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# Binh Son Refinery (BSR)

## 3Q earnings tumble by 70% YoY

### Weaker-than-expected 3Q earnings tumble by 70% YoY on weak product demand

— 3Q earnings fell sharply by 70% YoY to VND173 billion on revenue of VND9,098 billion or down 60% YoY. Weaker-than-expected results missed our quarterly forecast by 34% due to: 1) ex-factory prices that were 35% below our estimates amid the still nascent demand recovery for petroleum products; and 2) lackluster gross margin as crude oil input costs outpace weak petroleum product prices. Despite the earnings turnaround, year-to-date losses only shrank to VND4,063 billion (vs VND1,281 billion in earnings during the same period last year). This will likely make management's full-year earnings target of VND1,300 billion unachievable (albeit this plan was made prior to the coronavirus pandemic) and may also miss our 2020E forecast for VND2,880 billion in losses as well as the VND2,043 billion consensus losses. Sales for the first nine months were VND40,825 billion or down 45% YoY and a mere 51% of the company's VND80,000 annual target revenue and 66% of our VND50,000 billion 2020E forecast but 79% of the VND51,458 billion consensus.

### Open bidding for the upgrade/expansion of the *Dung Quat* facility

— BSR started the bidding process in October for the Engineering Procurement Construction (EPC) contract for the upgrading and expansion of the *Dung Quat* facility. Potential EPC contractors include Korea's Hyundai Engineering & Construction, Italy's Technip, Vietnam's PV Technical Services (PVS, BUY, TP VND11,000) and LILAMA 18 (LM8, No rating). Management indicates that construction will begin in 2H2021E and new facilities are scheduled to start up at the end of 2023E or beginning of 2024E and in line with our expectations.

### Reiterate our BUY on BSR and PVT on expectations for strong 4Q recovery

— Despite disappointing 3Q performance, we continue to reiterate our BUY recommendations on Binh Son Refinery (BSR, BUY, VND8,100) and PV Transportation (PVT, BUY, VND16,800) on expectations for strong 4Q earnings recovery with the end of the two-month maintenance overhaul at the *Dung Quat* refinery. We also strongly believe the expansion/upgrade of *Dung Quat* refinery will mark BSR's entry into the lucrative and high-demand petrochemical industry, especially with the start of imports for LNG feed stock commencing from 2023E.

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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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