

# Binh Son Refinery (BSR)

### Business results to trough in 2Q23

September 8, 2023

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In 1H23, both revenue and gross profit fell sharply YoY

Halfway through the year, Binh Son Refinery (BSR) saw revenue drop sharply by 22% YoY due to Brent crude oil being priced at 24% lower than the high base of the same period in 2022, adversely impacting the output prices of BSR's products. Also, Asian diesel and gasoline crack spreads decreased significantly from their high base recorded in 1H22 due to (1) softer-than-expected consumption in China and (2) high efficiency of oil refineries in the region from end-2022, sending BSR's gross profit plummeting by 76% YoY.

Brent prices and crack spreads will likely improve in 2H23

Brent should hover above USD80/barrel towards the end of 2023, given OPEC+'s production cut extension. We hold our stance that RON 95, RON 92, and Jet A1 spreads in Asia will rise in 2H23 on (1) growing demand during the tourist season and (2) China removing all international flight bans. Diesel crack spread will likely recover as the US and EU macroeconomic indicators improved against 1H23.

Approved national petroleum-gas reserve infrastructure planning should help to minimize crude oil input price fluctuations for BSR

Under the national petroleum-gas reserve infrastructure planning approved in July 2023, Vietnam will develop an infrastructure system near oil refineries with a storage capacity of 1-2 million tons of crude oil. We expect BSR's crude oil input will be stable in both price and supply in the long term once the oil storage facility is built in the Dung Quat area.

We recommend BUY for BSR with a target price of VND24,100/share

We recommend BUY for BSR with a target price of VND24,100/share, 16.4% higher than the closing price on September 7, 2023. Our higher target price is due to higher-than-anticipated diesel spread.

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Target price	VND24,100
Upside	16.4%
Current price (Sep 7, 2023)	VND20,700
Consensus target price	VND22,360
Market cap (VNDbn/USDmn)	64,180/3,197

Trading data	
Free float	7.9%
3M avg trading value (VNDbn/USDmn)	172.5/8.6
Foreign ownership	0.4%
Major shareholder	PVN (92.1%)

Share price performance							
(%)	1M	3M	6M	12M			
Absolute	1.5	17.6	25.5	-14.5			
Relative	-0.1	4.7	3.5	-14.6			

Forecast	earnings	&	valuation
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FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	101,080	167,124	137,977	108,727
EBIT (VNDbn)	6,511	14,673	6,554	6,014
NPAT of parent company (VNDbn)	6,716	14,726	6,637	6,176
EPS (VND)	2,073	4,750	2,141	1,992
EPS growth (%)	-328.1	129.1	-55.0	-7.0
P/E (x)	11.0	4.6	10.1	10.8
P/B (x)	1.9	1.3	1.3	1.2
ROE (%)	17.8	28.7	12.3	10.7
Dividend yield (%)	0.7	2.0	2,3	2.3



Source: Bloomberg, KB Securities Vietnam

### **Business performance**

## In 1H23, both revenue and gross profit fell sharply YoY

Halfway through the year, BSR saw revenue drop sharply by 22% YoY due to Brent crude oil priced at 24% lower than the high base of the same period in 2022, negatively impacting the output prices of BSR's products. Also, Asian diesel and gasoline crack spreads decreased significantly from their high base recorded in 1H22 due to (1) softer–than–expected consumption in China and (2) high efficiency of oil refineries in the region from end–2022, sending BSR's gross profit plummeting by 76% YoY.

Table 1, BSR - 1H22-2H23 business results

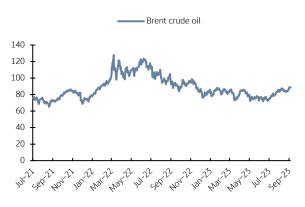
(VND bn)	1H2022	1H2023	YoY %	Comments
Revenue	87,174	67,735	-22%	A YoY sharp drop in revenue was primarily due to Brent prices falling by 24% YoY from the high base recorded over the same period.
Diesel	43,887	26,148	-40%	
Jet A1	6,179	5,135	-17%	
Gasoline A95	37,420	18,437	-51%	
Gasoline A92 & E5	16,840	14,250	-15%	
Fuel oil (FO)	2,024	1,030	-49%	
LPG	6,653	5,457	-18%	
Gross profit	13,509	3,249	-76%	The sharp fall was mainly due to a significant decrease in Brent pric and crack spreads from their high base in the same period.
Gross profit margin (GPM)	15%	5%		
SG&A	-624	-748	20%	
EBIT	12,885	2,501	-81%	
Financial income	670	1,279	91%	Gains from deposits rose sharply thanks to the amount of cash accumulated from 2022.
Financial expense	-444	-484	9%	
Profit before tax (PBT)	13,164	3,317	-75%	
NPAT	12,444	2,949	-76%	
Net profit margin (%)	14%	4%		
Production output (million tons)	3,423	3,560	4%	
Consumption (million tons)	3,529	3,522	0%	
Diesel	1,313	1,415	8%	
Jet A1	235	262	11%	
Gasoline A95	867	884	2%	
Gasoline A92	545	517	-5%	
Fuel oil (FO)	76	62	-19%	
LPG	256	236	-8%	
Brent (USD/barrel)	105	80	-24%	

Source: Binh Son Refinery, KB Securities Vietnam

## Brent prices and crack spreads will likely improve in 2H23

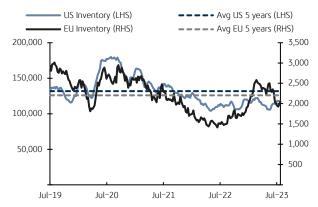
OPEC+'s production cuts have caused Brent crude oil prices to expand by about 7.8% since April 2023. We expect Brent to linger above USD80/barrel towards the end of 2023, given OPEC+'s production cut extension. We hold our stance that RON 95 and RON 92 spreads in Asia will rise in 2H23 on (1) growing demand during the tourist season in the US and EU, causing pump prices to increase sharply and thus pushing Asian gasoline prices up and (2) the low crack spreads in 2H22, creating multiple room for spread growth. As for Jet A1, we assess its crack spread will remain high on (1) strong demand during the tourist season and (2) China removing all international bans from September 2023. Diesel spread is tracking ahead of our projection in the previous update report. In the context of stagnating global industrial activities, we foresee the potential recovery of diesel spread in 2H23 primarily coming from the US and European markets as (1) diesel inventories remain low and (2) macroeconomic indicators of these economies have shown signs of improvement against 1H23.

Fig 2. Global - Brent crude oil prices (USD/barrel)



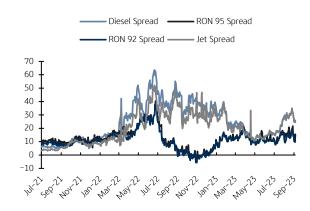
Source: Bloomberg, KB Securities Vietnam

Fig 4. US, EU – Diesel inventory in 2019–2023 (USD/barrel, USD/metric ton)



Source: Bloomberg, KB Securities Vietnam

Fig 3. Asia - Diesel, RON 92, RON 95, Jet spread (USD/barrel)



Source: Bloomberg, KB Securities Vietnam

Fig 5. Asia, US, EU - RON 95 prices (USD/gallon)



Source: Bloomberg, KB Securities Vietnam

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Approved national petroleum-gas reserve infrastructure planning should help to minimize crude oil input price fluctuations for BSR Controlling crude oil input is a determiner in BSR's operations. A sharp drop in crude oil prices can negatively impact BSR's business results in two ways (1) causing output prices to decline and (2) causing the value of inventories to fall, prompting BSR to set aside for inventories and thus dampening gross profit. As reserves at domestic oil fields are declining rapidly, BSR will likely have to import about 30% of its crude oil input from 2025. In July 2023, the national petroleum–gas reserve infrastructure planning within the 2021–2030 period, was approved, with a vision towards 2050. The aim is to ensure that the storage capacity of crude oil and petroleum products nationwide reaches 75–90 days of net imports. Accordingly, Vietnam will develop an infrastructure system near oil refineries with a storage capacity of 1–2 million tons of crude oil. We expect BSR's crude oil input will be stable in both price and supply in the long term once the oil storage facility is built in the Dung Quat area.

## **Business performance**

Table 6. BSR - 2022A-2023F business results

(VND bn)	2022A	2023F	%YoY	Comments
Revenue	167,124	137,977	-17%	Despite a 2% YoY increase in total production output, a 21% YoY decrease in crude oil prices from their high base recorded in the same period a year ago will likely cause output prices to plummet, causing expected revenue to drop by 17% YoY. Revenue forecast is revised up
Diesel	66,717	53,576	-20%	against the previous update report due to BSR rescheduling the overall maintenance to 1Q24.
Jet A1	11,372	9,467	-17%	maintenance to 1924.
Gasoline A95	47,523	39,476	-17%	
Gasoline A92 & E5	24,759	20,774	-16%	
Fuel oil (FO)	2,419	1,883	-22%	
LPG	9,293	8,182	-12%	
Gross profit	16,097	7,730	<b>-</b> 52%	GPM dropped sharply mainly due to a sharp fall in Brent prices and crack spreads from their high base level in the same period last year. We expect diesel, jet A1, RON A95, and RON A92 spread to decrease by 44.0%,
Gross profit margin (%)	10%	6%		45.8%, 40.1% and 22.7% YoY, respectively.
SG&A	-1424	-1,176	-17%	
EBIT	14,673	6,554	-55%	
Financial income	1,750	2,100	20%	Gains from deposits increased substantially thanks to the amount of cash accumulated from 2022.
Financial expense	-923	-1401	52%	
Profit before tax (PBT)	15,586	7,339	-53%	
NPAT	14,669	6,605	-55%	From 2023, BSR will be subject to a corporate tax rate of 10% from the preferential rate of 5%.
Net profit margin (%)	9%	5%		
Production output (million tons)	7,011	7,150	2%	
Consumption (million tons)	7,004	7,159	2%	
Diesel	2,838	2,896	2%	
Jet A1	452	483	7%	
Gasoline A95	1,899	1,964	3%	
Gasoline A92	983	981	0%	
Fuel oil (FO)	141	129	-9%	
LPG	477	487	2%	
Brent (USD/barrel)	11	80	-21%	

Source: Binh Son Refinery, KB Securities Vietnam

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### **Valuation**

We recommend BUY for BSR with a target price of VND24,100/share

Based on an equal combination of two valuation methods, free cash flow to the firm (FCFF) and P/B, we recommend BUY for BSR with a target price of VND24,100/share, equivalent to a total upside of 16.4% compared to the closing price of VND20,700/share on September 7, 2023.

Table 12. BSR - FCFF model assumptions

		Value per share (VND)	23,900
		Outstanding shares (million shares)	3,100.5
Terminal growth	1.5%	Equity value	74,189
WACC	13.7%	- Minority interest	-97
Corporate tax rate	10.0%	- Debt	-10,509
Average interest rate	7.0%	+ Cash & short-term investments	30,996
Beta	1.44	Total present value	53,799
Market risk premium	8.2%	PV in 2023-2027	19,024
Free risk rate	5.0%	PV of terminal value (VND bn)	34,775

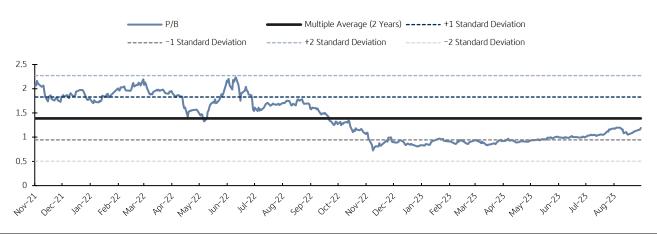
Source: Bloomberg, KB Securities Vietnam

Table 13. BSR - Valuation results

Forecast price	Weighting	Weighted price
23,900	50%	11,950
24,202	50%	12,101
		24,100
		20,700
		16.4%
	23,900	23,900 50%

Source: KB Securities Vietnam

Fig 14. BSR - Historical P/B in 2021-2023 (x)



Source: Bloomberg, KB Securities Vietnam

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BSR - 2021A-2024 financials

come Statement ND billion)	2021A	2022A	2023F	2024F		Balance Sheet (VND billion)			
et sales	101,080	167,124	137,977	108,727		CURRENT ASSETS			
ost of sales	-93,381	-151,027	-130,247	-101,786		Cash and cash equivalents			
ross Profit	7,699	16,097	7,730	6,941		Short-term investments	•	•	·
ancial income	1,015	1,750	2,100	1,513		Accounts receivable	Accounts receivable 4,190	Accounts receivable 4,190 2,172	Accounts receivable 4,190 2,172 1,820
nancial expenses	-619	-923	-1,401	-799		Inventories	Inventories 13,645	Inventories 13,645 16,553	Inventories 13,645 16,553 15,272
of which: interest expenses	-407	-253	-420	-639		LONG-TERM ASSETS	LONG-TERM ASSETS 10,317	LONG-TERM ASSETS 10,317 16,809	LONG-TERM ASSETS 10,317 16,809 13,096
in/(loss) from joint ventures (from 2015)	0	0	0	0		Long-term trade receivables			
elling expenses	-781	-909	-751	-592		Fixed assets			
eneral and admin expenses	-407	-515	-425	-335		Investment properties			
perating profit/(loss)	6,907	15,500	7,253	6,728		Long-term incomplete assets	,	•	
Other incomes	35	87	87	87		Long-term investments		- ·	5
Other expenses	1 34	1 86	1 86	1 86		TOTAL ASSETS LIABILITIES			
et other income/(expenses) ncome from investments in other entities	0	1	2	3		Current liabilities	•	·	
let accounting profit/(loss) before tax	6,941	15,586	7,339	6,814		Trade accounts payable	· ·	•	
orporate income tax expenses	-257	-916	-734	-681		Advances from customers	* *		• •
t profit/(loss) after tax	6,684	14,669	6,605	6,133		Short-term unrealized revenue			
pority interests	-32	-57	-32	-30		Short-term borrowings	·	·	
ibutable to parent company	6,716	14,726	6,637	6,163		Long-term liabilities			
	5,125	,,	2,221	5,255		Long-term trade payables			
argin ratio						Long-term advances from customers	. 8		8 11 11 11 11 11 11 11 11 11 11 11 11 11
·	2021A	2022A	2023F	2024F		Unrealized revenue	-		•
Gross profit margin	7.6%	9.6%	5.6%	6.4%		Long-term borrowings	Long-term borrowings 31,065	Long-term borrowings 31,065 37,553	
EBITDA margin	8.7%	10.1%	6.4%	7.5%		OWNER'S EQUITY	OWNER'S EQUITY 31,005	OWNER'S EQUITY 31,005 31,005	OWNER'S EQUITY 31,005 31,005 31,005
EBIT margin	6.4%	8.8%	4.8%	5.5%		Paid-in capital	Paid-in capital 0	Paid-in capital 0 0	Paid-in capital 0 0 0
Pre-tax profit margin	6.9%	9.3%	5.3%	6.3%		Share premium	Share premium 6,551	Share premium 6,551 14,652	Share premium 6,551 14,652 17,297
Operating profit margin	6.8%	9.3%	5.3%	6.2%		Undistributed earnings	Undistributed earnings 2	Undistributed earnings 2 5,598	Undistributed earnings 2 5,598 5,600
Net profit margin	6.6%	8.8%	4.8%	5.6%		Minority interests	Minority interests -5	Minority interests -5 -65	Minority interests -5 -65 -97
sh Flow Statement ID billion)	2021A	2022A	2023F	2024F	_	Key ratios	Key ratios -	Key ratios -	Key ratios -
et profit/(loss) before tax	6,941	15,586	7,339	6,814		Multiple	Multiple	Multiple	Multiple
Depreciation and amortisation	2,311	2,192	2,325	2,114		P/E	P/E 11.0	P/E 11.0 5.0	P/E 11.0 5.0 11.2
Profit/loss from investing activities	-856	-1,102	-1,102	-1,102		P/E diluted			
Interest expense Operating profit/(loss) before changes in	407	253	420	639		P/B	P/B 1.9	P/B 1.9 1.5	P/B 1.9 1.5 1.4
Vorking Capital	8,803	16,929	8,982	8,465		P/S	P/S 0.7	P/S 0.7 0.4	P/S 0.7 0.4 0.5
(Increase)/decrease in receivables	-5,752	-2,943	1,281	3,238		P/Tangible Book	P/Tangible Book 1.9	P/Tangible Book 1.9 1.5	P/Tangible Book 1.9 1.5 1.4
(Increase)/decrease in inventories	-1,968	-6,577	3,713	2,862		P/Cash Flow	-		
Increase/(decrease) in payables	7,053	883	-3,684	-2,364		EV/EBITDA	EV/EBITDA 7.4	EV/EBITDA 7.4 3.6	EV/EBITDA 7.4 3.6 6.2
(Increase)/decrease in prepaid expenses	1,551	184	184	184		EV/EBIT	EV/EBIT 10.0	EV/EBIT 10.0 4.1	EV/EBIT 10.0 4.1 8.4
let cash inflows/(outflows) from operating ctivities	8,972	7,088	7 672	10.210		Operating performance	Operating performance	Operating performance	Onevating performance
Purchases of fixed assets and other long	0,912	1,000	7,672	10,219		Operating performance	Operating performance	Operating performance	Operating performance
erm assets	-63	-220	-1,690	-8,044		ROE	ROE 17.8%	ROE 17.8% 28.7%	ROE 17.8% 28.7% 12.3%
Proceeds from disposal of fixed assets	0	0	0	0		ROA	ROA 10.0%	ROA 10.0% 18.7%	ROA 10.0% 18.7% 8.4%
Loans granted, purchases of debt nstruments	-6,696	-7,826	-7,826	-7,826		ROIC	ROIC 19.5%	ROIC 19.5% 38.0%	ROIC 19.5% 38.0% 18.0%
Collection of loans, proceeds from sales of									
debts instruments	3,465	9,843	9,843	9,843		Financial structure			
Investments in other entities	0	0	0	0		Cash Ratio			
Proceeds from divestment in other entities	0	0	0	0		Quick Ratio	•	•	•
Dividends and interest received  Net cash inflows/(outflows) from investing	516	897	897	897		Current Ratio	Current Ratio 1.7	Current Ratio 1.7 2.3	Current Ratio 1.7 2.3 2.6
ctivities	-2,779	2,695	1,238	-5,116		LT Debt/Equity	LT Debt/Equity 0.0	LT Debt/Equity 0.0 0.0	LT Debt/Equity 0.0 0.0 0.0
Proceeds from issue of shares	0	0	0	0		LT Debt/Total Assets	LT Debt/Total Assets 0.0	LT Debt/Total Assets 0.0 0.0	LT Debt/Total Assets 0.0 0.0 0.0
Payments for share returns and repurchases	0	0	0	0		Debt/Equity	Debt/Equity 0.3	Debt/Equity 0.3 0.2	Debt/Equity 0.3 0.2 0.2
Proceeds from borrowings	87,252	77,969	1,124	5,994		Debt/Total Assets	Debt/Total Assets 0.1	Debt/Total Assets 0.1 0.1	Debt/Total Assets 0.1 0.1 0.1
Repayment of borrowings	-89,390	-79,886	-2,160	-529		ST Liabilities/Equity	ST Liabilities/Equity 0.9	ST Liabilities/Equity 0.9 0.7	ST Liabilities/Equity 0.9 0.7 0.4
Finance lease principal payments	0	0	0	0		ST Liabilities/Total Assets	ST Liabilities/Total Assets 0.4	ST Liabilities/Total Assets 0.4 0.3	ST Liabilities/Total Assets 0.4 0.3 0.3
Dividends paid	-502	-1,347	-1,550	-1,550		Total Liabilities/Equity	Total Liabilities/Equity 0.9	Total Liabilities/Equity 0.9 0.7	Total Liabilities/Equity 0.9 0.7 0.5
Interests, dividends, profits received	0	0	0	0		Total Liabilities/Total Assets			
Net cash inflows/(outflows) from financing		2.205	2.500	2.015		A at the coat	* Cl. (L. )	A COMPANY	A 15 15 15 15 15 15 15 15 15 15 15 15 15
		-3,265	-2,586	3,915		Activity ratios	•	•	•
activities	-2,640			0 0 1 0					
activities Net increase in cash and cash equivalents	-2,640 3,553	6,518	6,324	9,018		Account Receivable Turnover	Account Receivable Turnover 9.4	Account Receivable Turnover 9.4 11.1	Account Receivable Turnover 9.4 11.1 8.7
Net increase in cash and cash equivalents Cash and cash equivalents at the beginning of period			6,324 22,853	9,018 29,177		Account Receivable Turnover Inventory Turnover			

Source: Binh Son Refinery, KB Securities Vietnam

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(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

#### **Investment Ratings for Sectors**

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Undernerform the market

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