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Revenue and gross profit in 9M23 decreased sharply YoY

Brent oil price spiked to USD92.5/barrel in September, but the averages in 3Q and 9M23 only reached respectively USD86/barrel (-11.9% YoY) and USD82/barrel (-20% YoY). Therefore, Binh Son Refinery (BSR) still recorded a sharp decline in 9M23 business results (revenue 17% YoY & gross profit down 50% YoY) vs high bases in 2022.

Brent crude oil prices may see strong fluctuations in the late 2023-early 2024 period

KBSV maintains the forecast for Brent oil price at a prudent level, averaging USD78/barrel for 2024. Factors that may push oil prices down include: (1) Deteriorating macroeconomic indicators in the US and China; (2) the start of low consumption season; and (3) increasing crude oil production in non-OPEC+ countries. Factors supporting oil prices are: (1) The end of maintenance season; (2) new petrochemical plants coming into operation; (3) low diesel inventories; and (4) the possibility that OPEC+ will continue to cut output.

Diesel oil crack spread is forecast to narrow down

The return of global oil refineries after the maintenance season is beneficial to crude oil prices but may harm the diesel crack spread with massive output of this heavy oil on the market. The outlook for diesel consumption at the end of 2023 - early 2024 is not very bright as PMIs of the US, Eurozone and China all weakened.

HOLD recommendation - target price VND21,500/share

Based on FCFF and P/B valuation, we recommend HOLD for BSR shares (target price VND21,500). We lower the target price for BSR to reflect the disadvantages that BSR will encounter including (1) fluctuations in oil prices and crack spreads and (2) the maintenance period of the refinery in late 1Q24.

Hold change

Target price VND21,500

Upside (%)	13.2%
Current price (Nov 24, 2023)	VND19,000
Consensus target price	VND21,900
Market cap (VNDbn/USDmn)	64,150/2,673

Trading data

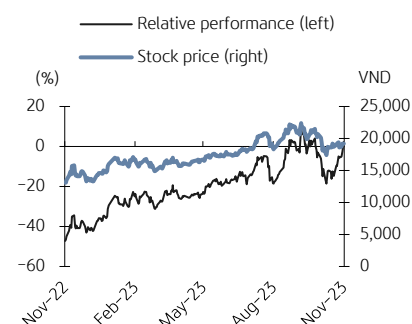
Free float	7.9%
3M avg trading value (VNDbn/USDmn)	195.6/8.2
Foreign ownership	0.9%
Major shareholder	Petro Vietnam (PVN, 92.1%)

Share price performance

(%)	1M	3M	6M	12M
Absolute	-7.2	3.8	15.0	46.6
Relative	-9.1	10.3	10.5	25.7

Forecast earnings & valuation

FY-end	2021A	2022A	2023F	2024F
Net revenue (VNDbn)	101,080	167,124	137,977	112,566
EBIT (VNDbn)	6,511	14,673	7,977	6,133
NPAT of parent company (VNDbn)	6,716	14,726	8,222	6,506
EPS (VND)	2,073	4,750	2,652	2,098
EPS growth (%)	-328.1	129.1	-44.0	-21.0
P/E (x)	11.0	3.9	8.1	10.3
P/B (x)	1.9	1.1	1.2	1.2
ROE (%)	17.8	28.7	15.1	11.5
Dividend yield (%)	0.7	2.3	3.3	3.3



Source: Bloomberg, KB Securities Vietnam

9M23 performance updates

Revenue and gross profit in 9M23 decreased sharply YoY

Brent oil price spiked to USD92.5/barrel in September, but the averages in 3Q and 9M23 only reached respectively USD86/barrel (-11.9% YoY) and USD82/barrel (-20% YoY). Therefore, BSR still recorded a sharp decline in 9M23 business results (revenue 17% YoY & gross profit down 50% YoY) vs high bases in 2022.

Table 1. BSR – 9M23 business results

	9M2022	9M2023	YoY %	KBSV's notes
Revenue (VNDbn)	126,741	105,491	-17%	The decrease in revenue is mainly due to crude oil prices being 20% lower than the high base level of the same period in 2022.
Diesel oil	48,819	40,157	-18%	
A95 gasoline	37,430	29,981	-20%	
A92 & E5 gasoline	19,459	15,734	-19%	
Jet A1	7,964	8,254	4%	
Fuel oil (FO)	2,058	1,776	-14%	
LPG	7,423	5,449	-27%	
Gross profit (VNDbn)	14,164	7,080	-50%	Despite the improvement in 3Q23, Brent oil price and average crack spread in 9Q23 saw steep falls from the high bases in 3Q22, causing gross profit to plunge.
Gross profit margin (%)	11%	7%		
SG&A costs (VNDbn)	-876	-1,061	21%	
Operating profit (VNDbn)	13,288	6,019	-55%	
Financial income (VNDbn)	1,016	1,698	67%	Deposit interest rates spiked thanks to the amount of cash accumulated from 2022.
Financial expenses (VNDbn)	-682	-803	18%	The expenses mainly depend on exchange rate difference losses.
Profit before taxes (VNDbn)	13,678	6,938	-49%	
Profit after taxes (VNDbn)	12,899	6,184	-52%	
Net profit margin (%)	10%	6%		
Production output (million tons)	5,205	5,477	5%	
Consumption output (million tons)	5,532	5,294	-4%	
Diesel oil	2,094	2,104	0%	
A95 gasoline	1,455	1,380	-5%	
A92 gasoline	754	734	-3%	
Jet A1	536	400	-25%	
FO	124	94	-24%	
LPG	369	356	-4%	
Brent oil price (USD/barrel)	103	82	-20%	Brent oil prices surged in 3Q23 but 9M23 average was much lower than that of 9M22.

Source: Binh Son Refinery, KB Securities Vietnam

Brent crude oil prices may see strong fluctuations in the late 2023–early 2024 period

The sharp corrections in oil prices in the first half of 4Q23 resulted from: (1) Sagging economic data of the world's two largest crude oil consumers, the US and China; (2) the end of the peak driving season that causes gasoline inventories to be higher than expected; (3) the coming maintenance season of global oil refineries that triggered a temporary dip in refining output; and (4) higher-than-expected crude oil output in the US.

We maintain our forecast for Brent oil price at a conservative level, averaging USD80/barrel for 2023 and USD78/barrel for 2024. During the late 2023–early 2024 period, we believe that crude oil prices will be strongly volatile, but it will hardly bounce back to the highs seen at the end of 3Q23.

Table 2. Global – Oil price drivers in late 2023 – early 2024

Factors	Possibility	Impact on oil prices	Levels of impact	KBSV's notes
Weakening macroeconomic indicators in the US and China	happening	negative	high	Lower expectations for crude oil consumption
Low season of consumption	happening	negative	high	Lower expectations for crude oil consumption
Increasing crude oil production in countries outside the OPEC+	moderate	negative	high	Raise crude oil supply
Global oil refineries returning to operation after maintenance season	high	positive	moderate	Increase crude oil consumption due to factories increasing refining capacity (but will increase the supply of finished petroleum products)
New petrochemical plants in Asia coning into operation at the end of the year	high	positive	moderate	Increase crude oil consumption as new plants begin operating
Diesel inventories staying at record lows	happening	positive	moderate	Raise crude oil consumption due to factories increasing Diesel refining capacity to enjoy high prices (but will increase Diesel supply)
OPEC+ further production cuts to counter the decline in oil prices	moderate	positive	high	Reduce crude oil supply, but OPEC+ countries have disagreed about continuing to cut production

Source: Binh Son Refinery, KB Securities Vietnam

Diesel oil crack spread is likely to decline

In the first half of 4Q23, diesel crack spread only decreased slightly because inventories were much lower than the five-year average. As mentioned above, the increase in capacity in global oil refineries is good for crude oil prices but will adversely affect diesel crack spreads when refineries massively sell this heavy oil on the market. The outlook for diesel consumption at the end of 2023 – early 2024 is not very positive as PMIs of the US, Eurozone and China all weakened. Therefore, we forecast that diesel oil crack spread may sharply decrease in the near future.

Crack spread of RON 95 and 92 gasoline is not likely to improve in the short term

We believe that the resumption of refineries may also have negative impacts on the crack spread of RON 95 and 92 gasoline. Personal vehicle traffic usually becomes much lower in the winter, which hurts fuel consumption demand. However, we also note that China will likely continue to cut quotas for the final batch of fuel exports in 2023, which partly helps cushion the RON 95 and 92 crack spread from steep falls in the short term.

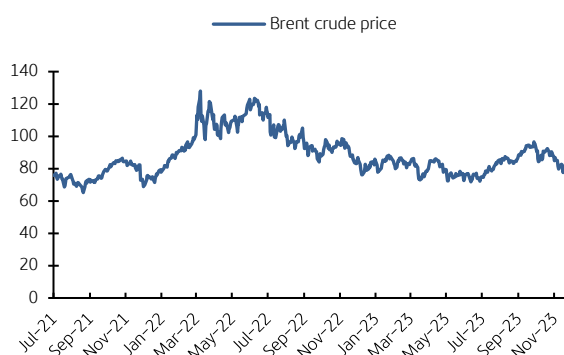
Jet fuel crack spread is expected to remain high

Unlike diesel oil and RON 95 and 92 gasoline, jet fuel should benefit from (1) China’s reopening of full international routes from October 31, 2023 and (2) year-end holiday season in the US and European countries. Therefore, the crack spread of jet fuel should also stay high.

The fifth maintenance and upgrade of Dung Quat oil refinery may hurt BSR profit in 2024

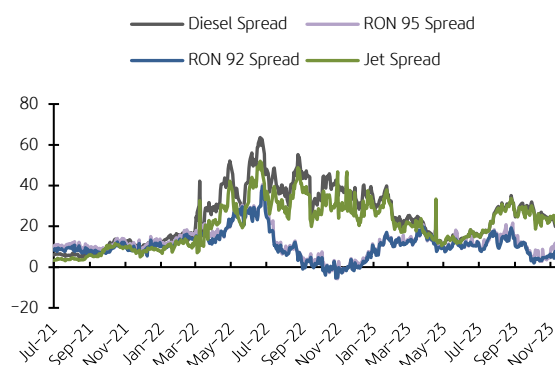
As mentioned in previous reports, BSR plans carry out an overhaul in refineries in March and April 2024. We also expect the business to upgrade and expand Dung Quat oil refinery next year. The business’s free cash flow in 2024 may be eroded by these two factors.

Fig 3. Global – Brent prices (USD/barrel)



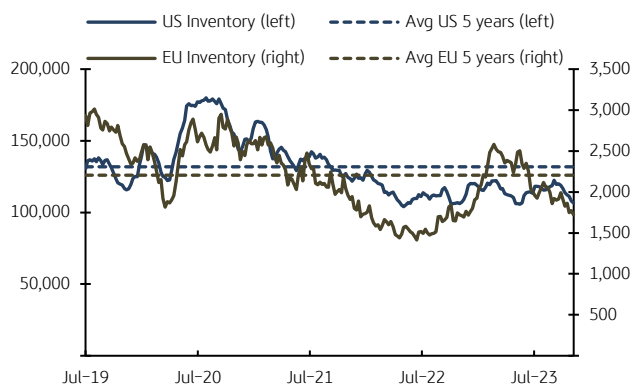
Source: Bloomberg, KB Securities Vietnam

Fig 4. BSR – Crack spreads of the main products (USD/barrel)



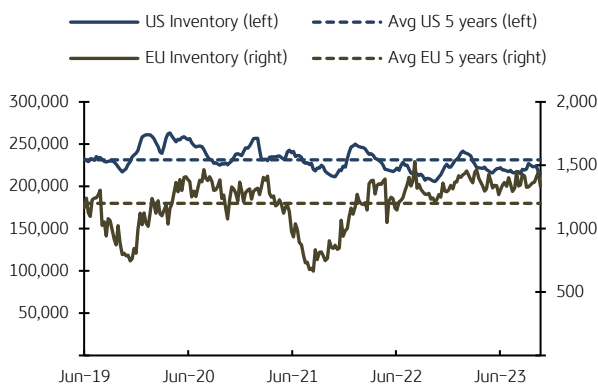
Source: Bloomberg, KB Securities Vietnam

Fig 5. US & EU – Diesel inventories vs five-year averages (USD/barrel, USD/Mt)



Source: Bloomberg, KB Securities Vietnam

Fig 6. US & EU – RON 95 inventories vs five-year averages (USD/barrel, USD/Mt)



Source: Bloomberg, KB Securities Vietnam

Forecast & valuation

Table 7. BSR – 2023–2024F business results

	2022A	2023F	% YoY	2024F	% YoY	KBSV's notes
Revenue (VNDbn)	167,124	137,977	-17%	112,566	-18%	2023F: Although total output gains 2% YoY, the plummet in crude oil prices from the high bases in 2022 (-21% YoY) may cause the output cost of products and revenue to plunge (down 17% YoY). 2024F: The decline results from (1) assumed oil price decline of 3% YoY and (2) major maintenance from the end of 1Q24.
Diesel oil	66,717	53,576	- 20%	43,524	-19%	
A95 gasoline	47,523	39,476	-17%	32,556	-18%	
A92 & E5 gasoline	24,759	20,774	-16%	16,100	-22%	
Jet A1	11,372	9,467	-17%	8,041	-15%	
FO	2,419	1,883	-22%	1,373	-27%	
LPG	9,293	8,182	-12%	6,699	-18%	
Gross profit (VNDbn)	16,097	9,401	-42%	7,295	-22%	2023F: LNG should experience a sharp correction mainly because (1) Brent oil price and (2) crack spread of products strongly drop from 2022 high bases. 2024F: LNG may see a steep fall due to (1) Brent oil price decline, (2) smaller crack spread assumption, and (3) major overhaul of refineries.
Gross profit margin (%)	9.6%	6.8%		6.5%		
SG&A costs (VNDbn)	-1,424	-1,424	0%	-1,162	-18%	
Operating profit (VNDbn)	14,673	7,977	-46%	6,133	-23%	
Financial income (VNDbn)	1,750	2,100	20%	2,205	5%	2023F: Deposit interest rates increase sharply thanks to accumulated cash from 2022.
Financial expenses (VNDbn)	-923	-1,084	17%	-1,189	10%	2023F: Expenses are higher due to exchange rate losses. 2024F: Debts may increase due to the start of refinery expansion.
Profit before taxes (VNDbn)	15,586	9,032	-42%	7,149	-21%	We raise our forecast for BSR 2024F EBT by 4.9% compared to the last report, based on higher oil price assumptions.
Profit after taxes (VNDbn)	14,669	8,129	-45%	6,434	-21%	From 2023, BSR will be subject to a higher tax rate of 10% (vs the current preferential rate of 5%).
Net profit margin (%)	8.8%	5.9%		5.7%		
Production output (million tons)	7,011	7,150	2%	5,967	-17%	
Consumption output (million tons)	7,004	7,159	2%	5,985	-16%	
Diesel oil	2,838	2,896	2%	2,418	-17%	
A95 gasoline	1,899	1,964	3%	1,661	-15%	
A92 gasoline	983	981	0%	801	-18%	
Jet A1	452	483	7%	421	-13%	
FO	141	129	-9%	96	-26%	
LPG	477	487	2%	406	-17%	
Brent oil price (USD/barrel)	101	80	-21%	78	-3%	2023F: KBSV maintains a prudent forecast due to many uncertain factors in crude oil supply and demand. 2024F: We upgrade our forecast from USD75 to USD78/barrel (still at a conservative level) compared to the last report to match the improvement in oil prices in 3Q23.

Source: Binh Son Refinery, KB Securities Vietnam

Valuation: HOLD recommendation with a target price of VND21,500 apiece

We use a combination of FCFF and P/B comparison (with 2024F BVPS) to give a HOLD recommendation for BSR stock with a target price of VND21,500 VND/share (upside 13.2% compared to the closing price of VND19,000 on November 24, 2023). We lower the target price for BSR to reflect the obstacles the business may encounter in 2024, including (1) highly volatile oil prices and crack spreads and (2) the fifth maintenance of oil refineries at the end of 1Q24.

Table 8. BSR – FCFF valuation results

Risk-free rate	5.0%	Present value of terminal value	8,621
Equity risk premium	8.2%	Total present value for the period 2023–2028	25,359
Beta	1.44	Total present value for the period 2023–2028	33,980
Average interest rate	7.0%	Plus: Cash & Short-term investments	34,239
Taxes	10.0%	Minus: Net Debt	-10,339
Weighted cost of capital	13.7%	Minus: Minority interest	-104
Terminal growth rate	1.0%	Equity value	57,776
		Number of shares outstanding (million shares)	3,100.50
		Equity value/share (VND)	18,600

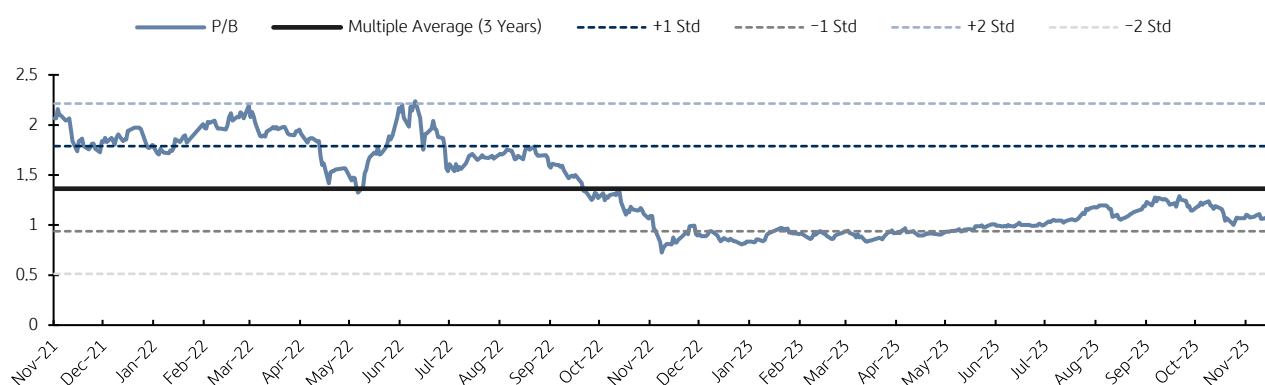
Source: Bloomberg, KB Securities Vietnam

Table 9. BSR – Final valuation

Valuation method	Forecast price	Weighting	Weighted price
FCFF	18,600	50%	9,300
P/B (1.35x)	24,423	50%	12,212
Target price (rounded)			21,500
Current price (Nov 27, 2023)			19,000
Upside to target price			13.2%

Source: KB Securities Vietnam

Fig 10. BSR – P/B in 2021–2023 (x)



Source: Binh Son Refinery, KB Securities Vietnam

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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

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