

# Binh Son Refinery (BSR)

## Expecting from the coming high season

June 3, 2024

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**Business operations in 1Q24 were adversely affected by a major maintenance lasting 48 days**

In 1Q24, revenue of Binh Son Refining and Petrochemical Co. Ltd (BSR) dropped 10.5% YoY mainly due to the maintenance, causing sales volume to fall 9.7% YoY. Gross profit saw a big contraction of 39.4% YoY due to high fixed costs and oversupply-triggered unfavorable developments of in the crack spread of two key products, diesel oil and JetA1.

**Crack spreads of gasoline and jet fuels should benefit when demand increases from the end of 2Q**

We expect strong demand for road and air travel during the upcoming holiday season to benefit crack spreads of gasoline and jet fuels. The American Automobile Association predicted that the number of passengers traveling by air in the US during the Memorial Day holiday may reach 20-year highs.

**BSR adjusted the capital allocation plan for the Dung Quat Oil Refinery upgrade and expansion project**

BSR must adjust the equity to loan ratio for the Dung Quat Oil Refinery upgrade and expansion project from 40/60 to three alternative scenarios including 60/40, 70/30, and 80/20 due to high interest rates and difficulties in finding sources. The total investment of the project is about VND36.4 trillion, which should be disbursed between 2025 and 2027 and come into operation from 2028.

**Updated progress of listing on HSX**

The company is considering a plan to dissolve the subsidiary BSR-BF to exclude its business results from the consolidated financial statements. Overdue debt of this subsidiary is the only barrier to BSR's listing approval on the Ho Chi Minh Stock Exchange (HSX).

## Neutral maintain

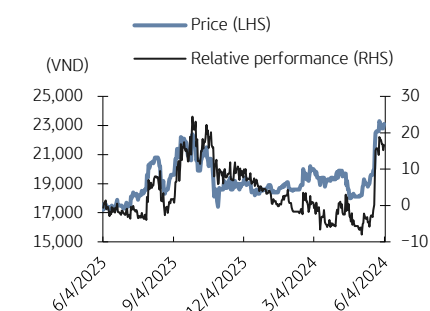
<b>Target price</b>	<b>VND24,400</b>
Upside	6.1%
Current price (Jun 3, 2024)	VND23,000
Consensus target price	VND23,600
Market cap (VNDtn/USDbn)	71.3/2.8

<b>Trading data</b>	
Free float	7.9%
3M avg trading value (VNDbn/USDmn)	152.3/6.1
Foreign ownership	0.7%
Major shareholder	PVN (92.1%)

<b>Share price performance</b>				
(%)	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
<b>Absolute</b>	28.7	17.1	22.6	35.5
<b>Relative</b>	22.8	14.8	6.4	16.2

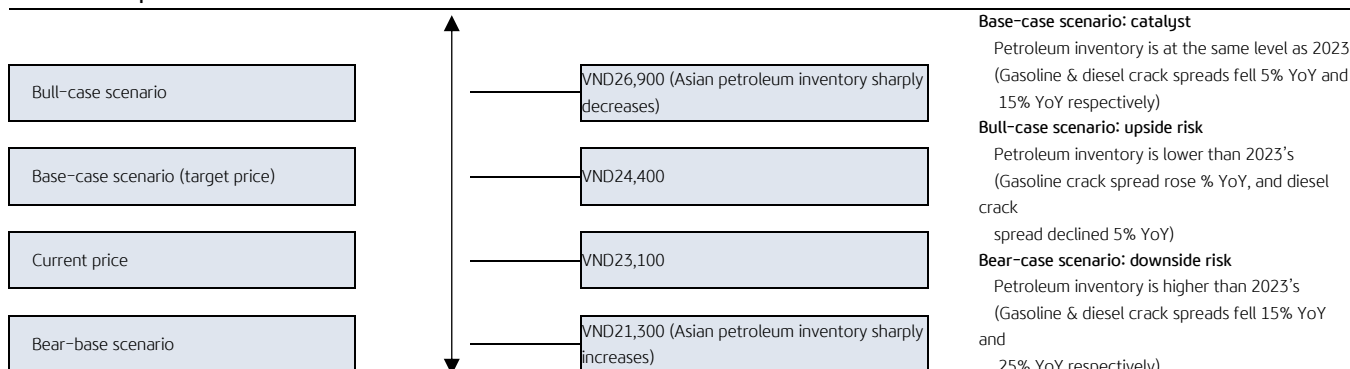
### Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	167,124	147,423	128,884	145,254
Operating income/loss (VNDbn)	14,673	7,948	6,334	8,025
NPAT-MI (VNDbn)	14,726	8,511	6,590	8,098
EPS (VND)	4,750	2,745	2,125	2,612
EPS growth (%)	129.1	-42.2	-23.0	23.0
P/E (x)	5.1	8.9	11.5	9.3
P/B (x)	1.5	1.3	1.3	1.2
ROE (%)	28.7	14.8	11.0	12.8
Dividend yield (%)	1.8	2.9	2.9	2.9



Source: Bloomberg, KB Securities Vietnam

## Investment opinion & risks



## Revised earnings estimates

(VNDbn, %)	Revised		Previous		Change	
	2024E	2025E	2024E	2025E	2024E	2025E
<b>Revenue</b>	121,832	141,885	128,884	145,254	5.8	2.4
<b>EBIT</b>	6,031	7,653	6,334	8,025	5.0	4.9
<b>NP after MI</b>	6,845	8,290	6,590	8,098	(3.7)	-(2.3)

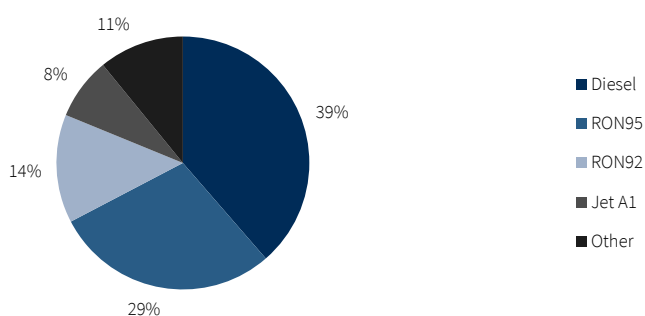
Source: KB Securities Vietnam

## KBSV estimate vs consensus

(VNDbn, %)	KBSV estimates		Consensus		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E
<b>Revenue</b>	128,884	145,254	127,189	132,766	1.3	9.4
<b>EBIT</b>	6,334	8,025	5,551	6,838	14.1	17.3
<b>NP after MI</b>	6,590	8,098	5,823	6,890	13.1	17.5

Source: Bloomberg, KB Securities Vietnam

## Revenue composition (2023)



## Business operation

Binh Son Refining and Petrochemical Company Limited (BSR) was established in 2008. The company is the management and operation unit of Dung Quat Oil Refinery with a total investment capital of over USD3 billion and capacity of 6.5 million tons of crude oil/year. BSR currently accounts for about 30% of Vietnam's petroleum demand.

Source: Binh Son Refining & Petrochemical, KB Securities Vietnam

## 1Q24 performance updates

**Business operations in 1Q24 were adversely affected by a major maintenance lasting 48 days**

1Q24 revenue of BSR dropped 10.5% YoY mainly due to the maintenance, causing sales volume to fall 9.7% YoY. Gross profit saw a big contraction of 39.4% YoY due to high fixed costs and oversupply-triggered unfavorable developments of in the crack spread of two key products, diesel oil and JetA1. Crack spread of A95 gasoline surged 35% YoY, which is not enough to compensate for the decrease in diesel and Jet A1 crack spreads.

**Table 1. BSR – 1Q24 business results**

(VNDbn, %)	1Q23	1Q24	+/-%YoY	Notes
<b>Revenue</b>	<b>34,066</b>	<b>30,503</b>	<b>-10.5%</b>	The 48-day maintenance from mid-March to the end of April is the main reason for the 10% YoY decrease in sales volume.
Diesel oil	13,089	12,383	-5.4%	
A95 gasoline	9,124	9,434	3.4%	
A92 & E5 gasoline	4,863	3,037	-37.5%	
Jet A1	2,812	2,695	-4.2%	
FO oil	362	322	-11.0%	
LPG	2,150	1,606	-25.3%	
<b>Gross profit</b>	<b>2,072</b>	<b>1,256</b>	<b>-39.4%</b>	Sales volume decreased but fixed costs remained high, causing GPM to shrink by 2%. Crack spreads of two key products, diesel and Jet A1, declined 19% and 14% YoY, respectively.
Gross profit margin	6.1%	4.1%		
Financial income	810	520	-35.8%	The decrease was mainly due to the exchange gain losing 61.8% YoY.
Financial expenses	639	256	-59.9%	The decrease was mainly due to the exchange loss falling 62.3% y YoY.
Profits from affiliates	0	0	N/A	
SG&A	414	259	-37.4%	
<b>Operating profit/loss</b>	<b>1,829</b>	<b>1,261</b>	<b>-31.1%</b>	
Other income	14	11	-16.9%	
<b>Profit before taxes (PBT)</b>	<b>1,843</b>	<b>1,271</b>	<b>-31.0%</b>	
PBT margin	5.4%	4.2%		
<b>Net profit after taxes (NPAT)</b>	<b>1,621</b>	<b>1,115</b>	<b>-31.2%</b>	
NPAT margin	4.8%	3.7%		
<b>NP after MI</b>	<b>1,629</b>	<b>1,144</b>	<b>-29.8%</b>	
Production output (million tons)	1,754	1,570	-10.5%	
<b>Sales output (million tons)</b>	<b>1,680</b>	<b>1,517</b>	<b>-9.7%</b>	The overhaul lasted 48 days from mid-March.
Diesel oil	677	637	-5.9%	
A95 gasoline	426	442	3.8%	
A92 gasoline	232	146	-37.2%	
Jet A1	124	136	9.9%	
FO oil	27	24	-11.1%	
LPG	115	89	-22.3%	
<b>Brent oil price (USD/barrel)</b>	<b>82.1</b>	<b>82.0</b>	<b>-0.1%</b>	

Source: Binh Son Refining & Petrochemical, KB Securities Vietnam

**Diesel oil crack spread is under the pressure from short-term oversupply**

The diesel market is less positive than our expectations in the last report. We believe that in the short and medium term, diesel oil crack spread will face dual risks including (1) weak import demand from the EU and China markets due to weaker-than-expected industrial activity and (2) excess supply from the Middle East and Americas due to factories resuming operations after maintenance.

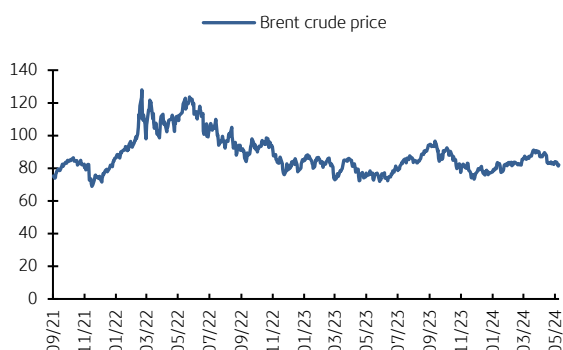
**Crack spreads of gasoline and jet fuel should benefit when demand increases from the end of 2Q**

We expect strong demand for road and air travel during the upcoming holiday season to benefit crack spreads of gasoline and jet fuels. The American Automobile Association predicted that the number of passengers traveling by air in the US during the Memorial Day holiday may reach 20-year highs, signaling the start of the 2024 peak season.

**OPEC+ maintains current cut policy until 3Q**

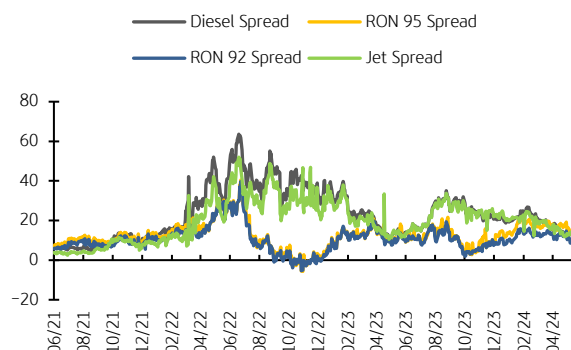
OPEC+ decided to extend the cut of 2.2 million barrels/day until the end of September. After that, 2.2 million barrels/day will be pumped into the market over the next 12 months. We think that the decision leans towards neutrality and aims at increasing the flexibility of the bloc's policies. Although there is a plan to relax the cuts from 4Q24, OPEC+ countries may accelerate or lower the speed of easing, depending on market developments. At the moment, KBSV still maintains the assumption that Brent oil price will average USD83/barrel in 2024.

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



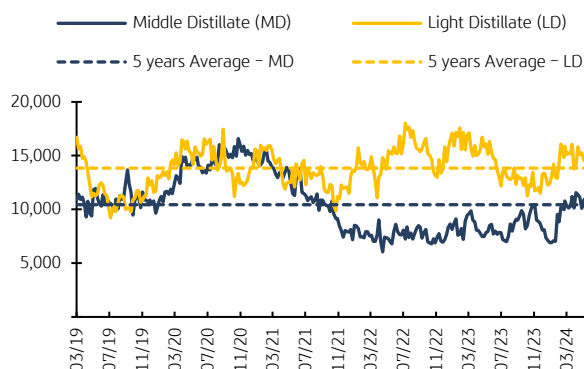
Source: Bloomberg, KB Securities Vietnam

**Fig 3. Global – Crack spreads of main products (USD/barrel)**



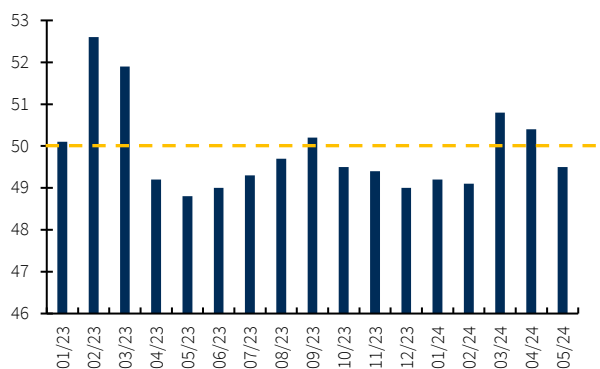
Source: Bloomberg, KB Securities Vietnam

**Fig 4. Asia – Middle distillate (Diesel, FO, JetA1) & light distillate stockpiles (A95 & A92 gasoline) (thousand barrels)**



Source: Bloomberg, KB Securities Vietnam

**Fig 5. China – PMI after post-Covid economic reopening**



Source: Bloomberg, KB Securities Vietnam

**BSR raised the maximum operating capacity after completing the fifth overhaul**

The fifth turnaround ended at the end of April, and Dung Quat Oil Refinery was able to resume operation from May. BSR said it can now push maximum oil refining capacity to 114% of design capacity. Accordingly, we adjusted the assumption of oil refining capacity from 107% to 114% of design capacity (equivalent to 7.4 million tons of crude oil/year) for the period 2024–2027.

**The company adjusted the capital allocation plan for the Dung Quat Oil Refinery upgrade and expansion project**

BSR must adjust the equity to loan ratio for the Dung Quat Oil Refinery upgrade and expansion project from 40/60 to three alternative scenarios including 60/40, 70/30, and 80/20 due to high interest rates and difficulties in finding sources. We temporarily use the equity/loan scenario at 60/40 to forecast the capital structure for the business. The total investment of the project is about VND36.4 trillion, which should be disbursed between 2025 and 2027 and come into operation from 2028.

**Updated dividend and capital increase plans**

The oil producer planned to raise capital from VND31 to VND50 trillion in the period 2024–2025 to serve the major project of upgrading the oil refinery. Cash dividend for 2023 reaches VND700/share (close to our forecast)

**Updated progress of listing on HSX**

BSR is considering a plan to dissolve the subsidiary BSR-BF to exclude its business results from the consolidated financial statements. Overdue debt of this subsidiary is the only barrier to BSR's listing approval on the HSX.

## Forecast & valuation

Table 6. BSR – 2024–2025F results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
<b>Revenue</b>	<b>147,423</b>	<b>128,884</b>	<b>-12.6%</b>	<b>145,254</b>	<b>12.7%</b>	Revenue in 2024 may decline mainly due to the major maintenance lasting 48 days. We raised the maximum capacity of BSR from 107% to 114% of design capacity compared to the last report.
Diesel oil	57,736	51,249	-11.2%	57,694	12.6%	
A95 gasoline	42,239	38,019	-10.0%	43,008	13.1%	
A92 & E5 gasoline	19,900	16,386	-17.7%	18,301	11.7%	
Jet A1	11,954	10,693	-10.5%	12,476	16.7%	
FO oil	1,893	1,308	-30.9%	1,264	-3.4%	
LPG	7,451	5,846	-21.5%	6,594	12.8%	
<b>Gross profit</b>	<b>9,608</b>	<b>7,785</b>	<b>-19.0%</b>	<b>9,660</b>	<b>24.1%</b>	Gross profit in 2024 should be lower due to the overhaul and the possible decrease of 5–15% YoY in diesel, gasoline, and Jet A1 crack spreads. We upgraded the forecast for gross profit by 5% after the adjustment in maximum capacity.
Gross profit margin	6.5%	6.0%		6.7%		
Financial income	2,659	2,127	-20.0%	2,127	0.0%	The projection is lowered by 21.6% compared to the last report to match the actual financial income situation of the business in 1Q24.
Financial expenses	1,154	1,174	1.7%	1,198	2.0%	
Profits from affiliates	0	0	N/A	0	N/A	
SG&A	1,660	1,451	-12.6%	1,635	12.7%	
<b>Operating profit/loss</b>	<b>9,453</b>	<b>7,287</b>	<b>-22.9%</b>	<b>8,954</b>	<b>22.9%</b>	
Other income	32	0	-100%	0	N/A	
<b>Profit before taxes (PBT)</b>	<b>9,486</b>	<b>7,287</b>	<b>-23.2%</b>	<b>8,954</b>	<b>22.9%</b>	
PBT margin	6.4%	5.7%		6.2%		
<b>Net profit after taxes (NPAT)</b>	<b>8,455</b>	<b>6,558</b>	<b>-22.4%</b>	<b>8,059</b>	<b>22.9%</b>	
NPAT margin	5.7%	5.1%		5.5%		
<b>NP after MI</b>	<b>8,511</b>	<b>6,590</b>	<b>-22.6%</b>	<b>8,098</b>	<b>22.9%</b>	It was lowered 3.7% compared to the previous report due to a decrease in financial income.
Production output (million tons)	7,150	6,357	-11.1%	7,410	16.6%	
<b>Sales output (million tons)</b>	<b>7,256</b>	<b>6,390</b>	<b>-11.9%</b>	<b>7,445</b>	<b>16.5%</b>	Output may decrease sharply in 2024 due to the overhaul.
Diesel oil	2,990	2,726	-8.8%	3,170	16.3%	
A95 gasoline	1,947	1,744	-10.4%	2,048	17.4%	
A92 gasoline	953	784	-17.7%	906	15.6%	
Jet A1	514	469	-8.8%	562	19.8%	
FO oil	129	89	-31.0%	89	0.0%	
LPG	473	370	-21.8%	431	16.5%	
<b>Brent oil price (USD/barrel)</b>	<b>83</b>	<b>83</b>	<b>0.0%</b>	<b>80</b>	<b>-3.6%</b>	

Source: Binh Son Refining & Petrochemical, KB Securities Vietnam

**Valuation: NEUTRAL rating with a price target of VND24,400**

We used a combination of FCFF and P/B comparison to give a NEUTRAL rating to BSR with a target price of VND24,400/share, equivalent to a return of 6.1% compared to the closing price VND23,000 on June 3, 2024. The target P/B of 1.29x is chosen according to the average P/B of BSR in five years.

**Table 7. BSR – Valuation according to FCFF model**

Risk-free rate	4.7%	Present value of terminal value	28,718
Equity risk premium	7.6%	Total present value for the period 2024-2028	17,161
Beta	1.44	<b>Total present value</b>	<b>45,879</b>
Average interest rate	7.0%	Plus: Cash & Short-term investments	39,758
Taxes	10.0%	Minus: Net Debt	-11,065
<b>Weighted cost of capital</b>	<b>12.8%</b>	Minus: Minority interest	-124
Terminal growth rate	1.5%	<b>Equity value</b>	<b>74,448</b>
		Number of shares outstanding (million shares)	3,100.50
		<b>Equity value/share (VND)</b>	<b>24,000</b>

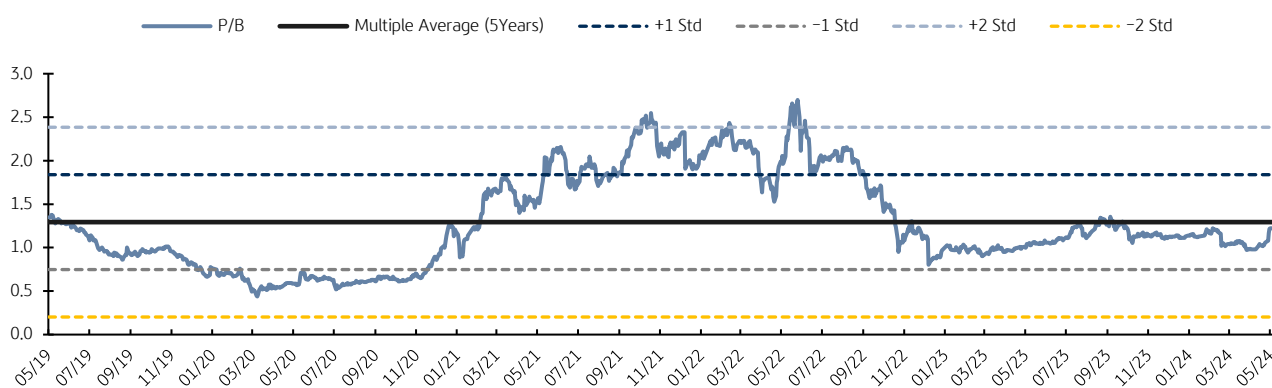
Source: Bloomberg, KB Securities Vietnam

**Table 8. BSR – Final valuation**

Valuation method	Forecast price	Weighting	Weighted price
FCFF	24,000	50%	12,000
P/B (1.29x)	24,700	50%	12,350
<b>Target price (rounded)</b>			<b>24,400</b>
Current price (Jun 3, 2024)			23,300
Upside			4.7%

Source: Bloomberg, KB Securities Vietnam

**Fig 9. BSR – P/B in 2019-2024 (x)**



Source: Bloomberg, 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:	Neutral:	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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