

28 Oct 2022

Binh Son Refining (BSR)

Earnings dropped sharply qoq in 3Q22

3Q22: Tepid bottom line despite rosy revenue

BSR released its 3Q22 financial statement with revenue of VND39.6tn (+123.8% yoy, -24.5% qoq) driven by solid volume and selling prices hike. However, 3Q22 NPAT dropped sharply to VND479bn (-95% qoq, -0.5% yoy) compared to the high base of all time in 2Q22 due to lower gasoline & diesel crack spreads and a surge in inventory provision (VND656bn in 3Q22 vs VND173bn in 3Q21). In 3Q22, the average Morgan 92 gasoline spread was USD7.6 per barrel (-67% qoq and -8% yoy).

9M22: Booming earnings growth thanks to brisk 2Q22

In 9M22, BSR's revenue rose 90% yoy and its NPAT spiked 3.5x yoy due to the highest all-time crack spreads in 2Q22 and pent-up demand. The sales volume was estimated at over 5mn tonnes (+11% yoy) in 9M22. The average gas online spread was USD14 per barrel (+105% yoy) in 9M22 due to a tightened supply and demand strong recovery on global. After 9 months, BSR fulfilled 138% and 10x of 2022 guidance of revenue and earnings, respectively.

Earnings growth could decrease yoy in 4Q22

We expect the earnings could go down yoy in 4Q22 because of low cracking spreads and a high base in 4Q21. We believe that refining margins continue to be weak and flat qoq in 4Q22 due to fear of demand softening and removing the export quota of China. Additionally, the high refinery utilization in the US would ease refining margins down in 4Q22.

Valuation

Currently, BSR is trading at 3.6x PE TTM and 1.1x PB TTM respectively, lower than the 3-year PE average of 11.5x and PB average of 1.7x. We think this valuation is fair due to the peak earnings in 2Q22 and the normal outlook in 2023. In 3Q22, profitability ratios ROE and ROA were improved to 38.9% and 22.3% and were higher than 5 years average of 10.7% and 5.9%.

Yr to Dec	Sales (VND bn)	OP (VND bn)	NP (VND bn)	EPS (VND)	% chg (YoY)	EBITDA (VND bn)	PE (x)	EV/EBITDA (x)	PB (x)	ROE (%)	DY (%)
2017A	81,333	7,934	7,711	205	N.A	10,513	88.3	5.1	1.5	44.7	14.7
2018A	111,952	3,950	3,606	2,990	1,358.6	6,598	6.1	9.2	1.8	10.8	12.2
2019A	102,824	2,869	2,914	916	(69.4)	5,539	19.8	9.8	1.6	8.8	0.9
2020A	57,959	(3,046)	(2,819)	(911)	(199.5)	(494)	(19.9)	(112.1)	1.8	(8.8)	0.0
2021A	101,080	6,511	6,716	2,167	(337.8)	8,822	8.4	5.3	1.5	19.5	0.9

Note: Net profit, EPS and ROE are based on figures attributed to controlling interest

Stock Data

VNIndex (28 Oct, pt)	1,038
Stock price (28 Oct, VND)	18,100
Market cap (USD mn)	2,260
Shares outstanding (mn)	3,101
52-Week high/low (VND)	32,293/17,100
6M avg. daily turnover (USD mn)	11.88
Free float / Foreign ownership (%)	7.9/41.1
Major shareholders (%)	
PetroVietnam	92.13

Performance

	1M	6M	12M
Absolute (%)	(11.3)	(14.8)	(24.9)
Relative to VNIndex (%p)	(2.2)	7.6	1.9

Stock price trend



Source: Bloomberg

Hoang Phung

hoang.pm@kisvn.vn

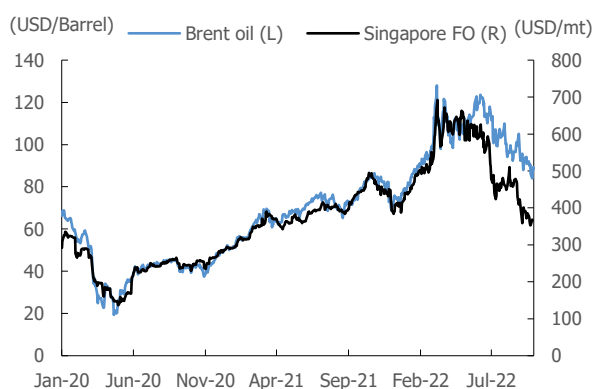
Table 1. 3Q22 earnings

	3Q21	4Q21	1Q22	2Q22	3Q22	% qoq	% yoy
Sales	17,679	34,492	34,783	52,391	39,567	(24.5)	123.8
Gross profit	644	3,175	2,612	10,898	654	(94.0)	1.6
GP margin	3.6	9.2	7.5	20.8	1.7	(19.1)	(2.0)
Operating profit	352	2,797	2,275	10,610	403	(18.6)	14.5
OP margin	2.0	8.1	6.5	20.3	1.0	(19.2)	(1.0)
EBT	500	2,879	2,463	10,701	514	(95.2)	2.9
NP	476	2,684	2,324	10,149	479	(95.3)	0.5

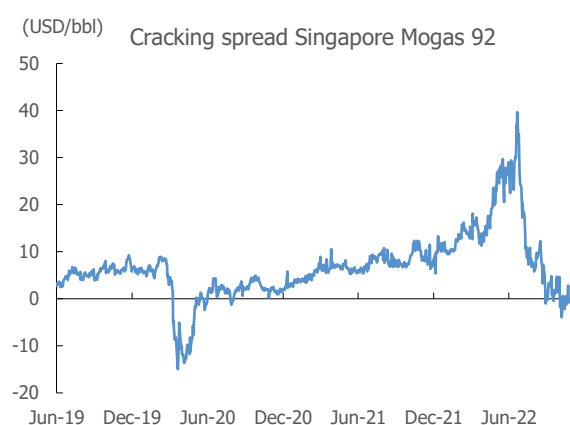
Source: Company data, KIS Research

Refining margin slump on fears of surging supply in 3Q22

Global refinery maintenance and capacity constraints are exacerbating dislocations caused by Russia's war in Ukraine. Diesel and gasoline cracks surged to record levels in 2Q22 after the peak of oil prices in 1Q22. Limited spare capacity in the global refining system, together with reduced exports of Russian fuel oil and diesel have aggravated the tightness in product markets, which have now seen seven consecutive quarters of stock draws. Notably, middle distillate reserves reached their lowest levels since 2008. While the world fuel demand has rebounded in 1H22 to nearly pre-pandemic levels, therefore, the combination of sanctions on Russia and export quotas in China weakens refiners' ability to meet demand. Meanwhile, China and Russia are two of the three biggest refining countries, after the United States.

Figure 1. Oil prices gradually cooled down in 3Q22

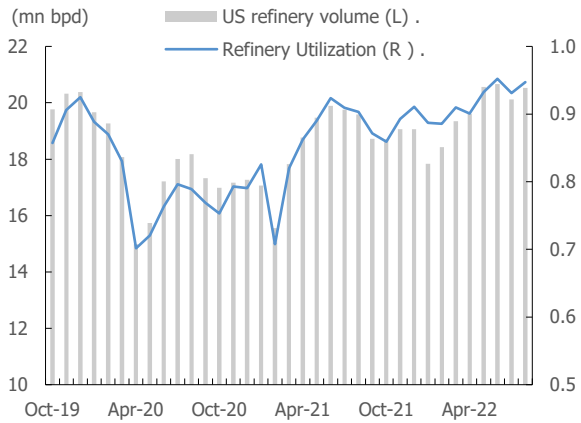
Source: Bloomberg, KIS Research

Figure 2. Refining margins slumped in 3Q22

Source: Bloomberg, KIS Research

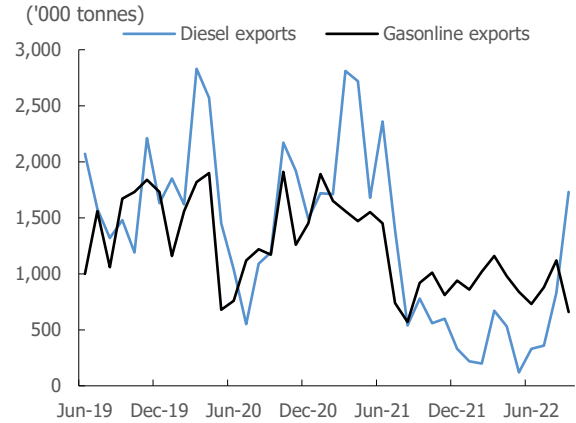
Thus, global refinery margins have surged to extraordinarily high levels in 2Q22 due to depleted product inventories and constrained refinery activity. The average price of Singapore RON92 gasoline peaked in 2Q22 as demand for transportation activities recovered. High refining margins are seen putting US refinery utilization at its highest levels in the past five years. Meanwhile, in 1H22, refining capacity in the US is still lower than at the end of 2019. However, refining margins slumped from the peak in 2Q22 and retreat to nearly USD10/bbl in 3Q22 due to fear of demand softening and removing the export quota of China. Moreover, the refinery utilization increased to 94% in 3Q22, per EIA, and high utilization would bring refining margins down in 3Q22 from record levels in 2Q22.

Figure 3. US refinery volume recovered strongly



Source: Bloomberg, KIS Research

Figure 4. China diesel and gas online exports



Source: Bloomberg, KIS Research

Company Overview:

Founded in 2008, Binh Son Refining and Oil Co. Ltd (BSR). It runs the Dung Quat refinery since 2009, which was Vietnam's first refinery. Dung Quat has a capacity of 6.5 mn tonnes per year and captures over 30% of the domestic market share.

Balance sheet

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Current assets (Adj.)	31,835	24,036	26,896	29,997	44,544
Cash & cash equivalent	12,595	5,766	8,356	13,751	20,535
Accounts & other receivables	11,103	8,965	9,972	7,814	13,601
Inventory	8,043	9,227	8,515	8,387	10,358
Non-current assets (Adj.)	31,426	29,176	26,688	25,898	22,251
Fixed Asset	29,507	27,306	24,848	22,376	20,136
Investment assets	1,078	1,002	1,037	1,112	1,215
Others	451	425	322	1,923	417
Total assets	63,261	53,212	53,584	55,895	66,796
Advances from customers	0	14	4	4	3
Unearned revenue	0	0	0	0	1
Trade payables	7,857	6,000	7,068	7,005	9,450
Others	6,820	5,689	6,160	4,830	9,007
ST debt & bond	4,660	2,816	1,106	9,969	9,829
LT debt & bond	9,566	7,315	5,192	3,022	943
Total liabilities	28,903	21,834	19,530	24,830	29,232
Controlling interest	34,192	31,264	33,983	31,035	37,570
Capital stock	28,602	31,005	31,005	31,005	31,005
Capital surplus	0	0	0	0	0
Other Reserves	5,596	3	3	3	3
Retained earnings	(6)	256	2,975	28	6,562
Minority interest	166	114	71	29	(6)
Shareholders' equity	34,358	31,378	34,054	31,065	37,564

Cash flow

(VND bn)

	2017A	2018A	2019A	2020A	2021A
C/F from operations	9,102	5,401	4,937	425	8,972
Net profit	7,673	3,557	2,873	(2,858)	6,684
Dep'n & Amort'n	2,579	2,648	2,670	2,552	2,311
Net incr. in W/C	(1,149)	(804)	(606)	731	(23)
C/F from investing	126	85	57	(753)	(2,779)
Capex	(529)	(443)	(269)	(173)	(63)
Incr. in investment	655	528	326	(579)	(2,715)
C/F from financing	(9,422)	(12,314)	(2,403)	4,770	(2,640)
Incr. in equity	414	(1,128)	0	0	0
Incr. in debt	(2,220)	(4,338)	(1,895)	4,772	(2,138)
Dividends	(7,617)	(6,848)	(508)	(2)	(502)
C/F from others	0	0	0	0	0
Increase in cash	(193)	(6,829)	2,591	4,442	3,553
C/F from operations	9,102	5,401	4,937	425	8,972

Income statement

(VND bn)

	2017A	2018A	2019A	2020A	2021A
Net sales	81,333	111,952	102,824	57,959	101,080
COGS	72,239	106,914	98,851	60,184	93,381
Gross profit	9,093	5,038	3,973	(2,225)	7,699
SG&A expenses	1,159	1,089	1,104	821	1,188
Operating profit	7,934	3,950	2,869	(3,046)	6,511
Financial income	783	630	537	666	1,015
Interest income	635	491	339	377	555
Financial expenses	572	809	416	498	619
Interest expenses	530	456	360	325	407
Other non-operating profit	(35)	15	65	25	34
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	8,110	3,786	3,054	(2,852)	6,941
Income taxes	438	229	181	6	257
Net profit	7,673	3,557	2,873	(2,858)	6,684
Net profit of controlling interest	7,711	3,606	2,914	(2,819)	6,716
Other comprehensive profit	10,513	6,598	5,539	(494)	8,822
Total comprehensive profit	81,333	111,952	102,824	57,959	101,080
Total comprehensive profit of controlling interest	72,239	106,914	98,851	60,184	93,381
EBITDA	9,093	5,038	3,973	(2,225)	7,699

Key financial ratio

	2017A	2018A	2019A	2020A	2021A
Per-share (VND)					
EPS	205	2,990	916	-911	2,167
BPS	12,012	10,120	10,983	10,019	12,115
Profitability (%)					
OP margin	9.8	3.5	2.8	(5.3)	6.4
NP margin	9.4	3.2	2.8	(4.9)	6.6
EBITDA margin	12.9	5.9	5.4	(0.9)	8.7
ROA	24.3	6.1	5.4	(5.2)	10.9
ROE (excl MI)	44.7	10.8	8.8	(8.8)	19.5
Dividend yield	14.7	12.2	0.9	0.0	0.9
Valuation (x)					
PE	88.3	6.1	19.8	(19.9)	8.4
PB	1.5	1.8	1.6	1.8	1.5
EV/EBITDA	5.1	9.2	9.8	(112.1)	5.3

■ **Guide to KIS Vietnam Securities Corp. stock ratings based on 12-month forward performance**

- BUY: Expected total return will be 15% or more
- Hold: Expected total return will be between -5% and 15%
- Sell: Expected total return will be -5% or less
- KIS Vietnam Securities Corp. does not offer target prices for stocks with Hold or Sell ratings.

■ **Guide to KIS Vietnam Securities Corp. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the VNIndex based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the VNIndex based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important compliance notice**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), KIS Vietnam Securities Corp. or its affiliates does not own 1% or more of any class of common equity securities of the companies mentioned in this report.

There is no actual, material conflict of interest of the research analyst or KIS Vietnam Securities Corp. or its affiliates known at the time of publication of the research report or at the time of the public appearance.

KIS Vietnam Securities Corp. or its affiliates has not managed or co-managed a public offering of securities for the companies mentioned in this report in the past 12 months;

KIS Vietnam Securities Corp. or its affiliates has not received compensation for investment banking services from the companies mentioned in this report in the past 12 months; KIS Vietnam Securities Corp. or its affiliates does not expect to receive or intend to seek compensation for investment banking services from the companies mentioned in this report in the next 3 months.

KIS Vietnam Securities Corp. or its affiliates was not making a market in securities of the companies mentioned in this report at the time that the research report was published.

KIS Vietnam Securities Corp. does not own over 1% of shares of the companies mentioned in this report as of 28 Oct 2022.

KIS Vietnam Securities Corp. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies mentioned in this report as of 28 Oct 2022.

KIS Vietnam Securities Corp. has issued CW with underlying stocks of Binh Son Refining (BSR) and is the liquidity provider.

Prepared by: Hoang Phung

Global Disclaimer

■ General

This research report and marketing materials for Vietnamese securities are originally prepared and issued by the Research Center of KIS Vietnam Securities Corp., an organization licensed with the State Securities Commission of Vietnam. The analyst(s) who participated in preparing and issuing this research report and marketing materials is/are licensed and regulated by the State Securities Commission of Vietnam in Vietnam only. This report and marketing materials are copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of KIS Vietnam Securities Corp..

This research report and marketing materials are for information purposes only. They are not and should not be construed as an offer or solicitation of an offer to purchase or sell any securities or other financial instruments or to participate in any trading strategy. This research report and marketing materials do not provide individually tailored investment advice. This research report and marketing materials do not take into account individual investor circumstances, objectives or needs, and are not intended as recommendations of particular securities, financial instruments or strategies to any particular investor. The securities and other financial instruments discussed in this research report and marketing materials may not be suitable for all investors. The recipient of this research report and marketing materials must make their own independent decisions regarding any securities or financial instruments mentioned herein and investors should seek the advice of a financial adviser. KIS Vietnam Securities Corp. does not undertake that investors will obtain any profits, nor will it share with investors any investment profits. KIS Vietnam Securities Corp., its affiliates, or their affiliates and directors, officers, employees or agents of each of them disclaim any and all responsibility or liability whatsoever for any loss (director consequential) or damage arising out of the use of all or any part of this report or its contents or otherwise arising in connection therewith. Information and opinions contained herein are subject to change without notice and may differ or be contrary to opinions expressed by other business areas of KIS Vietnam Securities Corp. The final investment decision is based on the client's judgment, and this research report and marketing materials cannot be used as evidence in any legal dispute related to investment decisions.

■ Country-specific disclaimer

United States: This report is distributed in the U.S. by Korea Investment & Securities America, Inc., a member of FINRA/SIPC, and is only intended for major U.S. institutional investors as defined in Rule 15a-6(a)(2) under the U.S. Securities Exchange Act of 1934. All U.S. persons that receive this document by their acceptance thereof represent and warrant that they are a major U.S. institutional investor and have not received this report under any express or implied understanding that they will direct commission income to Korea Investment & Securities, Co., Ltd. or its affiliates. Pursuant to Rule 15a-6(a)(3), any U.S. recipient of this document wishing to effect a transaction in any securities discussed herein should contact and place orders with Korea Investment & Securities America, Inc., which accepts responsibility for the contents of this report in the U.S. The securities described in this report may not have been registered under the U.S. Securities Act of 1933, as amended, and, in such case, may not be offered or sold in the U.S. or to U.S. person absent registration or an applicable exemption from the registration requirement.

United Kingdom: This report is not an invitation nor is it intended to be an inducement to engage in investment activity for the purpose of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom ("FSMA"). To the extent that this report does constitute such an invitation or inducement, it is directed only at (i) persons who are investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) of the United Kingdom (the "Financial Promotion Order"); (ii) persons who fall within Articles 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Promotion Order; and (iii) any other persons to whom this report can, for the purposes of section 21 of FSMA, otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any investment or investment activity to which this report relates is available only to relevant persons and will be engaged in only with relevant persons. Persons who are not relevant persons must not act or rely on this report.

Hong Kong: This research report and marketing materials may be distributed in Hong Kong to institutional clients by Korea Investment & Securities Asia Limited (KISA), a Hong Kong representative subsidiary of Korea Investment & Securities Co., Ltd., and may not otherwise be distributed to any other party. KISA provides equity sales service to institutional clients in Hong Kong for Korean securities under its sole discretion, and is thus solely responsible for provision of the aforementioned equity selling activities in Hong Kong. All requests by and correspondence with Hong Kong investors involving securities discussed in this report and marketing materials must be effected through KISA, which is registered with The Securities & Futures Commission (SFC) of Hong Kong. Korea Investment & Securities Co., Ltd. is not a registered financial institution under Hong Kong's SFC.

Singapore: This report is provided pursuant to the financial advisory licensing exemption under Regulation 27(1)(e) of the Financial Advisers Regulation of Singapore and accordingly may only be provided to persons in Singapore who are "institutional investors" as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This report is intended only for the person to whom Korea Investment & Securities Co., Ltd. has provided this report and such person may not send, forward or transmit in any way this report or any copy of this report to any other person. Please contact Korea Investment & Securities Singapore Pte Ltd in respect of any matters arising from, or in connection with, the analysis or report (Contact Number: 65 6501 5600).

Copyright © 2022 KIS Vietnam Securities Corp.. All rights reserved. No part of this report may be reproduced or distributed in any manner without permission of KIS Vietnam Securities Corp..