

**Sector: Oil&Gas**

**Recommendation**

**BUY**

**Binh Son Refining & Petrochemical JSC (UpCom: BSR)**  
**Bright outlook thanks to rising oil prices**

<b>Current price:</b>	<b>24,500</b>	Date	04/11/2021	<b>Shareholder Structure</b>	
<b>Target price</b>	<b>28,400</b>	Outstanding Shares (Million)	3,100	PVN	92.13%
<b>Dividend yield</b>	<b>- %</b>	Market Cap (VND billion)	73,792	KIM Vietnam	0.53%
<b>Upside</b>	<b>16%</b>	Avg. 6M Trading vol	15,335,484	KITMC	0.13%
		% Foreign float	0.7%	Bui Minh Tien	0.00%

**Industry Analyst:**

Duong Quang Minh  
(Oil&Gas)  
[minhdq@bsc.com.vn](mailto:minhdq@bsc.com.vn)

**Valuation**

BSC recommends **BUY** for **BSR** with a target price of **VND 28,400/share** (equivalent to **15.9% upside** compared to the closing price on November 3, 2021 at VND 24,500/share) based on P/E and FCFF methods .

**Forecast of business results**

- BSC forecasts that BSR's 2021 business results will reach net revenue and NPAT of VND 90,952 billion (+57% yoy) and VND 5,147 billion, respectively, EPS FW = VND 1,627/share base on assumptions: (1) Product sales volume oil and gas is estimated at 6.3 million tons (+6% yoy), (2) Consumption price increased by 40% yoy due to the strong recovery of oil price, and (3) Financial revenue reached VND 825 billion (+24% yoy).

- BSC forecasts that in 2022, BSR's net income and NPAT will reach VND 108,313 billion (+19% yoy) and VND 6,282 billion (+22% yoy), respectively, EPS FW = VND 1,986/share base on assumptions: (1) Oil price average in 2022 will reach 82 USD/barrel (+14% yoy); (2) Consumption of petroleum products reached 6.6 million tons (+5% yoy); and (3) The preferential policy of 0% crude oil import tax continues to be maintained.

**Investment Thesis**

- Crude oil price increased sharply to over 80 USD/barrel, supporting BSR's business activities.
- Top market share in the oil refining industry, with regular operating efficiency of over 100%.
- The prospect of increasing oil consumption is positive thanks to the control of the epidemic.

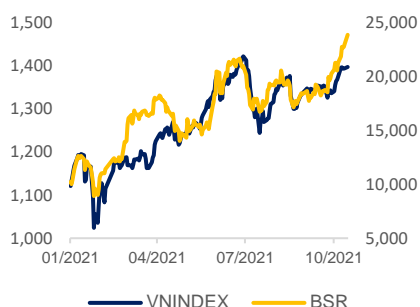
**Risks**

- Crude oil input prices fluctuated strongly.
- Competition increases when gasoline import tax is gradually reduced to 0% by 2024.

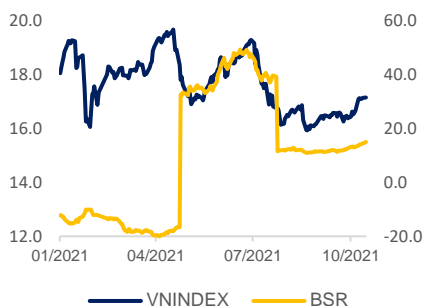
**Company Update**

- In 9M2021, BSR's revenue is VND 66,599 billion (+63% yoy), completing 94% of the year plan, and NPAT is VND 3,998 billion, exceeding 360% of the whole year 2021 plan.
- 9M2021 business results skyrocketed thanks to the sharp increase in world crude oil prices, which improved BSR's crack spread, making gross profit margin reach 7%. BSR consumed 1.85 million tons of Diesel (+4% yoy), 1.33 million tons of Morgas 95 (+11% yoy) and 551 thousand tons of Morgas 92 (+2% yoy).

**Price comparison between BSR and VN index**



**P/E comparison between BSR and VN index**



	2020	2021F	Peer	VN-Index
PE (x)	-10.8	11.5	16.9	17.2
PB (x)	1.0	1.9	3.2	2.7
PS (x)	0.5	0.7	1.7	2.2
ROE (%)	-9.2	16.5	15.0	16.1
ROA (%)	-5.1	10.1	7.0	2.6
EV/ EBITDA (x)	N/A	8.4	9.5	16.1

	2019	2020	2021E	2022F
Net Sales	102,824	57,959	90,953	108,313
Gross Profit	3,973	-2,215	5,994	7,400
NPAT	2,873	-2,848	5,147	6,282
EPS	898	-906	1,627	1,986
EPS Growth	N/A	-201%	-280%	22%
Net Debt/ Equity	18%	42%	28%	18%

## COMPANY UPDATE

Table 1: Updated 9M2021 business results of BSR

(Billion VND)	Q3/2021	Q3/2020	% yoy	9M2021	9M2020	% yoy
<b>Net revenue</b>	<b>17,679</b>	<b>9,098</b>	<b>94%</b>	<b>66,588</b>	<b>40,825</b>	<b>63%</b>
Gross profit	644	281	129%	4,558	-3,588	
GPM (%)	4%	3%		7%	-9%	
Selling expenses	208	95	119%	557	410	36%
G&A expenses	84	66	28%	252	193	30%
SG&A/Rev (%)	2%	2%		1%	1%	
EBIT	352	121		3,749	-4,191	
Financial income	291	133	118%	776	494	57%
Financial expenses	148	94	57%	436	414	5%
<b>PBT</b>	<b>500</b>	<b>164</b>	<b>204%</b>	<b>4,099</b>	<b>-4,090</b>	
<b>NPAT</b>	<b>471</b>	<b>163</b>	<b>189%</b>	<b>3,998</b>	<b>-4,095</b>	
<b>Consumption (tons)</b>						
Diesel DO	496,867	546,575	-9%	1,850,018	1,781,599	4%
Mogas 95	279,841	339,085	-17%	1,331,931	1,203,505	11%
Mogas 92	139,154	223,186	-38%	551,129	541,770	2%
JetA1	8,531	56,375	-85%	160,901	178,014	-10%
LPG	115,668	56,539	105%	373,374	282,520	32%

Source: BSR, BSC Research

Revenue and NPAT in Q3/2021 reached VND 17,679 billion (+94% YoY) and VND 471 billion (+189% YoY), respectively. Accumulated 9M2021, BSR's revenue reached VND 66,599 billion (+63% yoy), completed 94% of the year plan, and NPAT reached VND 3,998 billion, exceeding 360% of the whole year 2021 plan.

In the 3Q2021, due to the impact of the Covid-19 epidemic, the consumption volume was only 1.11 million tons (-40% qoq), and inventories increased by nearly 70% compared to the end of the second quarter. Accumulated 9M2021, BSR consumed **1.85 million tons of Diesel** (+4% yoy), **1.33 million tons of Morgas 95** (+11% yoy) and **551 thousand tons of Morgas 92** (+2% yoy).

Figure 1: Revenue breakdown by product

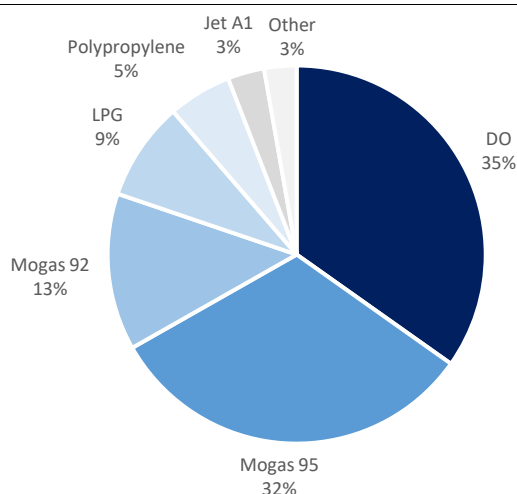
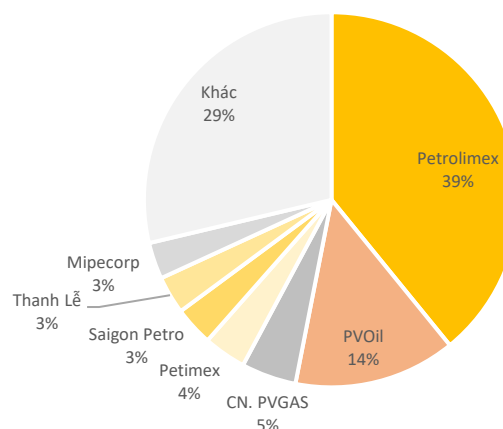


Figure 2: Revenue breakdown by customer



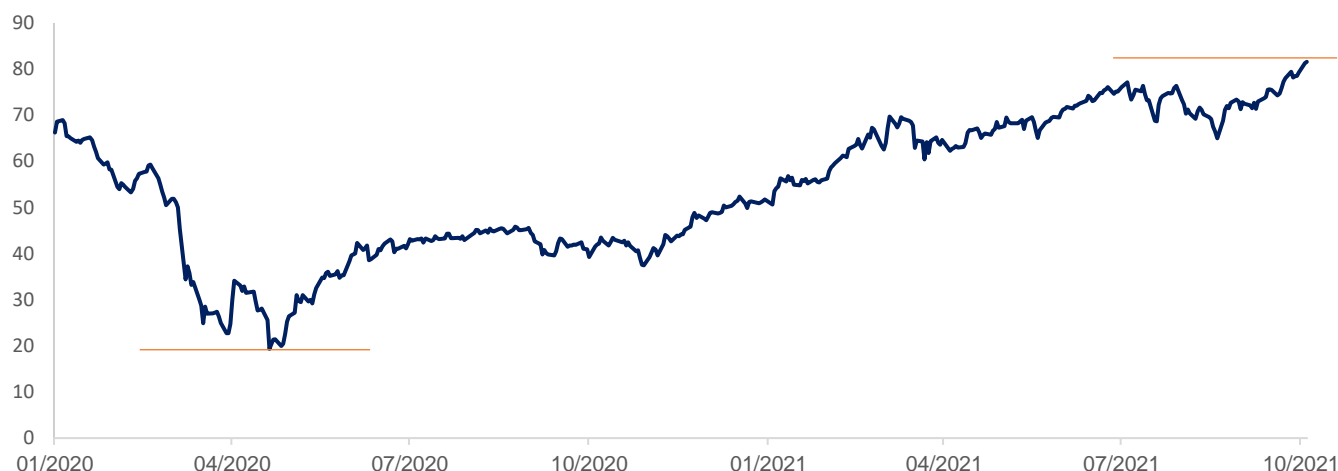
Source: BSR, BSC Research

## 2021 BUSINESS OUTLOOK

### Strong increase in crude oil price supports BSR's business activities

**Oil prices have recovered strongly since early 2021 and approached the USD 80/barrel in the third quarter.** Rapid vaccine deployment makes it easier to live with the epidemic and that supports demand for energy. quantity. Compared to the beginning of the year, the price of Brent oil has increased by 42% ytd, and has reached \$80 a barrel by the end of the third quarter. Some major institutions have forecast oil prices may reach \$100 a barrel by the end of the year in 2021 as global crude oil demand is outstripping supply.

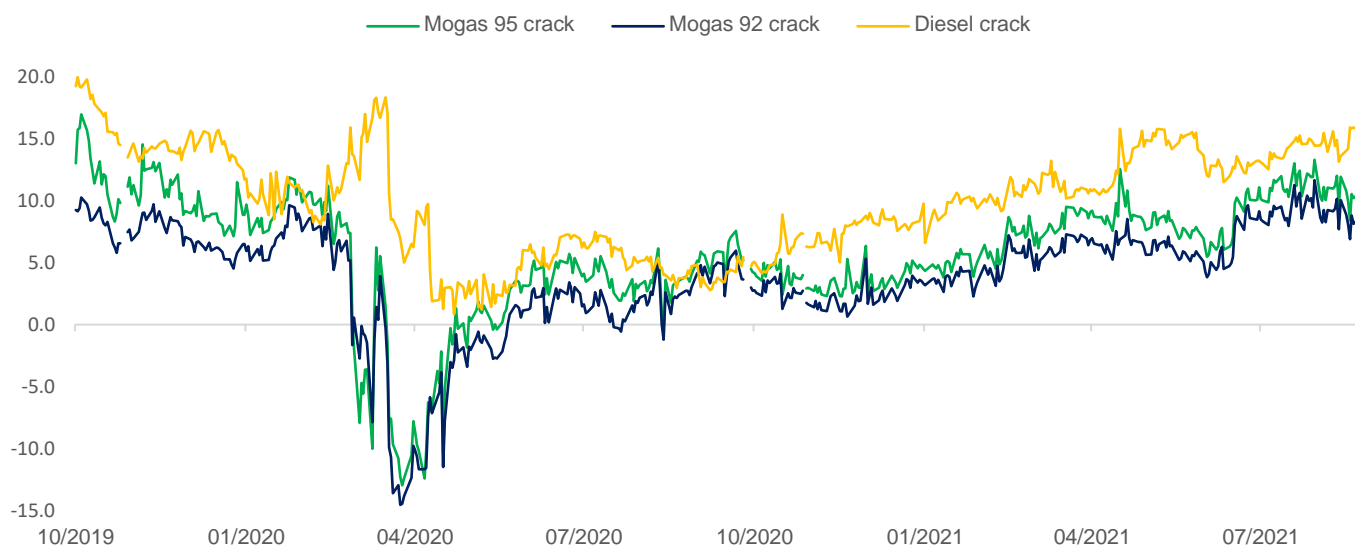
**Figure 3: World crude oil price has recovered to around USD 80/barrel**



Source: Bloomberg, BSC Research

Since the beginning of 2021, along with the increasing momentum of oil prices, the difference between the product cost and crude oil (crack spread) of BSR witnessed a clear recovery. BSC expects that **crude oil prices will continue to stay high in the coming period, thereby significantly improving BSR's profit margin.**

**Figure 3: Crude oil and product price spread (Crack spread)**

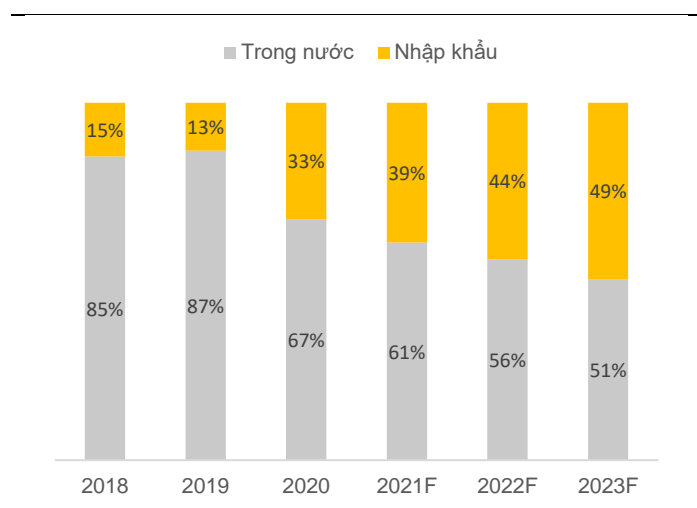


Source: Bloomberg, BSC Research

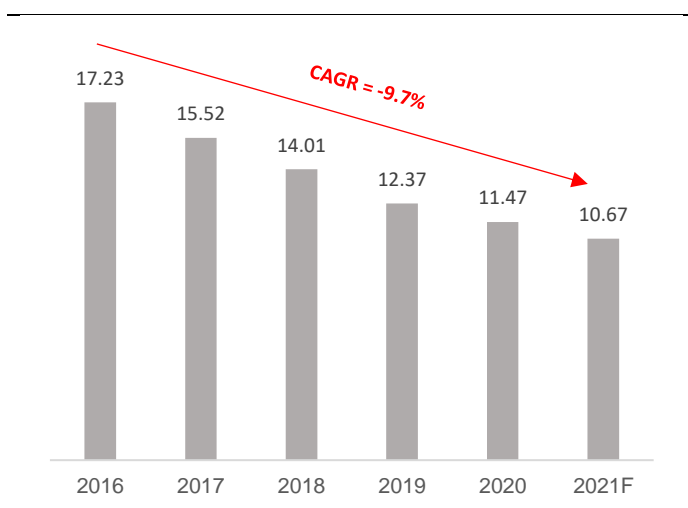
**BSR's input materials tend to depend more and more on imported sources.** In 2020, BSR bought about 6.45 million tons of domestic and imported crude oil, of which the volume of Vietnamese oil (Bach Ho, Te Giac Trang, Su Tu Den, Ruby, Chim Sao, Rang Dong) is 4.35 million tons (accounting for 67%), the volume of imported crude oil of all kinds

(Azeri, WTI Midland, Bonny Light and Sokol) is 2.1 million tons (accounting for 33%). **BSC forecasts that, from 2021, the proportion of BSR's imported oil will gradually increase** because (1) crude oil import tax will be reduced from 5% to 0%; and (2) domestic crude oil production has continuously decreased over the years.

**Figure 3: Proportion of input crude oil of BSR**



**Figure 4: Crude oil production decreased by nearly 10%/year on average**

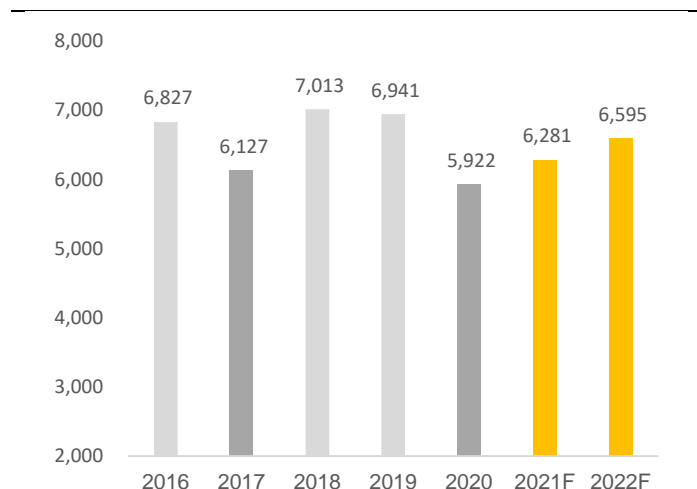


Source: Bộ Công thương, BSC Research

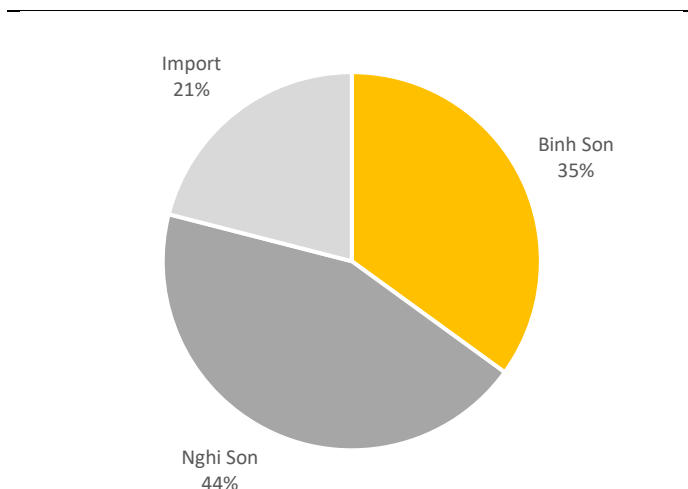
### BSR's operating efficiency is expected to reach over 100% in the period of 2021 - 2022

The plant has a regular maintenance cycle every three years, with each maintenance period of about 50 days. The most recent time was in 2020, BSR performed routine maintenance, causing production output to decrease by about 10% compared to the design capacity. Therefore, **we expect that in the period 2021 - 2022, the factory will operate stably, with an operating efficiency of over 100%** due to the lack of maintenance/overhaul maintenance.

**Figure 5: BSR's production output is expected to be stable in the period of 2021 - 2022**



**Figure 6: BSR and NSRP share domestic refining market share**



Source: BSR, BSC Research

**BSR plans to expand Dung Quat petrochemical refinery project to increase capacity.** Currently, the total domestic supply of petrol and oil only meets about 80% of demand, the remaining 20% is imported. In which Nghi Son Refinery and Petrochemical (NSRP) accounted for more than 40-45%, BSR only accounted for 35% while the factory always operated at 100% capacity. Therefore, the expansion of the current plant will help BSR increase capacity, taking

advantage of the demand for imported gasoline. However, up to now, BSR has not mobilized the project funding, worth USD 1.82 billion (70% loan rate). We will update more about BSR's progress in capital mobilization and factory upgrade and expansion when we have specific information.

**Table: Production capacity of BSR**

Sản phẩm	Unit	Current capacity	After capacity expansion
RON 92/95 Gasoline	Barrel/day	65,900	76,100
Diesel oil	Barrel/day	53,200	68,500
Kerosen/JetA1	Barrel/day	15,800	668
FO	Barrel/day	7,000	7,100
LPG	Ton/day	1,018	1,006
Polypropylene	Ton/day	462	479
Crude oil consumption	Thousand barrel/year	148,000	192,000

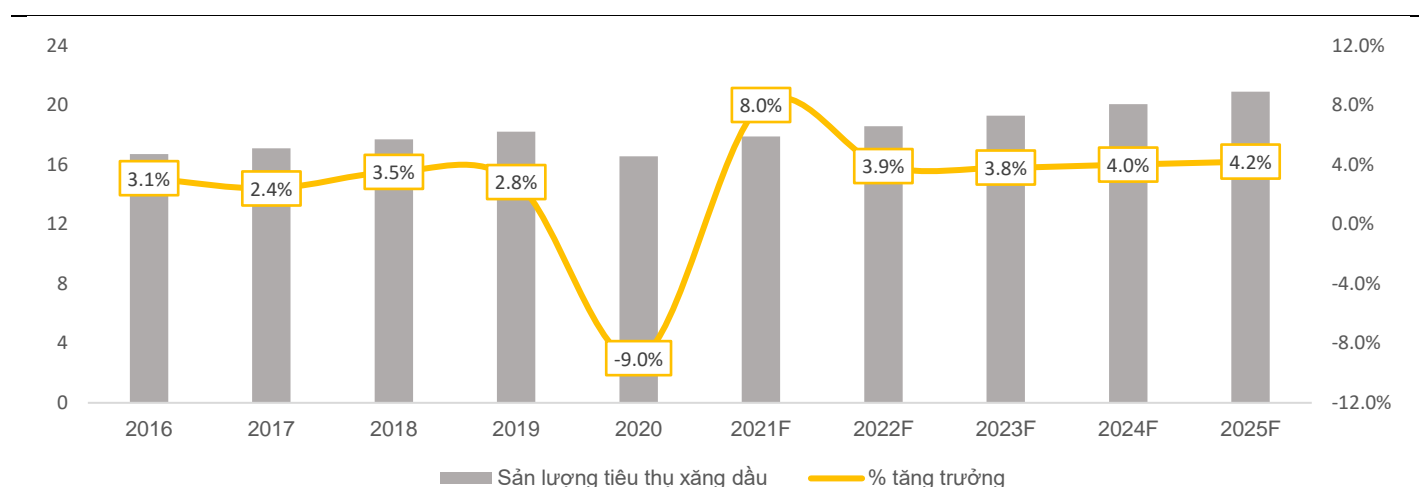
Source: BSR's Annual Report, BSC Research

### The prospect of increased oil consumption is positive thanks to the control of the epidemic

**Domestic demand for petroleum recovers when the Covid-19 epidemic is under control.** Currently, domestically produced petroleum products only meet about 80%, the remaining 20% are imported. Therefore, good control of the disease will help improve domestic gasoline demand, thereby supporting the consumption of BSR's products. BSR also advocates flexibly adjusting the plant operating mode to maximize the output of RON95, RON92 and Diesel gasoline, and limit the output of JetA1 gasoline products in the context that the number of domestic and international flights is still limited. due to the impact of the Covid-19 pandemic.

**Domestic petroleum consumption is forecasted to grow by 8% in 2021 and 4% in the period 2022-2025.** In 2020, due to the impact of the Covid-19 epidemic, distancing policies and transportation restrictions caused a sharp drop in domestic gasoline consumption demand (-9% yoy). In the coming time, the good control of the disease and the implementation of Covid-19 vaccination will support the recovery of domestic gasoline and oil consumption demand. BSC forecasts that the demand for gasoline and oil in Vietnam will increase by 8% yoy for 2021 and maintain an average increase of about 4%/year in the period 2022 - 2025.

**Figure 7: Petroleum consumption volume is expected to grow by 8% in 2021 and 4% in the period from 2022 to 2025**



Source: MoIT, BSC Research

## FORECAST OF BUSINESS RESULTS

SC forecasts that BSR's 2021 business results will reach revenue and NPAT of VND 90,953 billion (+57% yoy) and VND 5,147 billion, EPS FW = VND 1,627/share, base on assumptions:

- Average oil price in 2021 will reach 72 USD/barrel (+69% yoy)
- Consumption of petroleum products is estimated at 6.3 million tons (+6% yoy)
- Consumption price increased by 40% yoy due to the strong recovery of oil price
- Financial revenue reached VND 825 billion (+24% yoy)

For 2022, BSC forecasts that BSR's revenue and NPAT will reach VND 108,313 billion (+19% yoy) and VND 6,282 billion (+22% yoy) respectively, EPS FW = VND 1,986/share base on assumptions (1) Oil price average in 2022 will reach 82 USD/barrel (+14% yoy); (2) Consumption of petroleum products is estimated at 6.6 million tons (+5% yoy); and (3) Tax incentives continue to be maintained.

Table 5: Forecast of BSR's business results

Unit: Billion VND	2019	2020	2021E	2022F
<b>Net Revenue</b>	<b>102,824</b>	<b>57,959</b>	<b>90,953</b>	<b>108,313</b>
<b>Gross profit</b>	<b>3,973</b>	<b>-2,215</b>	<b>5,994</b>	<b>7,400</b>
<i>GPM</i>	3.9%	-3.8%	6.6%	6.8%
Selling expenses	-714	-552	-643	-734
G&A expenses	-389	-268	-351	-400
EBIT	3,414	-2,516	5,817	7,029
Financial revenue	537	666	825	758
Financial shares	-416	-499	-409	-414
Other income	65	25	60	74
<b>PBT</b>	<b>3,054</b>	<b>-2,842</b>	<b>5,476</b>	<b>6,683</b>
<b>NPAT</b>	<b>2,873</b>	<b>-2,848</b>	<b>5,147</b>	<b>6,282</b>
<i>NPM</i>	2.8%	-4.9%	5.7%	5.8%
<b>EPS</b>	<b>898</b>	<b>-906</b>	<b>1,627</b>	<b>1,986</b>

Source: BSR, BSC Research

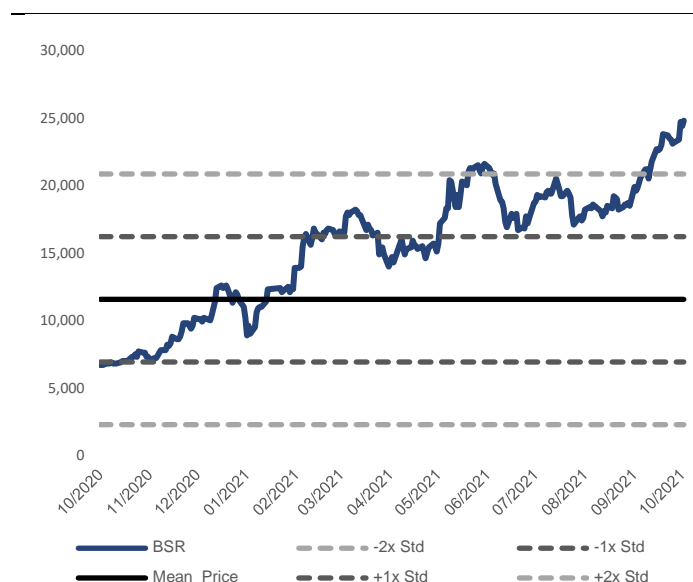
## VALUATION AND RECOMMENDATION

Based on two methods of P/E and FCFF with the ratio of 50%-50%, BSC recommends **BUY** for BSR with a **target price of VND 28,400/share, equivalent to an upside of 15.9% compared to the closing price on 03. 11/2021 is VND 24,500**. We believe in a positive outlook for BSR thanks to (1) rising oil prices helping to maintain a high crack spread of BSR products; (2) the need to recover output of petroleum products after the Covid-19 pandemic; and (3) tax incentives to help reduce future costs; and. Downside risks include volatile input crude oil prices, and increased competition when gasoline import tax is gradually reduced to 0% by 2024.

Valuation	Price	Weight	Average price
P/E	27,800	50%	13,900
FCFF	29,000	50%	14,500
<b>Target price</b>			<b>28,400</b>
Current price			24,500
Upside			15.9%

Source: BSC Research

Stock Price



Stock PB



Source: Bloomberg, BSC Research



## APPENDIX

IS (VND billion)	2019	2020	2021E	2022F
<b>Net revenue</b>	<b>102,824</b>	<b>57,959</b>	<b>90,953</b>	<b>108,313</b>
COGS	-98,851	-60,174	-84,958	-100,913
<b>Gross profit</b>	<b>3,973</b>	<b>-2,215</b>	<b>5,994</b>	<b>7,400</b>
Selling expenses	-714	-552	-643	-734
G&A	-389	-268	-351	-400
<b>Operating income</b>	<b>2,869</b>	<b>-3,035</b>	<b>5,000</b>	<b>6,266</b>
Financial income	537	666	825	758
Financial expenses	-416	-499	-409	-414
Interest expenses	-360	-326	-341	-345
Gain/loss from affiliates	0	0	0	0
Other gain/loss	65	25	60	74
Profit before tax	3,054	-2,842	5,476	6,683
Corporate tax payment	-181	-6	-329	-401
<b>Profit after tax</b>	<b>2,873</b>	<b>-2,848</b>	<b>5,147</b>	<b>6,282</b>
Minority interest	-41	-39	-51	-63
NPATMI	2,914	-2,809	5,096	6,220
EBITDA	6,084	35	8,379	9,614
EPS	898	-906	1,627	1,986

CF (VND billion)	2019	2020	2021E	2022F
Profit after tax	3,054	-2,842	5,476	6,683
Depreciation	2,670	2,552	2,562	2,586
Change in NWC	-371	764	-3,541	-4,616
Other adjustments	-416	-225	-420	-385
CF from operating activities	4,937	248	4,077	4,268
Fixed assets investment	-269	-99	-381	-397
Other investment	326	-478	-19	369
CF from investing activities	57	-576	-400	-29
Dividend paid	-508	-2	0	0
Cash from net borrowing	-1,895	6,693	-2,690	-2,745
Other revenue	0	0	0	0
CF from financing activities	-2,403	4,770	-2,690	-2,745
Beginning cash balance	5,762	8,352	12,793	13,779
Cash in year	2,591	4,442	987	1,494
Ending cash balance	8,352	12,793	13,779	15,274

BS (VND billion)	2019	2020	2021E	2022F
Cash & cash equivalent	8,352	12,793	13,779	15,274
Short term investment	4	958	1,385	1,385
Account receivables	9,972	7,851	9,126	11,016
Inventory	8,515	8,399	11,140	15,668
Other current assets	52	46	33	45
<b>Total current assets</b>	<b>26,896</b>	<b>30,047</b>	<b>35,464</b>	<b>43,388</b>
Tangible assets	47,318	47,380	47,562	47,778
Depreciation	-22,819	-25,287	-27,773	-30,281
Long term incomplete assets	1,026	1,101	1,661	2,221
Long term investment	10	10	10	10
Other non-current assets	271	1,855	1,155	455
<b>Total non-current assets</b>	<b>26,688</b>	<b>25,875</b>	<b>23,354</b>	<b>20,864</b>
<b>Total Assets</b>	<b>53,584</b>	<b>55,923</b>	<b>58,817</b>	<b>64,252</b>
Account payables	7,068	6,966	7,167	9,016
Short-term debt	1,106	9,969	8,186	6,499
Other short-term debt	4,742	3,490	3,726	3,732
<b>Current liabilities</b>	<b>12,916</b>	<b>20,424</b>	<b>19,079</b>	<b>19,246</b>
Long-term debt	5,192	3,022	2,115	1,058
Other long-term debt	1,422	1,401	1,430	1,472
<b>Non-current liabilities</b>	<b>6,614</b>	<b>4,423</b>	<b>3,545</b>	<b>2,530</b>
<b>Total Liabilities</b>	<b>19,530</b>	<b>24,847</b>	<b>22,624</b>	<b>21,776</b>
Paid-in capital	31,005	31,005	31,005	31,005
Capital surplus	0	0	0	0
Retained earnings	2,975	38	5,186	11,468
Other equity	3	3	3	3
Minority interest	71	29	0	0
<b>Shareholder's equity</b>	<b>34,054</b>	<b>31,075</b>	<b>36,193</b>	<b>42,476</b>
<b>Total Resources</b>	<b>53,584</b>	<b>55,923</b>	<b>58,817</b>	<b>64,252</b>
Number of shares outstanding (million)	3,100	3,100	3,100	3,100

Ratios (%)	2019	2020	2021E	2022F
<b>Liquidity ratios</b>				
Current ratio	1.38	1.21	1.57	1.99
Quick ratio	0.94	0.87	1.08	1.27
<b>Solvency ratios</b>				
Debt/ Total assets	36%	44%	38%	34%
Debt/ Equity	57%	80%	63%	51%
<b>Efficiency ratios</b>				
Days of inventories	32.76	51.30	46.64	46.17
Days of receivables	32.83	54.76	33.19	33.19
Days of payables	24.30	42.64	29.41	28.01
CCC	41.28	63.41	50.41	51.35
<b>Profitability ratios</b>				
Gross profit margin	4%	-4%	7%	7%
PBT margin	3%	-5%	6%	6%
ROE	8%	-9%	14%	15%
ROA	5%	-5%	9%	10%
<b>Valuation</b>				
PE	8.73	-10.85	14.44	11.83
PB	0.75	0.99	2.03	1.72
<b>Growth</b>				
Net revenue growth	-8%	-44%	57%	19%
EBIT growth	-20%	-174%	-331%	21%
PBT growth	-19%	-193%	-293%	22%
EPS growth	N/A	N/A	N/A	22%

Source: BSR, BSC Research



## Disclosure

*The information, statements, forecasts and projections contained herein, including any expression of opinion, are based upon sources believed to be reliable but their accuracy completeness or correctness are not guaranteed. Expressions of opinion herein were arrived at after due and careful consideration and they were based upon the best information then known to us, and in our opinion are fair and reasonable in the circumstances prevailing at the time. Expressions of opinion contained herein are subject to change without notice. This document is not, and should not be construed as, an offer or the solicitation of an offer to buy or sell any securities. BSC and other companies in the BSC and/or their officers, directors and employees may have positions and may affect transactions in securities of companies mentioned herein and may also perform or seek to perform investment banking services for these companies. This document is for private circulation only and is not for publication in the press or elsewhere. BSC accepts no liability whatsoever for any direct or consequential loss arising from any use of this or its content. The use of any information, statements forecasts and projections contained herein shall be at the sole discretion and risk of the user. No part of this material may be (i) copied, photocopied or duplicated in any form by any mean or (ii) redistributed without the prior written consent of BIDV Securities Company (BSC).*

### BSC Headquarters

BIDV Tower, 10th & 11th Floor  
35 Hang Voi, Hoan Kiem, Hanoi  
Tel: +84439352722  
Fax: +84422200669

### Ho Chi Minh City Office

146 Nguyen Cong Tru St, 9th Floor  
District 1, HCMC  
Tel: +84838218885  
Fax: +84838218510

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