

04 April 2024

RECOMMENDATION

BUY

Fair price	23,200 VND
Current price	19,400 VND
Upside/downside	19%

STOCK INFORMATION

Outstanding shares (mil)	3,100.5
Free float (mil)	310
Market cap. (billion VND)	59,839.6
3m avg. volume (shares)	5.3 million
Foreign ownership (%)	0.7%
First listing date	01/03/2018

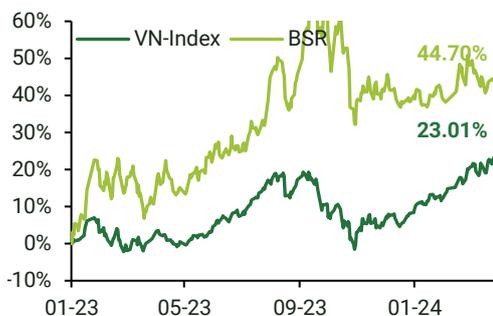
SHAREHOLDER STRUCTURE

PetroVietnam	92.1%
Others	7.9%

KEY ATTRIBUTES

TTM EPS (VND)	2,789.8
BVPS (VND)	18,510.9
Debt/Equity (%)	19%
ROA (%)	10.5%
ROE (%)	15.8%
P/E	6.9
P/B	1.0
Dividend yield (%)	4%

PRICE PERFORMANCE



COMPANY PROFILE

Binh Son Refining and Petrochemical Joint Stock Company, formerly known as Binh Son Refining and Petrochemical Company Limited, was established in 2008 as a subsidiary of PetroVietnam (PVN). BSR is responsible for managing and operating the Dung Quat Refinery (DQRE). Thus far, DQRE is one of the only two refineries in Vietnam, accounts for more than 40% of the domestic refining capacity, equivalent to 6.5 million tons of crude oil per annum.

ANALYST(S)

Nguyen Thien Nhan
nhannguyen@psh.vn

Political instability supports the oil refining margin

- In 2023, despite the slight growth of sale volume, Revenue and NPAT significantly decreased due to the plummet of crude prices and crack spread (refining margin), especially for Diesel oil (DO).
- High crack spread and a healthy financial structure positively support BSR's business operations in the short and medium term.
- The project to upgrade and expand the Dung Quat factory will help the company sustain its long-term growth.
- We propose BUY recommendation with potential upside of 19%.

Forecast

We anticipate that results in 2024 will significantly decrease compared to 2023 when the Dung Quat plant undergoes major maintenance for around 50 days. Accordingly, Net revenue could drop to VND124,797bn (-15.3% YoY), while NPAT falls more sharply to VND5,111bn (-40.0% YoY). This is attributed to the production volume of various products dropping to 6.2 million tons (-15% YoY) and the crack spread of products decreasing by 2-5%. Thereby, Gross Profit Margin and Net Profit Margin will return to 5% and 4% respectively, which is lower than in 2022 and 2023.

In 2025, we forecast that the production and sale volume of output will recover to 7 million tons/year, strongly pushing BSR's profit to VND7,707bn despite the crack spread of products decreasing by another 5% (compared to 2024F).

Investment highlights

- (1) **Although the crack spread has cooled down, it remains high** due to the "spiral" of political instability that has tightened the supply.
- (2) **A healthy financial structure along with abundant cash** helps BSR benefit greatly in the short and medium term. We estimated that BSR's deposit interest from now until 2030 will average VND1,900bn per annum. And the cash dividend payout ratio could increase in the future (20-30%).
- (3) **A project to upgrade and expand the Dung Quat factory** will increase BSR's crude oil processing capacity from 148,000 barrels/day to 171,000 barrels/day. In addition, the project improves the quality of products to meet EURO4 and 5 standards. We expect that when completed (in 2028), the project will help the output of 2029 increase by 10% compared to the actual figure of 2023.

Valuation & recommendation

Using DCF and Multiple method, we derive the fair price of VND23,200 per share. Thus, our recommendation is BUY with a potential upside of 19%. Our valuation includes the most recent Dung Quat refinery upgrading proposal and the coming 5th overall maintenance in 2024F.

Investment risks

(1) Crack spread lower than expected; (2) Adverse changes in government policy; (3) The expansion and upgrading of the Dung Quat plant in slow progress.

Financial Results	2021A	2022A	2023A	2024F	2025F
Sale volume ('000 ton)	6,529	7,011	7,350	6,221	6,975
Net Revenue (VNDbn)	101,080	167,124	147,423	124,797	122,287
Net Revenue growth (%)	74.4%	65.3%	-11.8%	-15.3%	-2.0%
Gross Profit (VNDbn)	7,699	16,096	9,608	5,617	8,308
Net Profit (VNDbn)	6,684	14,669	8,455	5,111	7,707
Net Profit Margin (%)	6.6%	8.8%	5.7%	4.1%	6.3%
Book Value (VND)	12,115	16,510	18,426	19,250	21,236
Dividend (VND)	0	300	700	800	500

	2022	2023	YoY (%)	2024F	Comment
Sale volume ('000 ton) (*)	7,011	7,350	4.8%	6,221	The 2023 marked a record high in product sale in the company's history as BSR achieved an operational efficiency rate of up to 114% for the year, according to our estimates. However, the production volume in 2024 could significantly decrease due to the plant ceasing operations for up to 50 days to carry out major maintenance.
Average price of DO 0.05S (USD/barrel) (*)	131.2	108.0	-17.7%	105.6	
Average price of Mogas 95 (USD/barrel) (*)	125.0	107.7	-13.8%	104.5	The selling price significantly declined due to the cooling of crude oil prices and the crack spread.
Average price of Mogas 92 (USD/barrel) (*)	120.5	103.6	-14.0%	100.6	
Financial results (VNDbn)					
Net revenue	167,124	147,423	-11.8%	124,797	Although sale volume slightly improved, Revenue remarkably plummeted due to the decrease of crude oil prices and the crack spread in 2023. In 2024, Revenue will continue to decrease due to reduced production and a minor decrease in oil prices and the crack spread.
Gross profit	16,096	9,608	-40.3%	5,617	The gross profit fell sharply due to the rapid decrease in crack spreads, especially, of DO (decreasing by 27% YoY). The gross profit in 2024 will continue to decrease following the decline of revenue and output.
Gross margin (%)	10%	7%		5%	Hence, the gross margin is significantly affected due to the fall in gross profit.
SG&A expense	(1,424)	(1,660)	16.6%	(1,408)	
EBIT	14,673	7,948	-45.8%	4,209	
Financial income	1,750	2,659	51.9%	2,481	Net gain/loss from FX are relatively small over years → Net financial income is mainly deposit interest.
Financial expense	(923)	(1,154)	25.0%	(1,063)	
NPAT	14,669	8,455	-42.4%	5,111	
Net profit margin (%)	9%	6%		4%	The net profit margin decreased to 6%, and it is expected to further decrease to 4% in 2024 as output decreases and the company has to incur fixed costs.
NPAT - MI	14,726	8,511	-42.2%	5,157	

(*) Estimate of PHS

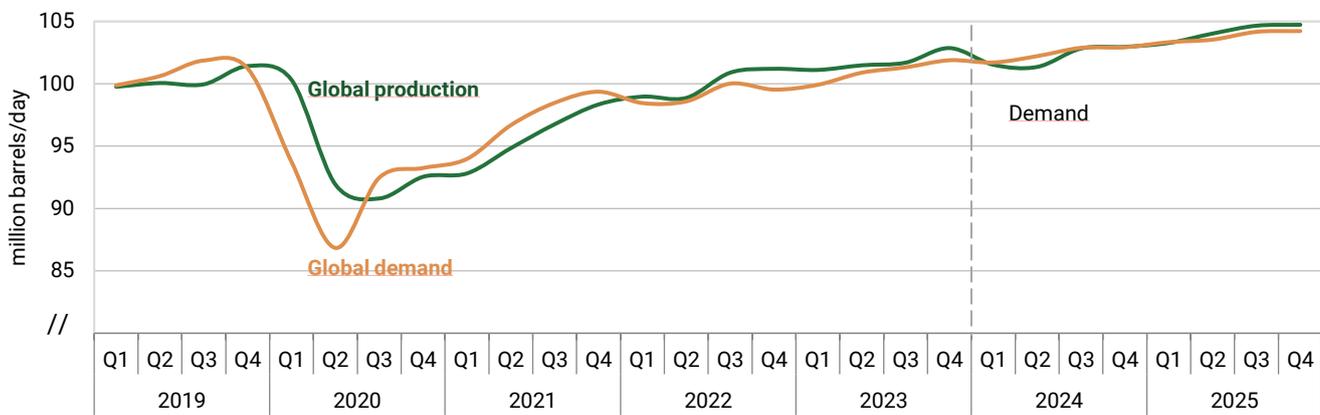
(Source: BSR, PHS compilation and forecast)

Crack spread cooling down yet remaining high

The demand for fuel is rapidly increasing, supported by the astonishingly strong economic prospects and job market in the United States. In addition, widespread political instability leading to increased military activities (operation of combat vehicles) and disruption of shipping routes (Red Sea) also cause the demand for fuel, especially DO, to rise.

The supply is tightened as Russia bans the export of liquid fuels for 6 months from Jan 2024 to meet domestic demand when the country's oil refineries are under maintenance. Especially, Russia's large oil refineries are constantly attacked by Ukraine, causing significant damage to refining capacity (declining by 900,000 barrels/day, equivalent to 14% of total capacity) and is expected to increase as the conflict persists.

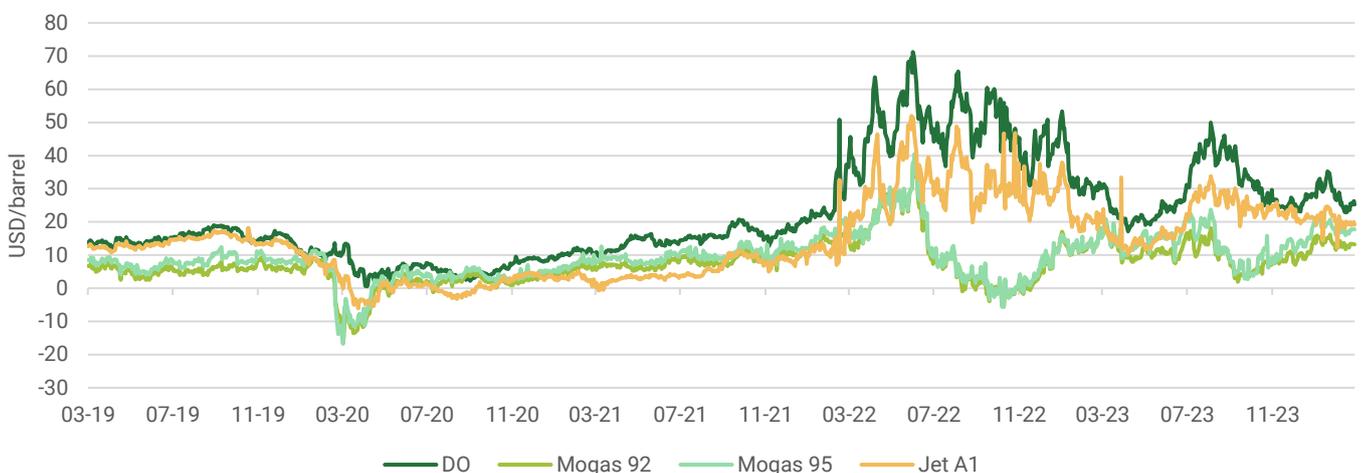
Figure 1 Global supply – demand balance



Source: EIA, PHS compilation

In the latest report, the EIA forecasts that the demand for liquid fuels will increase by an additional 1.43 million barrels/day in 2024, but the supply will only grow by 0.38 million barrels/day. Therefore, a fuel shortage may occur in the future and positively support the crack spread.

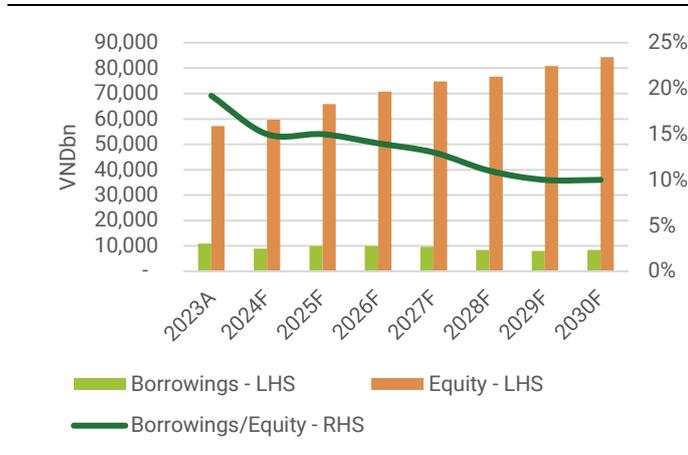
Figure 2 Singapore (Platts) Mogas92/Mogas95/Diesel/Kerosene-Jet Crack vs Brent Future



Source: Bloomberg, PHS compilation

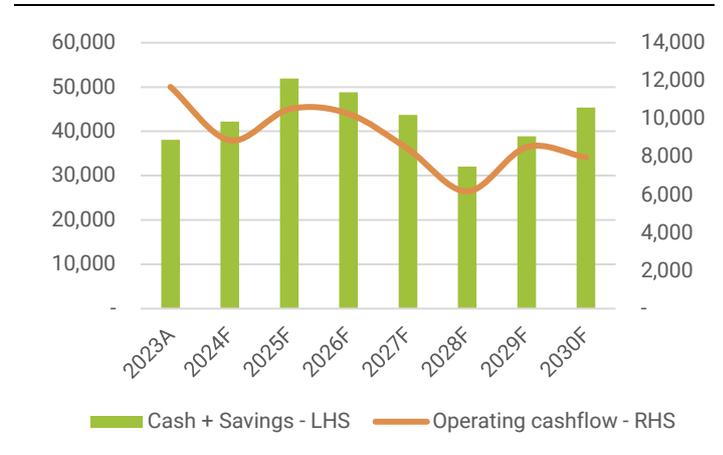
Low leverage and strong operational cashflow

Figure 3 The leverage rate is low and gradually decreasing



Source: BSR, PHS compilation and forecast

Figure 4 Abundant cash balance and robust operating cashflow (VNDbn)

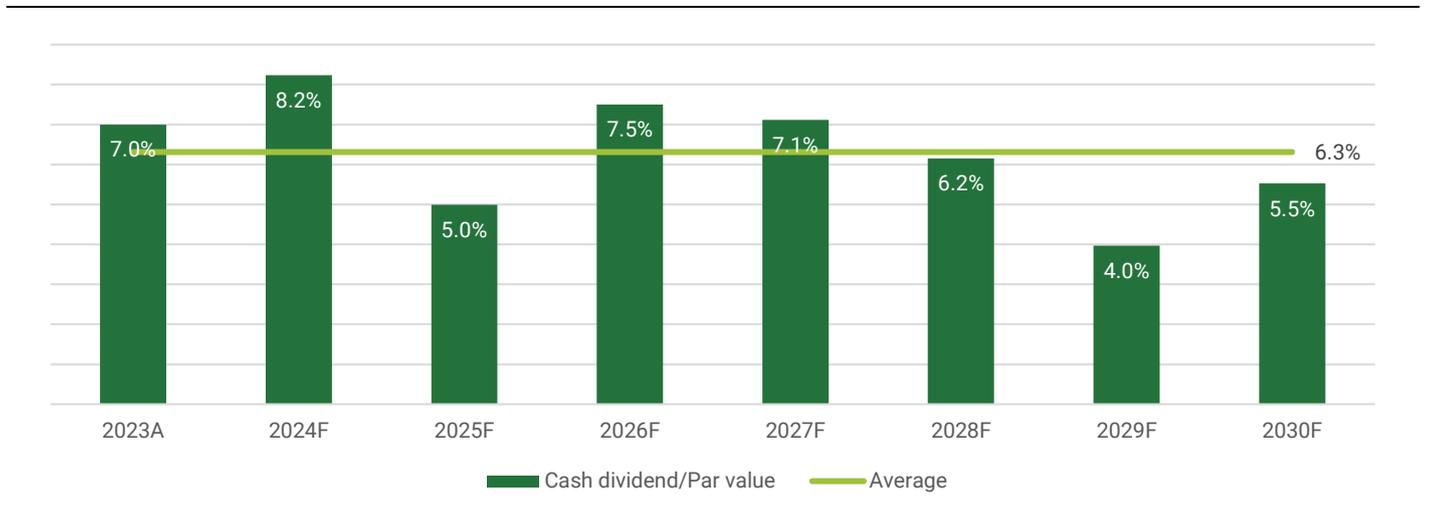


Source: BSR, PHS compilation and forecast

Thanks to a healthy financial situation, currently and in the future, we believe that BSR will be able to pay regular dividends at a high level (30% on NPAT), averaging VND1,957bn per annum until 2030. This corresponds to a dividend yield of over 3-4% compared to the current price.

In addition, the company has plenty of room to implement new CAPEX in the future to ensure sustainable growth.

Figure 5 BSR can pay out dividends on regular basis in the future



Source: BSR, PHS compilation and forecast

Project to upgrade and expand the Dung Quat plant

The expansion and upgrade project of the Dung Quat Refinery is the largest project of BSR since its establishment. Initially, the project was designed to have a crude processing capacity of 192,000 barrels/day and was expected to be completed in 2022. However, this project was delayed (2016 – 2022) due to difficulties in arranging capital.

Phase	Input crude	Designed capacity	Output and Quality
Present phase	Sweet, light crude oil from Bach Ho field, or equivalents such as Azeri, WTI Midland,...	The crude oil processing capacity is 148,000 barrels per day, equivalent to 6.5 million barrels per year.	Approximately 6 million tons of various types of fuel products, meeting EURO2/3 standards.
After upgrading (CAPEX of USD1.5bn)	Be capable of processing "sour" crude oil, which is cheaper than "sweet" crude oil.	The crude oil processing capacity is increased to 171,000 barrels per day.	The output could reach 7 million tons and the quality is upgraded to EURO5.

Source: BSR, PHS compilation

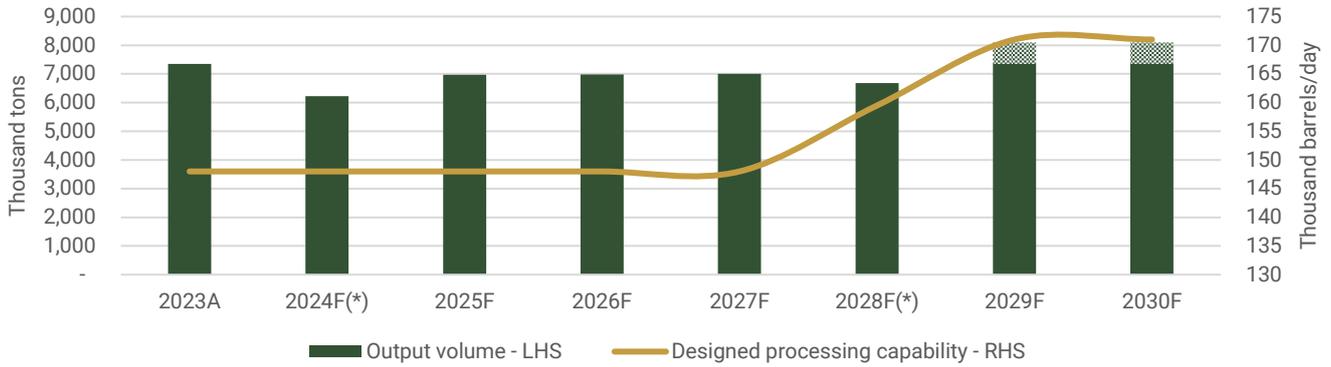
Afterwards, BSR submitted a revised project to reduce investment capital and decrease processing capacity to 171,000 barrels/day. This project was approved by the Prime Minister in May 2023. The construction period is expected to last 37 months and the project is expected to be completed in 2028.

Expected progress	2023	2024	2025	2026	2027	2028	Post 2028
• The project is approved, bidding and preparation are carried out	█						
• Proceed with construction			█				
• The operation is at maximum capacity						█	

Source: PHS forecast

When the project is completed as planned, it can boost the plant's overall production by 10% in 2029 compared to 2023.

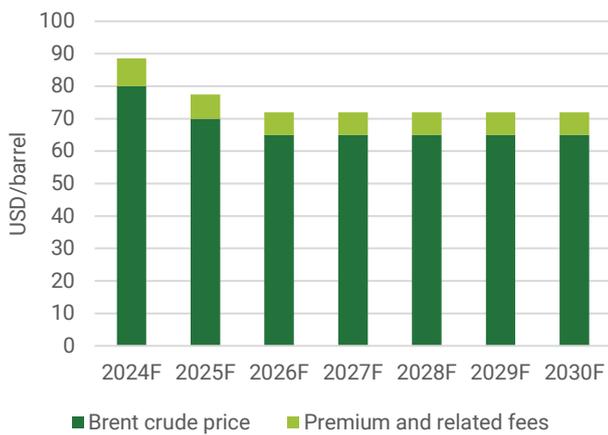
Figure 6 The output will increase by at least 9-10% when the project is completed and operating at maximum capacity



(*) The years expected to have major maintenance. Source: BSR, PHS compilation and forecast

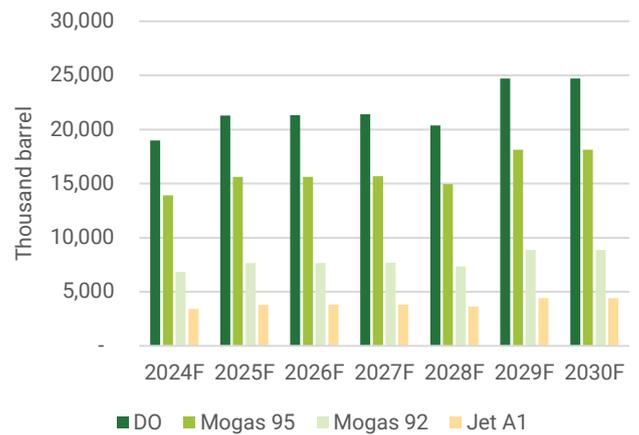
BSR's key metrics and results projections

Figure 7 Input crude price (Brent + Premium and related expenses)



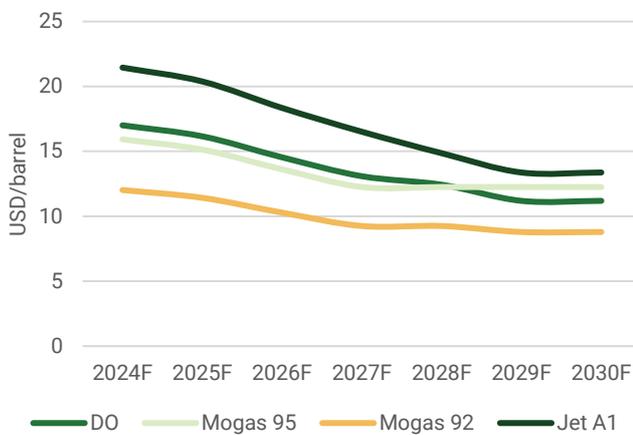
Source: PHS forecast

Figure 8 Forecasted output (There will have been major maintenances in 2024 and 2028)



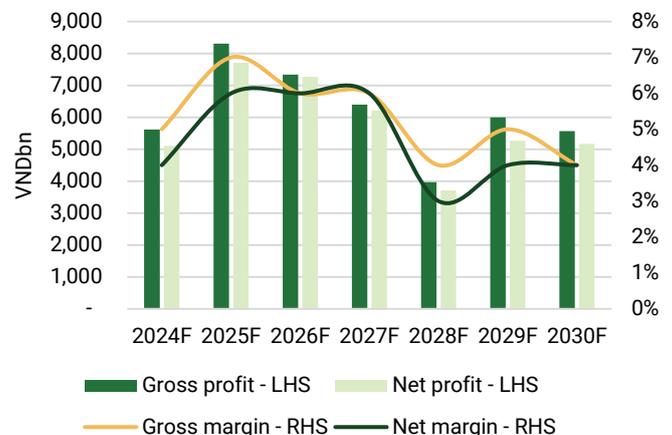
Source: PHS forecast

Figure 9 Crack spread of main products



Source: PHS forecast

Figure 10 Business results

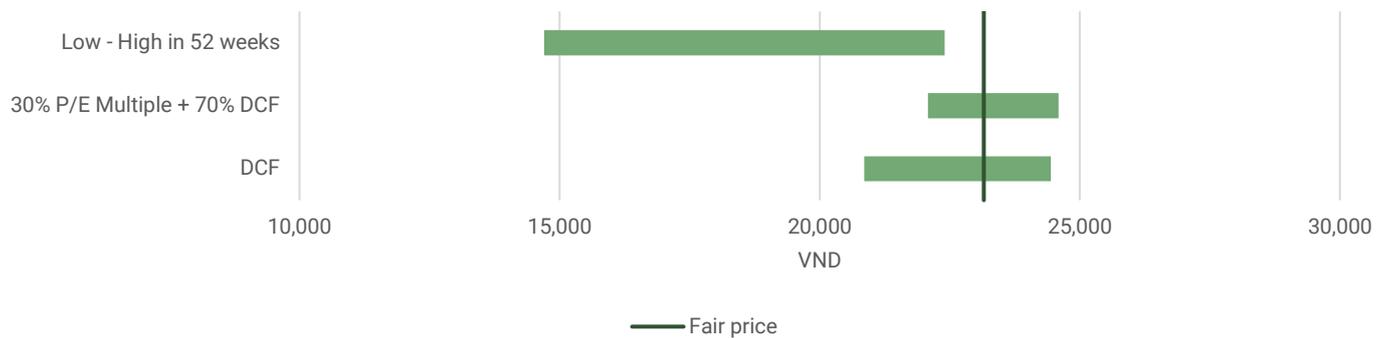


Source: PHS forecast

Valuation

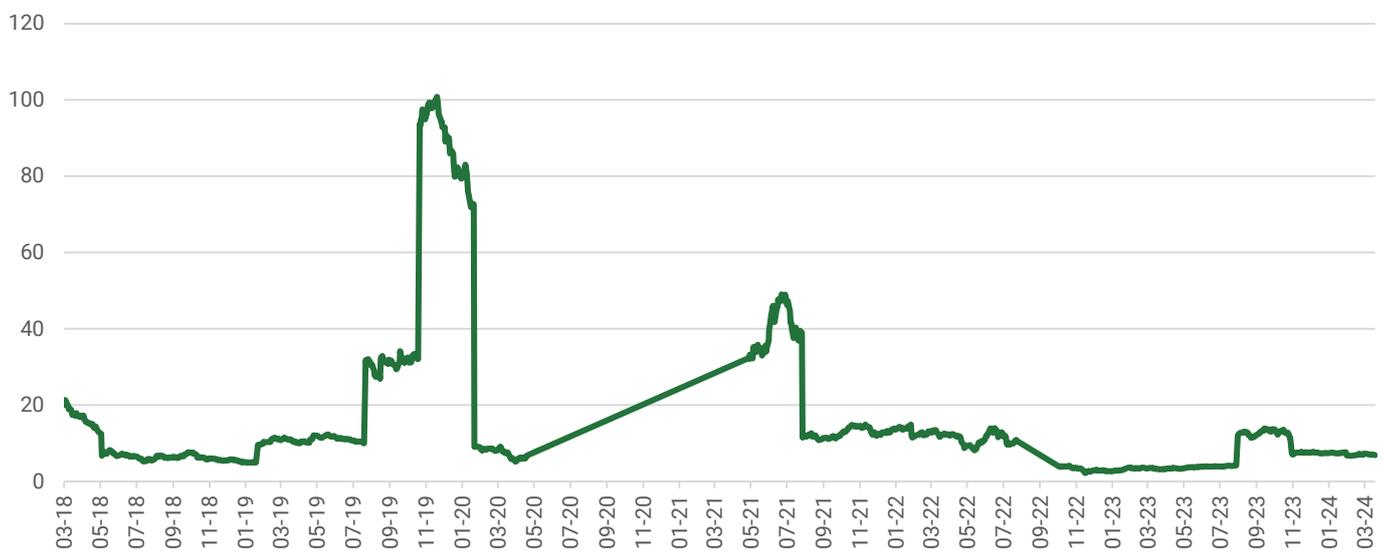
We use DCF and P/E Multiple method with the target ratio of 15.0 by the weight of 70:30 to derive the fair price of VND23,200 per share. Thus, our recommendation is BUY with a potential upside of 19%. Our valuation includes the most recent Dung Quat refinery expansion proposal and the coming 5th overall maintenance.

Method	Target Multiple	Fair Price	Weight
DCF	NA	22,386	70%
P/E	15.0	24,949	30%
Fair price			23,155



BSR's P/E multiple calculation

Figure 11 The overview of 5-year P/E of BSR (adjusted for the impact of the Covid pandemic and the energy crisis due to the Ukraine war).



Source: Fiinpro, PHS compilation

P/E multiple calculation

5-year average P/E of BSR (adjusted for the impact of the Covid pandemic and the energy crisis due to the Ukraine war.)	15.8
Target P/E of BSR	15
Forward EPS	1,663
Fair price (VND/share)	24,949

DCF Valuation

Table: FCFF forecast from 2024 to 2030

Fiscal year	2024F	2025F	2026F	2027F	2028F	2029F	2030F
Net income	5,111	7,707	7,271	6,219	3,710	5,269	5,166
Plus: Depreciation and amortization	2,180	2,032	1,885	1,740	3,047	2,901	2,755
Less: Change in Net working capital	1,572	760	1,103	445	(585)	332	44
Less: Capital expenditures	(191)	(198)	(11,069)	(11,073)	(14,685)	(216)	(211)
Plus: After-tax interest	265	262	274	290	281	263	253
FCFF	8,937	10,563	(536)	(2,380)	(8,233)	8,550	8,007

(Source: PHS compilation)

VNDbn (except for Fair price)

Observed Beta	1.3
Risk-Free Rate (Rf)	3.0%
Equity Risk Premium	10.0%
Cost of equity	16.0%
Cost of debt before tax	2.9%
Tax rate	10%
Cost of debt after tax	2.6%
E/V	0.85
D/V	0.15
WACC	13.9%
Terminal growth rate (g)	1%
PV of terminal value	25,092
PV of FCFF	17,041
Plus: Cash & cash equivalent	17,001
Plus: Short-term investment	21,122
Less: ST & LT borrowings	(10,970)
Less: Minority interest	124
Equity value	69,409
Number of outstanding shares	3,100,499,616
Fair price	22,386

(Source: PHS compilation)

FINANCIAL STATEMENTS

VND Billion

Income statement	2020A	2021A	2022A	2023A	2024F	2025F
Net revenue	57,959	101,080	167,124	147,423	124,797	122,287
COGS	(60,184)	(93,381)	(151,027)	(137,815)	(119,179)	(113,979)
Gross profit	(2,225)	7,699	16,096	9,608	5,617	8,308
Selling expenses	(552)	(781)	(909)	(1,034)	(915)	(906)
SG&A expenses	(269)	(407)	(515)	(626)	(494)	(488)
EBIT	(3,046)	6,511	14,673	7,948	4,209	6,914
Financial income	666	1,015	1,750	2,659	2,481	2,659
Interest expenses	(325)	(407)	(253)	(288)	(295)	(291)
Profit before tax	(2,852)	6,941	15,586	9,486	5,679	8,563
Profit after tax	(2,858)	6,684	14,669	8,455	5,111	7,707
PAT of the parent company	(2,819)	6,716	14,726	8,511	5,157	7,755
Balance sheet	2020A	2021A	2022A	2023A	2024F	2025F
Current Assets	29,997	44,544	58,471	68,546	66,043	74,370
Cash & cash equivalents	12,793	16,346	22,853	17,001	21,871	28,980
Short-term investments	958	4,190	2,172	21,122	20,350	22,916
Short-term receivables	7,635	13,251	16,098	13,988	10,792	10,575
Inventories	8,387	10,358	16,809	15,352	12,466	11,248
Other current assets	225	400	539	1,084	564	651
Non-current Assets	25,898	22,251	20,017	17,908	17,575	14,245
Long-term receivables	-	-	-	-	-	-
Fixed assets	22,376	20,136	18,075	16,059	14,024	12,144
Investment properties	-	-	-	-	-	-
Construction in progress	1,102	1,206	1,275	1,211	1,257	1,303
Long-term investment	10	10	10	10	10	10
Other non-current assets	2,410	900	657	628	2,285	789
Goodwill	-	-	-	-	-	-
Total Assets	55,895	66,796	78,488	86,453	83,618	88,615
Liabilities	24,830	29,232	27,298	29,322	23,932	22,772
Current liabilities	20,407	26,940	26,015	28,439	23,047	21,887
Non-current liabilities	4,423	2,291	1,282	884	885	885
Equity	31,065	37,564	51,190	57,131	59,686	65,844
Contributed capital	31,005	31,005	31,005	31,005	31,005	31,005
Minority interest	29	-6	-65	-124	-173	-223
Total Liabilities & Owners' Equity	55,895	66,796	78,488	86,453	83,618	88,615

Cashflow statement	2020A	2021A	2022A	2023A	2024F	2025F
Net Operating CF	425	8,972	7,088	11,672	8,863	10,500
Net Investing CF	(753)	(2,779)	2,695	(17,874)	580	(2,764)
Net Financing CF	4,770	(2,640)	(3,265)	(175)	(4,574)	(626)
Net Cash Flow	4,442	3,553	6,518	(6,377)	4,870	7,110
Opening balance	8,352	12,793	16,346	22,853	17,001	21,871
Closing balance	12,793	16,346	22,853	17,001	21,871	28,980
Key ratios (%)	2020A	2021A	2022A	2023A	2024F	2025F
Growth rate						
Sales	-43.6%	74.4%	65.3%	-11.8%	-15.3%	-2.0%
PAT	-199.5%	-333.8%	119.5%	-42.4%	-39.6%	50.8%
Total assets	4.3%	19.5%	17.5%	10.1%	-3.3%	6.0%
Equity	-8.8%	20.9%	36.3%	11.6%	4.5%	10.3%
Profitability						
Gross margin	-3.8%	7.6%	9.6%	6.5%	4.5%	6.8%
EBIT margin	-5.3%	6.4%	8.8%	5.4%	3.4%	5.7%
EBITDA margin	-0.9%	8.7%	10.1%	6.9%	5.1%	7.3%
Profit margin	-4.9%	6.6%	8.8%	5.7%	4.1%	6.3%
ROA	-5.1%	10.0%	18.7%	9.8%	6.1%	8.7%
ROE	-9.2%	17.8%	28.7%	14.8%	8.6%	11.7%
Operating cycle						
Receivables days	48	48	35	35	32	32
Inventory days	51	38	40	43	38	36
Payables days	42	37	36	39	34	30
Liquidity						
Current ratio	1.47	1.65	2.25	2.41	2.87	3.40
Quick ratio	1.05	1.26	1.59	1.85	2.31	2.87
Financial structure						
Liabilities/Total Assets	44.4%	43.8%	34.8%	33.9%	28.6%	25.7%
Total Debt/Equity	41.8%	28.7%	17.5%	19.2%	15.0%	15.0%
Short-term debt/Equity	32.1%	26.2%	17.5%	19.2%	15.0%	15.0%
Long-term debt/Equity	9.7%	2.5%	0.0%	0.0%	0.0%	0.0%

(Source: PHS compilation)

Analyst Certification

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21st Floor, Phu My Hung Tower,
8 Hoang Van Thai Street, Tan Phu Ward, District 7, HCMC

Phone number: (84-28) 5 413 5479

Customer Service: 1900 25 23 58

E-mail: info@phs.vn / support@phs.vn

Fax: (84-28) 5 413 5472

Call Center: (84-28) 5 413 5488

Web: www.phs.vn

Phu My Hung Trading office

CR2-08 building,
107 Ton Dat Tien, Tan Phu Ward, District 7,
HCMC

Tel: (84-28) 5 413 5478

Fax: (84-28) 5 413 5473

District 1 Branch

Room 1003A, 10th Floor, Ruby Building,
81-83-83B-85 Ham Nghi, Nguyen Thai Binh
Ward, District 1, HCMC

Phone: (84-28) 3 535 6060

Fax: (84-28) 3 535 2912

District 3 Branch

4th & 5th Floor, D&D Tower,
458 Nguyen Thi Minh Khai, Ward 2, District
3, HCMC

Tel: (84-28) 3 820 8068

Fax: (84-28) 3 820 8206

Tan Binh Branch

Park Legend Building
251 Hoang Van Thu, Ward 2, Tan Binh Dis-
trict, HCMC

Tel: (84-28) 3 813 2401

Fax: (84-28) 3 813 2415

Thanh Xuan Branch

5th Floor, UDIC Complex Building,
N04 Hoang Dao Thuy, Trung Hoa Ward, Cau
Giay District, Hanoi

Phone: (84-24) 6 250 9999

Fax: (84-24) 6 250 6666

Hanoi Branch

5th Floor, Vinafor Building,
No.127 Lo Duc, Dong Mac Ward, Hai Ba
Trung District, Hanoi

Phone: (84-24) 3 933 4566

Fax: (84-24) 3 933 4820

Hai Phong Branch

F2, Eliteco Building,
Tran Hung Dao, Hong Bang District, Hai
Phong

Tel: (84-225) 384 1810

Fax: (84-225) 384 1801