



- The consolidated sales of Sopharma (3JR) rose during the last quarter of 2011 to the record levels of BGN 180 million. On annual base the increase is 12% and for the entire 2011 is 7.7%. The unconsolidated sales, which include the main production of the pharmaceutical group, amounted BGN 60 million for the fourth quarter and exceeded BGN 231 million for the whole year.

- The costs' structure of the group was hardly changed past years. The materials' cost slightly increased to 14% of the revenues, moreover the labor costs were stable - 10% at the end of the year. The payments rose in the unconsolidated report, but this is usual for the end of the year, when additional bonuses to the salaries are paid. The interest costs didn't increase as a part of the total revenues as well. Nevertheless, in the unconsolidated report could be observed significant rising of the cost for external services at the end of the year.

- The increase of salaries is the most significant factor for the financial result of Sopharma for the quarter as the share of costs of medicines sold remained 57% of consolidated revenues. The profit for the last quarter increased thanks to the strong rise of turnover. The profit reached BGN 9.4 million or 116% more compared with the last quarter of 2010. This can't compensate the deterioration during the previous three quarters. Moreover the profit of the group fell 4.6% to BGN 38.8 million. The earning per share stood at BGN 0.29.

- The level of inventories in the consolidated balance of Sopharma increased through the course of the year. Nevertheless, they stayed under the average level from 2007 until now. The receivables are stable and stayed around 33% of assets.

- The bank debt of Sopharma was over BGN 175 million. This is significantly above the average level for 2010, as the company reported rising payables to suppliers.

- The share price of Sopharma was affected by the market correction in 2011 as well. The listing of the company on Warsaw Stock Exchange didn't improve trading volumes and we still can't expect sudden price increase on both markets, following the listing.

Stock price of Sopharma



Valuation ratios
Table 1
Multiples
Comparison

	2009	2010	2011
Last Price	3.96	3.89	2.85
Number of Shares	132 000 000	132 000 000	132 000 000
Market Capitalization	522 720 000	513 348 000	376 200 000
Net Profit	36 611 000	40 715 000	38 844 000
P/E	14.28	12.61	9.68
Equity	257 543 000	298 232 000	321 690 000
P/B	2.03	1.72	1.17
Sales	503 983 000	603 062 000	649 572 000
P/S	1.04	0.85	0.58
EV	625 987 000	613 926 000	519 117 000
EBITDA	67 945 000	71 180 000	70 328 000
EV/EBITDA	9.21	8.62	7.38
RoE	14.22%	13.65%	12.07%
RoA	6.78%	6.51%	5.68%

Source: Sopharma
 Calculations: ELANA Trading

Sopharma is one of the few Bulgarian public companies, which succeeded to retain high profit margins during the last three years. However, shares of the company got cheaper and the company is traded at its lowest ratios for the last decade. Rising sales were due to the consolidation of the wholesale business but the most important fact is that the P/E ratio is below 10. Considering the business with low risk rate and the rapidly growing market such as Eastern Europe, this is an excellent long-term investment.

Comparison to similar companies

We are comparing Sopharma to other pharmaceutical companies without taking into consideration details such as region or percent of wholesale trading or production of generic medicines. The range of companies is very large. We are using more conservative approach and we are taking into consideration the median of each multiple.

Table 2
Comparison
to similar
companies

Multiples	P/E	P/B	P/S	EV/EBITDA
Median	13.60	1.76	1.47	8.71
Market Capitalization	528 278 400	566 891 447	952 746 740	469 844 394
Price	4.00	4.29	7.22	3.56
Weight	30%	30%	10%	30%
Current Price		2.85		
Fair Price		4.28		
Premium (Discount) to Current Price		50.13%		

Source: Bloomberg
 Calculations: ELANA Trading

The valuation based on comparison of ratios in the sector gives low weight of P/S, because the wholesale of medicines has large stake in the consolidated revenues. The shares of Sopharma are undervalued in terms of all multiples and the fair value to this method is BGN 4.28.

Discounted Cash Flows

The model of discounted cash flows includes future growth opportunities. Sopharma has stable revenues growth and excellent return, which means that

Financial data:

Statement of Income (in '000 BGN)	2007	2008	2009	2010	2011
Sales	362 382	462 508	503 983	603 062	649 572
Production expenses	281 756	364 833	390 996	479 384	515 097
Personnel expenses	33 724	47 162	46 990	51 547	65 200
Net income from financial activities	1 202	(4 029)	1 919	259	614
Other revenues and expenses	278	(10)	29	790	439
EBITDA	48 382	46 474	67 945	73 180	70 328
Depreciation	10 130	13 905	17 741	16 329	18 139
EBIT	38 252	32 569	50 204	56 851	52 189
Interest expense	6 910	10 206	8 427	7 961	8 608
Pretax income	31 342	22 363	41 777	48 890	43 581
Taxes	3 306	3 150	4 473	5 333	4 964
After-tax income	28 036	19 213	37 304	43 557	38 617
Minority interest	365	(296)	692	842	(227)
Net income	27 671	19 509	36 612	42 715	38 844
Earnings per share in BGN	0.21	0.15	0.28	0.32	0.29

Balance Sheet (in '000 BGN)	2007	2008	2009	2010	2011
Total Assets	428 412	475 877	540 158	625 190	683 362
Equity subscriptions receivable	0	0	0	0	0
Fixed assets	189 723	230 258	230 162	264 451	293 902
Tangible fixed assets	144 858	180 774	182 770	208 550	237 751
Financial investments	34 273	19 317	24 170	20 927	20 043
Current assets	238 689	245 619	309 996	360 739	389 460
Inventory	83 259	106 078	111 251	111 685	126 247
Receivables	118 430	128 491	181 226	202 731	228 973
Financial assets	0	0	0	0	0
Cash and cash equivalents	36 376	9 916	16 843	45 069	32 377
Total liabilities + equity	428 412	475 877	540 158	625 190	683 362
Equity	216 907	217 208	257 543	298 232	321 690
Registered capital	132 000	132 000	132 000	132 000	132 000
Capital funds	35 347	25 803	88 932	124 146	150 846
Earnings	49 560	59 405	36 611	42 086	38 844
Liabilities	211 505	258 669	282 615	326 958	361 672
Long-term payables	4 869	8 766	7 567	10 256	10 228
Long-term bank loans	60 743	73 541	25 115	31 182	23 496
Short-term bank debt	76 270	92 445	94 995	114 465	151 798
Short-term payables	56 521	61 503	126 860	122 008	131 694
Other liabilities	0	0	0	0	0
Working capital	105 898	91 671	88 141	124 266	105 968

Cash Flow Statement (in '000 BGN)	2007	2008	2009	2010	2011
Net income	27 671	19 509	36 612	42 715	38 844
Depreciation	10 130	13 905	17 741	16 329	18 139
Changes in Working capital	3 185	(14 227)	(3 530)	36 125	(18 298)
Other operating cash flow items	(14 540)	(22 235)	(18 506)	(28 072)	10 207
Net cash from operating activities	26 446	(3 048)	32 317	67 097	48 892
Capital expenditures	(27 583)	(29 354)	(6 940)	(9 089)	(37 141)
Other investing cash flow items	(9 083)	(6 266)	(16 636)	(38 675)	(24 027)
Net cash from investing activities	(36 666)	(35 620)	(23 576)	(47 764)	(61 168)
Issuance/ Retirement of Stock, Net	3 107	0	0	(2 392)	(6 741)
Issuance/ Retirement of Debt, Net	44 467	20 601	878	12 285	21 415
Dividends paid	(13 000)	(7 124)	(1 199)	(924)	(12 790)
Other financing cash flow items	(1 643)	(1 519)	(1 244)	(761)	(2 767)
Net cash from financing activities	32 931	11 958	(1 565)	8 208	(883)
Net change in cash	22 711	(26 710)	7 176	27 541	(13 159)
Beginning-of-period cash	13 665	36 376	9 667	16 843	44 384
End-of-period cash	36 376	9 666	16 843	44 384	31 225
Cash per share	0.28	0.07	0.13	0.34	0.24

Financial and Performance Indicators	2007	2008	2009	2010	2011
Valuation Ratios					
Price/Earnings (P/E)	42.86	15.12	14.28	12.02	10.81
Book Value (BV)	1.64	1.65	1.95	2.26	2.44
Price/Book (P/B)	5.47	1.36	2.03	1.72	1.30
Sales Per Share	2.75	3.50	3.82	4.57	4.92
Price/Sales (P/S)	3.27	0.64	1.04	0.85	0.65
Price/Cash per share	31.38	8.83	9.62	8.69	7.37
EV (in BGN)	1 286 657	451 090	625 987	613 926	562 677
EV/Sales	3.55	0.98	1.24	1.02	0.87
EV/EBITDA	26.59	9.71	9.21	8.39	8.00
EV/EBIT	33.64	13.85	12.47	10.80	10.78
Liquidity					
Current ratio	1.80	1.60	1.40	1.53	1.37
Quick ratio	1.17	0.91	0.90	1.05	0.93
Debt Management					
Debt to total assets	0.49	0.54	0.52	0.52	0.53
Interest coverage	5.54	3.19	5.96	7.14	6.06
LT Debt/Equity	0.30	0.38	0.13	0.14	0.10
Total Debt/Equity	0.98	1.19	1.10	1.10	1.12
Asset Management					
Inventory turnover	4.35	4.36	4.53	5.40	5.15
Days sales outstanding	118	100	129	121	127
Fixed asset turnover	1.91	2.01	2.19	2.28	2.21
Total asset turnover	0.85	0.97	0.93	0.96	0.95
Profitability					
Profit margin on sales	7.6%	4.2%	7.3%	7.1%	6.0%
EBITDA margin	13.4%	10.0%	13.5%	12.1%	10.8%
Basic earning power	8.9%	6.8%	9.3%	9.1%	7.6%
Return on assets	6.5%	4.1%	6.8%	6.8%	5.7%
Return on equity	12.8%	9.0%	14.2%	14.3%	12.1%
Return on investments	9.8%	6.5%	12.6%	12.6%	10.9%
Dividend Information					
Dividend Yield	0.51%	-	-	2.19%	-
Dividend per share	0.05	-	-	0.09	-
Number of shares:					
	132 000 000	132 000 000	132 000 000	132 000 000	132 000 000
Price in BGN - period end:					
	8.99	2.24	3.96	3.89	3.18
Market cap in BGN - period end:					
	1 186 020 000	295 020 000	522 720 000	513 348 000	419 760 000

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