

Company Update Report

BSR-Binh Son Refining and Petrochemical CL

5/3/2018

BSC

Recommendation

Trần Thị Hồng Tươi (PTCB)

tuoith@bsc.com.vn

Target Price	N/A
Current Price	31,300
Upside	N/A

Market Data

Outstanding Share	241
Mkt Cap (billions)	7,557
High of 52w	
Avg Vol 10 days (share)	
Foreign Ownership	

Major Shareholder

State	43%
IPO	0.79%
ESOP	0.21%
Strategic	49%

Overview

BSR is the first refining and petrochemical enterprise listed on Vietnam Stock market. With the total investment of \$3 billion, Dung Quất refinery possesses a capacity of 6.5 million tons of crude oil/year, accounted for approximately 30% market share.

[Other Report](#)

Refining Big Brother

Valuation

On 01st, March, 2018, BSR stock was listed on the UPcom and reached the ceiling price of VND 31,300 /share, equivalent to P/E FW is 11.64x and EV/EBITDA is 9.83x

Operating Result Forecast

We forecast that, net sales and net income of BSR will be VND 102,217 billion (+ 27%yoy) and VND 8,341 billion (-4% yoy), respectively; EPS of 2018 will be VND 2,690 /stock (the same as in our initial report).

Catalysts:

- (1) Selling capital to strategic investors
- (2) Crack spreads continue to stay at high level meaning high profit for BSR; the first two months of the year see a 3-2-1 crack spread at 17 USD/barrel
- (3) Oil price, one of the primary factors determining petrol output price, is forecasted at an average of \$59.67/barrel. Higher petrol prices bring higher absolute profits for BSR thanks to 10% import tax gap.

Investment Risk:

- (1) Crack spreads narrows down due to global surplus of refining products
- (2) Competition increases after Nghi Sơn refinery go into operation
- (3) Risk of not withdrawing full deposit at Oceanbank
- (4) BSR-BF continual loss risk
- (5) Exchange rate risk, interest risk

Updates (see more details on pg 2)

- (1) **Positive 2017 operating results.** Net sales and net income reached VND81,334 billion (+10% yoy) and VND8,661 billion (+93% yoy) respectively.
- (2) **Crack spreads.** 321 crack spreads reached \$17.002/barrel, a slight decrease compared to 2017 average of \$17.868/barrel.
- (3) **Promising 2018 operating results** as: (1) BSR has completed 2017 turnaround (TA), and operates for the whole year of 2018; (2) Oil price is forecasted to continue staying high; (3) Advantage from 10% import tax gap.
- (4) **Strategic shareholder.** There are two investors applying for selecting the Strategic Investor, they are PLX and National Indian Oil.

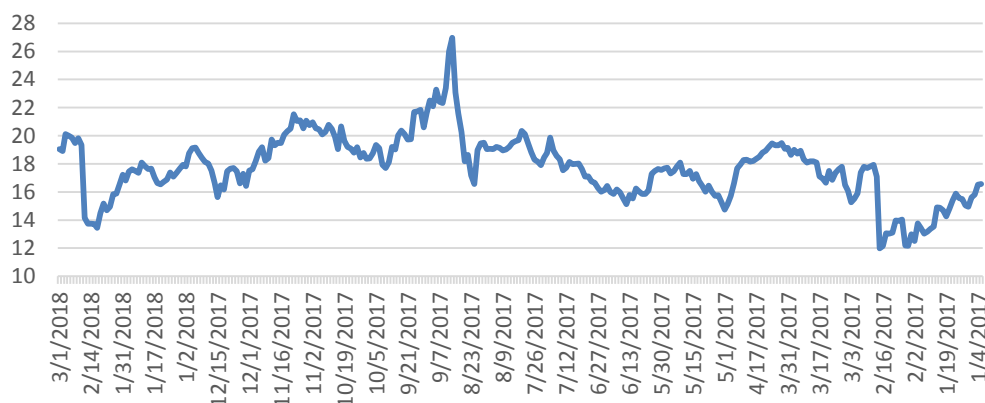
(1) **Positive 2017 operating results.** Net sales and net income reached VND81,334 billion (+10% yoy) and VND8,661 billion (+93% yoy) respectively.

- Total production output of 2017 reached approximately 6.1 million tons, decreased by 10% yoy due to 52 days of TA. The refinery operated at the capacity of 105-107% for the whole year.
- Average selling price of 2017 increased from 16-22%, depends on petrol and oil product types, due to (1) average Brent oil price of 2017 was \$54.2/barrel, higher than the average of 2016 (\$43.69 /barrel); (2) The company is not subject to regulatory revenue from 01/01/2017, bringing 10% tariff gap for petrol, resulting in an increase in revenue and profit of VND 3,370 billion, equivalent to 44% EBIT of BSR in 2017.
- BSR actively cut down the cost. Consumption factor decreased from 1.09 tons of crude oil / ton product to 1.083, saving about VND450 billion for BSR. Employee costs fell by 59% yoy. The company reduced the cost of major repairs as mentioned in the BSR analysis report.

(2) **Prospects for 2018 continue to be positive, however, crack spreads may decline compared to 2017.**

- Production output is forecasted to reach nearly 7 million tons of finished product due to no TA, and the plant operates at 109% utilization. In the first two months of 2017, the Dung Quat refinery operates at a capacity of 108%.
- The price of oil, one of the key components of the price of gasoline, DO, JET A1 is forecasted to continue to anchor at a high level in 2018. According to forecasts gathered from major organizations on Bloomberg, average oil price in 2018 reached \$ 59.67/barrel, up from \$ 54.2/barrel in 2017. Average Brent crude oil price in the first two months of 2018 were \$ 65.69/barrel. Therefore, gasoline price is expected to remain higher than 2017. Thus, the tax advantage reflected in BSR sales and profits, given the absolute value will be higher in 2018, forecasted to reach VND 4,210 billion in 2018.

3-2-1 crack spread movements from the beginning of 2017 to February 2018



Source: Bloomberg

- In the first two months of 2018, the 3-2-1 crack spreads were \$17,002/barrel, slightly lower than the average of 2017 (\$17,868/barrel). Specifically, the crack spread of A95 and A92 gasoline dropped from the average of \$12.43/barrel and \$8.98/barrel in 2017 to \$10.54 and \$6.78 per barrel, respectively. In the opposite direction, crack spread for DO and Jet A1 increased from \$10.46/barrel and \$9.67/barrel to \$12.07 and \$10.78 per barrel, respectively. We believe that to ensure business efficiency, BSR will raise DO and JA1 output compared to gasoline. However, because BSR benefits from a 10% import tax on gasoline, if this trend continues, the real crack spreads of BSR will decrease compared to 2017.

(3) **Strategic shareholder.** BSR has been approved to sell 49% stake to strategic investors, the State will retain only 43% of BSR. According to information from BSR representatives, two investors registered to participate in the process of selecting strategic investors, namely Petrolimex Group (Vietnam) and National Indian Oil Corporation. In addition, other investors such as Pertamina (Indonesia), Bangchak Corporation Public Company Limited (Thailand) ... are also considering to apply for selection of Strategic Investors of BSR.

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Financial Analysis

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Unit: billions	2014	2015	2016	9T2017	2018E
Net sales	127,224	95,272	73,686	54,490	102,217
Gross Profit	1,878	9,942	6,333	6,211	10,170
Financial Income	1,478	784	928	573	413
Financial exps	(2,437)	(2,273)	(1,098)	444	(716)
interest exps	(1,589)	(860)	(647)	401	(457)
Sell exps	(567)	(599)	(618)	(407)	(609)
G&A exps	(295)	(1,060)	(831)	(221)	(519)
Operating profit	51	6,795	4,715	5,712	8,739
Net other income	12	(371)	(11)	10,605	-
EBT	64	6,424	4,704	5,723	8,739
Net income	61	6,099	4,436	5,430	8,302
Minority interests				(31)	(39)
Parents	129	6,176	4,483	5,461	8,341
EPS					2,690

The plant operates at 105-107% capacity. Gasoline price is 16-18% yoy higher. Crack spread widened from \$15,074 to \$17,868 per barrel (327 crack spread) in 2017

Profit before tax increased sharply because the company was not subject to regulatory levy, crack spread expansion and cost savings, especially staff costs.

Current asset	45,786	26,618	30,182	28,346	27,206
Cash and CE	25,014	12,861	12,784	11,226	7,246
Accounts receivable	12,837	7,780	10,494	8,504	10,703
Inventories	7,772	5,874	6,805	8,443	9,123
Other current assets	159	101	95	168	131
Non-current asset	35,371	33,306	32,508	32,091	35,556
LT receivables	-	-	-	-	-
Fixed assets (fa)	34,826	33,005	31,704	29,977	28,191
Tangible fa	34,486	32,659	31,354	29,614	27,933
Finance lease fa	-	-	-	-	-
Intangible fa	341	346	350	362	258
LT incomplete assets	417	251	790	2,099	7,350
Other LT assets	107	39	3	16	14
Total asset	81,157	59,924	62,690	60,437	62,761
Total liabilities	53,814	28,177	30,117	24,708	25,492
Current liabilities	35,681	11,397	14,956	11,329	12,419
ST borrowings	26,335	3,885	3,853	2,927	2,591
Non-current liabilities	18,133	16,780	15,161	13,374	13,073
LT borrowings	18,124	15,489	12,626	10,468	11,240
Owner's equity	27,343	31,747	32,573	35,733	37,269
Paid-in cap	28,146	28,602	29,315	29,730	31,005
Retained earnings	(1,159)	1,367	(3)	1,625	6,170
Total resources	81,157	59,924	62,690	60,437	62,761

Money and money equivalents are of great amount, accounting for 40% of total current assets of the business. Accounts receivable and inventories increased along with the rise of gasoline prices, remains in the safe level

Incomplete assets increased due to refinery upgrade

% yoy Revenue	-17%	-25%	-23%	6%	26%
Gross margin	1.5%	10.4%	8.6%	11.4%	9.9%
Ir.exps / sale	1.2%	0.9%	0.9%	-0.7%	0.4%
Sell exps / sale	0.4%	0.6%	0.8%	0.7%	0.6%
Admin exps / sale	0.2%	1.1%	1.1%	0.4%	0.5%
Net profit margin	0.0%	6.4%	6.0%	10.6%	8.5%

Net profit margin improved due to crack spread maintained at high level and reduced cost

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Financial Analysis

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Financial Ratio

2013 2014 2015 2016 Q3 2017

1. Liquidity Ratio

Current Ratio	1.29	1.28	2.34	2.02	2.50
Quick Ratio	0.93	1.06	1.81	1.56	1.74

High liquidity due to large amount of cash and cash equivalents, inventory turnover and receivables

2. Capital Structure Ratio

Ca/TA	0.59	0.56	0.44	0.48	0.47
NCA/TA	0.41	0.44	0.56	0.52	0.53
Liabilities/TA	0.70	0.66	0.47	0.48	0.41
Liabilities/TE	2.39	1.97	0.89	0.92	0.69
CL/TA	0.46	0.44	0.19	0.24	0.19
NCL/TA	0.24	0.22	0.28	0.24	0.22

Healthy financial structure. Low debt ratio; Short-term assets account for 53% of total assets, of which 47% of short-term assets are cash and cash equivalents.

3. Operating Efficiency Ratio

Inventory turnover	9.9	10.12	10.53	10.09	7.7
Receivable turnover	10.1	9.28	9.63	8.67	11.1
Payable turnover	27.4	14.09	15.05	13.23	13.9
Days of inventory	36.3	35.57	34.19	35.68	46.7
Days of receivables	35.8	38.79	37.37	41.52	32.5
Days of payables	13.1	25.55	23.92	27.21	26.0
CCC	59.0	48.8	47.6	50.0	53.2

High Inventory turnover and receivables according to company policy.

BSR manages inventory in accordance with the operating capacity of CDU. By the end of Q3 / 07, inventory turnover slowed down due to bad weather season; the company increased product inventory

BSR allows customers to purchase deferred payment within 30-45 days

4. Profitability Ratio

Net income/NSale	1.9%	0.0%	6.4%	6.0%	10.6%
ROE	11.1%	0.2%	19.2%	13.6%	24.3%
ROA	3.3%	0.1%	10.2%	7.1%	13.7%
Oper profit/NSale	1.9%	0.0%	7.1%	6.4%	11.2%

Net profit margin improved due to stable operation at high capacity of 105-107%, crack spreads widened and no longer subject to regulatory revenue.

5. DuPont Analysis (5 factors)

TA/TE	3.40	2.97	1.89	1.92	1.77
NSale/TA	1.68	1.57	1.59	1.18	1.29
EBIT/NSale	0.03	0.01	0.08	0.07	0.12
EBT/EBIT	0.62	0.04	0.88	0.88	0.94
Net income/EBT	1.00	0.95	0.95	0.94	0.95

7. Growth (%yoy)

TA	-11%	-26%	5%	1%
Liabilities	-16%	-48%	7%	-9%
Sale	-17%	-25%	-23%	10%
GP	-79%	430%	-36%	56%
NI	-98%	9976%	-27%	94%

In 2014, DTT reduced due to major repairs and sharp fall in the price of gasoline and oil. BSR's DTT fluctuates in line with oil prices, so net sales will continue to fall in 2015 and 2016, then rise again along with rising world oil prices in 2017.

GP and NI are growing fast thanks to the crack spreads and are not subject to regulation from 01/01/2017

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BSC Headquarters

BIDV Tower, 10th & 11th Floor
35 Hang Voi, Hoan Kiem, Hanoi
Tel: +84 4 3935 2722
Fax: +84 4 2220 0669

Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor
District 1, HCMC
Tel: +84 8 3821 8885
Fax: +84 8 3821 8510

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