

23 April 2020

Financial Services | Banks

## TMB Bank (TMB TB)

## Neutral (Maintained)

### COVID-19 a Distraction To Integration Plans

Target Price (Return): THB1.01 (+9%)  
 Price: THB0.93  
 Market Cap: USD3,688m  
 Avg Daily Turnover (THB/USD) 299m/9.38m

- **Stay NEUTRAL, with revised THB1.01 TP from THB1.66, 9% upside and 7% yield.** TMB Bank's enlarged operations are progressing as planned in 1Q20, with the balance sheet being optimised to improve NIM and opex well controlled. In the quarters ahead, managing asset quality will be a challenge. Potential risks from higher credit cost will likely cap share price performance, notwithstanding the undemanding valuation.
- **First quarter of full contribution from TBANK.** TMB's 1Q20 results mark the first full quarterly contribution from Thanachart Bank (TBANK), the acquisition of which was completed on 3 Dec 2019. The enlarged entity posted net profit of THB4,163m, accounting for c.38% of consensus FY20F earnings of THB11,002m. ROAE was 8.5% vs 6.4% (TMB only) in 1Q19. The CET1 ratio was a healthy 14.5%. As 1Q20 is not comparable with results of previous quarters, we look instead at how the results stack up against management's 2020 targets.
- **Remains focused on loan de-risking.** In 1Q20, loans grew 0.8% YTD (annualised: +3.2%), with retail lending (56% of total loans) up 0.5% YTD while commercial lending (44% of total loans) rose 1.3% YTD. Still, given management's intention to trim off low-return loans, TMB's loan portfolio will likely be flattish in 2020.
- **Deposits mix improving.** Management is also making headway in efforts to lower funding costs. Retail deposits have increased to 69% of total deposits (Dec 2019: 66%). High-cost time deposits and negotiable certificates of deposits have declined to 26% of total deposits from 30%, replaced by hybrid deposits.
- **NIM enhancement filtering through.** NIM was 3.12% in 1Q20 vs management's target of 3.0%. Management's holistic balance sheet optimisation strategy has helped lift loan yields by 37bps QoQ despite the two rates cuts in Jan and Mar 2020. On the flipside, cost of deposits eased 22bps QoQ due mainly to the cut in contribution rate (0.23% from 0.46%) to the Financial Institutions Development Fund and improved deposits mix.
- **Asset quality risk persists.** Credit cost of 137bps in 1Q20 is tracking above management's 125-130bps guidance. This is attributable to additional expected credit loss (ECL) of THB1.0bn amid the challenging environment. Management does not rule out the possibility credit cost would trend higher.
- **CIR to trend higher.** Cost savings related to staff, marketing and premises translated to CIR of 46%. Still, management is sticking with its 48-50% target as integration costs are expected to kick-in in the quarters ahead.
- **Earnings and TP revisions.** We downgraded net profit by 20% for FY20F and 12% for FY21F mainly due to assumptions of higher credit costs. Our TP is revised to THB1.01 from THB1.66, based on 0.47x P/BV (from 0.78x).

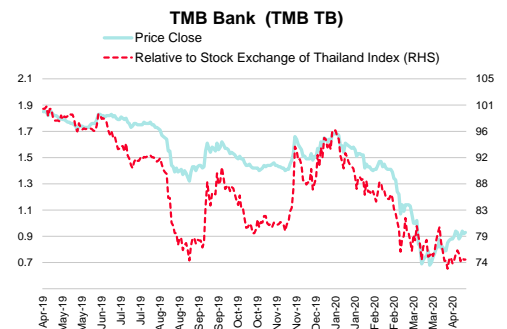
#### Analyst

Kasamapon Hamnilrat  
 +66 2088 9739  
[kasampon.ha@rhbgroup.com](mailto:kasampon.ha@rhbgroup.com)



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(44.7)	17.7	(39.2)	(34.5)	(51.1)
Relative	(24.6)	5.8	(19.3)	(11.8)	(26.5)
52-wk Price low/high (THB)	0.68 – 1.85				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Reported net profit (THBm)	11,601	7,222	13,156	16,082	17,194
Net profit growth (%)	33.6	(37.7)	82.2	22.2	6.9
Recurring net profit (THBm)	11,601	7,222	13,156	16,082	17,194
Recurring EPS (THB)	0.26	0.16	0.14	0.17	0.18
BVPS (THB)	2.25	2.02	2.12	2.22	2.32
DPS (THB)	0.07	0.07	0.06	0.08	0.08
Recurring P/E (x)	3.52	5.65	6.81	5.57	5.21
P/B (x)	0.41	0.46	0.44	0.42	0.40
Dividend Yield (%)	7.5	8.0	6.6	8.1	8.6
Return on average equity (%)	12.3	4.9	6.6	7.7	7.9

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (THB)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Thailand	EPS	0.26	0.16	0.14	0.17	0.18
Financial Services	Recurring EPS	0.26	0.16	0.14	0.17	0.18
<b>TMB Bank</b>	DPS	0.07	0.07	0.06	0.08	0.08
TMB TB	BVPS	2.25	2.02	2.12	2.22	2.32
Neutral						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	3.52	5.65	6.81	5.57	5.21
Our GGM assumptions include:	P/B (x)	0.4	0.5	0.4	0.4	0.4
i. COE of 9.7%;	Dividend Yield (%)	7.5	8.0	6.6	8.1	8.6
ii. ROE of 8.2%;						
iii. Long-term growth of 2%.						
	<b>Income statement (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Key drivers</b>	Interest income	35,128	39,838	76,413	80,499	87,643
Our FY20F forecasts are sensitive to changes in:	Interest expense	(10,632)	(12,972)	(21,211)	(23,714)	(29,739)
i. Infrastructure investments which should boost loan demand;	<b>Net interest income</b>	<b>24,497</b>	<b>26,866</b>	<b>55,201</b>	<b>56,784</b>	<b>57,904</b>
ii. A pick-up in domestic car sales; and	Non interest income	23,545	12,956	15,116	15,832	16,555
iii. Stimulus measures which should reduce asset quality risks and lift loan demand.	<b>Total operating income</b>	<b>48,042</b>	<b>39,822</b>	<b>70,317</b>	<b>72,616</b>	<b>74,459</b>
	Overheads	(17,475)	(20,675)	(33,363)	(34,656)	(35,242)
	<b>Pre-provision operating profit</b>	<b>30,568</b>	<b>19,147</b>	<b>36,954</b>	<b>37,960</b>	<b>39,218</b>
	Loan impairment allowances	(16,100)	(10,337)	(20,831)	(18,252)	(18,172)
	<b>Pre-tax profit</b>	<b>14,467</b>	<b>8,810</b>	<b>16,123</b>	<b>19,708</b>	<b>21,046</b>
	Taxation	(2,866)	(1,588)	(2,967)	(3,626)	(3,851)
	<b>Reported net profit</b>	<b>11,601</b>	<b>7,222</b>	<b>13,156</b>	<b>16,082</b>	<b>17,194</b>
	<b>Recurring net profit</b>	<b>11,601</b>	<b>7,222</b>	<b>13,156</b>	<b>16,082</b>	<b>17,194</b>
	<b>Profitability ratios</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Key risks</b>	Return on average assets (%)	1.3	0.5	0.7	0.9	0.9
Upside risks include:	Return on average equity (%)	12.3	4.9	6.6	7.7	7.9
i. Stronger-than-expected economic recovery;	Return on IEAs (%)	4.2	3.0	4.3	4.4	4.6
ii. Better-than-expected loan quality that led to lower provisions; and	Cost of funds (%)	1.5	1.1	1.3	1.5	1.8
iii. Better-than-expected synergies from integration of operations with Thanachart Bank.	Net interest spread (%)	2.7	1.9	2.9	2.9	2.9
The converse represents downside risks.	Net interest margin (%)	2.9	2.0	3.1	3.1	3.1
	Non-interest income / total income (%)	49.0	32.5	21.5	21.8	22.2
	Cost to income ratio (%)	36.4	51.9	47.4	47.7	47.3
	Credit cost (bps)	242	99	150	130	125
	<b>Company Profile</b>					
TMB is a universal banking group that serves corporate, SME, and retail customers. ING Bank, a large financial group in Europe, is its strategic partner. The Ministry of Finance is a major shareholder as well. TMB also conducts business through a nationwide branch network and in certain major centres of the world.						
	<b>Balance sheet (THBm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total gross loans	685,707	1,392,225	1,385,264	1,422,785	1,484,752
	Other interest earning assets	186,999	402,576	414,038	428,005	444,130
	Total gross IEAs	872,706	1,794,801	1,799,302	1,850,790	1,928,882
	Total provisions	(32,975)	(45,477)	(50,370)	(55,622)	(57,794)
	Net loans to customers	652,732	1,346,748	1,334,894	1,367,163	1,426,958
	Total net IEAs	839,731	1,749,324	1,748,932	1,795,168	1,871,088
	Total non-IEAs	51,983	115,354	112,982	117,178	124,547
	Total assets	891,713	1,864,678	1,861,914	1,912,346	1,995,635
	Customer deposits	649,568	1,398,112	1,428,107	1,474,389	1,546,617
	Other interest-bearing liabilities	102,895	198,844	173,488	167,263	166,474
	Total IBLs	752,464	1,596,955	1,601,595	1,641,652	1,713,091
	Total non-IBLs	40,471	72,915	55,643	56,815	58,854
	Total liabilities	792,934	1,669,870	1,657,238	1,698,467	1,771,945
	Share capital	41,659	91,541	91,541	91,541	91,541
	Shareholders' equity	98,779	194,777	204,641	213,842	223,650
	Minority interests	-	30	35	37	39
	<b>Asset quality and capital</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Reported NPLs / gross cust loans (%)	3.2	2.7	3.6	3.6	3.4
	CET-1 ratio (%)	13.5	14.6	16.2	17.6	18.6
	Tier-1 ratio (%)	13.5	14.6	16.2	17.6	18.6
	Total capital ratio (%)	17.3	18.9	20.5	21.8	22.6

Source: Company data, RHB

## Results At a Glance

Figure 1: TMB's 1Q20 results summary

FYE Dec (THBm)	1Q19	4Q19	1Q20	QoQ (%)	YoY (%)	Comments
NII	6,236	8,079	14,014	73.5	124.7	
<i>NIM (%) - reported</i>	<i>2.89%</i>	<i>2.69%</i>	<i>3.12%</i>			Management is targeting NIM of c.3.0%, aided by strategy to trim off low-return loans in TMB's portfolio, as well as lowering funding cost via rebalancing of TBANK's deposits portfolio.
Non-II	2,280	3,638	4,182	15.0	83.4	In 1Q20, TMB booked in THB0.3bn in transition service fee from its strategic bancassurance partnership with Prudential.
<i>Non-II/total income (%)</i>	<i>26.8%</i>	<i>31.0%</i>	<i>23.0%</i>			
Operating income	<b>8,517</b>	<b>11,717</b>	<b>18,196</b>	<b>55.3</b>	<b>113.7</b>	
Overhead expenses	(4,738)	(6,596)	(8,332)	26.3	75.9	
<i>CIR (%)</i>	<i>55.6%</i>	<i>56.3%</i>	<i>45.8%</i>			Tracking below management's target of 48-50% helped by savings in staff, marketing and premises expenses.
<b>PIOP</b>	<b>3,779</b>	<b>5,121</b>	<b>9,864</b>	<b>92.6</b>	<b>161.0</b>	
Impairment allowances	(1,839)	(3,114)	(4,760)	52.9	158.8	ECL in 1Q20 included THB1.0bn in additional provisions for the unprecedented deterioration in economic conditions.
<i>Annualised credit cost (bps)</i>	<i>107</i>	<i>119</i>	<i>136</i>			Excluding the additional THB1.0bn ECL set aside, credit cost would be 108bps. This is lower than management's guidance of 125-130bps for FY20.
<b>Pretax profit</b>	<b>1,940</b>	<b>2,007</b>	<b>5,104</b>	<b>154.3</b>	<b>163.1</b>	
Tax	(361)	(391)	(940)			
<i>Effective tax rate (%)</i>	<i>18.6%</i>	<i>19.5%</i>	<i>18.4%</i>			
Minority interest	0	0	(1)			
<b>Net profit</b>	<b>1,579</b>	<b>1,616</b>	<b>4,163</b>	<b>157.6</b>	<b>163.7</b>	
<b>Other key data and ratios</b>						
Gross loans	687,274	1,392,225	1,404,000	0.8	104.3	In the retail segment, growth was led by hire purchase financing (+1.7% YTD) while mortgages were flattish. In the commercial division, the increase came from lending to large corporates (+1.5% YTD).
Customer deposits	661,287	1,398,112	1,398,233	0.0	111.4	Although flat QoQ, retail deposits have increased to 69% of total deposits (Dec 19: 66%) while high-cost time deposits and negotiable certificate of deposits (NCD) have been reduced to 26% of total from 30%.
Gross impaired loans	21,790	37,746	44,183	17.1	102.8	
Total assets	892,224	1,858,190	1,889,189	1.7	111.7	
Shareholders' funds	100,394	194,777	198,378	1.8	97.6	
ROAA (%)	0.71	0.47	0.89			
ROAE (%)	6.3	4.3	8.5			
LDR (%)	103.9	99.6	100.4			
GIL ratio (%)	2.81	2.35	2.76			
Loan loss reserves (%)	145.7	120.5	105.7			
Tier-1 capital ratio (%)	13.7	24.7	16.2			
Total capital ratio	17.5	29.7	20.5			

Source: Company data, RHB

**Earnings estimate revisions**

We revised net profit down by 20% for FY20F and 12% for FY21F after factoring in assumptions of higher ECL. Our credit costs estimates are raised to 130-150bps, vs 110-120bps previously.

The higher impairment charges are partly offset by downward revisions in CIR to 47-48%, from 55% previously.

**Figure 2: TMB – revisions to forecasts**

FYE Dec	Net profit (THBm)			EPS (THB)			DPS (THB)		
	Previous	Revised	% Chg	Previous	Revised	% Chg	Previous	Revised	% Chg
2020F	16,400	13,156	-19.8	0.17	0.14	-19.7	0.07	0.06	-12.2
2021F	18,236	16,082	-11.8	0.19	0.17	-12.2	0.08	0.08	-6.1
2022F	n.a.	17,194	n.m.	n.a.	0.18	n.m.	n.a.	0.08	n.m.

Source: RHB

**Valuation and TP**

Our TP is lowered to THB1.01 from THB1.66, as our cost of equity is revised to 11.7% (from 9.98%), after including our in-house adjustment in equity risk premium. Our ROE assumption is lowered to 6.6% (from 8.2%), in line with the downgrade in earnings forecasts.

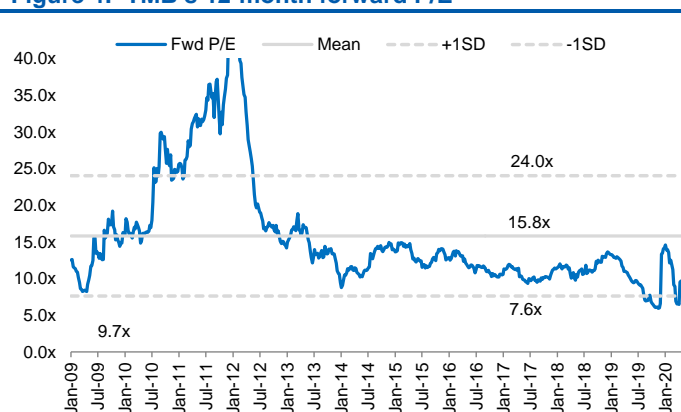
Our TP is based on a GGM-derived P/BV of 0.47x, which is near -1.5SD from the historical mean of 0.53x.

**Figure 3: TMB - GGM valuation**

<b>Cost of equity (COE) computation:</b>		Sustainable ROE (%)	6.80
Risk free rate (%)	1.40	COE (%)	11.69
Equity premium (%)	9.35	Long-term growth (g)	2.0
Beta (x)	1.10	Implied P/BV (x)	0.47
Cost of equity - CAPM (%)	11.69	BVPS – FY20F	THB2.12
		Target price	THB1.01
		<b>TP (rounded)</b>	<b>THB1.01</b>

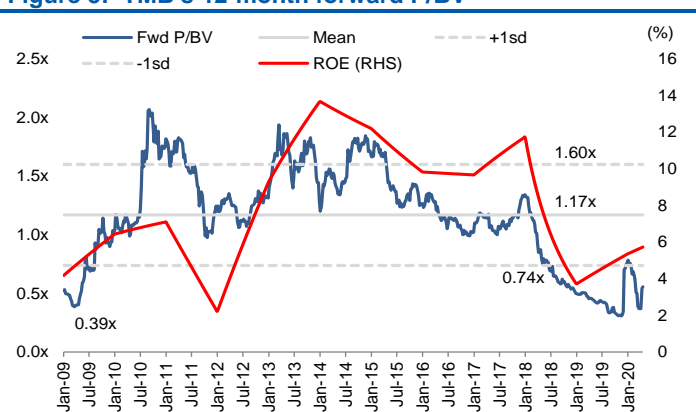
Source: Company data, RHB

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



Source: Bloomberg, RHB

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



Source: Bloomberg, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-12-04	Neutral	1.66	1.51
2019-11-04	Neutral	1.54	1.44
2019-07-23	Neutral	1.96	1.76
2019-04-22	Neutral	2.14	1.90
2019-01-23	Neutral	2.38	2.03
2018-10-19	Buy	2.60	2.07
2018-07-24	Neutral	na	2.05

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.**  
12<sup>th</sup> 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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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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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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