

19 January 2021

Financial Services | Banks

TISCO Financial (TISCO TB)

Buy (Maintained)

Treading Cautiously Into 2021; BUY

Target Price (Return): THB108.00 (+18%)
 Price: THB91.80
 Market Cap: USD2,439m
 Avg Daily Turnover (THB/USD): 613m/20.2m

- Stay BUY, unchanged THB108.00 TP offers 18% upside with c.6% yield.**
 TISCO Financial Group's FY20 results are within expectations, improved asset quality and NIM uptick being the key standouts. We believe the stock will continue to undergo a positive re-rating as business confidence continues to improve, with the lifting of lockdown measures and the rollout of COVID-19 vaccines. Still, potential speed bumps along the road to recovery will see TISCO commanding a premium valuation for its defensive qualities – solid asset quality and robust capital.
- FY20 results in line.** TISCO's net profit of THB1,636m (+1.5% QoQ, -12% YoY) for 4Q20 lifted FY20 earnings to THB6,063m (-17% YoY). FY20 results are in line with our and consensus estimates. FY20 ROE was at 15.4% (FY19: 18.9%). Its capital position is solid, with the CET-1 ratio at 18.1%.
- 4Q20 earnings moderated by higher expected credit loss (ECL).** PIOP rose 8% QoQ, helped by a 16% QoQ rise in non-interest income (non-II) and positive jaws from a very constrained 2% QoQ uptick in opex. CIR improved to 43.0% (3Q20: 44.3%). The boost in non-II came mainly from the THB229.5m gains from trading and investments. Net interest income (NII) was flat QoQ with the 6bps QoQ recovery in NIM from effective funding cost management offset by the flattish loans. Opex growth was subdued on improved efficiency, lower marketing expense and the 1.5% QoQ decline in staff costs. Pretax profit, however, was rose by a mild 1.7% QoQ, as ECL increased by 27% QoQ – as management set aside pre-emptive provisions, given the resurgence in COVID-19 cases towards end-2020. Annualised credit cost was 137bps, compared with 107bps in 3Q20.
- Asset quality.** Gross NPLs, which fell 21% QoQ in 3Q20, declined by another 5% QoQ in 4Q20. Management attributed the improvement to better-than-expected loan repayments that led to the 9% QoQ drop in auto hire purchase NPLs. Its gross NPL ratio ended the year at 2.50%, slightly higher than 4Q19's 2.40%. With the higher ECL in 4Q20, LLR strengthened to 210.5%, from 196.1% in 3Q20. Loans under debt relief programmes have dropped to 2% of total loans at end-2020 (3Q20: 24%), with the expiry of phase 1 of the Bank of Thailand (BoT)-led financial assistance programme. Management believes this could rise again – as retail borrowers have until June to apply for phase 2 of the financial assistance package announced on 12 Jan.
- 2021 guidance.** Management expects NIM to be stable-to-slightly better, premised on efforts to manage funding costs. Meanwhile, it anticipates loans to be flat YoY, credit cost to be lower at 100-120bps, and ROE at c.15%. On dividend, TISCO intends to pay the maximum 50% of FY20 net profit as allowed by BoT. Our FY21F-22F earnings are trimmed by 2% (Figure 2). Key downside risks to our view is higher-than-expected ECL and a weaker-than-expected NIM. Our THB108.00 TP, based on a GGM-derived P/BV of 1.98x, is above +1SD from the historical mean.

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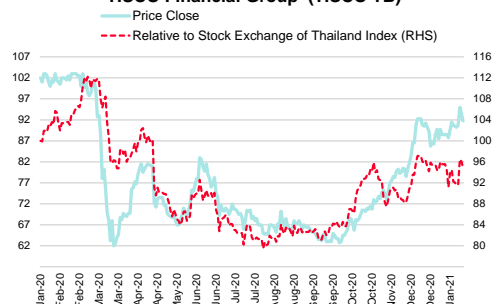
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.7	2.8	34.4	30.1	(10.5)
Relative	(0.5)	0.9	12.0	19.0	(4.8)
52-wk Price low/high (THB)				62.0 – 103	

TISCO Financial Group (TISCO TB)



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Reported net profit (THBm)	7,270	6,063	6,493	7,200	7,973
Net profit growth (%)	3.6	(16.6)	7.1	10.9	10.7
Recurring net profit (THBm)	7,270	6,063	6,493	7,200	7,973
Recurring EPS (THB)	9.08	7.57	8.11	8.99	9.96
BVPS (THB)	48.95	49.28	54.46	56.79	59.21
DPS (THB)	7.75	4.54	5.27	6.74	7.54
Recurring P/E (x)	10.10	12.12	11.31	10.20	9.21
P/B (x)	1.87	1.86	1.68	1.62	1.55
Dividend Yield (%)	8.4	5.0	5.7	7.4	8.2
Return on average equity (%)	18.9	15.4	15.6	16.2	17.2

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (THB)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Thailand	EPS	9.08	7.57	8.11	8.99	9.96
Financial Services	Recurring EPS	9.08	7.57	8.11	8.99	9.96
TISCO Financial	DPS	7.75	4.54	5.27	6.74	7.54
TISCO TB	BVPS	48.95	49.28	54.46	56.79	59.21
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	10.10	12.12	11.31	10.20	9.21
Our GGM assumptions include:	P/B (x)	1.9	1.9	1.7	1.6	1.5
i. COE of 9.1%;	Dividend Yield (%)	8.4	5.0	5.7	7.4	8.2
ii. ROE of 16.1%;						
iii. Long-term growth of 2%.						
	Income statement (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key drivers	Interest income	17,881	16,757	16,306	17,432	18,685
Our forecasts are most sensitive to changes in:	Interest expense	(5,089)	(3,659)	(3,280)	(3,856)	(4,329)
i. Impairment allowance;	Net interest income	12,792	13,098	13,026	13,575	14,355
ii. Domestic car sales; and	Non interest income	6,643	5,806	5,851	6,090	6,418
iii. Stimulus measures that could mitigate NPL risks and lift loan growth.	Total operating income	19,436	18,904	18,877	19,665	20,773
	Overheads	(9,271)	(8,012)	(8,105)	(8,335)	(8,619)
	Pre-provision operating profit	10,165	10,892	10,771	11,331	12,155
	Loan impairment allowances	(1,109)	(3,331)	(2,615)	(2,325)	(2,182)
	Pre-tax profit	9,056	7,562	8,157	9,006	9,973
	Taxation	(1,783)	(1,498)	(1,660)	(1,801)	(1,995)
	Minority interests	(3)	(0)	(3)	(5)	(5)
	Reported net profit	7,270	6,063	6,493	7,200	7,973
	Recurring net profit	7,270	6,063	6,493	7,200	7,973
	Profitability ratios	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Company Profile	Return on average assets (%)	2.4	2.1	2.3	2.5	2.6
TISCO Financial Group is a holding company, with TISCO Bank as its core business. The bank specialises in auto hire purchase loans, which accounts for 70% of total loans. It also engages in retail and small and medium enterprise (SME) lending, corporate loans, and private banking.	Return on average equity (%)	18.9	15.4	15.6	16.2	17.2
	Return on IEAs (%)	5.9	5.9	5.8	6.0	6.1
	Cost of funds (%)	2.0	1.6	1.5	1.7	1.8
	Net interest spread (%)	3.9	4.3	4.4	4.3	4.3
	Net interest margin (%)	4.3	4.6	4.7	4.7	4.7
	Non-interest income / total income (%)	34.2	30.7	31.0	31.0	30.9
	Cost to income ratio (%)	47.7	42.4	42.9	42.4	41.5
	Credit cost (bps)	45.9	142.4	116.0	100.0	89.0
	Balance sheet (THBm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total gross loans	242,826	224,812	226,000	238,920	251,385
	Other interest earning assets	54,685	50,400	56,500	58,905	61,490
	Total gross IEAs	297,511	275,212	282,500	297,825	312,875
	Total provisions	(10,717)	(11,826)	(13,429)	(12,619)	(12,033)
	Net loans to customers	232,109	212,986	212,571	226,301	239,353
	Total net IEAs	286,795	263,386	269,071	285,206	300,842
	Total non-IEAs	11,510	12,057	11,849	11,483	10,786
	Total assets	298,304	275,443	280,919	296,689	311,628
	Customer deposits	216,085	203,473	205,000	217,710	230,228
	Other interest-bearing liabilities	29,980	19,918	19,310	20,054	19,932
	Total IBLs	246,064	223,391	224,310	237,764	250,160
	Total non-IBLs	13,044	12,590	13,000	13,455	14,060
	Total liabilities	259,108	235,981	237,310	251,219	264,221
	Share capital	8,007	8,007	8,007	8,007	8,007
	Shareholders' equity	39,193	39,459	43,606	45,466	47,404
	Minority interests	3	3	4	4	4
	Asset quality and capital	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Reported NPLs / gross cust loans (%)	2.4	2.5	3.0	2.8	2.6
	Total provisions / reported NPLs (%)	183.7	210.5	198.1	185.4	184.2
	CET-1 ratio (%)	16.4	17.8	18.6	18.3	18.2
	Tier-1 ratio (%)	16.4	17.8	18.6	18.3	18.2
	Total capital ratio (%)	20.8	22.5	23.4	23.1	23.0

Source: Company data, RHB

Results At a Glance

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

FYE Dec (THBm)	4Q19	3Q20	4Q20	QoQ (%)	YoY (%)	FY19	FY20	YoY (%)	Comments FY20 vs. FY19
NII	3,472	3,252	3,259	0.2	-6.1	12,792	13,098	2.4	Up YoY, mainly on expansion in NIM.
NIM (%) - reported	4.20%	4.70%	4.76%			4.26%	4.57%		NIM expanded YoY due to a change in income recognition under TFRS 9 (to the "Effective Interest Rate" principle from the accrual of interest income of non-performing loans. Separately, funding cost was lowered by the cuts in FIDF rate in 1Q20.
Non-Il	1,964	1,443	1,675	16.0	-14.8	6,643	5,806	-12.6	Down YoY, mainly because fees from core businesses fell 12% YoY largely on lower loan-related fees and bancassurance that offset higher fee income from capital market businesses (+13% YoY). Gains from trading and investments rose 44% YoY.
Non-Il/total income (%)	36.1%	30.7%	33.9%			34.2%	30.7%		
Operating income	5,436	4,696	4,934	5.1	-9.2	19,436	18,904	-2.7	
Overhead expenses	(2,379)	(2,082)	(2,120)	1.8	-10.9	(9,271)	(8,012)	-13.6	Lower YoY, mainly on the 18% YoY decline in staff cost and 7% YoY drop in other expenses.
CIR (%)	43.8%	44.3%	43.0%			47.7%	42.4%		
PIOP	3,057	2,614	2,814	7.6	-8.0	10,165	10,892	7.2	
Expected credit loss	(738)	(605)	(771)	27.4	4.4	(1,109)	(3,331)	200.3	The increase was due to the adoption of ECL models under TFRS 9, as well as additional allowance for the deterioration in economic outlook.
Annualised credit cost (bps)	122	107	137			45	140		
Pretax profit	2,319	2,009	2,043	1.7	-11.9	9,056	7,562	-16.5	
Tax	(454)	(397)	(406)			(1,783)	(1,498)		
Effective tax rate (%)	19.6%	19.8%	19.9%			19.7%	19.8%		
Minority interest	(0)	(0)	(0)			(3)	(0)		
Net profit	1,865	1,612	1,636	1.5	-12.2	7,270	6,063	-16.6	
Other key data and ratios									
Gross loans (THBbn)	242,826	224,900	224,812	0.0	-7.4				Down 7% YoY, with retail lending down 8% YoY and commercial loans falling 24% YoY. Its hire purchase loans dropped 8% YoY, and loans against auto licenses fell 5% YoY.
Customer deposits	216,085	204,756	203,473	-0.6	-5.8				Down 6% YoY, mainly on the 11% YoY decline in NCDs and 22% YoY fall in fixed deposits. CASA deposits were up 32% YoY, raising the CASA ratio to 26.3%.
Non-performing loans	5,834	5,918	5,618	-5.1	-3.7				Down 4% YoY, as one corporate client resumed debt repayment. NPLs of loans against auto licenses surged 53% YoY.
Total assets	298,304	275,949	275,443	-0.2	-7.7				
Shareholders' funds	39,193	37,842	39,459	4.3	0.7				
ROAA (%)	2.56	2.34	2.37			2.42	2.11		
ROAE (%)	19.5	17.4	16.9			18.9	15.4		
LDR (%)	112.4	109.8	110.5						
NPL ratio (%)	2.40	2.63	2.50						
Loan loss reserves (%)	183.7	196.1	210.5						
Tier-1 capital ratio (%)	16.3	17.5	17.6						
Total capital ratio	20.7	21.8	22.0						

Source: Company data, RHB

Earnings estimate revisions

We made the following revisions for FY21F-22F:

- Higher NII, as the quarterly NIM trend has been better than expected. Furthermore, management expects a slight uptick in NIM, helped by continued efforts to manage funding costs;
- Higher non-II, on expectations of better fee income from capital market activities; and
- Higher credit cost to reflect management's guidance – 114bps (from 104bps) for FY21F, and 102bps (from 82bps) for FY22F.

Overall, earnings for FY21F and FY22F are trimmed by 2%, as the upward revision in operating income was offset by assumptions of higher provisions. We have also introduced forecasts for FY23F.

Figure 2: TISCO – revisions to forecasts

FYE Dec	Net profit (THBm)			EPS (THB)			DPS (THB)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2021F	6,639	6,493	-2.2	8.29	8.11	-2.2	5.39	5.27	-2.2
2022F	7,371	7,200	-2.3	9.21	8.99	-2.3	6.91	6.74	-2.3
2023F	new	7,973	n.m.	new	9.96	n.m.	new	7.54	n.m.

Source: RHB

Valuation

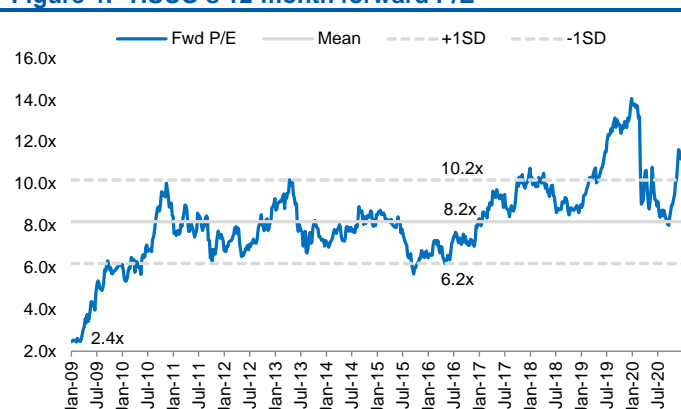
TP maintained. Our TP is unchanged at THB108.00, based on a GGM-derived P/BV of 1.98x, which is above +1SD from the historical mean.

Figure 3: TISCO – GGM valuation

Cost of equity (COE) computation:		Sustainable ROE (%)	16.1
Risk free rate (%)	1.30	COE (%)	9.13
Equity premium (%)	7.15	Long-term growth (g)	2.0
Beta (x)	1.10	Implied P/BV (x)	1.98
Cost of equity - CAPM (%)	9.13	BVPS – FY20F-21F average	THB54.46
		Target price	THB107.65
		TP (rounded)	THB108.00

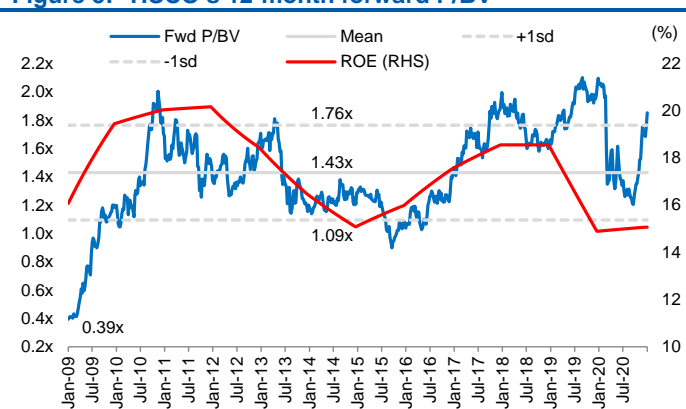
Source: Company data, RHB

Figure 4: TISCO's 12-month forward P/E



Source: Bloomberg, RHB

Figure 5: TISCO's 12-month forward P/BV



Source: Bloomberg, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-12-17	Buy	108	90
2020-11-13	Buy	85	75
2020-10-19	Buy	82	68
2020-07-20	Neutral	74	69
2020-04-21	Neutral	84	82
2019-09-09	Neutral	108	104
2019-07-17	Buy	105	97
2019-02-13	Neutral	89	85
2018-10-16	Buy	93	79
2018-07-13	Buy	100	81

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
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
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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

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	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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- ได้ประกาศเจตนารมณ์เข้าร่วม CAC
- ได้รับการรับรอง CAC

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