BUSINESS UPDATE REPORT
02/06/2022 – UPCOM: BSR

Sector : Oil & Gas *(Most recent report: Link)*

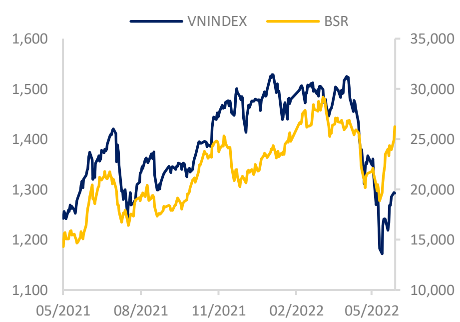
Recommendation	BUY	Binh Son Refining & Petrochemical JSC (UpCom: BSR) Keep going up.			
Current price:	**27,1 00**	Date	02/06/2022	**Shareholder structure**	
Target price	**34,4 00**	Outstanding shares (Million)	3,100	PVN	92.13%
Dividend yield	**1%**	Capitalization (VND billion)	76.892	KIM Vietnam	0. 53%
Upside	**27%**	Average 6M Trading vol:	9,220,345	KITMC	0.13%
		%Foreign float	0.7%	Bui Minh Tien	0.00%

Industry Analyst:
Duong Quang Minh
(Oil &Gas)
minhdq@bsc.com.vn

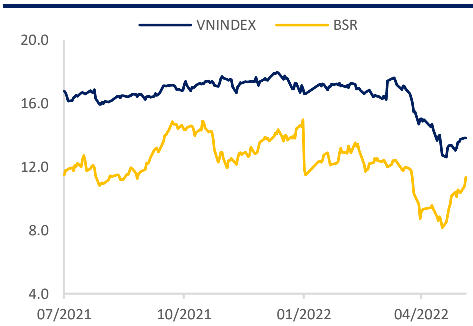
Technical Analyst:
Le Quoc Trung
trunglq@bsc.com.vn

Target price:	33,600
Cut-loss price:	23,800

Stocks and VN-Index price comparison table



P/E and VN index comparison table



Valuation

BSC recommends **BUY** BSR shares with a target price **of 34.400 VND/SHARE** (equivalent **to 27%** upside compared to the closing price on 01/06/2022 of 27.1 00 VND/SHARE) based on the P/E and FCFF methods. We are confident in the positive outlook for BSR thanks to (1) Rising oil prices that help crack spreads of BSR products remain high; and (2) Demand for petroleum products recovering when the epidemic is under control.

Forecast of business results

- **BSC forecasts that in 2022, BSR's revenue and NPAT will reach VND 135,279 billion (+34% YoY) and VND 10,071 billion (+51% YoY), EPS FW = VND 3,216** with the assumption (1) The average oil price in 2022 will reach US$100 per barrel (+37% YoY); (2) Product sale volume reached 6.9 million tons (+7% YoY); and (3) The average of consumption price increased by 30% YoY thanks to the positive movement of oil prices and crack spreads.
- In case the average of consumtion price increases by 40% YoY and BSR completes the provision of VND 1,900 billion, **BSC forecasts revenue and NPAT of BSR to reach VND 144,995 billion (+43% YoY) and VND1,981 billion (+80% YoY)**, respectively, equivalent to EPS fw = 3, 825 VND.

Investment Thesis

- The crude oil prices & crack spreads increased sharply supporting BSR's profitability.
- Top market share in the oil refining industry, with regular operating efficiency of over 100%
- The outlook for increased oil consumption is positive thanks to the controlled epidemic.

Risk

- The price of crude oil inputs fluctuated sharply.
- Competition increases when gasoline import tax is gradually reduced to 0% by 2024

Business updates

- In Q1.2022, BSR's revenue is VND 34,783 billion (+65% YoY), completing 38% of the annual planning, and NPAT is VND 2,312 billion, exceeding 79% of the plan for the whole year of 2022.
- Q1.2022 business results is positive thanks to the sharp increase in crude oil prices (+39% YoY). BSR's total consumption increased slightly to 1.6 million tonnes (+3% YoY), mainly due to the contribution of Mogas 92 gasoline (+62% YoY), while production of product lines such as Diesel or Morgas 95 decreased slightly.

Index	2020	2021	2022F	VN-Index
PE (x)	-10.9	10.7	8. 4	12.7
PB (x)	1.0	1.9	1.8	2.0
PS (x)	0.5	0.7	0.6	3.5
ROE (%)	-9.2	17.8	21. 1	14.7
ROA (%)	-5.1	10.0	12. 8	6.6
EV/ EBITDA (x)	N/A	6.8	6. 0	N/A

IS	2019	2020	2021	2022F
Turnover	102,824	57,959	101,079	135,279
Gross profit	3,973	-2,215	7,733	11,541
Profit after tax	2,873	-2,848	6,673	10,071
EPS	898	-906	2,162	3,216
EPS Growth	-19%	-199%	N/A	49%
Net debt / Liabilities	18%	42%	29%	27%

BUSINESS UPDATE

Table 1: Updeted Q1/2022 business results of BSR

(Billion VND)	Q1/2022	Q1/2021	% YoY
Net sales	**34,783**	**21,049**	**65%**
Gross profit	2,612	2,040	28%
GPM (%)	*7.5%*	*9.7%*	
Sales expenses	249	194	28%
G&A expenses	88	67	30%
SG&A/Rev (%)	*1.0%*	*1.2%*	
EBIT	2,275	1,779	28%
Financial revenue	356	200	78%
Financial expense	189	132	43%
Profit before tax	**2,463**	**1,849**	**33%**
Profit after tax	**2,312**	**1,848**	**25%**
Consumption output (tons)			
Diesel DO	595,741	625,634	-5%
Mogas 95	460,937	480,173	-4%
Mogas 92	244,991	150,872	62%
JetA1	70,253	80,358	-13%
LPG	134,774	128,325	5%

Source: BSR, BSC Research

In Q1/2022, BSR's revenue reached VND 34,783 billion (+65% YoY), and NPATreached VND 2,312 billion (+25% YoY). The first quarter results were positive thanks to the sharp increase in crude oil prices (+39% YoY), and the price of BSR's products was more positive over the same period. In addition, financial profit also increased by VND100 billion (+46% YoY), mainly from deposit interest and benefit from exchange rate differences.

BSR's total consumption increased slightly to 1.6 million tonnes (+3% YoY), mainly due to the contribution of Mogas 92 gasoline (+62% YoY), while production of product lines such as Diesel or Morgas 95 decreased slightly. Petrolimex and PVOil continue to be the two largest plans, accounting for more than 50% of BSR's total revenue.

In 2022, **BSR's plans to total production and consumption volume to reach about 6.5 million tons** (+1% YoY), total revenue is expected to reach VND91.678 billion (-3% YoY) and profit after tax to reach VND 1,295 billion (-81% YoY). Thus, by the end of the first quarter, <u>BSR completed 38% of the plans in terms of revenue and exceeded 79% of plans in terms of profit for the whole year</u>.

BSR set aside nearly VND 2,000 billion for provision, the largest level ever, to reduce inventory prices at the end of the first quarter of 2022, the largest set-up ever. This comes from the fact that BSR has had to import crude oil at a high price in the past period and shows some caution of the company. Whether this provision can be refunded will depend on crude oil price movements in the near future.

BUSINESS OUTLOOK FOR 2022

Oil prices have risen sharply since the beginning of 2020 and remain above the $100 per barrel mark. Demand for oil recovered positively thanks to the controlled epidemic, which led to the return of production and transportation activities. Meanwhile, oil supplies have been slow to respond to increased demand due to OPEC+ caution in increasing output, along with Russia-Ukraine war also causing short-term supply shortages. Compared to the start of the year, brent crude oil prices have risen 41 percent, and remained around $110 a barrel in May. BSC changed our 2022 average oil price forecast to $100 per barrel compared to the most recent report (link) due to factors (1) Crude oil price remained high above $100 per barrel from March 2022 to now, (2) Supply continued to be disrupted due to Russia-Ukraine war, and (3) Energy demand continues to recover as China gradually loosens its measures to prevent the epidemic.

Figure 1: World crude oil prices remain above $100 per barrel

Source: Bloomberg, BSC Research

BSR's profit margin is expected to improve thanks to the uptrend of crack spread. According to data from Bloomberg, the difference between the price of petrochemical products and crack spread tends to rise sharply to above $20 per barrel in the first half of 2022 (compared to an average of over $10 per barrel in 2021). As for BSR, in the first quarter of 2022 crack spread themain products also recorded positive growth, even surpassing the pre-pandemic level. BSC estimates the 2022 average 2022 crack spread of the A95 antenna could reach $19.1 per barrel (+44% YoY), for A92 gasoline to be $15.70 per barrel (+38% YoY), and diesel at $9.60 per barrel (+356% YoY)." From there, we expect BSR to be able to increase gross margin from 0.8-1.5 percentage points due to the output price rising faster than the input price.

Figure 2: BSR's difference in product price and average crude oil

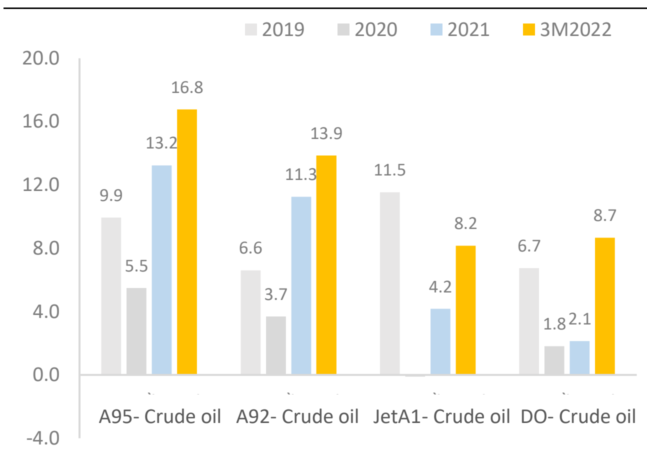
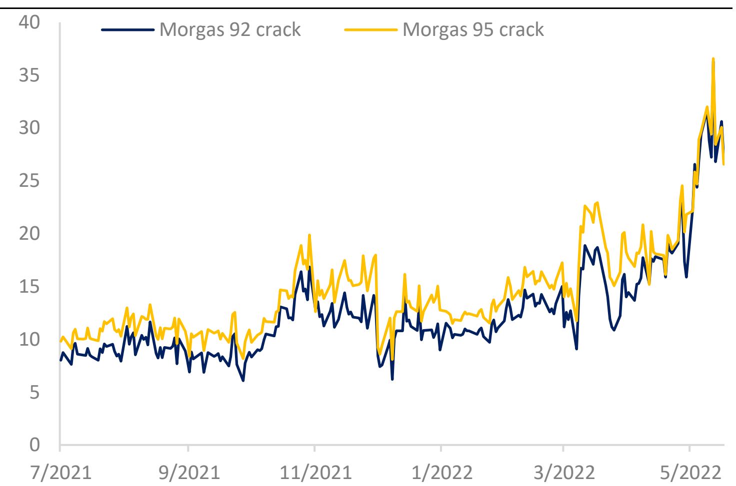


Figure 3: Crack spread is trending up in the first half of 2022



Source: BSR, Bloomberg

BSR's operational performance is **expected to continue to reach over 100% in the period of 2022.** Currently, domestically produced petroleum products only meet about 80%, while the remaining 20% is imported. Therefore, the oil refinery of BSR is regularly working at full capacity. In addition, the company has no plans to stop operations for maintenance this year (refer to the most recent report). Therefore, **we expect that by 2022 the plant will operate stably, with operational efficiency reaching over 100%** without maintenance, repair, and overhaul

Figure 4: BSR's production output in 2022 is expected to be stable with efficiency reaching over 100%

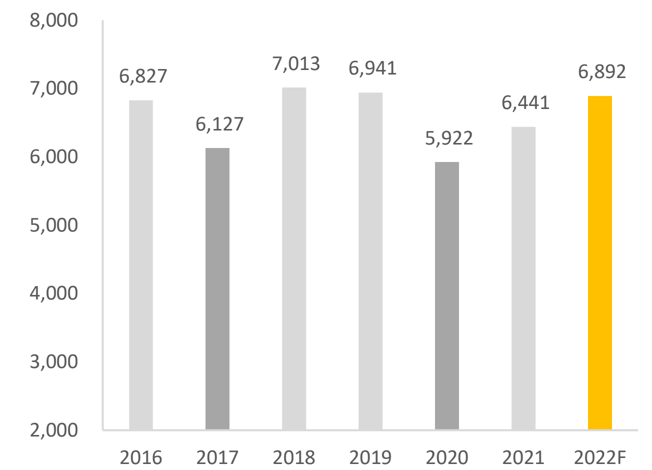
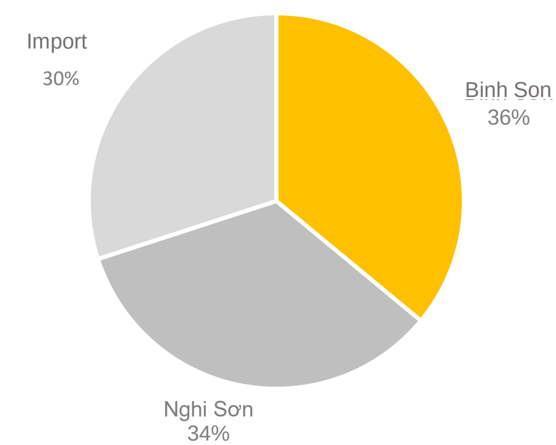


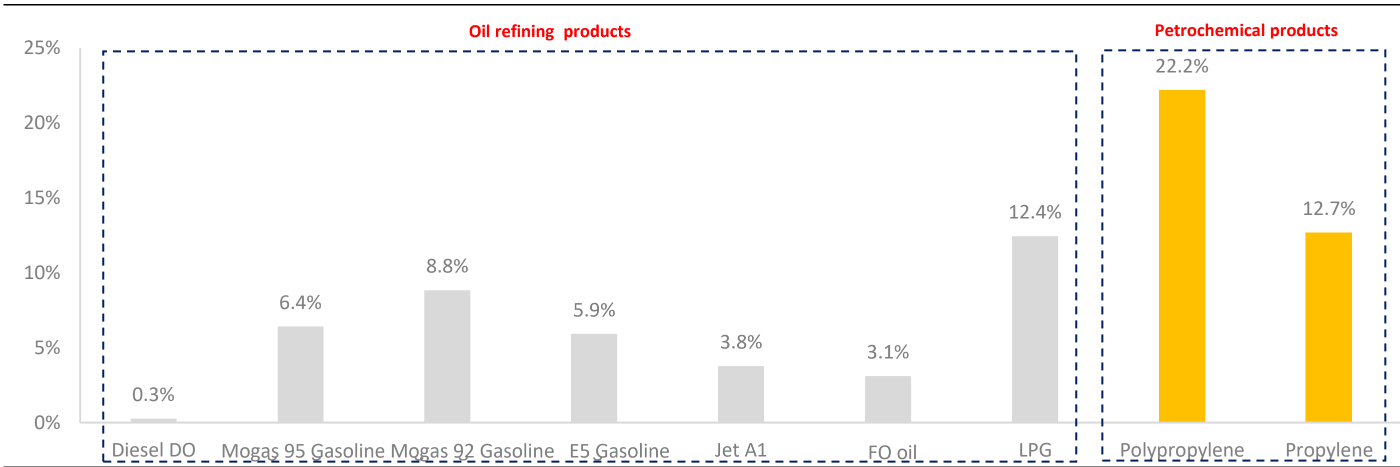
Figure 5: Market share of domestic petroleum supply in 2021



Source: BSR, BSC Research

BSR will gradually shift to petrochemical products. BSR canceled the bid for Dung Quat Refinery upgrading and expansion project due to lack of sufficient capital and the offer price that exceeded the approved bid price. As a result, BSR revised down its investment to $1.2 billion from the original $1.8 billion, and focused more on petrochemical products. Specific details have not yet been revealed but BSR is expected to complete the revised plan by the end of 2022. In addition, BSR will produce more of its petrochemical product lines such as polypropylene and propylene from 2022. We consider this to be the appropriate strategy of BSR during this period, as (1) In the coming time the products must meet the quality of or above, as required (2) Petrochemical product lines will bring better profit margins for BSR.

Figure 7: Gross profit margin of BSR's product lines



Source: BSR, BSC Research

BUSINESS RESULTS FORECAST

BSC forecasts BSR's 2022 business results based on two main options:

Option 1 (baseline): BSC can not reverse the provision

BSC forecasts revenue and NPAT of BSR to reach VND 135,279 billion (+34% YoY) and VND 10,071 billion (+51% YoY), EPS FW = VND 3,216/SHARE respectively with the assumption:

- Average oil price in 20222 reached $100 per barrel (+37% YoY)
- Consumption of petroleum products is estimated at 6.9 million inches (+7% YoY)
- The performance of the medical mother's house reached 106% CSTK
- The average unit price of consumption increased by 30% YoY thanks to the positive movement of oil prices and crack spreads.

Table 2: BSR's business results project (Option 1)

Unit: VND Billion	2019	2020	2021	2022F
Net sales	**102,824**	**57,959**	**101,079**	**135,279**
Gross profit	**3,973**	**-2,215**	**7,733**	**11,541**
Gross profit Margin	*3.9%*	*-3.8%*	*7.7%*	*8.5%*
Sales expenses	-714	-552	-781	-955
G&A expenses	-389	-268	-406	-509
EBIT	3,414	-2,516	7,384	11,255
Financial revenue	537	666	1,017	1,335
Financial expenses	-416	-499	-619	-758
Other income	65	25	34	60
Profit before tax	**3,054**	**-2,842**	**6,977**	**10,714**
Profit after tax	**2,873**	**-2,848**	**6,673**	**10,071**
NPAT Margin	*2.8%*	*-4.9%*	*6.6%*	*7.4%*
EPS	**898**	**-906**	**2,162**	**3,216**

Source: BSR, BSC Research

Option 2 (positive): BSR can reverse provision for VND 1,943 billion

Maintaining the above assumptions, in case the average unit price of consumption increased by 40% YoY and BSR fulfilled the refund of the provision of VND 1,900 billion, BSC forecasts revenue and NPAT of BSR to reach VND 144,995 billion (+43% YoY) and VND 11,981 billion (+80% YoY), respectively, equivalent to EPS = 3,825 VND /share.

Table 3: BSR's business results project (option 2)

Unit: Billion VND	2019	2020	2021	2022F
Net sales	**102,824**	**57,959**	**101,079**	**144,995**
Gross profit	**3,973**	**-2,215**	**7,733**	**13,627**
Gross profit margin	*3.9%*	*-3.8%*	*7.7%*	*9.4%*
Sellings expenses	-714	-552	-781	-980

G&A expenses	-389	-268	-406	-538
EBIT	3,414	-2,516	7,384	13,287
Financial revenue	537	666	1,017	1,335
Financial expenses	-416	-499	-619	-758
Other income	65	25	34	60
Profit before tax	**3,054**	**-2,842**	**6,977**	**12,745**
NPAT	**2,873**	**-2,848**	**6,673**	**11,981**
NPATM	*2.8%*	*-4.9%*	*6.6%*	*8.3%*
EPS	**898**	**-906**	**2,162**	**3,825**

Source: BSR, BSC Research

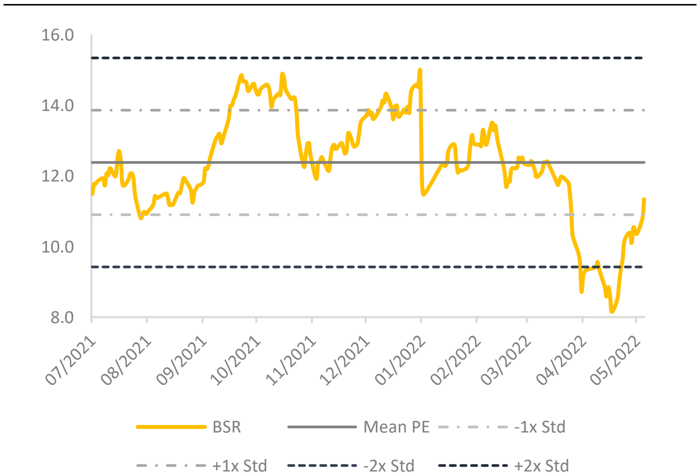
VALUATION AND RECOMMENDATIONS

Based on the two methods of P/E and FCFF with a ratio of 50%-50%, BSC recommends **BUY** BSR shares with a target price of **34.4 00 VND/ SHARE, corresponding to the upside of 27% compared to the closing price on 01/06/2022 is 27.100 VND** for the base line scenario. We are confident in the positive outlook for BSR thanks to (1) Rising oil prices that help crack spreads of BSR products remain high; and (2) The need to restore production of petroleum products when the epidemic is under control. Downside risks include highly volatile input prices, and increased competition as gasoline import tariffs gradually fall to zero percent by 2024.

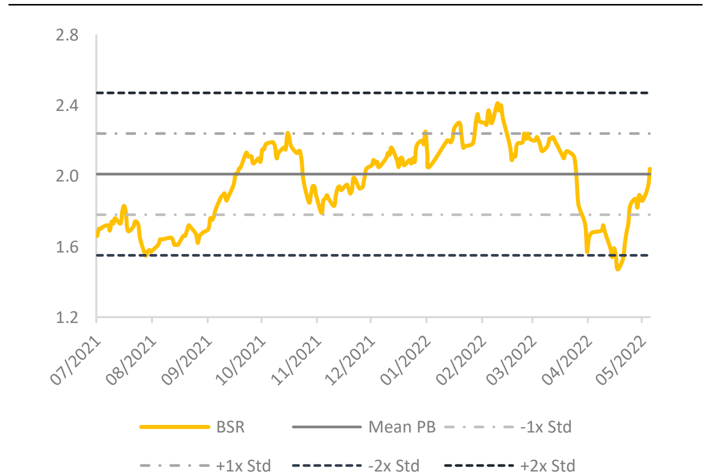
		Scenario 1 (base)		Scenario 2 (positive)	
Pricing method	**Density**	Price	Average price	Price	Average price
P/E	50%	32,300	16,150	38,100	19,050
FCFF	50%	36.500	18,250	39,900	19,950
Target price			**34,400**		**39,000**
Current price (01/06/2022)		27,100			
Upside			**26.9%**		**43.9%**

Source: BSC Research

Stock PE



Stock PB



Source: Bloomberg, BSC Research

APPENDIX

IS (VND billion)	2019	2020	2021	2022F
Net sales	**102,824**	**57,959**	**101,079**	**135,279**
Cost of goods sold	-98,851	-60,174	-93,347	-123,737
Gross profit	**3,973**	**-2,215**	**7,733**	**11,541**
Sellings expenses	-714	-552	-781	-955
G&A expenses	-389	-268	-406	-509
Profit/loss of operating	**2,869**	**-3,035**	**6,546**	**10,077**
Financial revenue	537	666	1,017	1,335
Financial expenses	-416	-499	-619	-758
Interest expense	-360	-326	-407	-541
Profit from affiliates	0	0	0	0
Other gains/losses	65	25	34	60
Profit before tax	3,054	-2,842	6,977	10,714
Corporate income tax	-181	-6	-304	-643
NPAT	**2,873**	**-2,848**	**6,673**	**10,071**
Minority interest	-41	-39	-31	-101
NPATMI	2,914	-2,809	6,705	9,970
EBITDA	6,084	35	9,693	13,823
EPS	898	-906	2,162	3,216

CF (VND billion)	2019	2020	2021	2022F
(Loss)/EBT	3,054	-2,842	6,977	10,714
Depreciationand amortization	2,670	2,552	2,309	2,568
Change in working capital	-371	764	-236	-5,473
Other adjustments	-416	-225	-580	-121
CF from operating activities	**4,937**	**248**	**8,471**	**7,688**
Cash for purchase of fixed assets	-269	-99	-62	-369
Other investments	326	-478	-2,715	479
CF from investments activities	**57**	**-576**	**-2,778**	**110**
Dividend payments	-508	-2	-2	0
Net loans	-1,895	4,772	-2,138	-1,854
Cash from net borrowing	0	0	0	0
CF from financing activities	**-2,403**	**4,770**	**-2,140**	**-1,854**
Beginning of year CF	5,762	8,352	12,793	16,346
CF in the year	2,591	4,442	3,553	5,943
Ending of year CF	**8,352**	**12,793**	**16,346**	**22,289**

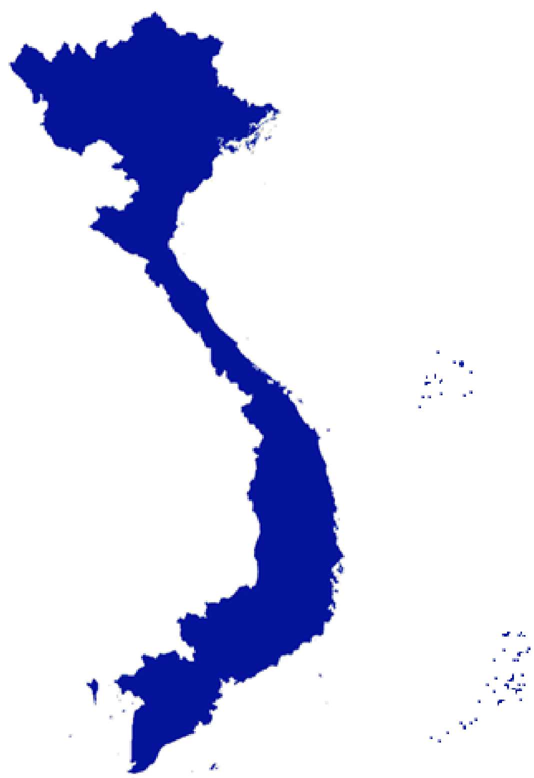
BS (VND billion)	2019	2020	2021	2022F
Cash and cash equivalents	8,352	12,793	16,346	22,289
Short-term investment	4	958	4,190	4,190
Short-term receivables	9,972	7,851	13,645	17,391
Inventory	8,515	8,399	10,317	11,598
Other short-term asset	52	46	51	3,376
Short-term asset	**26,896**	**30,047**	**44,548**	**58,843**
Tangible asset	47,318	47,380	47,447	47,607
Depreciation	-22,819	-25,287	-27,528	-29,776
Long-term unfinished asset	1,026	1,101	1,205	1,765
Long-term investment	10	10	10	10
Other long-term asset	271	1,855	352	-348
Long-term asset	**26,688**	**25,875**	**22,237**	**19,939**
Total asset	**53,584**	**55,923**	**66,785**	**78,781**
Liabilities	7,068	6,966	9,450	9,737
Short-term loans	1,106	9,969	9,829	12,626
Other short-term debt	4,742	3,490	7,661	7,410
Total short-term debt	**12,916**	**20,424**	**26,941**	**29,773**
Long-term loans	5,192	3,022	943	0
Other long-term debt	1,422	1,401	1,349	1,379
Total long-term debt	**6,614**	**4,423**	**2,291**	**1,379**
Total Debt	**19,530**	**24,847**	**29,232**	**31,152**
Capital contributions	31,005	31,005	31,005	31,005
Equity surplus	0	0	0	0
Undistributed profit	2,975	38	6,551	16,622
Other equity	3	3	3	3
Minority shareholders	71	29	-5	0
Total Equity	**34,054**	**31,075**	**37,553**	**47,630**
Total capital	**53,584**	**55,923**	**66,785**	**78,781**
Number outstanding share (million)	3,100	3,100	3,100	3,100

Ratio (%)	2019	2020	2021	2022F
Solvency				
Current ratio	1.38	1.21	1.52	1.89
Quick ratio	0.94	0.87	1.17	1.52
Capital structure				
Debt/Total asset	36%	44%	44%	40%
Debt/Total equity	57%	80%	78%	65%
Operational capacity				
Days sales of inventory	32.76	51.30	46.64	46.17
Days sales outstanding	32.83	54.76	33.19	33.19
Days payable outstanding	24.30	42.64	29.41	28.01
CCC	41.28	63.41	50.41	51.35
Profit margin				
Gross profit	4%	-4%	8%	9%
NPAT profit	3%	-5%	7%	7%
ROE	8%	-9%	18%	21%
ROA	5%	-5%	10%	13%
Valuation				
PE	8.73	-10.85	10.87	8.43
PB	0.75	0.99	1.95	1.76
Growth				
Net revenue growth	-8%	-44%	74%	34%
EBIT growth	-20%	-174%	393%	52%
EBT growth	-19%	-193%	345%	54%
EPS Growth	N/A	N/A	N/A	49%

Source: BSR, BSC Research

DISCLAIMER

This report, of The Vietnam Investment and Development Bank Securities Joint Stock Company (BSC), provides only general information and analysis about the enterprise. This report is not formulated to be provided at the request of any individual organization or individual or decisions on the sale or holding of securities. Investors should only use the information, analysis and comments of the Report as a reference before making their own investment decisions. All information, judgments and forecasts and views in this report are based on reliable data sources. However, Vietnam Investment and Development Bank Securities Joint Stock Company (BSC) does not guarantee that these sources of information are completely accurate and do not assume any responsibility for the accuracy of the information referred to in this report, nor is it liable for damages to the use of all or part of the contents of this report. All views and statements mentioned in this report are based on the most careful, fair and reasonable consideration in the present. However, these views and perceptions can change without warning. This report is copyrighted and is the property of Vietnam Investment and Development Bank Securities Joint Stock Company (BSC). All acts of copying, modifying, printing without the consent of the BSC are against the law. Any contents of this document may not be (i) copied or reproduced in any form or method or (ii) provided without the approval of BIDV Securities Joint Stock Company.



BSC Head Office

8th floor & 9 Thaiholdings
210 Tran Quang Khai, Hoan Kiem, Hanoi
Tel:+84439352722
Fax:+84422200669

BSC Ho Chi Minh Branch

9th Floor Building 146 Nguyen Cong Truc
District 1, Ho Chi Minh City
Tel:+84838218885
Fax:+84838218510

https://www.bsc.com.vn
https://www.facebook.com/BIDVSecurities

Bloomberg: RESP BSCV <GO>