

BINH SON REFINERY (BSR) – UPDATE

Market Price	Target Price	Dividend Yield	Rating	Sector
VND16,100	VND27,300	3.11%	ADD	OIL & GAS

6 February 2023

Outlook – Short term: **Positive**
Outlook – Long term: **Positive**
Valuation: **Positive**

Consensus*: Add:5 Hold:2 Reduce:0

Target price / Consensus: 20.0%

Key changes in the report

- Lower FY23-24F EPS forecasts by 6.6%/2.2%
- Increase FY25F EPS forecast by 1.1%

Price performance



Source: VNDIRECT RESEARCH

Key statistics

52w high (VND)	32,700
52w low (VND)	11,500
3m Avg daily value (VNDmn)	116,693
Market cap (VND bn)	49,710
Free float (%)	7
TTM P/E (x)	3.45
Current P/B (x)	0.98

Ownership

PetroVietnam	92.1%
Others	7.9%

Source: VNDIRECT RESEARCH

Analyst(s):



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Refining margin to stay high in FY23F

- 4Q22 net profit (NP) slid 44% yoy to VND1,499bn due to the slump in gasoline crack spread.
- We expect BSR's gross refining margin to stay high in FY23F (-US\$4.6/bbl yoy from FY22 record level, but US\$6.8/bbl higher than FY19 level).
- Reiterate ADD at unchanged target price (TP) of VND27,300.

4Q22 earnings eased due to the slump in gasoline crack spread

4Q22 revenue grew by 17.2% yoy to VND40,430bn mainly thanks to higher average selling price, coming from c.30% yoy increase in diesel and jet fuel prices. However, 4Q22 gross margin (GM) contracted 4.8% pts yoy due to the slump in gasoline crack spread (4Q22 Asian gasoline crack spread: 7.6 US\$/bbl; -51% yoy) and lower petrochemical margin. In 4Q22, BSR gained benefits from higher interest rates combined with its strong net cash position, leading to a 171% yoy surge in net financial income to VND409bn. Consequently, 4Q22 NP declined 44% yoy to VND1,499bn, but significantly higher than 3Q22 NP (+3.1 times qoq). For a whole 2022, revenue increased by 65% to VND167,171bn and NP surged 115% yoy to VND15,450bn, fulfilling 94.2% of our full-year forecast.

Crack spreads to remain at high level in FY23F

We expect Asian gasoline crack spread to averaging around US\$13/bbl (24% lower than FY22 high level but still 56% higher than FY19 level) thanks to China's demand recovery to ease supply surplus. For diesel crack spread, we expect it to normalise highly in FY23F around US\$25/bbl (27% lower from the outsized level of US\$34.2/bbl in FY22 but still 82% higher than FY19 level) due to mixed impact of: (1) the upcoming EU ban on Russia refined products to keep market remain tight, and (2) supply additions triggered by high refining margin.

We expect FY23-24F earnings to remain at high level

We tweak our FY23-24F EPS forecasts by 6.6%/2.2% as we apply lower FY23F Brent oil price of US\$85/bbl (from US\$90/bbl previously) and reduce FY23-24F gross refining margin (GRM) by 2.3%/2.8%. We anticipate BSR's NP to falter by 40.6% yoy in FY23F due to the periodic maintenance and GRM compress, but still 28% higher than pre-Ukraine crisis. Earnings is expected to be back to growth trajectory in FY24F with a growth rate of 17.6% yoy.

Reiterate ADD with a lower TP of VND27,300

Though earnings have likely peaked out in 2022, we prefer BSR for its attractive valuation at 3.2x FY23F EV/EBITDA, its rich-cash position and the expected high base of crack spreads. Hence, we reiterate ADD at unchanged TP of VND27,300, still based on FY23F target EV/EBITDA of 6.5x and FY23F target P/B of 1.5x, weighted equally. Re-rating catalyst is higher crack spreads. Downside risks are lower-than-expect crack spreads, the drop in oil prices, and longer-than-expected maintenance period.

Financial summary (VND)	12-21A	12-22A	12-23E	12-24E
Net revenue (bn)	101,080	167,171	120,393	131,876
Revenue growth	74.4%	65.4%	(28.0%)	9.5%
Gross margin	7.6%	9.5%	8.2%	8.8%
EBITDA margin	14.9%	18.8%	16.3%	17.6%
Net profit (bn)	6,716	14,450	8,581	10,089
Net profit growth		115.2%	(40.6%)	17.6%
Recurring profit growth		115.2%	(40.6%)	17.6%
Basic EPS	2,166	4,661	2,768	3,254
Adjusted EPS	2,166	4,661	2,768	3,254
BVPS	12,117	16,443	18,339	20,595
ROAE	19.6%	32.6%	15.9%	16.7%

Source: VNDIRECT RESEARCH

REFINING MARGIN TO STAY HIGH IN FY23F

Reiterate ADD at unchanged TP of VND27,300

We prefer BSR for:

- Refining margin is expected to be resilient on the high base due to the lingering geopolitical crisis, boding well for refineries like BSR in the next couple of years.
- BSR remains high operating utilisation rate at above 100% for many years, playing a vital role in supplying fuel for the country.
- Notably, BSR possesses a healthy financial statement with strong net cash position of over VND16,000bn at end-2022 (equivalent to approximately VND5,200/share), which will help the company gain benefits from the high interest rates environment.

Though earnings have likely peaked out in 2022, we believe BSR is still an attractive investment choice thanks to its attractive valuation at 3.1x FY23F EV/EBITDA, its rich-cash position, and the expected high base of refined crack spreads compared to pre-Ukraine crisis level. We, thus, maintain our ADD rating for BSR at unchanged TP of VND27,300, still based on the equal weighting of FY23F target EV/EBITDA of 6.5x and FY23F target P/B of 1.5x

Figure 1: Target price

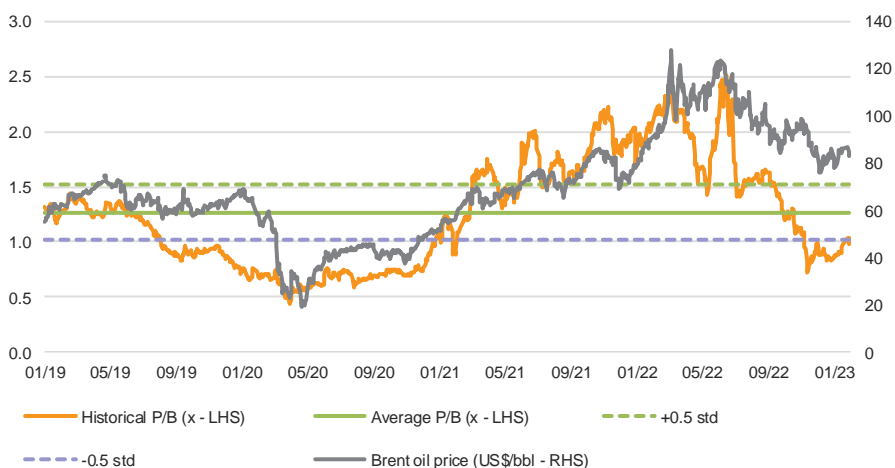
Method	Implied share price (VND)	Weight (%)	Weighted share price (VND)
FY23F target EV/EBITDA of 6.5x	27,916	50%	13,958
FY23F target P/B of 1.5x	26,592	50%	13,296
Blended value			27,254
Target price			27,300

Source: VNDIRECT RESEARCH

Re-rating catalysts and downside risks:

- Re-rating catalysts are higher crack spreads and potential listing on the main bourse in 2023.
- Downside risks come from lower-than-expect crack spreads, the drop-in oil prices, and longer-than-expected maintenance period due to technical issues as it could reduce BSR's operating utilisation rate in 2023.

Figure 2: BSR's historical P/B versus Brent oil price



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 3: Oil refinery sector comparison

Company	Ticker	Price	Target price	Mkt Cap	P/E (x)		3-yr EPS CAGR (%)	EV/EBITDA (x)		P/B (x)		ROE (%)		ROA (%)		Div. yield (%)	
		LC\$	LC\$	US\$m	FY23F	FY24F		FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Thai Oil	TOP TB	57.0	NA	3,857	3.6	9.2		5.3	8.9	0.8	0.8	24.3%	8.2%	8.7%	3.4%	8.3%	4.5%
IRPC	IRPC TB	3.0	NA	1,869	274.5	14.0		6.8	7.2	0.7	0.7	1.8%	5.4%	0.6%	2.5%	3.2%	3.8%
Star Petroleum Refining	SPRC TB	11.1	NA	1,458	4.9	7.3		3.5	4.0	1.2	1.1	25.0%	16.0%	13.7%	9.4%	10.6%	6.9%
PTT Global Chemical	PTTGC TB	49.5	NA	6,761	NA	10.9		9.6	7.2	0.7	0.7	-2.0%	6.0%	-0.6%	2.7%	2.7%	4.2%
GS Holdings Corp	078930 KS	43,150	NA	3,252	1.6	2.0		3.4	4.4	0.3	0.3	20.9%	14.4%	8.0%	5.5%	5.0%	5.0%
S-Oil Corp	010950 KS	86,900	NA	7,935	6.0	6.8		4.0	4.4	1.0	1.0	18.2%	14.2%	7.5%	6.4%	5.1%	4.6%
Bharat Petroleum	BPCL IN	328	NA	8,658	39.3	8.3		13.3	7.4	1.3	1.2	6.0%	16.0%	-1.0%	4.4%	2.7%	4.6%
Hindustan Petroleum	HPCL IN	226	NA	3,899	NA	5.0		NA	8.3	1.1	1.2	-17.9%	17.1%	-7.7%	4.4%	2.8%	6.4%
Average					55.0	7.9		6.6	6.5	0.9	0.9	9.5%	12.2%	3.6%	4.8%	5.1%	5.0%
Binh Son Refinery	BSR VN	16,100	27,300	2,129	5.8	4.9	-14.8%	3.1	2.7	0.9	0.8	15.9%	16.7%	10.6%	11.3%	3.1%	4.3%

Source: BLOOMBERG, VNDIRECT RESEARCH (DATA AS AT 03 FEB)

4Q22 earnings eased due to the slump in gasoline crack spread

Figure 4: 4Q22 and FY22 results overview

FYE Dec (VNDbn)	4Q21	4Q22	%yoy	FY21	FY22	%yoy	% vs. FY22 forecasts	Comments
Brent crude oil price (US\$/bbl)	79.7	88.6	11.3%	71.0	99.0	39.6%		
Production output ('000 tonnes)	1,630	1,755	7.7%	6,530	6,960	6.6%		
Utilisation rate (%)	100%	108%	7.7% pts	100%	107%	6.6% pts		
Net revenue	34,492	40,430	17.2%	101,080	167,171	65.4%	106.9%	4Q22 revenue grew by 17.2% yoy to VND40,430bn mainly thanks to higher average selling price, which came from c.30% yoy increase in diesel and jet fuel prices while gasoline prices were flat yoy
Gross profit	3,141	1,727	-45.0%	7,699	15,890	106.4%	94.1%	
<i>Gross margin (%)</i>	<i>9.1%</i>	<i>4.3%</i>	<i>-4.8% pts</i>	<i>7.6%</i>	<i>9.5%</i>	<i>1.9% pts</i>		4Q22 GM compressed 4.8% pts yoy due to the slump in gasoline crack spread and lower petrochemical margin, which outweighed the impact of high diesel and jet fuel crack spreads
Selling expenses	(224)	(320)	42.9%	(781)	(917)	17.4%	97.8%	
G&A expenses	(155)	(225)	45.1%	(407)	(504)	23.8%	92.0%	
Operating profit	2,762	1,182	-57.2%	6,511	14,470	122.2%		
Net financial income (expenses)	56	409	634.7%	396	743	87.9%	120.5%	4Q22 net financial income surged 7.3 times yoy thanks to a double in deposit income (to VND297bn) and 4.8 times jump in net Fx gain (to VND181bn)
Financial income	239	648	171.3%	1,015	1,664	63.9%		
Financial expenses	(183)	(239)	30.4%	(619)	(920)	48.6%		
Net other income	24	29	20.6%	34	86	152.0%		
Pre-tax profit	2,842	1,621	-43.0%	6,941	15,299	120.4%	95.3%	
Net profit	2,695	1,499	-44.4%	6,716	14,450	115.2%	94.2%	FY22 NP was slightly lower than our expectation mainly due to lower-than-expect GRM

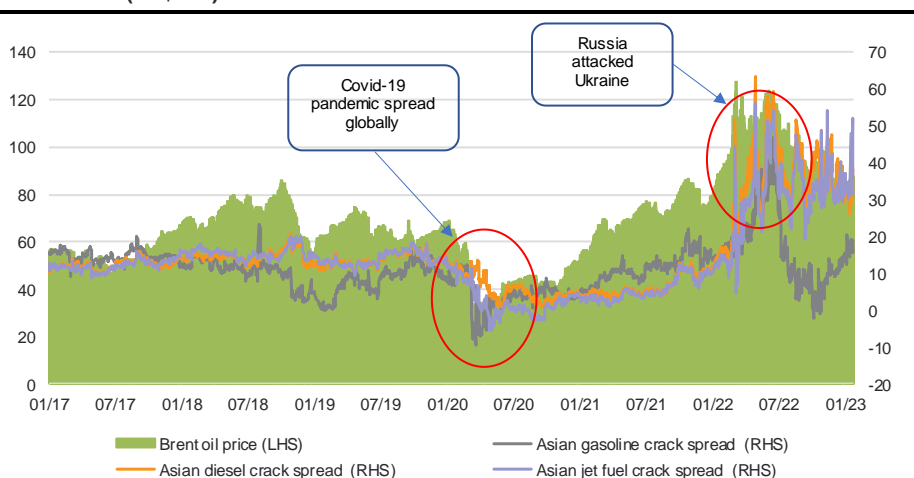
Source: VNDIRECT RESEARCH

FY23-24F outlook: Earnings to ease in FY23F from FY22 record level, but remaining on the high level

Gasoline crack spread is improving in early-2023, boding well for BSR in coming quarters

In early-2023, our benchmark Asian gasoline crack spread significantly increased to the level of US\$18/bbl from the negative territory in October 2022 thanks to demand recovery in China post this country reopening. Besides, low inventory levels in the US could translate into stronger import demand from Asia, thereby supporting Asian gasoline crack spread in short-term. This will bode well for BSR in some quarters ahead. We expect Asian gasoline crack spread to averaging around US\$13/bbl (24% yoy lower than 2022 high level but still 56% higher than 2019 level).

Figure 5: Gasoline crack spread is improving in early-2023 from the negative territory in October 2022 (US\$/bbl)



Source: BLOOMBERG, VNDIRECT RESEARCH

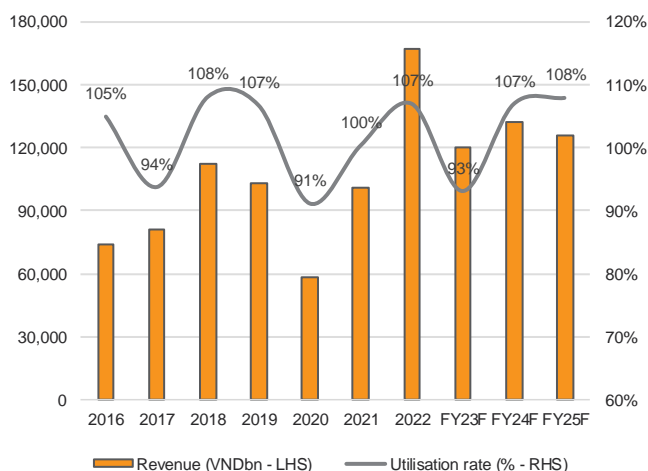
For diesel crack spread, we expect it to remain high in the first quarter then cooling down toward the end of this year, normalizing highly in 2023F (around US\$25/bbl, 27% yoy lower from the level of US\$34.2/bbl in 2022 but still 82% higher than 2019 level) due to mixed impact of: (1) the upcoming EU ban on Russia refined products to keep market remain tight, and (2) supply additions triggered by high refining margin and the return of China diesel exports. High diesel crack spread continues to be the main supporter for market GRM in FY23F.

Generally, for FY23-24F, we believe tight oil and refined product market due to the lingering Russia – Ukraine crisis, particularly in Europe to keep crack margin on the high base compared to pre-Ukraine crisis (despite compressing from record level in 2022).

Earnings to ease in FY23F from FY22 high base

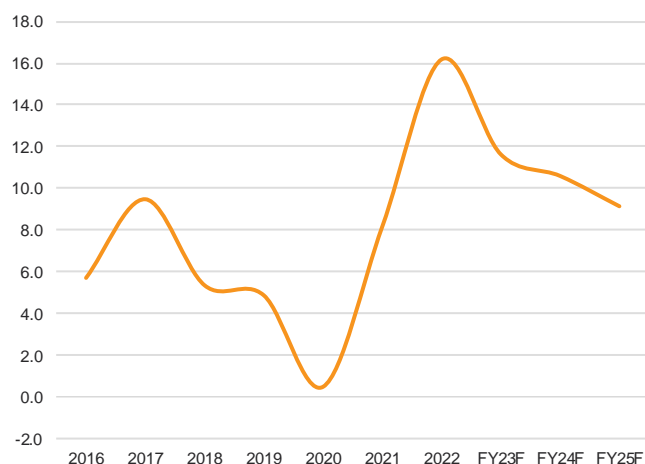
For 2023F, BSR will turn into maintenance period, when BSR will entirely shut down its refinery in around 50 days. Hence, earnings will be negatively affected due to lower refining utilisation rate and cost incurred in maintenance period. Combined to our expectations of lower GRM, we estimate BSR's NP to decline by 40.6% yoy from FY22 record level, but still higher than pre-crisis level (28% higher than FY21 NP). Earnings is expected to be back to growth trajectory in FY24F with a growth rate of 17.6%, driven by higher utilisation rate after maintenance, in our estimates.

Figure 6: Refining utilisation rate will drop to 93% in FY23F due to periodic maintenance (in around 50 days)



Source: VNDIRECT RESEARCH, COMPANY REPORTS

Figure 7: We believe BSR's GRM has peaked out in 2022, but remaining on the high base due to lingering Russia – Ukraine crisis (US\$/bbl)



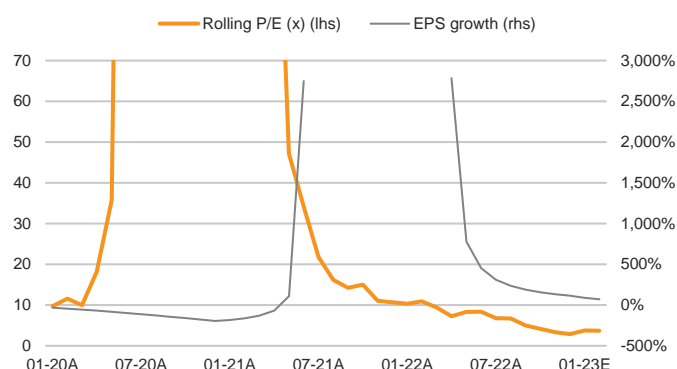
Source: VNDIRECT RESEARCH, COMPANY REPORTS

We tweak our FY23-24F EPS forecasts by 6.6%/2.2% due to new FY23F Brent oil price assumptions and lower FY23-24F GRM assumptions

Figure 8: FY23-25F earnings forecast revision (unit: VNDbn, otherwise noted)

	FY23F			FY24F			FY25F			Comments
	Old	New	% Δ	Old	New	% Δ	Old	New	% Δ	
The average Brent oil price (US\$/bbl)	90	85	-5.6%	80	80	0.0%	75	75	0.0%	We lower FY23F Brent oil price assumption to US\$85/bbl as global oil inventories build, putting downward pressure on crude oil prices (according to EIA)
Total consumption volume ('000 tonnes)	6,058	6,058	0.0%	6,955	6,955	0.0%	7,020	7,020	0.0%	
Implied utilisation rate (%)	93.2%	93.2%	0.0% pts	107.0%	107.0%	0.0% pts	108.0%	108.0%	0.0% pts	
GRM (US\$/bbl)	11.9	11.7	-2.3%	10.9	10.6	-2.8%	9.6	9.5	-1.1%	We reduce FY23-24F GRM assumptions by 2.3%/2.8% as we apply lower gasoline crack spread assumptions due to concerns about economy recession to hamper gasoline demand
Net revenue	125,681	120,393	-4.2%	133,470	131,876	-1.2%	127,033	126,021	-0.8%	
Gross profit	10,603	9,843	-7.2%	11,909	11,620	-2.4%	10,393	10,321	-0.7%	
Gross margin (%)	8.4%	8.2%	-0.3% pts	8.9%	8.8%	-0.1% pts	8.2%	8.2%	0.0% pts	
Selling expenses	863	836	-3.1%	858	857	-0.1%	844	847	0.3%	
G&A expenses	440	424	-3.7%	467	464	-0.7%	445	443	-0.3%	
Operating profit	9,300	8,583	-7.7%	10,583	10,299	-2.7%	9,104	9,030	-0.8%	
Financial income	1,383	1,434	3.7%	1,509	1,529	1.3%	1,482	1,580	6.7%	
Financial expenses	494	506	2.4%	655	643	-1.8%	771	691	-10.4%	
Net other income	24	23	-2.9%	25	25	0.8%	24	24	0.9%	
Pre-tax profit	10,214	9,534	-6.6%	11,462	11,210	-2.2%	9,839	9,944	1.1%	
Net profit	9,192	8,581	-6.6%	10,316	10,089	-2.2%	8,855	8,950	1.1%	
EPS (VND)	2,965	2,768	-6.6%	3,327	3,254	-2.2%	2,856	2,887	1.1%	

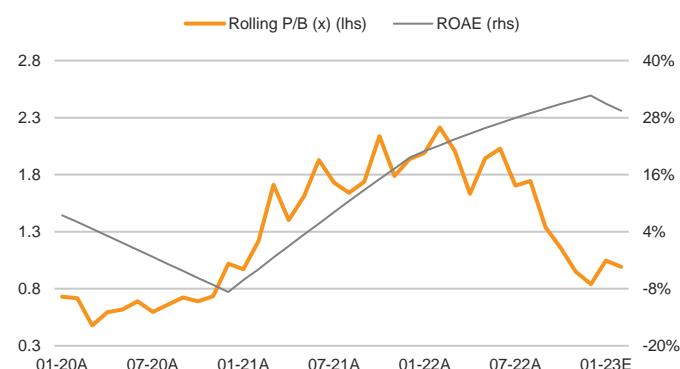
Source: VNDIRECT RESEARCH

Valuation

Income statement

(VNDbn)	12-22A	12-23E	12-24E
Net revenue	167,171	120,393	131,876
Cost of sales	(151,281)	(110,550)	(120,256)
Gen & admin expenses	(504)	(424)	(464)
Selling expenses	(917)	(836)	(857)
Operating profit	14,470	8,583	10,299
Operating EBITDA	30,360	18,426	21,919
Depreciation and amortisation	(15,890)	(9,843)	(11,620)
Operating EBIT	14,470	8,583	10,299
Interest income	1,664	1,434	1,529
Financial expense	(920)	(506)	(643)
Net other income	86	23	25
Income from associates & JVs	0	0	0
Pre-tax profit	15,299	9,534	11,210
Tax expense	(905)	(953)	(1,121)
Minority interest	56	0	0
Net profit	14,450	8,581	10,089
Adj. net profit to ordinary	14,450	8,581	10,089
Ordinary dividends	(420)	(1,550)	(2,170)
Retained earnings	14,031	7,031	7,919

Balance sheet

(VNDbn)	12-22A	12-23E	12-24E
Cash and equivalents	22,853	29,080	33,246
Short term investments	2,172	3,258	3,910
Accounts receivables	16,324	14,843	16,259
Inventories	16,349	15,144	13,838
Other current assets	80	58	63
Total current assets	57,779	62,383	67,316
Fixed assets	18,075	18,851	25,690
Total investments	10	10	10
Other long-term assets	1,932	1,846	1,779
Total assets	77,796	83,090	94,795
Short-term debt	8,954	7,289	5,601
Accounts payable	10,004	9,895	10,839
Other current liabilities	6,641	6,028	6,603
Total current liabilities	25,600	23,212	23,042
Total long-term debt	0	1,822	6,721
Other liabilities	1,281	1,320	1,359
Share capital	31,005	31,005	31,005
Retained earnings reserve	14,376	20,256	27,252
Shareholders' equity	50,980	56,860	63,856
Minority interest	(65)	(124)	(183)
Total liabilities & equity	77,796	83,090	94,795


Cash flow statement

(VNDbn)	12-22A	12-23E	12-24E
Pretax profit	15,299	9,534	11,210
Depreciation & amortisation	2,193	2,261	2,236
Tax paid	(918)	(953)	(1,121)
Other adjustments	(865)	(1,085)	(876)
Change in working capital	(9,656)	1,275	2,116
Cash flow from operations	6,053	11,031	13,566
Capex	(123)	(3,037)	(9,075)
Proceeds from assets sales	0	0	0
Others	2,915	(1,086)	(652)
Other non-current assets changes			
Cash flow from investing activities	2,792	(4,123)	(9,727)
New share issuance	0	0	0
Shares buyback			
Net borrowings	(1,918)	157	3,210
Other financing cash flow			
Dividends paid	(420)	(1,550)	(2,170)
Cash flow from financing activities	(2,337)	(1,393)	1,040
Cash and equivalents at beginning of period	16,346	22,853	29,080
Total cash generated	6,507	5,515	4,878
Cash and equivalents at the end of period	22,853	28,368	33,958

Key ratios

	12-22A	12-23E	12-24E
Dupont			
Net profit margin	8.6%	7.1%	7.7%
Asset turnover	2.31	1.50	1.48
ROAA	20.0%	10.7%	11.3%
Avg assets/avg equity	1.63	1.49	1.47
ROAE	32.6%	15.9%	16.7%
Efficiency			
Days account receivable	35.6	45.0	45.1
Days inventory	39.4	50.0	42.1
Days creditor	24.1	32.7	33.0
Fixed asset turnover	8.75	6.52	5.92
ROIC	24.1%	13.0%	13.3%
Liquidity			
Current ratio	2.3	2.7	2.9
Quick ratio	1.6	2.0	2.3
Cash ratio	1.0	1.4	1.6
Cash cycle	51.0	62.3	54.2
Growth rate (yoy)			
Revenue growth	65.4%	(28.0%)	9.5%
Operating profit growth	122.2%	(40.7%)	20.0%
Net profit growth	115.2%	(40.6%)	17.6%
EPS growth	115.2%	(40.6%)	17.6%

Source: VND RESEARCH

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RECOMMENDATION FRAMEWORK

Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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