

Binh Son Refinery (BSR)

Crack spreads poised for short-term recovery

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Analyst Pham Minh Hieu
hieupm@kbsec.com.vn

3Q 2024 business performance was adversely impacted by lower crude oil prices and crack spreads

In 3Q 2024, Binh Son Refinery (BSR) reported a 15.4% YoY revenue decline and the largest gross loss since 2Q 2020 (during the COVID-19 pandemic), which we attribute to two factors: (i) a sharp fall in Brent crude oil prices and (ii) a continued downtrend in crack spreads for various petroleum derivatives.

KBSV revises down crude oil price assumptions amid potential market volatility under the 2025 US presidential administration

KBSV expects the 2025 US presidential administration to bring significant volatility to the global crude oil market. Potential negative impacts are: (i) policies promoting crude oil extraction and (ii) heightened risks of a US-China trade war. On a positive note, the possibility of sanctions targeting Iran could provide support for oil prices. Consequently, we have revised our average oil price assumptions for 2024/2025 to USD80/75 per barrel, respectively.

Crack spreads should recover in the short term from their September 2024 low

We project a short-term recovery in crack spreads for Asian oil-based products from their September 2024 low on (i) regional inventory levels falling below the average since China's economic reopening & (ii) refinery output cuts in China in 4Q 2024 and 1Q 2025. The long-term outlook for crack spreads, however, will hinge on the pace of China's economic recovery after the rollout of stimulus packages.

We recommend BUY for BSR with a target price of VND22,000/share

We have upgraded our recommendation to BUY for BSR with a target price of VND22,000/share, implying a 17% upside from the November 19, 2024 closing price as the stock has fallen by 19% since our last report. Please note that potential profits from the Dung Quat Oil Refinery Upgrade and Expansion Project have not been factored in our current valuation.

Buy change

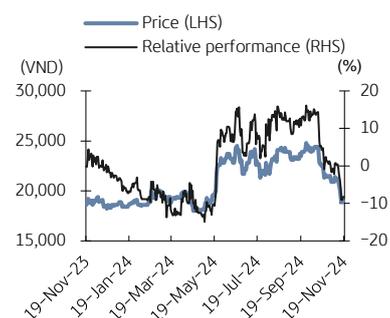
Target price	VND22,000
Upside	17.0%
Current price (Nov 19, 2024)	VND18,800
Consensus target price	VND25,500
Market cap (VNDtn/USDbn)	59.2/2.3

Trading data	
Free float	7.9%
3M avg trading value (VNDbn/USDmn)	120.6/4.8
Foreign ownership	0.6%
Major shareholder	PVN (92.1%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-15.6	-21.2	-3.1	2.2
Relative	-10.2	-17.6	1.3	-8.4

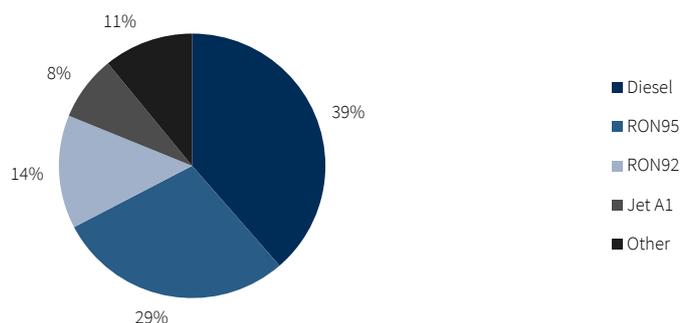
Forecast earnings & valuation

FY-end	2022	2023	2024F	2025F
Net revenue (VNDbn)	167,124	147,423	120,348	135,515
Operating income/loss (VNDbn)	14,673	7,948	1,154	4,159
NPAT-MI (VNDbn)	14,726	8,511	2,037	4,989
EPS (VND)	4,750	2,745	657	1,609
EPS growth (%)	129.1	-42.2	-76.0	145.0
P/E (x)	4.6	8.0	33.5	13.7
P/B (x)	1.3	1.2	1.2	1.1
ROE (%)	28.7	14.8	3.6	8.3
Dividend yield (%)	2.0	3.2	3.2	3.2



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)



Source: Binh Son Refinery, KB Securities Vietnam

Business operation

Binh Son Refining and Petrochemical Company Limited (BSR) was established in 2008 as the management and operations unit for the Dung Quat Oil Refinery. With a total investment capital exceeding USD3 billion and a refining capacity of 6.5 million tons of crude oil per year, BSR currently meets approximately 30% of Vietnam's petroleum demand.

Investment Catalysts

Crack spreads are set for a short-term recovery. Crack spreads for Asian refined petroleum products are expected to rebound from their September 2024 low due to a reduction in supply.

2025F business performance expected to recover from the low base. Business performance has been adversely impacted by a 48-day maintenance. Entering 2025, Dung Quat Oil Refinery should operate at its full capacity.

The long-term growth driver will be the Dung Quat Refinery Upgrade and Expansion Project. The project is scheduled for completion in 3Q 2028, raising the total capacity by 15.5%. The plant would also target higher-quality products and process various inputs.

Notes

Please see more details below

Please find more details [here](#)

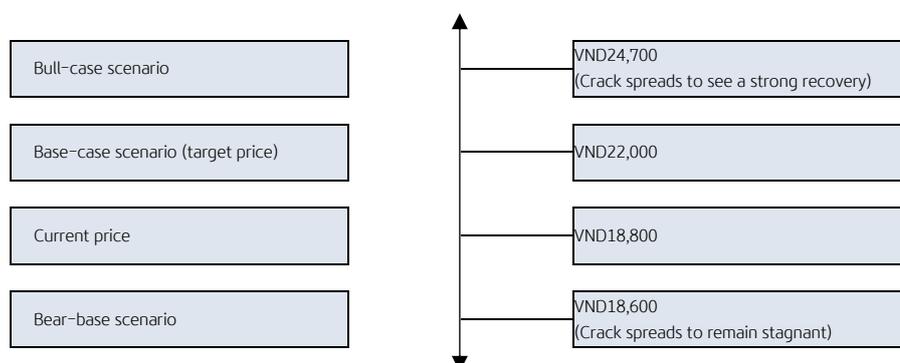
Please find more details [here](#)

Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Revenue	120,348	135,515	-6%	-6%	125,417	136,318	-4%	-1%
EBIT	1,154	4,159	-82%	-45%	5,210	6,119	-78%	-32%
NP after MI	2,037	4,989	-69%	-36%	5,618	6,333	-64%	-21%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



Base-case scenario: catalysts

- 1) 2025F Brent price is projected at USD75/barrel
- 2) Crack spreads to increase by an average of 4% during 2025-2028F

Bull-case scenario: upside risk

- 1) 2025F Brent price: USD80/barrel
- 2) Crack spreads to increase by an average of 6% during 2025-2028F

Bear-case scenario: downside risk

- 1) 2025F Brent price: USD70/barrel
- 2) Crack spreads to remain relatively unchanged during 2025-2028F

Business performance

3Q2024 business performance was adversely impacted by lower crude oil prices and crack spreads

In 3Q 2024, BSR reported a 15.4% YoY decline in revenue and the largest gross loss since 2Q 2020 (during the COVID-19 pandemic), which we attribute to two key factors: (i) the average Brent crude oil price fell from USD84 per barrel in July 2024 to USD73 per barrel in September 2024, forcing BSR to sell inventory at prices significantly lower than production costs and (ii) the crack spreads for diesel, gasoline, and jet fuel (Jet A1) continued to decline, down 12.3%, 8.2%, and 20% QoQ, respectively. Consumption levels have recovered to match last year's figures, following the completion of major maintenance in 2Q 2024.

Table 1. BSR – 9M 2024 business performance

(VnDbn)	3Q 2023	3Q 2024	+/-%YoY	9M 2023	9M 2024	+/-%YoY	Notes
Revenue	37,756	31,946	-15.4%	105,491	87,059	-17.5%	3Q 2024 revenue declined primarily due to a sharp fall in crude oil prices and crack spreads compared to the same period last year.
Diesel	14,008	12,350	-11.8%	40,157	35,020	-12.8%	
A95 gasoline	11,544	10,491	-9.1%	29,981	26,372	-12.0%	
A92 gasoline	4,824	2,998	-37.9%	15,315	9,280	-39.4%	
Jet A1	3,119	2,619	-16.0%	8,254	7,424	-10.1%	
FO	974	256	-73.7%	1,776	1,079	-39.2%	
LPG	1,575	1,838	16.7%	5,449	4,594	-15.7%	
Gross profit	3,831	-1,469	-138.3%	7,081	285	-96.0%	In 3Q 2024, BSR reported a gross loss as the average Brent crude oil price decreased from USD84 per barrel in July 2024 to USD73 per barrel in September 2024. The crack spreads for Diesel, gasoline, and JetA1 are estimated to have fallen by 12.3%, 8.2%, and 20.0% QoQ, respectively.
Gross profit margin	10.1%	-4.6%		6.7%	0.3%		
Financial income	420	554	31.9%	1,699	1,820	7.1%	
Financial expenses	319	125	-60.8%	803	519	-35.4%	
Profits from affiliates	0	0	N/A	0	0	N/A	
SG&A	313	293	-6.4%	1,061	822	-22.5%	
Operating income/loss	3,619	-1,333	-136.8%	6,916	764	-89.0%	
Other income	2	5	150.0%	23	20	-13.0%	
Profit before taxes (PBT)	3,621	-1,328	-136.7%	6,939	784	-88.7%	
Profit after taxes (NPAT)	3,235	-1,209	-137.4%	6,184	675	-89.1%	
NP after MI	3,260	-1,210	-137.1%	6,230	715	-88.5%	
NPAT margin	8.6%	-3.8%		5.9%	0.8%		
Consumption (million tons)	1,734	1,722	-0.7%	5,294	4,465	-15.7%	Production for 9M 2024 was lower due to a 48-day maintenance shutdown that began in mid-March and was completed in 2Q 2024.
Diesel	689	706	2.5%	2,104	1,881	-10.6%	
A95 gasoline	496	530	6.9%	1,380	1,278	-7.4%	
A92 gasoline	217	156	-28.1%	734	458	-37.6%	
Jet A1	138	142	2.9%	400	382	-4.5%	
FO	32	37	16.9%	94	80	-14.5%	
LPG	120	107	-10.8%	356	263	-26.1%	
Brent crude oil price (USD/barrel)	86	78	-9.3%	82	82	0.1%	

Source: Binh Son Refinery, KB Securities Vietnam

KBSV revises down crude oil price assumptions amid potential market volatility under the 2025 US presidential administration

OPEC has further cut its global demand growth estimate for 2025, from 1.58% to 1.48% YoY, primarily due to the lack of significant improvement in China’s economic data. On the supply side, OPEC+ has extended its plan to maintain production cuts in order to support oil prices, as the supply-demand balance for crude oil in 2025 is expected to be less favorable. We believe that the 2025 US presidential administration will bring significant volatility to the global crude oil market. Potential negative impacts are: (i) policies promoting crude oil extraction and (ii) heightened risks of a US-China trade war, which could negatively impact global consumption prospects. On a positive note, the possibility of sanctions targeting Iran could provide support for oil prices. In our base case scenario, we have revised our average oil price assumption for 2024/2025 from USD83/80 to USD80/75 per barrel, with a further reduction to USD 80/70 per barrel in the bearish scenario.

Crack spreads should recover in the short term from their September 2024 low

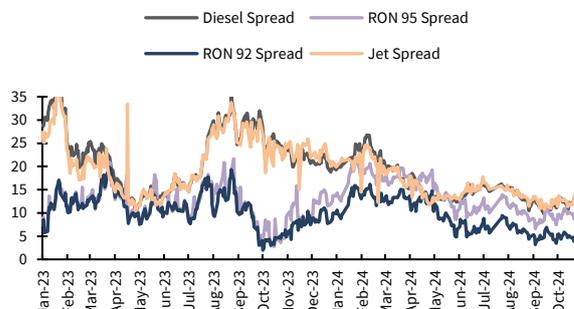
We expect crack spreads for Asian oil-based products to recover in the short term from their September 2024 lows due to (1) inventory levels in the region falling below the average since China’s post-pandemic economic reopening and (2) refinery output cuts in China during 4Q 2024 and 1Q 2025. The long-term outlook for crack spreads, however, will hinge on the pace of China’s economic recovery following the rollout of stimulus packages.

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



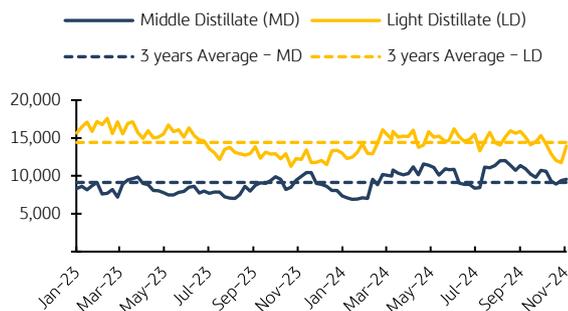
Source: Bloomberg, KB Securities Vietnam

Fig 3. BSR – Crack spread for some key products (USD/barrel)



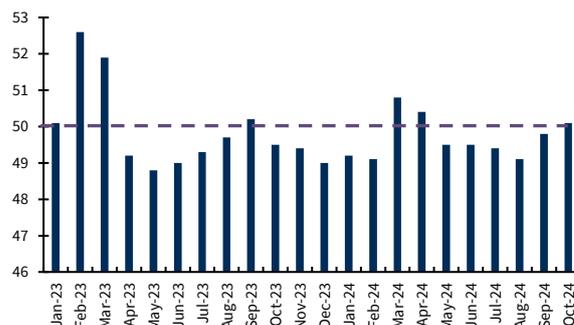
Source: Bloomberg, KB Securities Vietnam

Fig 4. Asia –Middle Distillate (Diesel, FO, Jet A1) & Light Distillate (A95, A92 gasoline) stockpiles (thousand barrels)



Source: Bloomberg, KB Securities Vietnam

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



Source: Bloomberg, KB Securities Vietnam

Forecast

Table 6. BSR – 2023A–2025F business performance

(VNDbn)	2023	2024F	+/- %YoY	2025F	+/- %YoY	Notes
Revenue	147,423	120,348	-18.4%	135,515	12.6%	2024F revenue is expected to decline mainly due to the negative effects of a major maintenance shutdown lasting 48 days. For 2025, revenue is projected to recover from a low base as the plant resumes normal operations.
Diesel	57,736	49,386	-14.5%	55,678	12.7%	
A95 gasoline	42,239	36,736	-13.0%	41,587	13.2%	
A92 gasoline	19,900	13,306	-33.1%	14,717	10.6%	
Jet A1	11,954	9,739	-18.5%	11,248	15.5%	
FO	1,893	1,610	-15.0%	1,581	-1.8%	
LPG	7,451	5,607	-24.7%	6,236	11.2%	
Gross profit	9,608	2,354	-75.5%	5,510	134.1%	The 2024F gross profit margin projection is reduced by 68% compared to the previous estimate following weaker-than-expected 3Q 2024 results. However, we anticipate an improvement in 4Q 2024 performance, supported by (1) the resolution of high-cost inventory and (2) signs of recovery in the crack spread following reduced output from Chinese refineries. For 2025F, the gross profit margin is expected to recover from a low base as operations stabilize. The average crack spread is assumed to recover with a compounded annual growth rate (CAGR) of 4% from 2024 to 2028 in the base case scenario.
Gross profit margin	6.5%	2.0%		4.1%		
Financial income	2,659	2,166	-18.5%	2,439	12.6%	
Financial expenses	1,154	1,063	-7.9%	1,072	0.8%	
Profits from affiliates	0	0	N/A	0	N/A	
SG&A	1,660	1,200	-27.7%	1,351	12.6%	
Operating income/loss	9,453	2,257	-76.1%	5,526	144.8%	
Other income	32	0	-100%	0	N/A	
Profit before taxes (PBT)	9,486	2,257	-76.2%	5,526	144.8%	
PBT margin	6.4%	1.9%		4.1%		
Profit after taxes (NPAT)	8,455	2,031	-76.0%	4,973	144.9%	
NPAT margin	5.7%	1.7%		3.7%		
NP after MI	8,511	2,037	-76.1%	4,989	144.9%	
Consumption (million tons)	7,256	6,211	-14.4%	7,448	19.9%	Production is expected to drop sharply in 2024 due to the major maintenance shutdown but is expected to recover from 2025 with stable plant operations.
Diesel	2,990	2,613	-12.6%	3,128	19.7%	
A95	1,947	1,792	-8.0%	2,166	20.9%	
A92	953	662	-30.5%	787	18.9%	
Jet A1	514	502	-2.3%	618	23.1%	
FO	129	111	-14.0%	118	6.3%	
LPG	473	344	-27.3%	413	20.1%	
Brent crude oil price (USD/barrel)	83	80	-3.6%	75	-6.3%	We have lowered our Brent crude oil price assumptions for 2024 and 2025 from USD83 and USD80 per barrel to USD80 and USD75 per barrel, respectively, in the base case scenario.

Source: Binh Son Refinery, KB Securities Vietnam

Valuation

We recommend BUY for BSR with a target price VND22,000/share

We use a combination of two valuation methods, free cash flow to the firm (FCFF) and P/B ratio, to derive a target price for BSR of VND22,000 per share, implying a 17% upside from the closing price of VND18,800 per share on November 19, 2024. The current target price is 10.9% lower than our previous estimate due to a significant downward revision in NPAT for 2024/2025F, which has been reduced by 69.3% and 36.4%, respectively. Despite this, we have upgraded our recommendation to BUY as the stock has decreased by 19% since our last report, making it relatively attractive. Please note that our current valuation does not incorporate the anticipated benefits from the Dung Quat Oil Refinery Upgrade and Expansion Project, which is scheduled for completion in 3Q 2028. The expected dividend yield is 3%.

Table 7. BSR – FCFF model assumptions

Risk-free rate	4.7%	Present value of terminal value (VNDbn)	31,345
Market risk premium	7.9%	Total present value for the 2024–2028 period	5,557
Beta	1.44	Total present value	36,902
Average interest rate	7.0%	Plus: Cash & Short-term investments	31,666
Taxes	10.0%	Minus: Net Debt	-5,102
WACC	13.2%	Minus: Minority interest	-124
Terminal growth rate	1.5%	Equity value	63,342
		Number of shares outstanding (million shares)	3,100.5
		Equity value/share (VND)	20,400

Source: KB Securities Vietnam

Table 8. BSR – Valuation results

Valuation method	Forecast price	Weighting	Weighted price
FCFF	20,400	50%	10,200
P/B (1.29x)	23,646	50%	11,823
Target price (rounded)			22,000
Current price (Nov 19, 2024)			18,800
Upside			17.0%

Source: KB Securities Vietnam

Fig 9. BSR – P/B in 2019–2024 (x)



Source: Bloomberg, KB Securities Vietnam

KB SECURITIES VIETNAM RESEARCH

Research Division

research@kbsec.com.vn

Nguyen Xuan Binh – Head of research

binhnx@kbsec.com.vn

Financials

Nguyen Anh Tung – Manager

tungna@kbsec.com.vn

Pham Phuong Linh – Analyst

linhpp@kbsec.com.vn

Consumer

Nguyen Duc Quan – Analyst

quannd@kbsec.com.vn

Nguyen Hoang Duy Anh – Analyst

anhnhd@kbsec.com.vn

Real Estate

Pham Hoang Bao Nga – Manager

ngaphb@kbsec.com.vn

Nguyen Thi Trang – Analyst

trangnt6@kbsec.com.vn

Industrials & Materials

Nguyen Thi Ngoc Anh – Analyst

anhntn@kbsec.com.vn

Nguyen Duong Nguyen – Analyst

nguyennd1@kbsec.com.vn

Macro & Strategy

Tran Duc Anh – Head of macro & strategy

anhtd@kbsec.com.vn

Nghiem Sy Tien – Analyst

tienns@kbsec.com.vn

Nguyen Dinh Thuan – Analyst

thuannnd@kbsec.com.vn

Energy, Utilities & IT

Pham Minh Hieu – Analyst

hieupm@kbsec.com.vn

Nguyen Viet Anh – Analyst

anhnv3@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:	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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