

# Binh Son Refinery (BSR)

China's gloomy economic outlook as a major risk

March 12, 2024

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**2023 revenue and gross profit decreased sharply over the same period**

In 2023, Binh Son Refinery (BSR) saw revenue down 12% YoY, mainly due to a 19% YoY drop in Brent crude oil price. The jet fuel crack spread remained high thanks to rising air travel demand in the region. However, the crack spread of other major refined petroleum products like gasoline A95, A92, and diesel all declined substantially from their high bases in the same period in 2022, leading to a significant contraction in BSR's gross profit margin.

**China's gloomy economic outlook will be the major risk for Asian crack spreads in 2024**

China keeps grappling with deflation and a real estate crisis, posing worries about the country's economic outlook. China's PMI still does not show signs of recovery. With subdued domestic consumption and industrial production, China may increase export quotas for refined petroleum products, creating oversupply risks in the Asian market and causing crack spreads to decline.

**Low diesel inventories in Asia would support the crack spread of this product**

Diesel inventory in Singapore has remained low since September 2021, supporting high crack spreads. Excluding the risk factors related to consumption in the Chinese market, we believe diesel inventory will stay low for 2024 due to high GDP growth forecasts for India and Southeast Asian countries.

**We recommend HOLD for BSR with a target price is VND21,300/share**

We recommend a HOLD rating for BSR utilizing the FCFF and P/B valuation methods. The target price is VND21,300/share, representing a 12.1% upside compared to the closing price of VND19,000 apiece on March 12, 2024.

**Hold** maintain

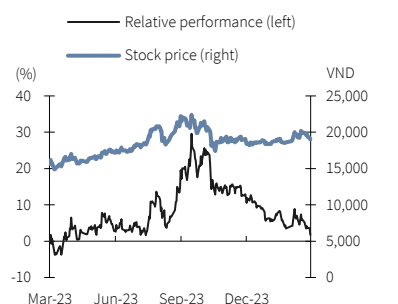
<b>Target price</b>	<b>VND21,300</b>
Upside	12.1%
Current price (Mar 12, 2024)	VND19,000
Consensus target price	VND19,300
Market cap (VNDbn/USDmn)	58,599/2,441

<b>Trading data</b>	
Free float	7.9%
3M avg trading value (VNDbn/USDmn)	96.79/4.0
Foreign ownership	1.1%
Major shareholder	PetroVietnam (PVN, 92.1%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	-5.0	-0.5	-11.2	15.9
<b>Relative</b>	-6.5	-9.9	-11.2	-2.0

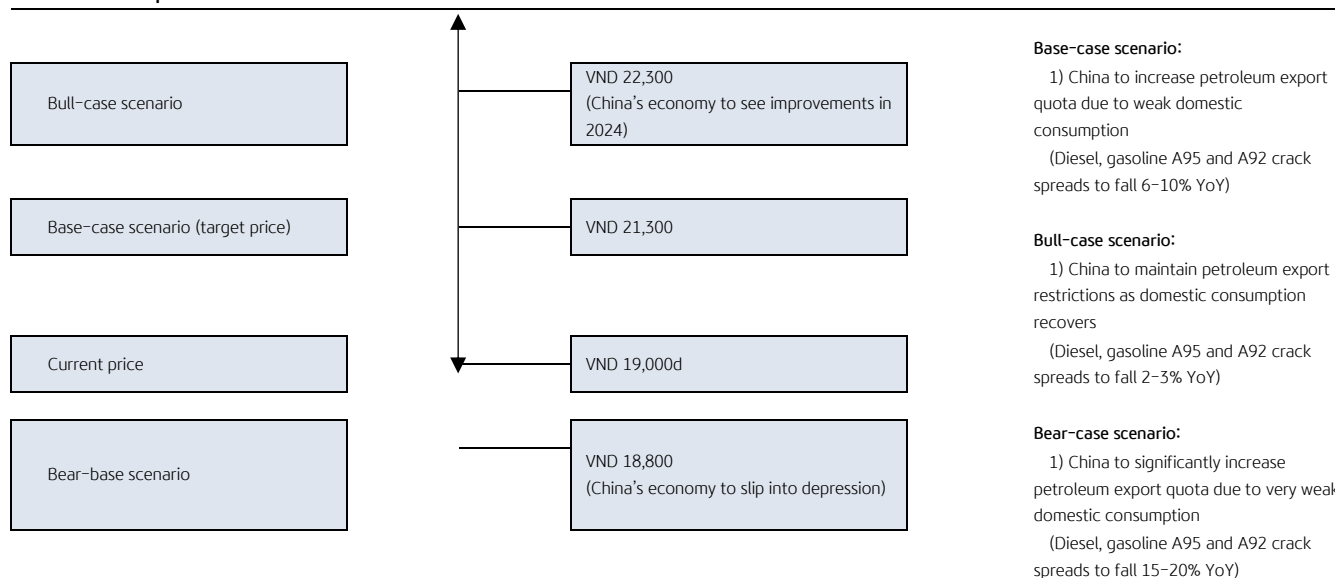
**Forecast earnings & valuation**

FY-end	2022A	2023A	2024F	2025F
Net revenue (VNDbn)	167,124	147,423	121,832	141,885
Operating income/loss (VNDbn)	14,673	7,948	6,031	7,653
NPAT-MI (VNDbn)	14,726	8,511	6,845	8,290
EPS (VND)	4,750	2,745	2,208	2,674
EPS growth (%)	129.1	-42.2	-20.0	21.0
P/E (x)	4.3	7.8	9.7	8.0
P/B (x)	1.2	1.2	1.1	1.1
ROE (%)	28.7	14.8	11.4	13.1
Dividend yield (%)	2.1	3.3	3.3	3.3



Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Source: KB Securities Vietnam

## Business performance

### 2023 revenue and gross profit decreased sharply over the same period

In 2023, Binh Son Refinery (BSR) saw revenue down 12% YoY, mainly due to a 19% YoY drop in Brent crude oil price. The jet fuel crack spread remained high thanks to rising air travel demand in the region. However, the crack spread of other major refined petroleum products like A95, A92 gasoline, and diesel all declined substantially from their high bases in the same period in 2022, leading to a significant contraction in BSR's gross profit margin.

Table 1. BSR – 2022A–2023A business results

(VNDbn)	4Q2022	4Q2023	%YoY	2022A	2023A	%YoY	KBSV's comments
Revenue	40,430	41,933	4%	167,134	146,907	-12%	The decrease in revenue was mainly due to crude oil prices being 19% lower than the high base of the same period despite consumption up 4% YoY.
Diesel	17,899	17,579	-2%	66,717	57,736	-13%	
Gasoline A95	10,093	12,258	21%	47,523	42,239	-11%	
Gasoline A92 & E5	5,148	4,585	-11%	24,088	19,900	-17%	
Jet A1	3,409	3,700	9%	11,372	11,954	5%	
FO	361	117	-68%	2,419	1,893	-22%	
LPG	1,870	2,002	7%	9,293	7,451	-20%	
Gross profit	1,727	2,529	46%	16,097	9,608	-40%	Except for JetA1, crack spreads of Gasoline A95, A92 and diesel all decreased sharply from their high bases in the same period, sending gross profit plummeting.
Gross profit margin	4.3%	6.0%		9.6%	6.5%		
SG&A	-545	-599	10%	-1,424	-1,660	17%	
Operating income/loss	1,182	1,930	63%	14,673	7,948	-46%	
Financial income	648	959	48%	1,750	2,659	52%	Deposit interest increased dramatically thanks to a huge amount of cash accumulated from 2022. Mainly due to foreign exchange loss
Financial expenses	-239	-351	47%	-923	-1,154	25%	
PBT	1,621	2,546	57%	15,586	9,486	-39%	
NPAT	1,495	2,269	52%	14,669	8,455	-42%	
NPAT margin	3.7%	5.4%		8.8%	5.8%		
Production (million tons)	1,766	1,673	-5%	6,971	7,150	3%	
Consumption (million tons)	1,472	1,962	33%	7,004	7,256	4%	
Diesel	744	886	19%	2,838	2,990	5%	
Gasoline A95	444	567	28%	1,899	1,947	3%	
Gasoline A92	229	219	-4%	983	953	-3%	
Jet A1	125	114	-9%	552	514	-7%	
FO	17	35	106%	141	129	-9%	
LPG	108	117	8%	477	473	-1%	
Brent price (USD/barrel)	89	82	-7%	103	83	-19%	

Source: Binh Son Refinery, KB Securities Vietnam

**China's gloomy economic outlook will be the major risk for Asian crack spreads in 2024**

In 2023, China's economic growth was supported by the low base in 2022 resulting from the COVID-19 pandemic. For now, we are quite concerned about China's economic prospects, especially in industrial production, as the country keeps grappling with deflation and a real estate crisis. China's PMI might not see improvements in the near term. In the coming period, with weakening domestic consumption and sluggish industrial production activities, China may increase export quotas for refined petroleum products, creating oversupply risks in the Asian market and causing crack spreads to decline.

**Russia's gasoline export ban until the end of 3Q2024 may cause crack spreads to rise**

Recently, the world's second-largest exporter of petroleum products, Russia, officially ordered a ban on gasoline exports from March 2024 until the end of the third quarter of 2024. The ban was implemented to stabilize commodity prices during the upcoming presidential election in Russia amidst significant damage to some of the country's key oil refineries following attacks from Ukraine. We expect this move to back gasoline crack spreads over the next six months.

**Low diesel inventories in Asia would support the crack spread of this product; petroleum inventories depend on seasonal factors and should decrease sharply from the end of 2Q2024**

The diesel inventory in Singapore, known as an Asian oil trading hub, has remained low since September 2021, supporting high crack spreads. In February 2024, diesel inventory saw a significant rise primarily due to the effects of prolonged holidays in the regional countries. Excluding the risk factors related to consumption in the Chinese market, we believe diesel inventory will continue to remain low for 2024 due to high GDP growth forecasts for India and Southeast Asian nations.

Meanwhile, we anticipate that gasoline inventory in Singapore will still be affected by seasonal factors, meaning it should remain high until mid-2Q2024 and then sharply decrease when entering the peak season in 3Q2024.

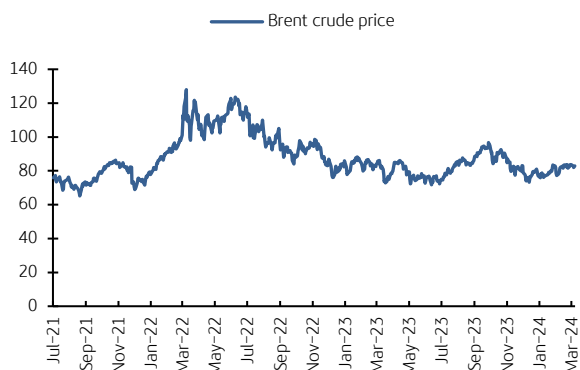
**We raised our projection for Brent price following its developments in 1Q2024**

We raised our forecast for the Brent crude oil price in 2024F to USD83 per barrel (flat YoY) following its rallies during the low season. As noted in our 2024 Strategy Report, we believe that global crude oil consumption will experience relatively low growth due to challenges faced by the world's second-largest crude oil consumer, China. On the other hand, we anticipate that global supply will further remain tight in 2024F primarily due to (1) limited production growth from non-OPEC+ countries possibly constrained by drilling rig shortages and (2) bottlenecks in the Red Sea region that may persist in the long term, causing a steep reduction in global crude oil supply. We expect a balanced energy market in 2024, given the tight supply and conservative crude oil consumption growth forecast.

**BSR plans to start performing the fifth maintenance in March and April 2024**

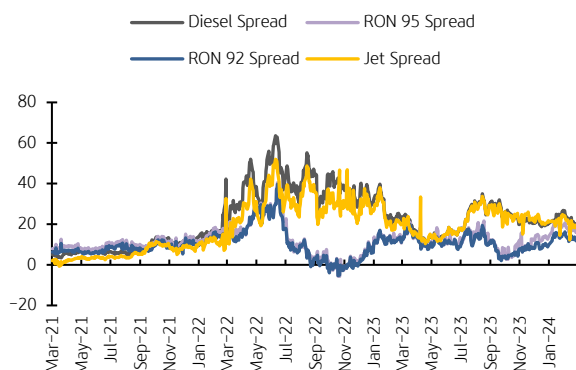
As mentioned in previous reports, BSR is scheduled to conduct comprehensive maintenance of its oil refinery in March and April 2024. We estimate that this maintenance period will cause BSR's production output to decrease by approximately 17% YoY, negatively impacting the company's growth prospects for the year.

Fig 2. Global – Brent price (USD/barrel)



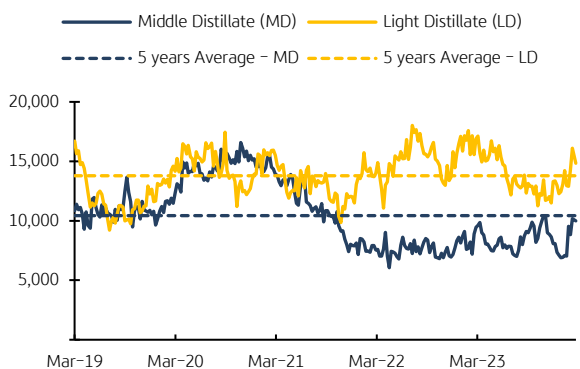
Source: Bloomberg, KB Securities Vietnam

Fig 3. Global – Crack spreads of major refined petroleum products (USD/barrel)



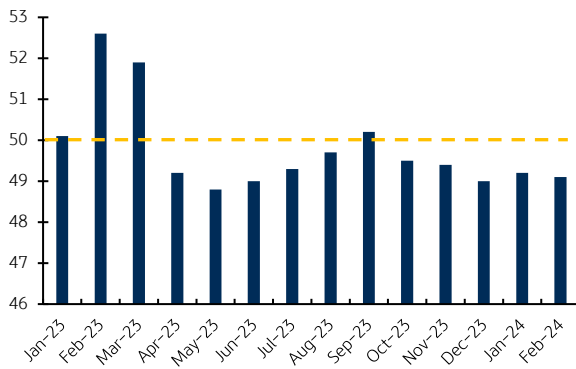
Source: Bloomberg, KB Securities Vietnam

Fig 4. Asia – Inventories of Middle Distillate (Diesel, FO, Jet A1) and Light Distillate (Gasoline A95, A92) (thousand barrels)



Source: Bloomberg, KB Securities Vietnam

Fig 5. China – PMI after post-pandemic reopening



Source: Bloomberg, KB Securities Vietnam

## Forecast & Valuation

**Table 6. BSR – 2023A–2024F business results**

(VNDbn)	2023A	2024F	%YoY	KBSV's comments
Revenue				The decrease is mainly due to the impact of a major 50-day maintenance period taking place from March 2024 to April 2024.
	146,907	121,832	-17%	
Diesel	57,736	46,700	-19%	
Gasoline A95	42,239	35,359	-16%	
Gasoline A92 & E5	19,900	16,511	-17%	
Jet A1	11,954	10,319	-14%	
FO	1,893	1,397	-26%	
LPG	7,451	6,360	-15%	
Gross profit	9,608	7,402	-23%	Gross profit may fall sharply due to (1) impacts from the maintenance process and (2) crack spreads of gasoline A95, A92 and diesel assumed to drop by 6–10% YoY due to the risk of China promoting exports. The jet fuel crack spread is expected to remain at the same level as in 2023.
Gross profit margin	6.5%	6.1%		
SG&A	-1,660	-1,371	-17%	
Operating income/loss	7,948	6,243	-21%	
Financial income	2,659	6,031	127%	Driven by a large amount of cash and cash equivalents at the end of 2023
Financial expenses	-1,154	-1,174	2%	Capitalizing the loan interest arising from the Dung Quat oil refinery upgrade project so the total interest expense did not change significantly
PBT	9,486	7,569	-20%	
NPAT	8,455	6,812	-19%	From 2023, BSR will be subject to a corporate tax rate of 10% from the preferential rate of 5%.
NPAT margin	5.8%	5.6%		
Production (million tons)	7,150	5,967	-17%	Major turnaround lasting 50 days
Consumption (million tons)	7,256	6,001	-17%	
Diesel	2,990	2,445	-18%	
Gasoline A95	1,947	1,637	-16%	
Gasoline A92	953	790	-17%	
Jet A1	514	441	-14%	
FO	129	95	-26%	
LPG	473	395	-16%	
Brent price (USD/barrel)	83	83	0%	

Source: Binh Son Refinery, KB Securities Vietnam

## Valuation

**We recommend HOLD for BSR with a target price is VND21,300/share**

By combining two valuation methods, Free Cash Flow to the Firm (FCFF) and P/B comparables (with 2024F book value per share), we recommend HOLD for BSR with a target price of VND21,300 per share, equivalent to a 12.1% upside compared to the closing price of VND19,000 per share on March 12, 2024. The target P/B is set at 1.16x, based on the 5-year median P/B of BSR.

**Table 7. BSR – FCFF model assumptions**

Risk-free rate	4.7%	Present value of terminal value (VNDbn)	24,161
Market risk premium	7.6%	Total present value for the period 2024–2028	15,193
Beta	1.44	<b>Total present value</b>	39,354
Average interest rate	7.0%	Plus: Cash & Short-term investments	39,287
Corporate tax rate	10.0%	Less: Net Debt	-15,246
<b>WACC</b>	12.8%	Less: Minority interest	-124
Terminal growth	1.5%	<b>Equity value</b>	63,271
		Outstanding shares (million shares)	3,100.5
		<b>Equity value/share (VND)</b>	20,400

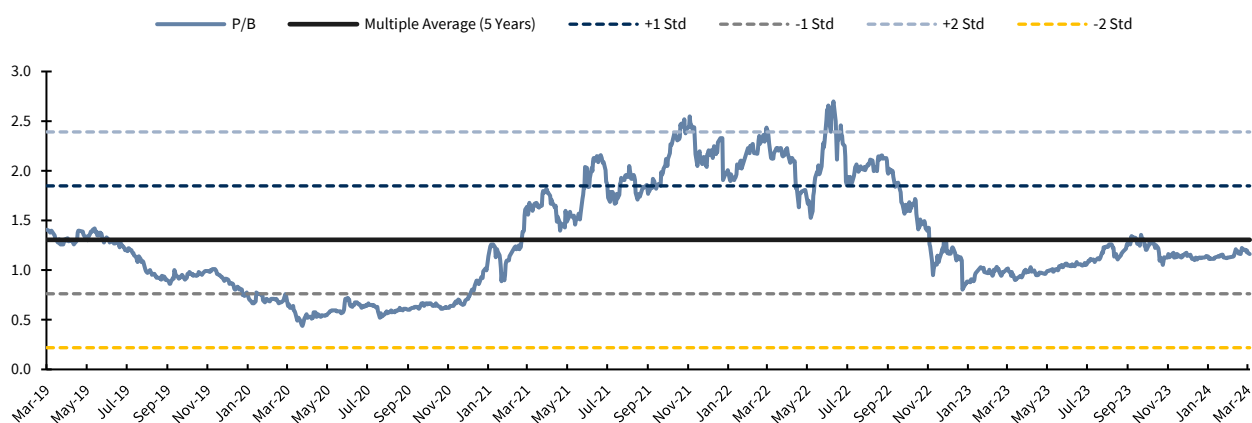
Source: Bloomberg, KB Securities Vietnam

**Table 8. BSR – Valuation results**

Valuation method	Forecast price	Weighting	Weighted price
FCFF	20,400	50%	10,200
P/B (1.16x)	22,249	50%	11,125
<b>Target price (rounded)</b>			<b>21,300</b>
Current price (Mar 12, 2024)			19,000
Upside			12.1%

Source: KB Securities Vietnam

**Fig 9. BSR – Historical P/B in 2019–2024 (x)**



Source: Bloomberg, KB Securities Vietnam

## BSR – 2022A–2025F financials

Income Statement					Balance Sheet				
(VND billion)	2022A	2023A	2024F	2025F	(VND billion)	2022A	2023A	2024F	2025F
Net sales	167,124	147,423	120,450	140,273	CURRENT ASSETS	78,488	86,454	92,414	93,567
Cost of sales	-151,027	-137,815	-114,443	-132,651	Cash and cash equivalents	58,471	68,546	69,721	66,797
Gross Profit	16,097	9,608	6,007	7,622	Short-term investments	22,853	17,001	17,315	20,514
Financial income	1,750	2,659	2,712	2,712	Accounts receivable	2,172	21,122	21,122	21,122
Financial expenses	-923	-1,154	-1,174	-1,198	Inventories	16,553	14,999	17,259	12,913
of which: interest expenses	-253	-288	-294	-299	LONG-TERM ASSETS	16,809	15,352	13,921	12,211
Gain/(loss) from joint ventures (from 2015)	0	0	0	0	Long-term trade receivables	20,017	17,908	22,693	26,770
Selling expenses	-909	-1,034	-845	-984	Fixed assets	534	549	549	549
General and admin expenses	-515	-626	-511	-595	Investment properties	18,075	16,059	20,844	24,921
Operating profit/(loss)	15,500	9,453	6,189	7,557	Long-term incomplete assets	1,275	1,211	1,211	1,211
Other incomes	87	32	0	0	Long-term investments	0	0	0	0
Other expenses	1	0	0	0	<b>TOTAL ASSETS</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net other income/(expenses)	86	32	0	0	<b>LIABILITIES</b>	<b>27,298</b>	<b>29,322</b>	<b>33,608</b>	<b>32,237</b>
Income from investments in other entities	1	2	3	4	Current liabilities	26,015	28,439	28,248	24,191
Net accounting profit/(loss) before tax	15,586	9,485	6,189	7,557	Trade accounts payable	14,836	14,617	14,619	10,184
Corporate income tax expenses	-916	-1,031	-619	-756	Advances from customers	38	247	247	247
Net profit/(loss) after tax	14,669	8,455	5,570	6,801	Short-term unrealized revenue	8,954	10,970	10,777	11,155
Minority interests	-57	-57	-27	-33	Short-term borrowings	1,282	884	5,360	8,046
Attributable to parent company	14,726	8,511	5,597	6,834	Long-term liabilities	0	0	0	0
					Long-term trade payables	0	0	0	0
					Long-term advances from customers	0	0	0	0
					Unrealized revenue	0	0	4,476	7,162
					Long-term borrowings	51,190	57,131	58,806	61,330
					<b>OWNER'S EQUITY</b>	<b>31,005</b>	<b>31,005</b>	<b>31,005</b>	<b>31,005</b>
					Paid-in capital	0	0	0	0
					Share premium	14,652	16,202	17,904	20,462
					Undistributed earnings	5,598	10,048	10,048	10,047
					Minority interests	-65	-124	-151	-184

Margin ratio				
-	2022A	2023A	2024F	2025F
Gross profit margin	9.6%	6.5%	5.0%	5.4%
EBITDA margin	10.1%	6.9%	6.2%	6.9%
EBIT margin	8.8%	5.4%	3.9%	4.3%
Pre-tax profit margin	9.3%	6.4%	5.1%	5.4%
Operating profit margin	9.3%	6.4%	5.1%	5.4%
Net profit margin	8.8%	5.7%	4.6%	4.9%

Cash Flow Statement				
(VND billion)	2022A	2023A	2024F	2025F
Net profit/(loss) before tax	15,586	9,486	6,189	7,557
Depreciation and amortisation	2,192	2,269	2,830	3,664
Profit/loss from investing activities	-1,102	-2,315	0	0
Interest expense	253	288	294	299
Operating profit/(loss) before changes in Working Capital	16,929	9,728	9,313	11,520
(Increase)/decrease in receivables	-2,943	1,848	-2,260	4,346
(Increase)/decrease in inventories	-6,577	1,305	1,431	1,710
Increase/(decrease) in payables	883	604	2	-4,435
(Increase)/decrease in prepaid expenses	184	36	0	0
Net cash inflows/(outflows) from operating activities	7,088	11,672	7,573	12,086
Purchases of fixed assets and other long term assets	-220	-230	-7,701	-7,741
Proceeds from disposal of fixed assets	0	1	0	0
Loans granted, purchases of debt instruments	-7,826	-29,789	-29,789	-29,789
Collection of loans, proceeds from sales of debts instruments	9,843	10,840	29,789	29,789
Investments in other entities	0	0	0	0
Proceeds from divestment in other entities	0	0	0	0
Dividends and interest received	897	1,303	0	0
Net cash inflows/(outflows) from investing activities	2,695	-17,874	-9,372	-9,781
Proceeds from issue of shares	0	0	0	0
Payments for share returns and repurchases	0	0	0	0
Proceeds from borrowings	77,969	95,396	4,476	4,854
Repayment of borrowings	-79,886	-93,407	-193	-1,790
Finance lease principal payments	0	0	0	0
Dividends paid	-1,347	-2,164	-2,170	-2,170
Interests, dividends, profits received	0	0	0	0
Net cash inflows/(outflows) from financing activities	-3,265	-175	2,113	894
Net increase in cash and cash equivalents	6,518	-6,377	314	3,199
Cash and cash equivalents at the beginning of period	16,346	22,853	17,001	17,315
Cash and cash equivalents at the end of period	22,864	17,001	17,315	20,514

Key ratios				
-				
<b>Multiple</b>				
P/E	3.3	6.9	10.4	8.5
P/E diluted	3.3	6.9	10.4	8.5
P/B	1.0	1.0	1.0	1.0
P/S	0.3	0.4	0.5	0.4
P/Tangible Book	1.0	1.0	1.0	1.0
P/Cash Flow	6.8	5.0	7.7	4.8
EV/EBITDA	2.0	5.1	7.5	5.8
EV/EBIT	2.3	6.6	12.1	9.3
<b>Operating performance</b>				
ROE	28.7%	14.8%	9.5%	11.1%
ROA	18.7%	9.8%	6.0%	7.3%
ROIC	38.0%	15.3%	8.1%	10.1%
<b>Financial structure</b>				
Cash Ratio	1.0	1.3	1.4	1.7
Quick Ratio	1.6	1.9	2.0	2.3
Current Ratio	2.3	2.4	2.5	2.8
LT Debt/Equity	0.0	0.0	0.1	0.1
LT Debt/Total Assets	0.0	0.0	0.0	0.1
Debt/Equity	0.2	0.2	0.2	0.2
Debt/Total Assets	0.1	0.1	0.1	0.1
ST Liabilities/Equity	0.5	0.5	0.5	0.4
ST Liabilities/Total Assets	0.3	0.3	0.3	0.3
Total Liabilities/Equity	0.5	0.5	0.6	0.5
Total Liabilities/Total Assets	0.3	0.3	0.4	0.3
<b>Activity ratios</b>				
Account Receivable Turnover	11.1	9.3	7.5	9.3
Inventory Turnover	11.1	8.6	7.8	10.2
Account Payable Turnover	13.8	10.0	8.2	11.3

Source: Binh Son Refinery, KB Securities Vietnam



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## Investment ratings & definitions

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### 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

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