

Binh Son Refining and Petrochemical Company Ltd.,

Vietnam Giant Refinery takes privatization

IPO Flash Notes | December 21, 2017

We attended Binh Son Refining and Petrochemical Company Ltd.'s IPO Roadshow with following key fact:

2017 Business Preview Tied to A Recovery in Price Realizations and Higher Crack Spread.

- 9M2017 revenue and net profit (NPAT) reached VND 54,304bn and VND 5,466bn, equivalent to 87% and 325% of 2017 company guidance, respectively. FY2017 NPAT guided by management team will be around VND 8,000bn, increasing by 78% YoY and exceeding 3.8 times of 2017 budget.
- 9M2017 gasoline and diesel consumption volume reported at 4.2 mn tons, equivalent to 84% of 2017 plan. Dung Quat plant operates at 103-105% total design capacity (6.5 mn tons/year).
- In 2017, BSR delivers a strong performance on the back of oil price recovery and favorable tax policy. Oil price increases by 16.7% YoY, and **crack spread*** increases by 18.4% YoY which fuels BSR's strong performance. In addition, from 1/1/2017 BSR has enjoyed import tax exemption when the refined products are considered as import substitution. Thus, gross margin increased from 2.6% in 9M2016 to 11.5% in 9M2017.
- BSR ranks the 1st position in domestic gasoline market, with 28% share, followed by imported products from Singapore (26%), Korea (16%) and Malaysia (16%).
- BSR has a strong client base, operating in oil and gas distribution and retail sector, e.g. Petrolimex (PLX-HSX), PVOil, and Saigon Petro.
- 2017 is the third year for the major plant turnaround conducted every 3 years, which lasted 51 days. The next one will be conducted in 2020. In 2021, Dung Quat plant will stop in 2 months for plant upgrade and expansion.

*Crack spread ratio: refers to the price difference between a barrel of crude oil and the petroleum products refined from it.

2018 – 2022 onwards Plan – Focusing on high-end products

- In 2018 – 2020, BSR's guided revenue and NPAT growth are 14.3% and 1.5% CAGR respectively.
- The expansion project is expected to complete in 2021 and put into operation in 2022. It adds more 2 mn tons to 8.5 mn tons/year. Total projected investment cost is USD 1.8bn with an IRR of 8-11%. It will be financed at a Debt-to-Equity ratio of 70/30.
- After plant expansion, the company will add more high-end petroleum products (RON97, DO and Asphalt) to its product portfolio, whose the quality is complied with EURO V standard according to Decision No. 49/2011/QD-TTg.**
- The Southern and Central regions are the target market, which will account for 90% and 10% of total volume consumption.
- Blue Whale gas field project: with estimated reserve of 150 bn cubic meters, and locating at 80-100km east off the Central coast in Vietnam, the project is expected to put into operation in 2023 and be main gas source for Dung Quat Plant expansion. Dung Quat Plant will use 1 bn cubic meters for deep processing.

**Decision No.49/2011/QD-TTg: requires higher emission standard for automobiles and motorcycles.

Multi-billion Dollar refinery takes privatization

Ownership structure after privatization	Number of shares (mn)	Ownership
Government	1,333.2	43%
Employee	6.483	0.21%
IPO	241.6	7.79%
Strategic Investors	1,519.2	49%
Total	3,100.499	100%

Source: BSR

NOT-RATED

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Key Metrics

Abbreviation	BSR
Sector	Oil Refining
Chartered capital (VND bn)	31,005
Starting auction price (VND)	14,600
Number of offered shares (mn)	241.6
Auction Period	Q1/2018

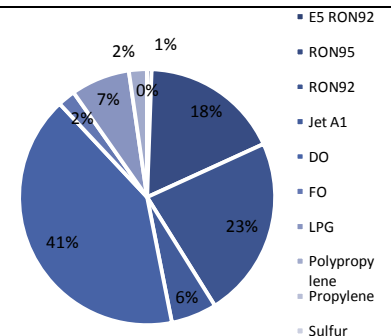
Source: BSR, TVS Research

Company Description

Binh Son Refining and Petrochemical Company Ltd., (BSR) was first set up in 2008. The company manages Dung Quat oil refinery with total capacity of 6.5 mn tons/year, which is currently the largest one in Vietnam.

Gasoline and Diesel are two major products, accounting for 90% of consumption volume, 90% of total revenue and 80% of gross profit. The company also produces other high-end petrochemical products (polypropylene) that improve the company's profitability.

Product Portfolio



Source: BSR, TVS Research

Figure 1: BSR's 9M2017 performance (Unit: VND bn)

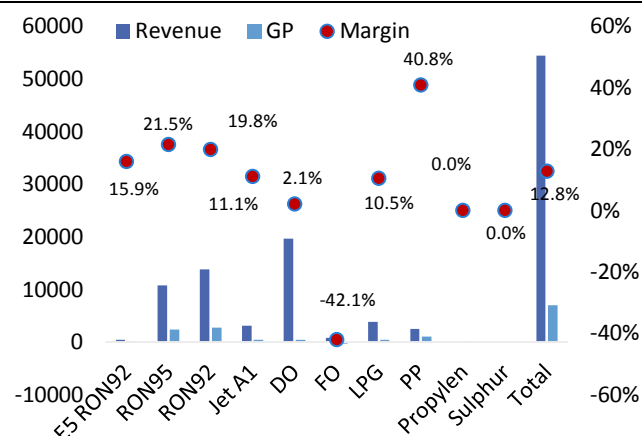


Figure 2: BSR's customer base

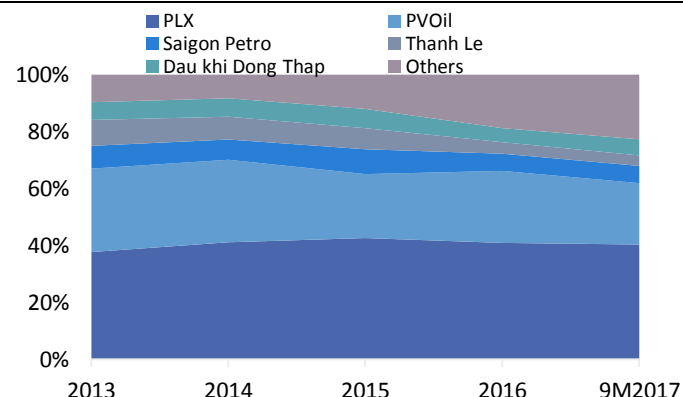


Figure 3: BSR's 2018-2022F plan

Unit: thousand tons	2018F	2019F	2020F	2021F	2022F
RON92/E5 RON92	1,513	1,486	1,282	1,349	2,608
RON95	981	997	860	826	-
RON97	-	-	-	18	409
Jet A1	131	131	113	138	660
DO	3,315	3,333	2,875	2,902	3,079
FO	89	90	77	80	120
LPG	428	423	365	366	345
PP	154	153	132	133	148
Propylene	-	-	-	-	-
Sulfur	6	6	5	7	36
Asphalt	-	-	-	20	446
Total	6,617	6,619	5,709	5,839	7,851
Oil consumption	7,164	7,164	6,180	6,331	8,696

Unit: VNDbn	2018F	2019F	2020F	2021F	2022F
Revenue	78,170	108,130	95,520	98,325	133,401
COGS	72,571	99,419	88,258	91,696	125,877
Gross profit	5,599	8,711	7,262	6,629	7,524
NPAT	3,474	6,376	4,767	4,471	3,687
Dividend	7%	7%	7%	7%	7%

Source: BSR, TVS research

SUMMARY FINANCIALS

Earning Model (VNDbn)	2013A	2014A	2015A	2016A
Net sales	152,834	127,224	95,272	73,686
Cost of sales	144,064	125,347	85,330	67,353
Gross profit	8,770	1,878	9,942	6,333
Selling expenses	713	567	599	618
General administration expenses	294	295	1,060	831
EBITDA	10,048	3,412	10,706	7,414
Depreciation & Amortization	2,285	2,397	2,422	2,529
EBIT	7,763	1,015	8,284	4,884
Net interest income/(expenses)	(4,902)	(959)	(1,489)	(170)
Net investment income	1	(5)	(0)	0
Others (recurring)	109	12	(371)	(11)
Pretax Profit	2,971	64	6,424	4,704
Income tax	(3)	(3)	(325)	(268)
Tax rate (%)	0.1%	5.0%	4.9%	5.6%
Minorities	(16)	(69)	(77)	(47)
Net Income	2,984	130	6,176	4,483

Growth and Margin (%)				
Sales Growth (%)	N/a	-16.8%	-25.1%	-22.7%
EBITDA Growth (%)	N/a	-66.0%	213.8%	-30.8%
EBIT Growth (%)	N/a	-86.9%	716.0%	-41.0%
Net Income Growth (%)	N/a	-98.0%	9977%	-27.3%
EPS Growth (%)	N/a	-95.7%	4670%	-27.4%
Gross Margin (%)	5.7%	1.5%	10.4%	8.6%
EBITDA Margin (%)	1.9%	0.1%	6.7%	6.4%
EBT Margin (%)	1.9%	0.1%	6.7%	6.4%
Net Income Margin (%)	1.9%	0.0%	6.4%	6.0%

Cash flow Statements (VNDbn)	2013A	2014A	2015A	2016A
Pretax profit	2,971	64	6,424	4,704
<i>Adjustments for:</i>				
Depreciation and amortization	2,285	2,397	2,422	2,529
Change in inventories	(1,006)	5,315	4,099	(1,398)
Change in trade receivables	620	2,304	5,092	(2,770)
Change in trade payables	1,120	(6,076)	(2,800)	175
Other operating cash flow	(12)	(30)	(27)	(69)
Cash flow from operations	8,701	4,789	15,503	3,308
Net Capital expenditure	(445)	(148)	(1,026)	(181)
Change in Financial investment	(2)	(2)	-	(4)
Divestures	-	-	9	23
Other investments, net	945	1,218	690	659
Cash flow from investing	483	1,073	(325)	500
Equity issued	-	-	443	721
Net borrowings	5,631	(4,474)	(25,974)	(3,053)
Dividends to shareholders	-	-	(1,800)	(1,553)
Cash flow from financing	5,631	(4,474)	(27,331)	(3,885)
Net cash flow	14,815	1,388	(12,152)	(77)
Opening cash	8,811	23,626	25,014	12,861
Closing cash	23,626	25,014	12,861	12,784

Balance Sheet (VNDbn)	2013A	2014A	2015A	2016A
Cash and equivalents	23,626	25,014	12,861	12,784
Financial investment	2	4	2	4
Accounts receivable	15,185	12,837	7,780	10,494
Inventory	14,855	7,772	5,874	6,805
Prepaid expenses, other CA	119	159	101	95
Total current assets	53,787	45,786	26,618	30,182
Net Property and equipment	36,796	34,903	32,910	32,143
Net intangibles	374	341	346	350
Total investment	29	20	11	11
Other long - term assets	8	107	39	3
Total Assets	90,995	81,157	59,924	62,690
Account Payables	15,261	9,364	7,428	10,976
Short-term debt	26,472	26,335	3,886	3,853
Total Current Liabilities	41,733	35,681	11,397	14,956
Long-term debt	22,171	18,124	15,489	12,626
Other long-term liabilities	0	0	648	1,349
Total long-term liabilities	22,184	18,133	16,780	15,161
Stockholders' equity	26,735	27,343	31,747	32,573
Common Equity	27,975	28,146	28,602	29,315
Treasury shares	0	0	0	0
Capital surplus	0	0	0	0
Retained earnings	(1,286)	(1,159)	1,367	(3)
Budget sources and other funds	3	0	-	-
Minority interest	343	-	-	-
Total liabilities and equity	90,995	81,157	59,924	62,690

Ratios				
ROE (%)	11.0%	0.2%	19.2%	13.6%
ROA (%)	3.3%	0.1%	8.6%	7.2%
ROIC (%)	30.3%	4.2%	28.5%	13.3%
Inventory days	37.6	32.9	29.2	34.4
Receivable days	36.3	40.2	39.5	45.3
Payable days	19.3	35.9	35.9	49.9
Asset Turnover (x)	1.7	1.5	1.4	1.2
Debt/equity (x)	1.5	1.3	0.4	0.5

Valuation (Multiples)				
EV / EBITDA (x)	2.5	5.7	0.6	0.5
P/E (x)	N/a	N/a	N/a	N/a
Dividend Yield (%)	N/a	N/a	N/a	N/a
P/B (x)	N/a	N/a	N/a	N/a

Notes: CA = current assets; CL = current liabilities
Source: FiinPro data, TVS Research Model

ANALYST CERTIFICATION

I, **My Tran**, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies or its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Buy (B), Neutral (N), Sell (S) – Analysts recommend stocks as Buys or Sell based on his own views. Being assigned a Buy or Sell is determined by as total stock's return (TSR) potential that represents the price differentials between the current share price and the price target expected during the time horizon plus expected dividend yield. Any stock not assigned as Buy or Sell is deemed Neutral.

TVS Investment Research: Equity Rating Definitions

12-month rating	Definition
Buy	Total Stock's Return Potential > 15%
Neutral	Total Stock's Return Potential between (-15%) and 15%
Sell	Total Stock's Return Potential < (-15%)
Short-term rating	Definition
Buy	Stock price expected to rise within three-month because of a specific catalyst or event
Sell	Stock price expected to fall within three-month because of a specific catalyst or event
Not-rated	The investment rating and target price, if any, suspended as there is not a sufficient fundamental basis for determining an investment rating or target.

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