (THB/day)	439	465	439	0.0	-5.6	Weakening occupancy rate may cause flattish RevPar for Hop Inn.

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-01-14	Buy	7.3	5.4
2019-09-20	Buy	8.0	5.6
2019-03-06	Buy	9.2	7.3
2018-11-16	Buy	10.0	6.4
2018-09-07	Buy	10.0	7.7

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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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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