

SOPHARMA TRADING

INDUSTRY: PHARMACEUTICAL WHOLESALE

RECORD AFTER RECORD

THE LEADING PHARMACEUTICAL WHOLESALE IN BULGARIA, SOPHARMA TRADING REPORTED ANOTHER RECORD YEAR IN ITS HISTORY. THE TOP LINE SURGED 13.6% Y-O-Y IN 2014, SLIGHTLY BELOW ESTIMATES, BUT KEEPING A FIRM BOTTOM LINE WHICH GREW 12% Y-O-Y AS WELL.

RECORD SALES IN 2014

Sopharma Trading reported another record year in its history. Net sales surged 13.6% y-o-y to BGN 576 m outpacing the whole pharmaceutical market which grew by 8 y-o-y. Main growth drivers were portfolio diversification and better performing hospital segment (17% increase y-o-y) where the Company is the market leader. Growing pharmacy segment (7% y-o-y) also added to the excellent performance thus pushing the Company's overall market share to 23% - 39% of the hospital segment and 19% on the pharmacy segment.

RESULTS SLIGHTLY MISS ESTIMATES BUT BOTTOM LINE EXCELLED AS WELL

2014 results missed our estimates slightly on the top line and more noticeable on the bottom line as the audit lowered net income by 18% vs. preliminary announced numbers. Nevertheless, the Company excelled on the bottom line with FY 2014 net income up 12% up y-o-y to BGN 10.6 m. However, gross profit margin stayed above 7% while EBITDA margin was up 9% y-o-y to 2.75% and ROE was up 6.3% y-o-y to 17%.

RECEIVABLES MANAGEMENT YET TO CATCH UP WITH RISING LEVERAGE

Sopharma Trading is gaining additional momentum on the market at the expense of higher leverage as working with hospitals requires additional working capital funding. Nevertheless, interest revenue from overdue receivables, highest on the state hospitals segment, yet to catch up with higher interest expense from additional leverage.

WAREHOUSE MANAGEMENT SYSTEM OPTIMIZATION TO IMPROVE PROFITABILITY

In Q4 2014, Sopharma Trading closed one of its smaller warehouses in the country – the one in the Black Sea town of Bourgas. The aim is to optimize its logistic system as modernized bigger facilities can support the Company's needs effectively.

VALUATION: Despite missing estimate, Sopharma Trading performed excellently in 2014, which gives us the comfort to keep our initial rating unchanged with a BUY recommendation and a 1YR target price of BGN 6.47 per share.

RISKS: Hospitals bad financial health and healthcare reform in Bulgaria

in '000 BGN, excl. ratios	2013	2014	2015F	2016F
Revenues	507,027	576,100	633,710	684,407
EBITDA	12,770	15,839	18,251	23,338
EBIT	10,548	12,885	15,082	19,574
Net profit	9,490	10,639	12,748	16,563
Equity	59,369	62,605	65,792	69,933
ROE	15.98%	16.99%	19.38%	23.68%
Gross Profit Margin	7.11%	7.03%	7.50%	8.00%
EBITDA margin	2.52%	2.75%	2.88%	3.41%
Net profit margin	1.87%	1.85%	2.01%	2.42%
EPS	0.29	0.32	0.39	0.50
Debt/equity	1.66	1.81	2.04	2.18
P/E	11.10	17.01	13.94	10.73
P/B	1.77	2.89	2.70	2.54
EV/EBITDA	8.25	11.43	9.74	7.62
Payout ratio	80%	75%	75%	75%
Dividend yield	7.19%	4.41%	5.38%	6.99%

RESULTS ANALYSIS

BUY

ONE YEAR PRICE TARGET: BGN 6.47

(DECEMBER 15TH 2014)

CURRENT PRICE: BGN 5.40

EXCHANGE RATES

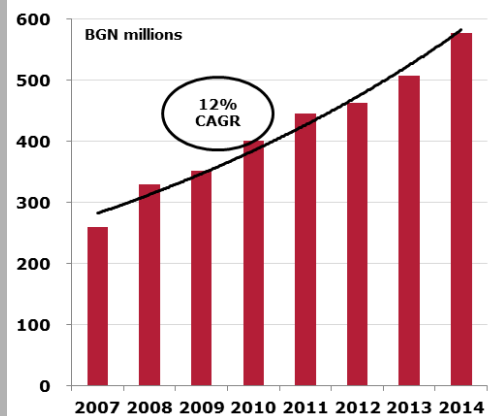
EUR/BGN (FIXED): 1.95583

USD/BGN: 1.80861

MARKET DATA

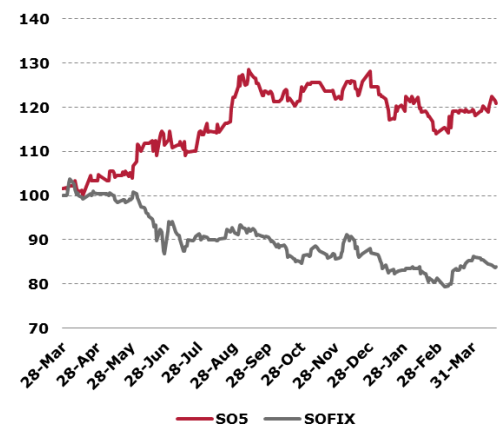
Shares Outstanding:	32.9 m
Share Capital:	32.9 m
Free-float:	28%
Treasury Shares	n/a
Market Cap.:	BGN 184.3 m
Avg. Daily Vol.:	BGN 128,600
52 Weeks Range:	BGN 2.94-5.73
BSE Ticker	S05
Bloomberg Ticker	S05 BU

THE TOP LINE'S ASCENT



Source: Sopharma Trading

PRICE PERFORMANCE VS. THE MARKET



Source: Bloomberg

ANALYSTS CONTACTS:

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ANALYST'S COMMENT

Performance breakdown: Sopharma Trading reported another record year with net sales up 13.6% y-o-y to BGN 576 m. Growth came from all segment of the market stemming mostly in the hospital segment as Sopharma Trading gained additional market share due to the competitors' weakness and a leading competitor's reorganization. Overall, the Sopharma Trading's market share is up from 22% to 23%. The Company outpaced the overall pharmaceutical market which added 8% in 2014, according to IMS Health data quoted by the Company.

Premium medicine, medical consumables, exclusive product portfolio, OTC, life style and cosmetic products sales were up both on the hospital and the pharmacy segments. The former increased 17% y-o-y while the latter was up 7% y-o-y.

The Company missed our estimates, slightly on the top line due to rebates and more noticeably on the bottom line as the audit lowered net income by 18% from revisions both in revenues and expenses.

Profitability: Nevertheless, the Company excelled on the bottom line increasing net income by 12% y-o-y to BGN 10.6 m or 1.85% net income margin. Overall gross profitability stayed above 7% as higher margin exclusive equipment sales added to profitability. EBITDA margin is up 9% y-o-y to 2.75% while ROE is up 6.3% y-o-y to 17%.

In Q4, the Company closed one of its smaller warehouses to optimize logistics as modernized bigger warehouses can effectively service its needs. It closed the Bourgas warehouse on the South Black Sea Coast with all Black Sea logistics to be carried out by the newly modernized and bigger Varna facility. The logistics reorganization shall lead to cost optimization and better efficiency in servicing customers all over Bulgaria.

Receivables management: With competitors showing weaknesses, Sopharma Trading is gaining additional momentum on the hospital segment of the market. However, it is at the expense of higher leverage as the Company is financing working capital with additional short term debt to offset hospitals' delayed payments.

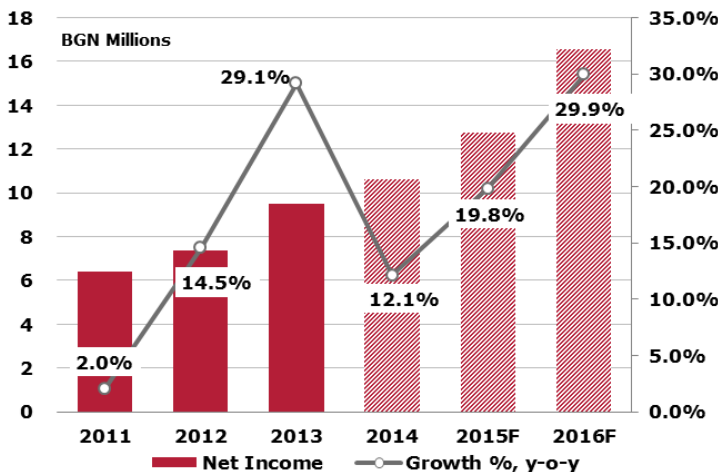
Up to 2013, the Company has partly been financing it with funds from the mother company - Sopharma, but since 2014 it is working independently. The Company is receiving favorable interest conditions thanks to good traditions of working banks and to being part of the bigger group of Sopharma. Nevertheless, interest revenue from overdue receivables, highest on the state hospital segment, has yet to catch up with higher interest expense from additional leverage.

In 2014, the Company's interest revenue from overdue receivables missed to offset the higher interest expense, but the Company has taken precautions for better receivables collection including via court proceedings. In 2014, receivables from the latter are up 70% y-o-y from BGN 3.8 m to BGN 6.5 m.

Overall, trade receivables are slightly up (2% y-o-y) while allowances for doubtful accounts are significantly down (35% y-o-y). Account receivables turnover is also slightly improving over the year. At the same time, interest revenue from overdue receivables is up 3.6% y-o-y to BGN 2.33 m while interest expense is up 60% y-o-y to BGN 2.93 m thus unable to offset the leverage burden contrary to 2013.

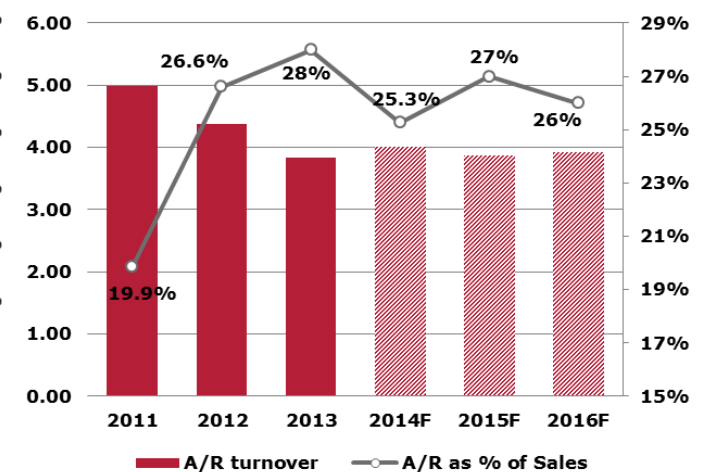
Lastly, receivables from related parties are 14.8% lower y-o-y to BGN 2.2 m while liabilities to related parties are 12% lower y-o-y to BGN 28 m.

NET INCOME ALSO ON THE RISE



Source: Sopharma Trading; Elana Trading estimates

RECEIVABLES TURNOVER IMPROVED



Source: Sopharma Trading; Elana Trading estimates

QUARTERLY DATA (UNAUDITED)

Income Statement ('000 BGN)	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Revenue	112,966	124,474	122,331	120,669	126,106	137,921	143,998	141,903	141,771	148,428
Other operating income	1,173	896	1,163	1,698	(409)	863	1,254	1,053	1,157	1,330
Cost of Material	867	780	752	724	718	779	818	879	825	842
Cost of External Services	1,361	1,406	1,469	1,532	1,456	1,505	2,075	1,442	2,115	2,286
Cost of Labor	3,145	3,090	3,183	3,681	3,339	3,482	3,525	4,226	3,809	4,018
Other Costs	398	2,801	435	1,230	1,466	2,899	317	632	244	1,377
COGS	105,350	146,832	114,796	112,183	115,578	128,430	141,517	131,168	132,024	138,324
Total Operating expenses	111,715	122,802	121,280	119,685	122,376	136,453	141,517	139,072	139,783	147,637
EBITDA	3,018	3,170	2,859	3,388	3,675	2,848	4,408	4,609	3,911	2,911
Depreciation & Amortization	594	602	645	706	354	517	673	725	766	790
EBIT	2,424	2,568	2,214	2,682	3,321	2,331	3,735	3,884	3,145	2,121
Financial Revenue	446	495	720	1,045	393	829	510	619	571	822
Financial Expenses	487	465	466	1,185	541	763	852	847	805	1,042
Interest Expense	407	381	397	394	413	657	747	728	707	816
EBT	2,383	2,598	2,468	2,542	3,173	2,397	3,393	3,656	2,911	1,901
Income Taxes	0	832	0	0	0	1,090	0	0	0	1,222
NET INCOME	2,383	1,766	2,468	2,542	3,173	1,307	3,393	3,656	2,911	679

Balance Sheet ('000 BGN)	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Inventories	39,307	55,458	44,896	45,820	41,583	55,039	51,931	53,596	52,056	62,877
Receivables from related parties	580	838	977	804	907	2,620	2,428	2,321	2,237	2,232
Trade Receivables	116,624	123,025	140,375	140,784	137,846	141,889	144,739	150,729	158,170	145,557
Other receivables and prepaid expenses	19,114	9,046	10,845	9,990	14,484	2,816	9,720	14,726	15,368	6,593
Cash & Cash Equivalents	5,263	3,507	5,253	9,085	6,894	3,395	6,824	4,344	5,008	3,948
Total Current Assets	180,888	191,874	202,346	206,483	201,714	205,759	215,642	225,716	232,839	221,207
Property, Plant & Equipment	19,161	20,744	22,347	22,280	21,725	25,322	24,787	24,618	24,786	21,825
Intangibles	1,277	773	782	639	522	920	987	1,697	2,471	3,312
Investments available for sale	0	3,102	0	0	0	2,256	2,256	2,256	2,256	2,412
Other receivables	0	0	0	0	0	306	271	248	205	258
Total Long-Term Assets	23,123	24,619	23,129	22,919	22,247	28,804	28,301	28,819	29,718	27,807
Total Assets	204,011	216,493	225,475	229,402	226,056	234,563	243,943	254,535	262,557	249,014
Share Capital	32,905	32,905	32,905	32,905	32,905	32,905	32,905	32,905	32,905	32,905
Reserves	17,876	18,244	18,178	18,516	18,446	16,691	16,691	18,530	18,526	17,111
Retained Earnings	5,787	7,553	10,022	5,233	8,467	9,773	13,166	7,415	10,330	12,589
Shareholders' Equity	56,568	58,702	61,105	56,654	59,818	59,369	62,762	58,850	61,761	62,605
Short-term Bank Loans	49,419	47,066	50,082	48,622	89,803	89,573	93,686	91,402	98,138	105,218
Current Portion of Long Term Bank Loans	0	1,194	1,232	1,519	1,097	1,865	1,854	2,277	2,378	2,441
Liabilities to Related Parties	57,955	67,710	70,744	75,259	28,565	31,895	33,912	45,248	46,602	28,097
Account Payables	32,914	34,000	31,691	35,485	35,249	39,493	39,027	36,792	41,273	37,556
Tax Liabilities	2,585	1,154	2,356	1,838	2,602	1,559	2,767	3,187	3,652	3,241
Liabilities to Employees & Social Security	1,056	1,011	1,026	1,041	1,122	1,169	1,220	1,261	1,258	1,356
Other Current Liabilities	1,352	1,144	1,431	2,722	1,726	2,334	1,735	9,277	1,439	2,687
Total Current Liabilities	145,281	153,279	158,562	166,486	160,164	167,888	174,201	189,444	194,740	180,596
Long Term Bank Loans	1,609	3,976	5,274	5,731	5,545	7,037	6,713	5,977	5,794	5,488
Deferred Taxes	398	320	320	320	320	0	0	0	0	0
Other Long Term Liabilities	155	216	214	211	209	269	267	264	262	325
Total Long Term Liabilities	2,162	4,512	5,808	6,262	6,074	7,306	6,980	6,241	6,056	5,813
Total Liabilities	147,443	157,791	164,370	172,748	166,238	175,194	181,181	195,685	200,796	186,409
Total Liabilities & Equity	204,011	216,493	225,475	229,402	226,056	234,563	243,943	254,535	262,557	249,014

Source: Sopharma Trading

ANNUAL DATA

Income Statement ('000 BGN)	2011	2012	2013	2014	2015F	2016F
Revenue	444,616	462,529	507,027	576,100	633,710	684,407
Other operating income	2,577	4,106	3,315	4,794	4,943	5,338
Cost of Material	2,717	3,127	2,973	3,364	3,802	4,106
Cost of External Services	4,248	5,790	5,962	7,918	8,555	8,897
Cost of Labor	12,540	12,715	13,685	15,578	17,110	18,616
Other Costs	4,877	4,131	6,030	2,570	4,753	5,133
COGS	414,990	430,800	470,987	535,625	586,182	629,654
Total Operating expenses	439,981	457,983	499,794	568,009	623,571	670,171
EBITDA	9,468	11,052	12,770	15,839	18,251	23,338
Depreciation & Amortization	2,256	2,400	2,222	2,954	3,169	3,764
EBIT	7,212	8,652	10,548	12,885	15,082	19,574
Financial Revenue	1,692	1,317	2,987	2,522	2,862	2,943
Financial Expenses	1,754	1,788	2,955	3,546	3,802	4,106
EBT	7,150	8,181	10,580	11,861	14,142	18,411
Income Taxes	734	832	1,090	1,222	1,394	1,848
NET INCOME	6,416	7,349	9,490	10,639	12,748	16,563

Balance Sheet ('000 BGN)	2011	2012	2013	2014	2015F	2016F
Inventories	56,132	55,458	55,039	62,877	69,708	75,285
Receivables from related parties	425	838	2,620	2,232	1,901	2,053
Trade Receivables	88,359	123,025	141,889	145,557	171,102	177,946
Other receivables and prepaid expenses	17,148	9,046	2,816	6,593	9,506	10,266
Cash & Cash Equivalents	5,998	3,507	3,395	3,948	7,605	8,213
Total Current Assets	168,062	191,874	205,759	221,207	259,821	273,763
Property, Plant & Equipment	19,794	20,744	25,322	21,825	25,348	26,007
Intangibles	943	773	920	3,312	1,267	1,369
Investments available for sale	0	3,102	2,256	2,412	5,070	5,475
Other receivables	0	0	306	258	380	411
Total Long-Term Assets	20,737	24,619	28,804	27,807	32,066	33,262
Total Assets	188,799	216,493	234,563	249,014	291,887	307,025
Share Capital	32,905	32,905	32,905	32,905	32,905	32,905
Reserves	17,169	18,244	16,691	17,111	0	0
Retained Earnings	6,502	7,553	9,773	12,589	18,386	20,042
Shareholders' Equity	56,576	58,702	59,369	62,605	14,501	16,986
Short-term Bank Loans	35,778	47,066	89,573	105,218	126,742	136,881
Current Portion of Long Term Bank Loans	374	1,194	1,865	2,441	2,535	2,738
Liabilities to Related Parties	54,794	67,710	31,895	28,097	48,162	52,015
Account Payables	34,835	34,000	39,493	37,556	46,895	50,646
Tax Liabilities	1,434	1,154	1,559	3,241	1,901	2,053
Liabilities to Employees & Social Security	1,040	1,011	1,169	1,356	1,901	2,053
Other Current Liabilities	2,282	1,144	2,334	2,687	2,788	3,011
Total Current Liabilities	130,537	153,279	167,888	180,596	230,924	249,398
Long Term Bank Loans	1,113	3,976	7,037	5,488	5,070	13,004
Deferred Taxes	398	320	0	0	285	342
Other Long Term Liabilities	175	216	269	325	63	68
Total Long Term Liabilities	1,686	4,512	7,306	5,813	5,418	13,414
Total Liabilities	132,223	157,791	175,194	186,409	236,342	262,812
Total Liabilities & Equity	188,799	216,493	234,563	249,014	291,887	307,025

Source: Sopharma Trading, Elana Trading estimates

COMPANY OVERVIEW

COMPANY PROFILE

Sopharma Trading is the leading Bulgarian pharmaceutical distributor with a 23% market share. The company is part of the Sopharma group that integrates one of the leading generic and organic pharmaceutical producer in the country – Sopharma (3JR BU), together with other supporting operations.

Sopharma Trading is a full-value healthcare solutions provider with 3000+ customers, 10,000+ diversified product portfolio and 400 local and international partners, including with exclusive contracts with GE Healthcare, Abbott, Carl Zeiss, etc.

It holds 19% of the local pharmacy market and 39% of the local hospitals' market thus making it the partner of choice in the latter. The former, however, still contributes the most to the company's top line, while the latter and the medical equipment add to its bottom line.

The company manages one of the most modern logistics systems in Bulgaria with 4 regional distribution centers in 4 of the biggest cities in Bulgaria. Its pharmaceutical logistics terminal in Sofia operates with a state of the art warehouse management system. The Company is the first certified with Good Distribution Practice standard in Bulgaria.

FUNDAMENTAL STORY

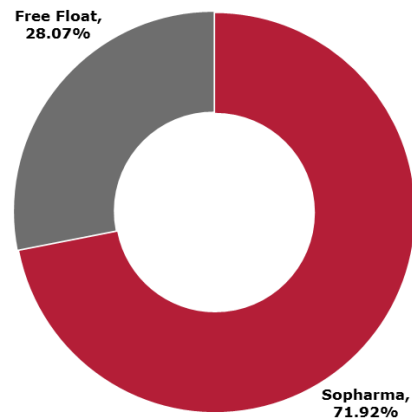
Sopharma Trading's leading position on the local pharmaceutical distribution market provides grounds for high long term sustainable growth as the local market is growing at 5%+ y-o-y and the local healthcare system is well underdeveloped as compared to EU average.

Bulgarian hospitals are in dire need of modernization both as facilities and equipment. Additionally, government healthcare spending is 80% below EU average thus offering considerable potential for growth from which Sopharma Trading will be able to benefit to the most as it holds 39% of the local hospital market. Also, it is one of the few exclusive medical equipment distributors.

STRENGTHS & OPPORTUNITIES

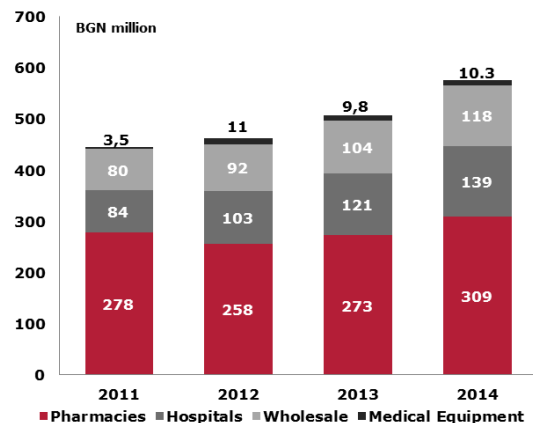
- Excellent corporate governance
- Strong market positions despite heavy competition
- Stable dividend policy

SHAREHOLDERS' STRUCTURE



Source: Sopharma Trading

SALES BREAKDOWN IN 2013



Source: Sopharma Trading

WEAKNESSES & THREATS

- Heavy exposure to state-owned hospitals which are characterized with huge delays in payments
- High Debt/Equity as the company acts as a creditor to Bulgarian hospitals

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BUY	Target price is more than 10% above current quotes
HOLD	Target price in +/-10% range of the current quotes
SELL	Target price is more than 10% below the current quotes

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