

SOPHARMA TRADING

INDUSTRY: PHARMACEUTICAL WHOLESALE

AIMING FOR THE BILLION

SOPHARMA TRADING RECORDED ANOTHER RECORD YEAR IN 2015 AND CLOSED ON AN 8.6% CAGR FIVE YEAR CYCLE. NEW HEALTHCARE REGULATIONS TO SET THE FUTURE TONE IN MEDICINE PRICING WHILE HOSPITAL CONSOLIDATION, RETAIL EXPANSION AND NEW MARKETS TO DRIVE THE COMPANY'S FUTURE RESULTS.

TOP AND BOTTOM LINE CONTINUE TEN YEAR UPWARD TREND

Leading pharma distributor in Bulgaria, Sopharma Trading, delivered 10th consecutive record year expanding both top and bottom line. Five year top line CAGR exceeded 8% while average EPS growth was 14%. In FY 2015, sales reached BGN 603m but growth decelerated to 4.7% y/y, slightly below our estimates. Net income added 14% y/y to BGN 12.2m due to larger medical equipment deals. The latter also led to a 25% y/y rise in net income in Q1 2016 despite flat sales of BGN 153m.

AIMING FOR THE BILLION

Sopharma Trading is targeting further top line expansion, aiming for a billion of revenues in the foreseeable future. To achieve it the Company is developing an own pharmacy retail chain in Bulgaria with the task to deliver 1/3 of revenues (8 pharmacies operational by end of H1'16) and entering the Serbian pharmaceutical market with an initial portfolio of Sopharma's (3JR BU) OTC products as well as exclusive products by Jamieson, Aboca, SVR.

HEALTHCARE REFORM IN BULGARIA POSES UNCERTAINTY

International expansion efforts come at a time when ongoing healthcare reforms have temporarily slowed the Bulgarian pharmaceutical market growth as new medicine regulations and government healthcare efficiency measures have hit both original drug producers and hospital budgets. The government is currently revising drugs' reimbursement policy and public spending on healthcare towards a more pro-generic and efficient policy which at least temporarily has slowed the overall market growth as participants await decisions.

RECEIVABLE COLLECTION AND LOWER LEVERAGE ON THE AGENDA

Accordingly, receivables collection becomes even more important as Sopharma Trading is key hospital partner in Bulgaria with a 40% share of the hospital market. Overdue, mostly hospital, receivables have slightly slowed down their growth rate in 2015 albeit they continue growing and urge the Company to build up leverage to suffice working capital. Still, it manages to balance the cost of leverage to the cost of delayed payments by charging interest on all overdue receivables and selling receivables via factoring as of Q1'16.

VALUATION: Despite an excellent performance in 2015 new health care regulations have slowed growth and although we see as a temporary event urges us to lower again top and bottom line performance estimate. Accordingly, we lower our one year target price from BGN 6.12 to BGN 6.03 per share which provides for a narrow upside of 11% to current market quotes. We keep our BUY recommendation.

RESULTS ANALYSIS

RECOMMENDATION: BUY

ONE YEAR PRICE TARGET: BGN 6.03

CURRENT PRICE: BGN 5.41

EXCHANGE RATES

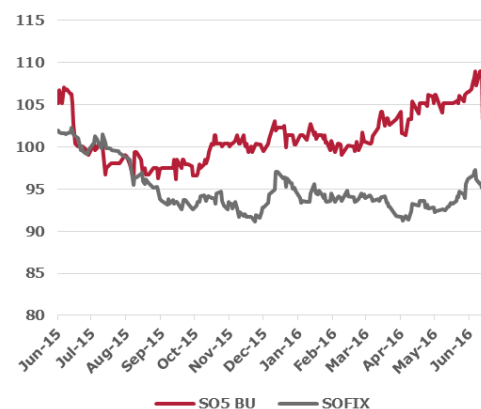
EUR/BGN (FIXED): 1.95583

USD/BGN: 1.76678

MARKET DATA

Shares Outstanding:	32.9 m
Share Capital:	32.9 m
Free-float:	28%
Treasury Shares	0%
Market Cap.:	BGN 178 m
52 Weeks Range:	BGN 4.76 – 5.54
Ave. Daily Turnover	BGN 5, 000
BSE Ticker	S05
Bloomberg Ticker	S05 BU

PRICE PERFORMANCE



Source: Bloomberg

in kBGN, excl. ratios	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
REVENUES	141 771	148 428	153 079	143 523	152 646	154 520	153 092
GROWTH Y/Y	12.42%	7.62%	6.31%	1.14%	7.67%	4.10%	0.01%
EBITDA	3 911	2 911	4 613	3 650	5 914	3 194	5 330
EBIT	3 145	2 121	3 723	2 754	5 076	2 350	4 489
NET PROFIT	2 911	679	3 587	3 333	4 894	819	4 051
EQUITY	61 761	62 605	66 193	60 795	69 789	66 349	69 789
ROE (TTM)	18.62%	17.42%	17.35%	16.94%	19.45%	19.39%	19.67%
ROA (TTM)	4.61%	4.28%	4.27%	4.05%	4.78%	4.85%	4.97%
EBITDA MARGIN	2.76%	1.96%	3.01%	2.54%	3.87%	2.07%	3.48%
NET PROFIT MARGIN	2.05%	0.46%	2.34%	2.32%	3.21%	0.53%	2.65%
EPS	0.09	0.02	0.11	0.10	0.15	0.02	0.12
DEBT/EQUITY	1.69	1.77	1.70	1.87	1.25	1.66	1.50
P/E	16.06	16.32	15.31	16.55	13.56	14.33	13.57
P/B	2.93	2.77	2.51	2.86	2.43	2.73	2.55

ANALYST'S COMMENTS

Sopharma Trading delivered excellent FY2015 results with 4.7% y/y rise in sales to BGN 603m and 14% rise in net income to BGN12.2m.

Top line dissection: The Company sustained a comfortable top line growth and nice bottom line rise due to high margin medical equipment and consumables sales. Sopharma Trading is a market leader in both the pharmacy and hospitals segments of the Bulgarian pharmaceutical market with a 17% and 40% market share, respectively, and accordingly is a preferred partner for both small and big item purchases.

Big medical equipment sales were up 73% y/y to BGN 17m in 2015 on two major projects. It delivered a high-tech linear accelerator and radiosurgery treatment system to one of the big public hospitals in Sofia and provided some of the equipment for the newest private hospital in Bulgaria that became operational at the end of 2015 in the town of Panagyurishte.

Nevertheless, overall top line grew slightly below expectations as the market remained cautious of the ongoing healthcare system regulation reshuffle. New reimbursement policy, especially on high-margin premium medicine, has slowed overall market growth as evident by Q1 2016 results. Sales were flat for the period at BGN 153m and growth accelerated only slightly to 1.3% y/y rise to BGN 250m, as preliminary Jan-May 2016 data reveal. Acceleration came again from big item sales despite the general subdued investment activity on the market due to the ongoing system reform. No final regulatory decisions have been made yet, however, Sopharma Trading expects major hospital consolidation and new department investments as the overall system has remained largely outdated. The Company expects to tap on the ongoing modernization process.

In addition, it plans on adding additional top line growth via developing a modern pharmacy chain in Bulgaria (8 pharmacies opened by end of H1'16) as well as entering on the Serbian market which it describes as 10 years behind the Bulgarian in its stage of development. In Serbia, it plans to start sales with a 20 OTC product portfolio by Bulgarian generic producer Sopharma (3JR BU) as well as an exclusive portfolio of cosmetics, consuma-

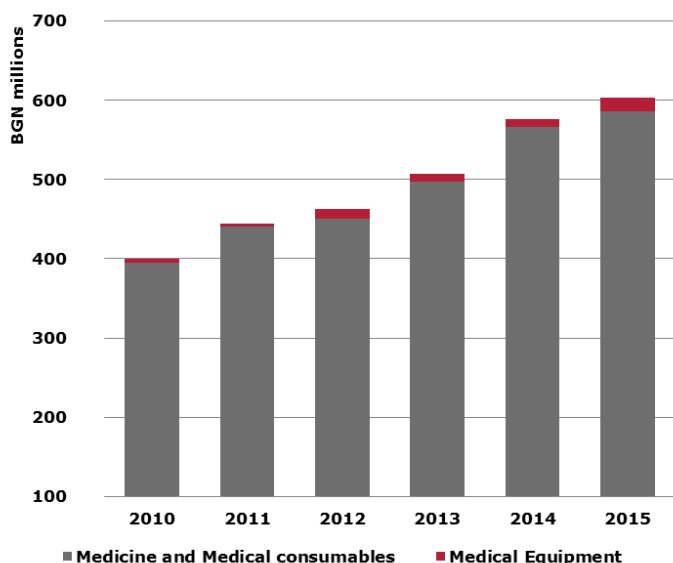
bles and vitamins by Jamieson, Aboca, SVR, and etc. Overall top line goal is reaching a billion of sales to compensate for tighter margins in the industry. No delivery time frame for the latter goal yet discussed by management.

Bottom line break down: The Company has managed to deliver constant EPS growth over the last five years of 14% y/y. FY2015 was no exception while Q1'16 top line performance was second best in 20 quarters after Q3 2015 as big medical item sales kicked in. Accordingly, gross margins have been on the rise ever since 2011 with the Company's diversification into a broader healthcare services and products provider. Gross margin added 200 bps over the last five years and stood at 7.6% as of the end of 2015. Net income margin added 50 bps over the last five years to 2.05% in FY2015, slightly below our estimates, while Q1 2016 net income margin expanded to 2.65%, above our expectations.

Better bottom line performance in Q1 2016 was also due to lower debt service costs as the Company started using lower cost factoring to deal with receivables collection. In Q1'16 it sold with recourse receivables worth BGN 36m (23% of Total Receivable as of end of 2015) with an open rolling credit facility via factoring of up to BGN 20m. The factored receivables had been previously used as debt collateral aka banks accepted them as high quality assets.

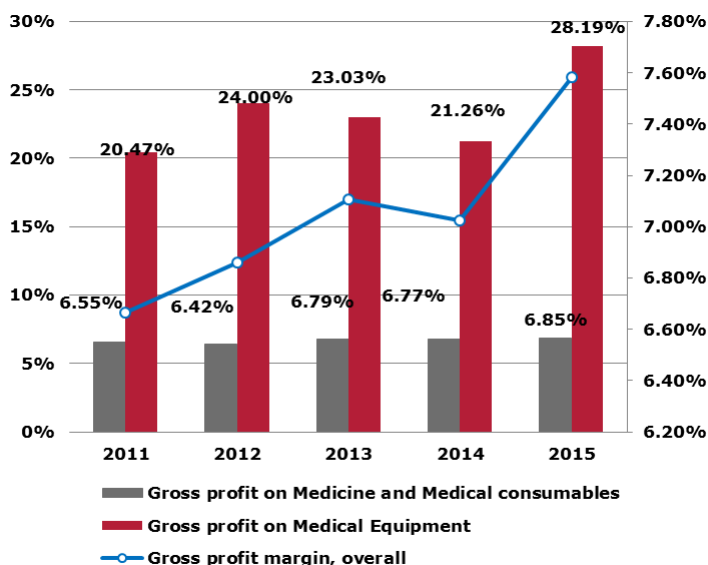
Accordingly, the Company managed to slightly lower its leverage and debt service costs as well as slightly improve its account receivables turnover. New local banks' appetite for factoring hospital and pharmacy receivables, at a 10%-15% discount, is a positive sign considering Sopharma Trading's 52% overdue receivables as of the end of 2015. 38% of all receivables the Company had on its books prior to its first factoring deal were uncollateralized. Further receivables factoring, including without recourse, will allow the Company to additionally improve debt service costs and receivables collection as well as fund its top line expansion plans and sustain its generous dividend payout policy. The Company distributes 80% of profits. This year shareholders approved a BGN 0.30 DPS, yielding 5.6% at current market quotes.

8.6% CAGR OF REVENUES OVER THE LAST FIVE YEARS



Source: Company data

OVERALL GROSS PROFIT MARGIN ADDED 200 BPS OVER THE LAST FIVE YEARS



Source: Company data

ANNUAL FINANCIAL DATA (AUDITED)

INCOME STATEMENT ('000 BGN)	2013	2014	2015	Q1 2015	Q1 2016	TTM	2016F	2017F
Sales	507 027	576 100	603 410	153 079	153 092	507 040	621 512	658 803
Other operating income	3 315	4 794	5 518	1 053	1 446	3 708	4 848	5 139
Change in Inventories	0	0	0	0	0	0	0	0
Cost of Materials	2 973	3 364	3 061	678	688	2 983	3 418	3 623
Cost of External Services	5 962	7 918	11 142	2 113	2 021	5 870	8 701	9 553
Cost of Labor	13 685	15 578	17 562	4 054	4 269	13 900	18 024	19 764
Other operating expenses	6 030	2 570	2 194	344	451	6 137	4 351	5 270
COGS	470 987	535 625	558 236	142 330	141 779	470 436	571 791	604 122
Total Operating Expenses	499 794	568 009	595 522	150 409	150 049	499 434	609 393	645 627
EBITDA	12 770	15 839	16 733	4 613	5 330	13 487	20 075	21 609
Depreciation and Amortization	2 222	2 954	3 327	890	841	2 173	3 108	3 294
EBIT	10 548	12 885	13 406	3 723	4 489	11 314	16 967	18 315
Financial revenue	2 987	2 522	3 856	785	771	2 973	2 797	2 833
Financial expense	2 955	3 546	3 701	921	759	2 793	3 729	3 294
Interest Expense	1 861	2 998	3 040	749	613	1 725	2 797	2 965
EBT	10 580	11 861	13 561	3 587	4 501	11 494	16 035	17 854
Income Taxes	1 090	1 222	1 397	359	450	1 181	1 429	1 713
Minority Interest	0	0	0	0	0	0	0	0
Net Income	9 490	10 639	12 164	3 228	4 051	10 313	14 606	16 141
EARNINGS PER SHARE IN BGN	0.29	0.32	0.37	0.10	0.12	0.31	0.44	0.49
BALANCE SHEET ('000 BGN)	2013	2014	2015	Q1 2015	Q1 2016	TTM	2016F	2017F
Inventories	55 039	62 877	60 785	52 056	57 065	57 065	49 721	65 880
Receivables from related parties	2 620	2 232	3 447	2 237	3 488	3 488	3 108	2 965
Trade Receivables	141 889	151 058	152 105	170 232	166 398	166 398	161 593	171 289
Other receivables and prepaid expenses	2 816	866	3 895	3 041	1 072	1 072	2 486	2 635
Cash & Cash Equivalents	3 395	3 948	4 212	5 008	2 269	2 269	1 495	1 842
TOTAL CURRENT ASSETS	205 759	220 981	224 444	232 574	230 292	230 292	218 403	244 611
Property, Plant & Equipment	25 322	21 825	20 977	24 786	20 803	20 803	27 968	29 646
Intangibles	920	3 312	6 730	2 471	7 290	7 290	4 972	5 270
Investment property	0	0	0	0	0	0	0	0
Investments in subsidiaries	0	0	2 684	0	3 020	3 020	0	0
Investments available for sale	2 256	2 412	2 396	2 256	2 238	2 238	2 486	2 635
Receivables from related parties	0	0	404	0	214	214	0	0
Other receivables	306	258	283	205	88	88	373	395
TOTAL LONG-TERM ASSETS	28 804	27 807	33 474	29 718	33 653	33 653	35 799	37 947
TOTAL ASSETS	234 563	248 788	257 918	262 292	263 945	263 945	254 202	282 558
Short-term Bank Loans	89 573	105 218	103 872	98 138	83 791	83 791	62 151	79 056
Current Portion of Long Term Bank Loans	1 390	1 788	2 574	1 780	1 778	1 778	2 486	2 635
Liabilities to Related Parties	31 895	28 097	30 127	46 602	34 962	34 962	47 235	50 069
Account Payables	40 618	38 872	45 744	41 287	46 989	46 989	45 992	48 751
Tax Liabilities	1 559	3 241	2 798	3 652	3 450	3 450	1 865	1 976
Liabilities to Employees & Social Security	1 169	1 356	1 473	1 258	1 897	1 897	1 865	1 976
Other Current Liabilities	1 684	1 798	791	1 758	17 232	17 232	18 645	19 764
TOTAL CURRENT LIABILITIES	167 888	180 370	187 379	194 475	190 099	190 099	180 239	204 229
Long Term Bank Loans	5 539	3 837	3 875	4 279	1 950	1 950	2 486	2 635
Deferred Taxes	0	0	0	0	23	23	311	395
Liabilities to Employees on Retirement	251	316		251	416	416	249	264
Financial Leases	1 498	1 651		1 515	1 668	1 668	1 305	1 383
Other Long Term Liabilities	18	9	315	11	0	0	62	66
TOTAL LONG-TERM LIABILITIES	7 306	5 813	4 190	6 056	4 057	4 057	4 413	4 743
TOTAL LIABILITIES	175 194	186 183	191 569	200 531	194 156	194 156	184 651	208 972
Share Capital	32 905	32 905	32 905	32 905	32 905	32 905	32 905	32 905
Reserves	16 691	17 111	18 834	18 526	18 747	18 747	19 889	21 503
Retained Earnings	9 773	12 589	14 610	10 330	18 137	18 137	16 756	19 177
TOTAL EQUITY	59 369	62 605	66 349	61 761	69 789	69 789	69 551	73 586
TOTAL LIABILITIES & EQUITY	234 563	248 788	257 918	262 292	263 945	263 945	254 202	282 558
	2013	2014	2015	Q1 2015	Q1 2016	TTM	2016F	2017F
NUMBER OF SHARES:	32 905 009	32 905 009	32 905 009	32 905 009	32 905 009	32 905 009	32 905 009	32 905 009
PRICE IN BGN - PERIOD END:	3.20	5.50	5.25	2.83	5.20	5.40	5.40	5.40
MARKET CAP IN BGN - PERIOD END:	105 296 029	180 977 550	172 751 297	93 121 175	171 106 047	177 687 049	177 687 049	177 687 049

Source: Company financial statements, ELANA Trading forecasts

QUARTERLY FINANCIAL DATA (UNAUDITED)

INCOME STATEMENT ('000 BGN)	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
Sales	143 998	141 903	141 771	148 428	153 079	143 523	152 646	154 520	153 092
Other operating income	1 254	1 053	1 157	1 330	1 053	1 946	960	1 445	1 446
Change in Inventories	0	0	0	0	0	0	0	0	0
Cost of Materials	818	879	825	842	678	917	645	821	688
Cost of External Services	2 075	1 442	2 115	2 286	2 113	2 277	2 964	3 440	2 021
Cost of Labor	3 525	4 226	3 809	4 018	4 054	4 632	4 172	4 217	4 269
Other operating expenses	317	632	244	1 377	344	519	860	804	451
COGS	141 517	131 168	132 024	138 324	142 330	133 474	139 051	143 489	141 779
EBITDA	141 517	139 072	139 783	147 637	150 409	142 715	148 530	153 615	150 049
Depreciation and Amortization	4 408	4 609	3 911	2 911	4 613	3 650	5 914	3 194	5 330
EBIT	673	725	766	790	890	896	838	844	841
Financial revenue	3 735	3 884	3 145	2 121	3 723	2 754	5 076	2 350	4 489
Financial expense	510	619	571	822	800	1 483	737	784	771
EBT	852	847	805	1 042	936	904	919	911	759
Income Taxes	747	728	707	816	749	757	805	729	613
Net Income	3 393	3 656	2 911	679	3 587	3 333	4 894	819	4 051

BALANCE SHEET ('000 BGN)	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
CASH & NEAR CASH ITEMS	6 824	4 344	5 008	3 948	2 851	6 639	2 269	4 215	2 269
ACCOUNTS & NOTES RECEIVABLE	153 413	163 305	170 232	151 058	170 763	176 542	166 398	159 216	170 531
INVENTORIES	51 931	53 596	52 056	62 877	54 988	54 713	57 065	60 619	57 065
OTHER CURRENT ASSETS	3 474	4 178	5 278	3 098	3 940	4 815	4 560	830	762
TOTAL CURRENT ASSETS	215 642	225 423	232 574	220 981	232 542	242 709	230 292	224 880	230 627
NET FIXED ASSETS	25 774	26 315	27 257	25 137	25 226	25 674	28 093	5 342	5 560
OTHER LONG-TERM ASSETS	2 256	2 256	2 256	2 412	2 412	2 412	2 238	27 698	28 093
TOTAL LONG-TERM ASSETS	28 301	28 819	29 718	27 807	28 001	28 999	33 653	33 040	33 653
TOTAL ASSETS	243 943	254 242	262 292	248 788	260 543	271 708	263 945	257 920	264 280
ACCOUNTS PAYABLE	39 661	37 122	41 287	38 872	45 406	45 129	46 989	80 870	87 298
SHORT-TERM BORROWINGS	95 061	93 191	99 918	107 006	109 026	110 563	85 569	106 441	86 494
OTHER SHORT-TERM LIABILITIES	39 479	58 838	53 270	34 492	34 706	50 633	57 541	512	16 566
TOTAL CURRENT LIABILITIES	174 201	189 151	194 475	180 370	189 138	206 325	190 099	187 823	190 358
LONG-TERM BORROWINGS	6 713	5 977	5 794	5 488	4 892	4 275	3 618	3 875	3 694
OTHER LONG TERM BORROWINGS	267	264	262	325	320	313	439	457	439
TOTAL LONG-TERM LIABILITIES	6 980	6 241	6 056	5 813	5 212	4 588	4 057	4 332	4 133
TOTAL LIABILITIES	181 181	195 392	200 531	186 183	194 350	210 913	194 156	192 155	194 491
TOTAL EQUITY	62 762	58 850	61 761	62 605	66 193	60 795	69 789	65 765	69 789
TOTAL LIABILITIES & EQUITY	243 943	254 242	262 292	248 788	260 543	271 708	263 945	257 920	264 280

FINANCIAL AND PERFORMANCE INDICATORS	2013	2014	2015	TTM	2016F	2017F
Valuation						
Price/Earnings (P/E)	11.10	17.01	14.20	17.23	12.17	11.01
Price/Book (P/B)	1.77	2.89	2.60	2.55	2.55	2.41
EV (in '000 BGN)	199 901	289 524	278 860	264 605	244 621	261 555
EV/EBITDA	15.65	18.28	16.67	19.62	12.19	12.10
Profitability						
ROE	16.08%	17.44%	18.87%	14.78%	21.00%	21.93%
ROA	4.05%	4.28%	4.72%	3.91%	5.75%	5.71%
EBITDA margin	2.52%	2.75%	2.77%	2.66%	3.23%	3.28%
EBIT margin	2.08%	2.24%	2.22%	2.23%	2.73%	2.78%
Net income margin	1.87%	1.85%	2.02%	2.03%	2.35%	2.45%
Dividend						
Dividend yield	4.51%	5.09%	5.39%	4.26%	6.41%	7.09%
Dividend per share (BGN)	0.23	0.27	0.30	n/a	0.35	0.38
Liquidity						
Current ratio	1.23	1.23	1.20	1.21	1.21	1.20
Quick ratio	0.90	0.88	0.87	0.91	0.94	0.88
Credit						
LT debt/equity	0.09	0.06	0.06	0.03	0.04	0.04
Total debt/equity	1.63	1.77	1.66	1.25	1.23	1.41
Total debt/total assets	0.75	0.75	0.74	0.74	0.73	0.74

SOPHARMA TRADING Overview

Ticker	S05	Recommendation	BUY	Outstanding Shares	32.9 m
Bloomberg ticker	S05 BU	Last review	11 July 2016	Free Float	28%
Current Price	BGN 5.41	1Y Target Price	6.03	Avr. Daily Volume	BGN 5,000

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, Jamieson, 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. Its pharmaceutical logistics terminals in Sofia and Varna operate modern warehouse management system by KNAPP. 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 marker 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 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.

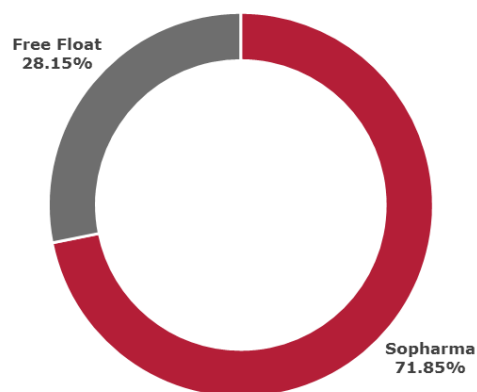
Retail expansion potential via own pharmacy chain to tap on rising disposable income. In mid2016, the company already runs 8 pharmacies in Bulgaria.

Eyes expansion in Serbia with an exclusive portfolio as well as

STRENGTHS & OPPORTUNITIES

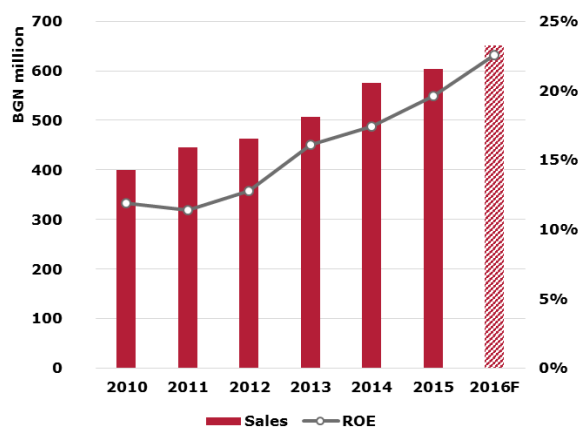
- Excellent corporate governance
- Strong market positions despite heavy competition
- Stable dividend policy

SHAREHOLDERS' STRUCTURE



Source: Company data

8.6% CAGR TOP LINE GROWTH AND 15.5% AVERAGE ROE OVER THE LAST 5 YEARS



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

Frequency of Recommendations: No schedule of recommendations is available. The frequency of recommendations depends on specific factors to individual companies and the opinion of the analyst(s) for the necessity of minor or major changes.

Q4 2015 Recommendation Review			Market Maker Services
Recommendation	#	Share	
BUY	9	47%	SKK BU
HOLD	7	37%	
SELL	0	0%	
Under review	3	16%	

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