

September 8, 2023

Analyst Pham Minh Hieu
hieupm@kbsec.com.vn

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.

Buy maintain

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

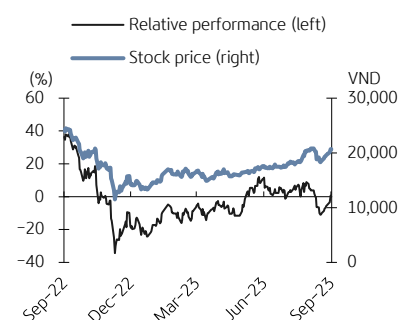
Free float	7.9%
3M avg trading value (VNDbn/USDmn)	172.5/8.6
Foreign ownership	0.4%
Major shareholder	PVN (92.1%)

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

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

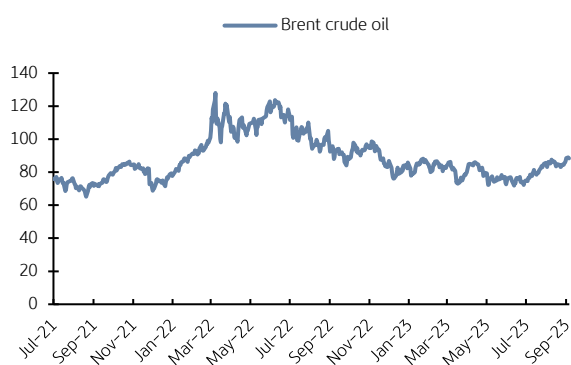
(VND bn)	1H2022	1H2023	YoY %	Comments
Revenue	87,174	67,735	-22%	A YoY sharp drop in revenue was primarily due to Brent prices falling by 24% YoY from the high base recorded over the same period.
Diesel	43,887	26,148	-40%	
Jet A1	6,179	5,135	-17%	
Gasoline A95	37,420	18,437	-51%	
Gasoline A92 & E5	16,840	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 prices 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

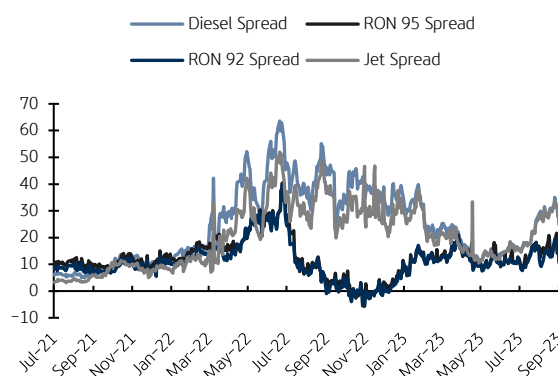
OPEC+'s production cuts have caused Brent crude oil prices to expand by about 7.8% since April 2023. We expect Brent to linger above USD80/barrel towards the end of 2023, given OPEC+'s production cut extension. We hold our stance that RON 95 and RON 92 spreads in Asia will rise in 2H23 on (1) growing 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)



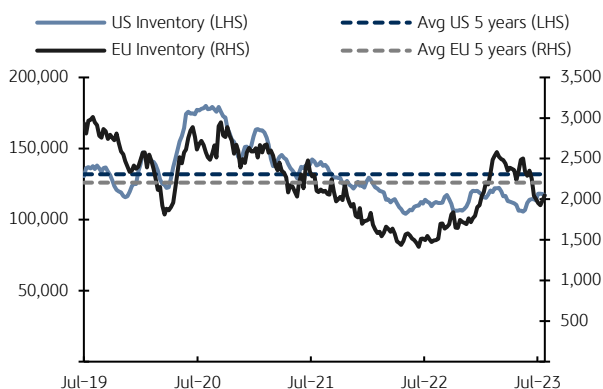
Source: Bloomberg, KB Securities Vietnam

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



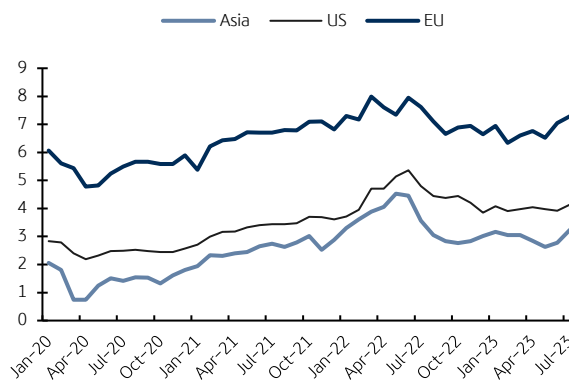
Source: Bloomberg, KB Securities Vietnam

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



Source: Bloomberg, KB Securities Vietnam

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



Source: Bloomberg, KB Securities Vietnam

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 against the previous update report due to BSR rescheduling the overall maintenance to 1Q24.
Diesel	66,717	53,576	-20%	
Jet A1	11,372	9,467	-17%	
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	-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%, 45.8%, 40.1% and 22.7% YoY, respectively.
Gross profit margin (%)	10%	6%		
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

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

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

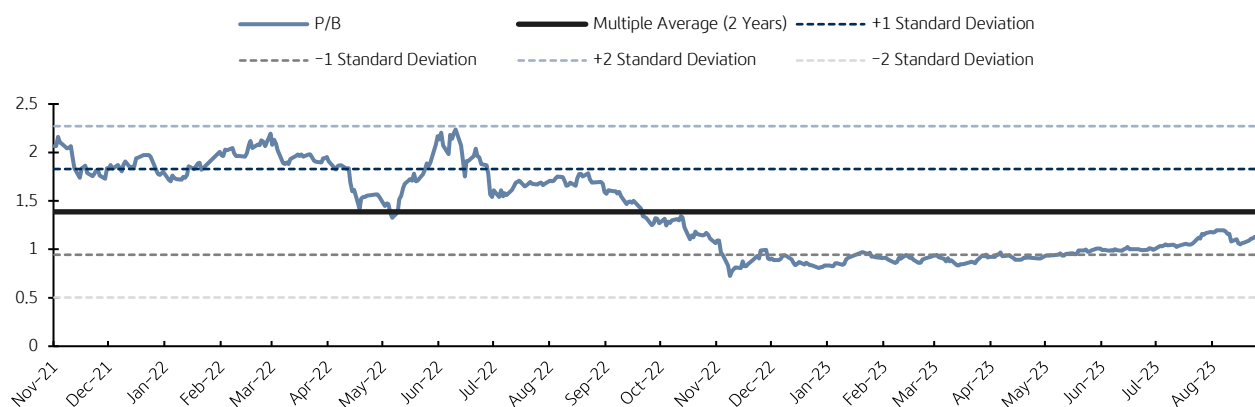
Source: Bloomberg, KB Securities Vietnam

Table 13. BSR – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
FCFF	23,900	50%	11,950
P/B (1.4x)	24,202	50%	12,101
Target price (rounded)			24,100
Current price (Sep 7, 2023)			20,700
Upside to target price			16.4%

Source: KB Securities Vietnam

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



Source: Bloomberg, KB Securities Vietnam

Nguyen Xuan Binh – Head of Research
binhnx@kbsec.com.vn

Equity

Banks, Insurance & Securities

Nguyen Anh Tung – Manager
tungna@kbsec.com.vn

Pham Phuong Linh – Analyst
linhpp@kbsec.com.vn

Real Estate, Construction & Materials

Pham Hoang Bao Nga – Senior Analyst
ngaphb@kbsec.com.vn

Nguyen Duong Nguyen – Analyst
nguyennd1@kbsec.com.vn

Retails & Consumers

Nguyen Truong Giang – Analyst
giangnt1@kbsec.com.vn

Industrial Real Estate, Logistics

Nguyen Thi Ngoc Anh – Analyst
anhntn@kbsec.com.vn

Information Technology, Utilities

Nguyen Dinh Thuan – Analyst
thuannd@kbsec.com.vn

Oil & Gas, Chemicals

Pham Minh Hieu – Analyst
hieupm@kbsec.com.vn

Research Division
research@kbsec.com.vn

Macro/Strategy

Tran Duc Anh – Head of Macro & Strategy
anhtd@kbsec.com.vn

Macroeconomics & Banks

Ho Duc Thanh – Analyst
thanhd@kbsec.com.vn

Vu Thu Uyen – Analyst
uyenvt@kbsec.com.vn

Strategy, Investment Themes

Thai Huu Cong – Analyst
congth@kbsec.com.vn

Nghiem Sy Tien – Analyst
tienss@kbsec.com.vn

Support team

Nguyen Cam Tho – Assistant
thonc@kbsec.com.vn

Nguyen Thi Huong – Assistant
huongnt3@kbsec.com.vn

KB SECURITIES VIETNAM (KBSV)

Head Office:

Levels 16&17, Tower 2, Capital Place, 29 Lieu Giai Street, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7303 5333 – Fax: (+84) 24 3776 5928

Hanoi Branch:

Level 1, VP Building, 5 Dien Bien Phu, Ba Dinh District, Hanoi, Vietnam
Tel: (+84) 24 7305 3335 – Fax: (+84) 24 3822 3131

Ho Chi Minh Branch:

Level 2, TNR Tower Nguyen Cong Tru, 180–192 Nguyen Cong Tru Street, District 1, HCMC, Vietnam
Tel: (+84) 28 7303 5333 – Fax: (+84) 28 3914 1969

Saigon Branch:

Level 1, Saigon Trade Center, 37 Ton Duc Thang, Ben Nghe Ward, District 1, HCMC, Vietnam
Tel: (+84) 28 7306 3338 – Fax: (+84) 28 3910 1611

CONTACT INFORMATION

Institutional Client Center: (+84) 28 7303 5333 – Ext: 2656
Private Customer Care Center: (+84) 24 7303 5333 – Ext: 2276
Email: ccc@kbsec.com.vn
Website: www.kbsec.com.vn

Investment ratings & definitions

Investment Ratings for Stocks

(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	Underperform the market

Opinions in this report reflect the professional judgment of the research analyst(s) as of the date hereof and are based on information and data obtained from sources that KBSV considers reliable. KBSV makes no representation that the information and data are accurate or complete and the views presented in this report are subject to change without prior notification. Clients should independently consider their own particular circumstances and objectives and are solely responsible for their investment decisions and we shall not have liability for investments or results thereof. These materials are the copyright of KBSV and may not be reproduced, redistributed or modified without the prior written consent of KBSV. Comments and views in this report are of a general nature and intended for reference only and not authorized for use for any other purpose.