



BSR Update – Neutral

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Mr. Hung Phan

(+84 8) 3823 4159 - Ext: 354

hungpv@acbs.com.vn

Company Update

Recommendation

Neutral

HSX: BSR

Petroleum Refinery

Target price (VND) **23,800**

Market price (VND) **24,200**

Expected share price return -1.6%

Expected dividend yield 4.1%

Expected total return **2.5%**

Stock performance (%)

| | YTD | 1M | 3M | 12M |
|----------|------|-----|------|------|
| Absolute | 30.6 | 7.0 | 21.5 | 31.4 |
| Relative | 15.8 | 5.5 | 20.3 | 20.5 |

Source: Bloomberg



Ownership

PVN 92,13%

Stock Statistics

22-Aug-2024

Bloomberg code **BSR VN**

52-week range (VND) 17,200 - 24,900

Shares O/S (m) 3,101

Mkt cap (VND bn) 75,342

Mkt cap (USD m) 2,999

Est. Foreign room left (%) 48.3

Est. free float (%) 7.9

3m avg daily vol (shrs) 10,626,740

VND/USD 25,120

Index: VNIIndex / HNX 1282.78/238.47

Binh Son Refining and Petrochemical JSC (UPCoM: BSR)

BSR has announced positive business results for Q2/2024, with a NPAT-MI of VND767 billion (-42.7% YoY), lower than our expectations. Cumulatively, 6M2024 NPAT-MI decreased by 35.2% to VND1,925 billion, completing 167.6% of their full year plan and 34.3% of our full-year forecast.

BSR recorded revenue in Q2/2024 of VND24,429 billion (-27.4% YoY) and NPAT-MI of VND767 billion (-42.7% YoY). This decrease in revenue and profit was due to:

- Sale volume dropped to 1.3 million tons (-28.7% YoY) due to the 5th plant maintenance starting from March 15 to May 1, 2024.
- The trend of average Brent oil price decreasing from USD90.15/barrel in April to USD82.16/barrel in June 2024 reduced the gap between oil price and output selling price (cracking spread) of BSR.
- Gross profit margin decreased to 2.0% from 3.5% in the same period last year. In particular, the gross profit margin of key products such as RON92 and RON95 gasoline was negative by 6.2% and 0.9%, respectively, and was offset by the diesel segment with an 8% gross profit margin.
- Interest income and foreign exchange gain decreased by 27.3% and 6.8% YoY, respectively.

The decrease in NPAT-MI would have been higher if excluding the one-off financial income (VND390 billion) due to the change of control of Central Biofuel JSC (BSR-BF) from a subsidiary to be "an investment in other unit". With this result, in 6M2024, BSR recorded VND55,117 billion in revenue (-18.6% YoY) and VND1,925 billion in NPAT-MI (-35.2% YoY). The decrease in output and crack spread was the main reason for this development.

Regarding the plan of listing on HoSE, the previous obstacle related to BSR-BF's overdue debt has been resolved by BSR. Therefore, this plan is highly feasible this year.

For the 2H2024 outlook: since July, the average crack spread has dropped. This development is also quite suitable as: (1) BSR is facing increased competition from imported petroleum products (import tax reduced to 0% this year from 5% last year) and (2) oil prices are also under pressure from poor manufacturing activities in the US and China + prospects of increased crude oil production from OPEC and the US.

Quick comment: we forecast 2024 business results with revenue reaching VND125,540 billion (-14.8% YoY) and NPAT-MI of VND5,608 billion (-34.1% YoY). However, for 2025F, we project that revenue and profit will recover by 7% YoY and 23% YoY, respectively, from the low base of 2024, reaching VND134,284 billion and VND6,913 billion, respectively. **Our target price for BSR by the end of 2025 is VND23,800/share, equivalent to a total profit margin of 2.5%.**

| | 2021 | 2022 | 2023 | 2024F | 2025F |
|---------------------------|---------|---------|---------|---------|---------|
| Net Sales (VNDbn) | 101,080 | 167,124 | 147,423 | 125,541 | 134,284 |
| Growth (%) | 74% | 65% | -12% | -15% | 7% |
| EBITDA (VNDbn) | 8,822 | 16,865 | 10,217 | 6,685 | 7,608 |
| EBITDA margin | 9% | 10% | 7% | 5% | 6% |
| Net income (VNDbn) | 6,716 | 14,726 | 8,511 | 5,608 | 6,918 |
| Growth (%) | -338% | 119% | -42% | -34% | 23% |
| EPS (bonus-adjusted, VND) | 2,166 | 4,750 | 2,745 | 1,809 | 2,231 |
| Growth (%) | -338% | 119% | -42% | -34% | 23% |
| ROE (%) | 19% | 33% | 16% | 9% | 11% |
| ROIC (%) | 11% | 20% | 9% | 5% | 5% |
| Net debt/EBITDA (x) | -1.1 | -1.0 | -2.7 | -4.9 | -4.1 |
| PER (times) | 11.2 | 5.1 | 8.8 | 13.4 | 10.8 |
| EV/EBITDA (x) | 6.9 | 3.3 | 4.3 | 5.7 | 5.2 |
| PBR (times) | 2.0 | 1.5 | 1.3 | 1.2 | 1.1 |
| DPS (VND) | 162 | 434 | 700 | 700 | 300 |
| Dividend yield (%) | 1% | 2% | 3% | 3% | 1% |

The business operations were impacted by its plant maintenance & decreasing oil price

BSR announced its Q2/2024 business results with revenue of VND24,428 billion (-26.8% YoY) and NPAT-MI of VND767 billion (-42.7% YoY). Sale volume dropped to 1.3 million tons (-28.7% YoY) due to the 5th plant maintenance (51 days) starting from March 15 to May 1.

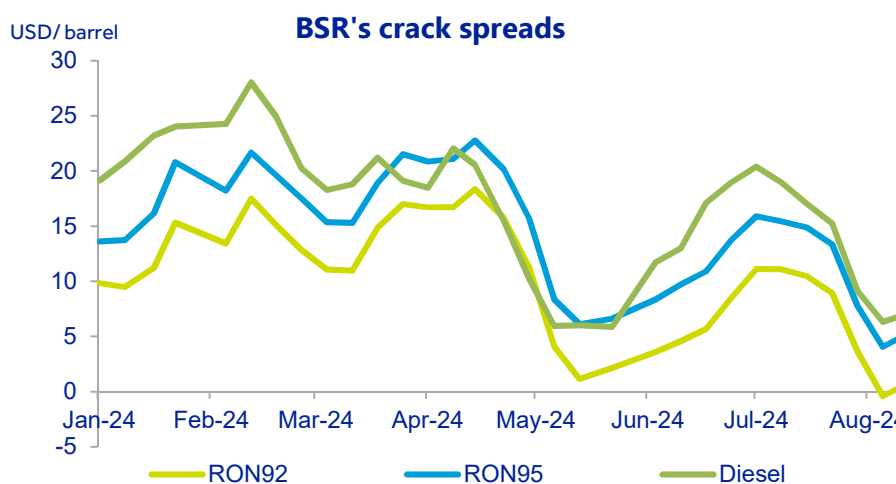
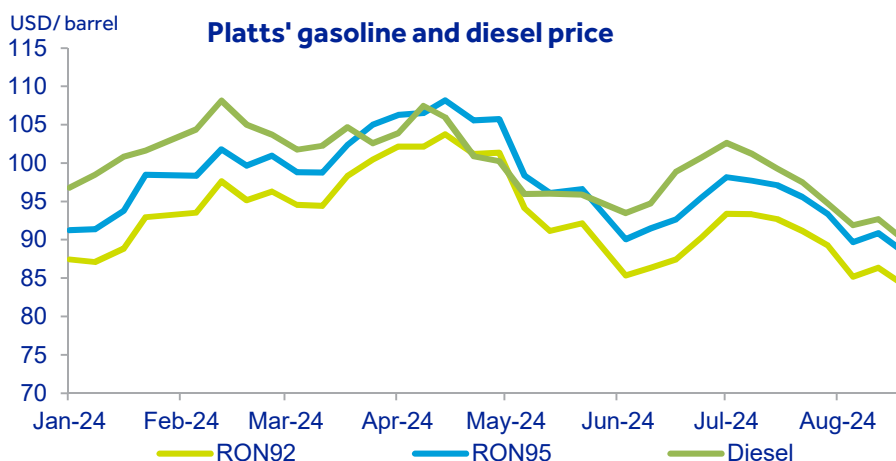
Gross profit margin decreased to 2% from 3.5% in the same period last year, mainly due to the negative gross margin of RON95 and RON92 products (accounting for about 40-45% of BSR's total revenue) result from the continuous downward trend of oil prices.

| BSR's business results | Q2/2024 | Q2/2023 | YoY | 6T2024 | 6T2023 | YoY |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue (billion VND) | 24,428 | 33,369 | -26.8% | 55,117 | 67,734 | -18.6% |
| Gasoline A95 | 6,447 | 9,314 | -30.8% | 15,881 | 18,437 | -13.9% |
| Gasoline A92 | 3,245 | 5,628 | -42.3% | 6,282 | 10,491 | -40.1% |
| Diesel 0.05S (DO) | 10,288 | 12,589 | -18.3% | 22,671 | 25,678 | -11.7% |
| Gross profit margin (%) | | | | | | |
| Gasoline A95 | -0.9% | 2.7% | | -0.7% | 2.7% | |
| Gasoline A92 | -6.2% | 0.9% | | -4.3% | 1.6% | |
| Diesel 0.05S (DO) | 8.0% | 5.2% | | 9.0% | 8.4% | |
| SG&A | 270 | 334 | -19.2% | 529 | 748 | -29.3% |
| NPAT-MI | 767 | 1,341 | -42.8% | 1,925 | 2,970 | -35.2% |

Source: BSR, ACBS

The trend of average Brent oil prices decreasing from USD90.15/barrel in April to USD82.16/barrel (-8.8%) in June 2024 has negatively impacted BSR due to high-priced inventories and low selling prices, leading to a decrease in the gap between input oil prices and product selling prices (crack spread). Normally, BSR maintains an average inventory of at least 20 days. Meanwhile, the selling price of gasoline and oil is adjusted periodically every 7 days according to regulations of the Ministry of Industry and Trade. The gross profit margin of BSR's key products such as RON92 and RON95 gasoline was negative by 6.2% and 0.9%, respectively.

However, the negative margin was partly offset by the diesel segment (accounting for about 36-40% of BSR's total revenue) with gross profit margin increasing to 8.0% in Q2/2024. Diesel prices have maintained a higher base price than RON92 and RON95 prices due to increased demand for freight transport since the beginning of this year, thereby supporting the domestic diesel price calculation formula and improving the diesel margin.



Source: ACBS & Platts

In addition, its plant maintenance also contributed to the decline in BSR's GPM in Q2.2024. Factory depreciation costs, accounting for about 1.5% - 2.0% of total production costs, continued to be recorded on a straight-line basis in Q2/2024 while revenue decreased by 26.7% YoY.

Financial revenue in Q2/2024 increased by 4.1% YoY to VND746 billion. Of which, interest on deposits and foreign exchange gain decreased by 27.3% and 6.8% YoY, respectively. However, BSR recorded a one-off financial income of VND390 billion due to the change of control of BSR-BF from a subsidiary to an investment in other unit.

Selling and administrative expenses in Q2/2024 decreased by 19.2% YoY, totaling VND270 billion. The ratio of SG&A/Revenue in Q2/2024 was 1.1% compared to 1% in Q2/2023.

With this result, in 6M2024, BSR recorded revenue of VND55,117 billion (-18.6% YoY) and NPAT-MI of VND1,925 billion (-35.2% YoY). Decreased sale output and crack spread were also the main reasons for the development in the 6M2024

Plan of moving from UpCOM to HoSE is feasible

Since 2023, BSR has submitted to the General Meeting of Shareholders a plan to transfer its listing to HoSE but has not been able to complete because the more than-1 year - overdue debt of its subsidiary BSR-BF has violated the condition of HoSE's listing regulations. However, on May 27, 2024, the People's Court of Quang Ngai province issued Decision No. 01/2024/QD-MTTPS to open bankruptcy proceedings against BSR-BF.

Besides that, in BSR's Q2/2024 financial statements, the investment in its subsidiary - BSR-BF has been converted into "an investment in other unit" and the overdue debt was written off. Therefore, we believe the plan of listing on HoSE is highly feasible.

The financial impact of BSR-BF's bankruptcy on BSR is very low as BSR had previously made full provisions for this investment worth VND742 billion (as of the end of 2020).

Update on Dung Quat Oil Refinery Upgrade and Expansion Project

The current quality of BSR's products only meets EURO II and III emission standards, which is still low compared to the Government's roadmap for environmental protection. Therefore, upgrading the factory is necessary. With this project, BSR can improve the quality of its products, as well as diversify its crude oil input sources.

| Upgrade and Expansion Project | |
|-------------------------------|---|
| Total investment | USD1,49 billion |
| Equity: Debt | 40:60 |
| Expected operation | Q3/2028 |
| Capacity | increase current capacity from 148,000 barrels/day to 171,000 barrels/day |
| Output quality | from EURO 2-3 to EURO V |

On March 29, 2024, BSR adjusted the project's cap-ex to increase by 18.5% compared to the total investment in Decision No. 482/QD-TTg dated May 5, 2023 to USD1.49 billion (equivalent to VND36.4 thousand billion).

Regarding capital structure: due to difficulties in accessing capital for the project, BSR will consider and adjust the equity ratio to match the actual capital capability to ensure the equity ratio for the project is from 40-60%. Accordingly, BSR is reporting to the Vietnam Oil and Gas Group to review and submit for approval a plan to increase BSR's charter capital from VND 31 trillion to VND 50 trillion (by issuing stock dividends), as detailed in document 009/BSR-NĐD dated February 1, 2024. The debt portion (estimated at approximately 40%-60%) will be arranged through other sources such as ECA financing, domestic and international commercial loans, green bonds, and other suitable and feasible financing options.

By the end of Q2/2024, BSR's total equity stands at VND 56.8 trillion, which includes VND 31 trillion of charter capital. The current shareholder's capital ensures that BSR can utilize all development funds and retained earnings to increase charter capital as planned through a stock dividend distribution. However, we do not rule out the possibility that BSR may raise capital through private placements, thereby reducing

PVN's ownership stake from the current 92% to a level that still ensures a controlling interest (>65%).

Outlook for the 2H2024 has not improved much

Regarding the outlook for Brent oil prices: according to a survey by Reuter, Brent oil prices are expected to fluctuate around an average of USD83.9/barrel in the second half of 2024. Factors holding back oil prices include: (1) The plan to gradually eliminate voluntary production cuts by OPEC+ with a total volume of 2.2 million barrels per day starting from October 2024; (2) Crude oil demand from China has not improved as China's economic problems such as inflation and weak confidence become more evident (according to the IEA); (3) Crude oil production from non-OPEC countries is gradually increasing, typically the US and Canada; (4) US manufacturing activity index fell to an eight-month low in July 2024.

Additionally, although the crack spread improved significantly in July, it has declined again in August. As a result, on average, BSR's crack spread is decreasing compared to Q2/2024. This trend is consistent with the recent decrease in oil prices and the increased competition from imported petroleum products, as the import tariff has been reduced to 0% this year from 5% last year.

Valuation

We forecast 2024 business results with revenue of VND 125,540 billion (-14.8% YoY) and NPAT-MI of VND 5,608 billion (-34.1% YoY). For 2025, we forecast revenue of VND134,284 billion (+7% YoY), NPAT-MI of VND6,913 billion (+23.3% YoY), gross profit margin of 5%, up/down 0.5% compared to 2024 as there will be no plant maintenance.

Using the discounted cash flow method, we value BSR at the end of 2025 at VND23,800/share, equivalent to a total profit margin of 2.5%.

BSR FINANCIALS MODEL

| (VND bn except where stated) | 2021 | 2022 | 2023F | 2024F | 2025F |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Net Sales | 101,080 | 167,124 | 147,423 | 125,541 | 134,284 |
| <i>Sales growth (%)</i> | 74% | 65% | -12% | -15% | 7% |
| CoGS ex-dep'n | 91,071 | 148,835 | 135,546 | 117,600 | 125,267 |
| SG&A | 1,188 | 1,424 | 1,660 | 1,255 | 1,410 |
| <i>SG&A as % of sales</i> | 1% | 1% | 1% | 1% | 1% |
| EBITDA | 8,822 | 16,865 | 10,217 | 6,685 | 7,608 |
| <i>EBITDA margin (%)</i> | 9% | 10% | 7% | 5% | 6% |
| Depreciation | 2,311 | 2,192 | 2,269 | 2,291 | 2,303 |
| Operating profit | 6,511 | 14,673 | 7,948 | 4,394 | 5,304 |
| <i>Operating profit margin (%)</i> | 6% | 9% | 5% | 4% | 4% |
| Net interest expense | -148 | -654 | -1312 | -1544 | -2085 |
| <i>as % of avg, net debt</i> | 3% | 5% | 6% | 5% | 7% |
| Tax | 257 | 916 | 1,031 | 620 | 765 |
| <i>Effective tax rate (%)</i> | 4% | 6% | 11% | 10% | 10% |
| Minorities | (32) | (56) | (57) | (30) | (30) |
| Net profit | 6,716 | 14,726 | 8,511 | 5,608 | 6,918 |
| <i>Net profit margin (%)</i> | 7% | 9% | 6% | 4% | 5% |
| Cash earnings | 8,994 | 16,861 | 10,724 | 7,869 | 9,191 |
| Number of shares (m) | 3 | 3 | 3 | 3 | 3 |
| EPS (VND) | 2,166 | 4,750 | 2,745 | 1,809 | 2,231 |
| Bonus factor (x) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Adjusted EPS (VND) | 2,166 | 4,750 | 2,745 | 1,809 | 2,231 |
| <i>EPS growth (%)</i> | -338% | 119% | -42% | -34% | 23% |

| KEY CASHFLOW AND BS ITEMS | 2021 | 2022 | 2023F | 2024F | 2025F |
|------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Increase in working capital | 1,085 | 9,454 | (3,418) | (1,466) | 356 |
| Capex | 63 | 219 | 228 | 1,427 | 9,230 |
| Other cash flow items | 0 | 0 | 0 | 0 | 0 |
| Free cash flow | 7,846 | 7,188 | 13,914 | 7,909 | (395) |
| Share issues (m) | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | 502 | 1347 | 2164 | 2170 | 930 |
| Increase in net debt | -7344 | -5841 | -11750 | -5738 | 1326 |
| Net debt, end of year | (9,763) | (16,071) | (27,152) | (32,715) | (31,346) |
| Enterprise value | 61,180 | 54,872 | 43,791 | 38,228 | 39,597 |
| Shareholders' equity | 37,564 | 51,190 | 57,131 | 60,698 | 66,622 |
| BVPS (VND) | 12,115 | 16,510 | 18,426 | 19,577 | 21,488 |
| Net debt / equity (%) | -26% | -31% | -48% | -54% | -47% |
| Net debt / EBITDA (x) | -1.1 | -1.0 | -2.7 | -4.9 | -4.1 |
| Total assets | 66,796 | 78,488 | 86,453 | 91,913 | 113,811 |

| CHỈ SỐ KHẢ NĂNG SINH LỢI VÀ ĐỊNH GIÁ | 2021 | 2022 | 2023F | 2024F | 2025F |
|--------------------------------------|-------|-------|-------|--------|--------|
| ROE (%) | 19.5% | 33.1% | 15.6% | 9.5% | 10.8% |
| ROA (%) | 10.6% | 20.2% | 9.6% | 4.9% | 5.2% |
| ROIC (%) | 10.7% | 19.5% | 9.1% | 5.0% | 5.2% |
| WACC (%) | 15.0% | 15.0% | 15.0% | 15.0% | 15.0% |
| EVA (%) | -4.3% | 4.5% | -5.9% | -10.0% | -9.8% |
| PER (x) | 11.2 | 5.1 | 8.8 | 13.4 | 10.8 |
| EV/EBITDA (x) | 6.9 | 3.3 | 4.3 | 5.7 | 5.2 |
| EV/FCF (x) | 9.9 | 10.8 | 5.6 | 9.8 | -195.9 |
| PBR (x) | 2.0 | 1.5 | 1.3 | 1.2 | 1.1 |
| PSR (x) | 0.7 | 0.4 | 0.5 | 0.6 | 0.5 |
| EV/sales (x) | 0.8 | 0.5 | 0.5 | 0.6 | 0.6 |
| Suất sinh lợi cổ tức (%) | 0.7% | 1.8% | 2.9% | 2.9% | 1.2% |

CONTACTS

Ho Chi Minh City Head Office

117 Nguyen Dinh Chieu, Dist. 3, Ho Chi Minh City

Tel: (+84 28) 7300 7000

Fax: (+84 28) 7300 3751

Hanoi Office

10 Phan Chu Trinh, Hoan Kiem Dist., Ha Noi

Tel: (+84 4) 3942 9395

Fax: (+84 4)3942 9407

RESEARCH DEPARTMENT

Acting Head of Research

Trang Do

(+84 28) 7300 7000 (x1041)

trangdm@acbs.com.vn

Manager – Properties

Truc Pham

(+84 28) 7300 7000 (x1043)

trucptt@acbs.com.vn

Manager – Financials

Hung Cao

(+84 28) 7300 7000 (x1049)

hungcv@acbs.com.vn

Manager – Consumer-related, Technology

Chi Luong

(+84 28) 7300 7000 (x1042)

chiltk@acbs.com.vn

Associate – Oil & Gas

Hung Phan

(+84 28) 7300 7000 (x1044)

hungpv@acbs.com.vn

Associate – Industrials

Trung Tran

(+84 28) 7300 7000 (x1045)

trungtn@acbs.com.vn

Analyst – Utilities

Toan Pham

(+84 28) 7300 7000 (x1051)

toanpd@acbs.com.vn

Associate – Macro & Money Market

Minh Trinh Viet

(+84 28) 7300 7000 (x1046)

minhtvh@acbs.com.vn

Associate - Logistic

Hung Nguyen

(+84 28) 7300 7000 (x1047)

hungnt@acbs.com.vn

Associate – Construction

Dat Do

(+84 28) 7300 7000 (x1048)

datdt@acbs.com.vn

Analyst – Technical

Huu Vo

(+84 28) 7300 7000 (x1052)

huvvp@acbs.com.vn

Analyst – Market data

Anh Mai

(+84 28) 7300 7000 (x1110)

anhmd@acbs.com.vn

INSTITUTIONAL CLIENT DIVISION

Director

Huong Chu

(+84 28) 7300 7000 (x1083)

huongctk@acbs.com.vn
groupis@acbs.com.vn

Associate

Huynh Nguyen

(+84 28) 7300 6879 (x1088)

huynhntn@acbs.com.vn

Associate

Thanh Tran

(+84 28) 7300 6879 (x1120)

thanhtt@acbs.com.vn

DISCLAIMER

Our Recommendation System

BUY: Expected prospective total return (including dividends) in VND will be 20% or more within 12 months

OUTPERFORM: Expected prospective total return (including dividends) in VND will be from 10% to 20% within 12 months

NEUTRAL: Expected prospective total return (including dividends) in VND will be from -10% to 10% within 12 months

UNDERPERFORM: Expected prospective total return (including dividends) in VND will be from -20% to -10% within 12 months

SELL: Expected prospective total return (including dividends) in VND will be less than -20% within 12 months

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