

SOPHARMA TRADING

INDUSTRY: PHARMACEUTICAL WHOLESALE

SLOWER THAN EXPECTED

SLOWER THAN EXPECTED TOP LINE EXPANSION SETTLED OVER THE 9M16 PERIOD FOR SOPHARMA TRADING. PHARMACIES AND HOSPITALS' SALES COME UP LOWER THAN USUAL AMID THE COMPANY'S EXPANSION INTO AN OWN PHARMACY CHAIN AND INTO NEW MARKETS.

TOP LINE EXPANSION SLOWS DOWN

Leading pharma distributor in Bulgaria, Sopharma Trading, booked third consecutive quarter of slower than expected growth. In 3Q16, top line growth turned negative of 1.63% y/y to BGN 150m on higher 3Q15 base when the Company had major big medical equipment deals. Overall, 9M16 sales are down 0.34% y/y to BGN 447.7m on all segments – pharmacies, hospitals, wholesale and big medical equipment deals, slower than expected.

MARGIN EROSION ALSO EVIDENT

The Company also booked some margin erosion on labor costs adding 8% y/y, in line with the average labor cost rise in the Bulgaria for the period and despite better interest collection on overdue receivables. Net income margin slipped to 2.26% for the 9M16 from 2.37% a year earlier. The former is also below our initial estimates which urges us to revise both out top and bottom line expectations downward.

LAST QUARTER COULD SMOOTH OUT RESULTS

Latest October 2016 data signals some smoothing out possible in both top and bottom line performance as later big medical equipment deals were booked in 4Q16 vs. bigger equipment deals in 3Q15. Accordingly, overall 10M16 data point to flat sales and 1.5% y/y rise in earnings before taxes. New government turbulences with the latter resigning in mid-November to bring uncertainty in the state health care system in the short to midterm, thus we stick to a downward revision in Sopharma Trading's performance expectations.

DIVIDEND PAYOUT TO BE UNAFFECTED

Yet we do not expect the dividend payout to be affected by the lower than expected performances. We slightly revise our expected dividend per share on lower expected net distributable income. Nevertheless, the payout to remain close to the historical average of 80% allowing for a rewarding yield in the 5% range on current market quotes despite yield chasing local demand.

VALUATION: Considering the lower than expected performance over the last few quarters we revise downward our top and bottom line expectations for the Company. However, declining cost of debt calls for lower weighted average cost of capital which allows us to keep our target price. However, considering Sopharma Trading's latest stock advance, 13% since our last review in July 2016, we revise our recommendation downward from a BUY to HOLD. Yet, we expect active stock demand as local investors are chasing yield in the current low interest rate environment in Bulgaria.

RESULTS ANALYSIS

RECOMMENDATION: HOLD

ONE YEAR PRICE TARGET: BGN 6.03

CURRENT PRICE: BGN 6.18

EXCHANGE RATES

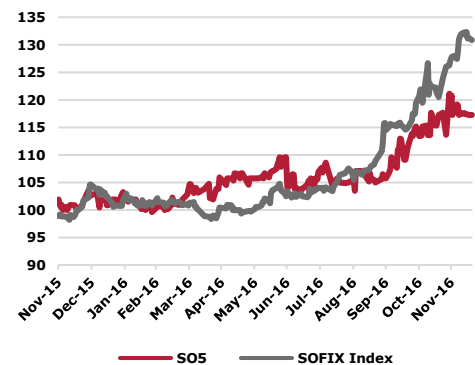
EUR/BGN (FIXED): 1.95583

USD/BGN: 1.88714

MARKET DATA

Shares Outstanding:	32.9 m
Share Capital:	32.9 m
Free-float:	28%
Treasury Shares	0%
Market Cap.:	BGN 203 m
52 Weeks Range:	BGN 4.90 – 6.30
Ave. Daily Turnover	BGN 12 000
BSE Ticker	S05
Bloomberg Ticker	S05 BU

PRICE PERFORMANCE



Source: Bloomberg

in kBGN, excl. ratios	Q4 2014	Q12014	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
REVENUES	148 428	153 079	143 523	152 646	154 162	153 092	144 494	150 138
GROWTH Y/Y	7.62%	6.31%	1.14%	7.67%	3.86%	0.01%	0.68%	-1.64%
EBITDA	2 911	4 613	3 650	5 914	2 556	5 330	2 872	4 680
EBIT	2 121	3 723	2 754	5 076	1 853	4 489	2 044	3 797
NET PROFIT	679	3 587	3 333	3 713	1 531	4 051	2 398	3 675
EQUITY	62 605	66 193	60 795	65 532	66 349	69 789	62 296	65 970
ROE (TTM)	17.42%	17.35%	16.94%	17.85%	18.92%	19.21%	18.00%	17.66%
ROA (TTM)	4.28%	4.26%	4.05%	4.31%	4.65%	4.77%	4.39%	4.35%
EBITDA MARGIN	1.96%	3.01%	2.54%	3.87%	1.66%	3.48%	1.99%	3.12%
NET PROFIT MARGIN	0.46%	2.34%	2.32%	2.43%	0.99%	2.65%	1.66%	2.45%
EPS	0.02	0.11	0.10	0.11	0.05	0.12	0.07	0.11
DEBT/EQUITY	1.77	1.70	1.87	1.27	1.66	1.50	1.74	1.65
P/E	16.32	15.31	16.55	14.98	14.88	13.45	15.20	17.22
P/B	2.77	2.51	2.86	2.59	2.73	2.43	2.85	3.04
EV/EBITDA	17.71	17.17	18.62	14.35	17.16	15.60	16.92	19.91

ANALYST'S COMMENTS

Top line expansion slowdown was evident over the first three quarters of 2016 for Sopharma Trading.

Top line dissection: All segments of the Company, which is among the biggest pharmaceutical wholesalers in Bulgaria, from pharmacies and hospitals to larger big margin medical equipment sales, were either flat or growth decelerated to lower single digits. Medical equipment deals slowdown was most evident but lower than expected results were also due to higher 2015 base. Over the third quarter in 2015 Sopharma Trading booked two of its major deals for last year.

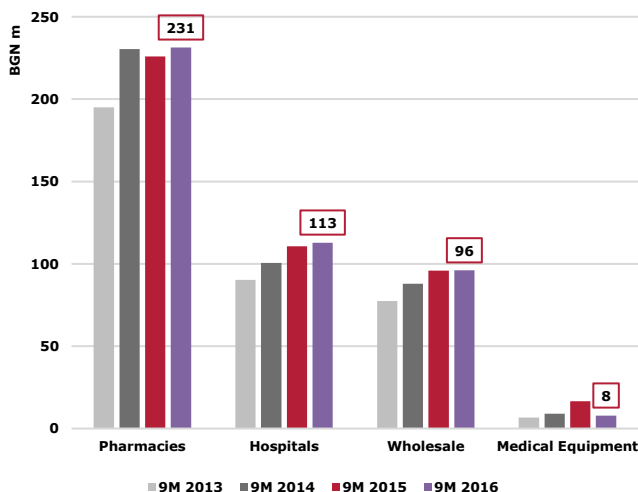
October 2016 preliminary data reveals that some big equipment transactions were postponed into 4Q which should have a smoothing effect for the overall 12M performance. How much smoothing, however, is yet to be seen. Revenues for 3Q16, accordingly, decreased 1.64% y/y to BGN 150.2m while 9M16 top line is down 0.34% to BGN 447.7m.

Sopharma Trading bets on upcoming major hospital modernization as most equipment used in Bulgarian hospitals is outdated and among the oldest in the EU. Additional hospital consolidation and new departments opening up (e.g. oncological, cardio, women and children's health, and etc.) to support the Company's long term growth.

Also, the Company expects to accelerate growth via an own pharmacy chain, with 13 pharmacies up and running in Bulgaria by the end of September 2016. Top line expansion also to come from Sopharma Trading entering the Serbian market. However, the latter two steps in the Company's expansion strategy have yet to deliver results. Currently, investments in this strategy eat up part of the bottom line while adding only a negligent top line effect on a consolidated basis.

In the short term, the current political turbulence in Bulgaria with the government resigning to put additional short term uncertainty in the state health care system reform. Thus, any major new regulation or medical tender procedures to be more of a surprise in the short term.

MEDICAL EQUIPMENT EVIDENTLY DRAGGING TOP LINE DOWN IN 9M16



Source: Company data

Bottom line break down: The latter top line affected the bottom line as well. Margin erosion was also evident on rising labor costs which added 8% y/y for the 9M16 in line with the average for the country over the same period.

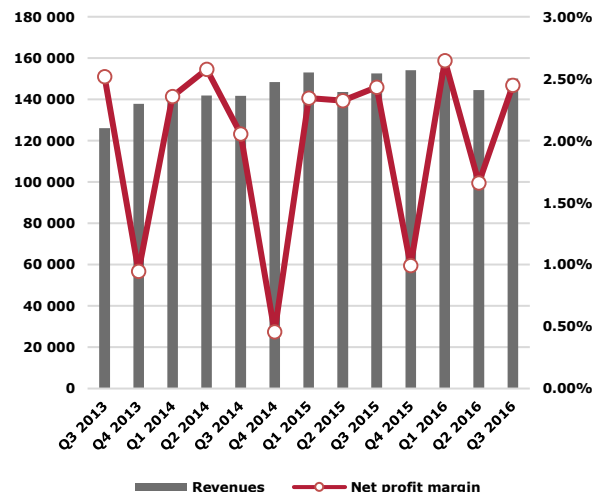
The Company posted better delayed receivables interest collection with interest revenues exceeding interest expenses. Debt costs are in decline in the overall economy, accordingly, having a positive effect on leveraged companies like Sopharma Trading. The latter is heavily relying on bank financing to fund its hospital operations working capital needs as state hospitals cover their payables in extensive credit periods. Sopharma Trading is the biggest hospitals' supplier in Bulgaria.

Sopharma Trading's debt to equity levels remain above historical average despite the Company using innovative funding options like factoring with recourse.

Overall, net income slipped to 2.26% for the 9M16 from 2.37% a year earlier. The former is below our expectations and when adding in the slower than expected top line expansion we revise our estimates downward. We settle with a lower top line expansion of a 2.5% CAGR over the next five years vs. historical 8.6% CAGR over the last five years. We lower our bottom line estimates as well but we stick to a 2.2%-2.4% net income margin over the next five years vs. historical 1.75% average net income margin over the last five years.

The latter revision affects our dividend per share estimates as well although we stick with an average payout in line with historical norm of about 80% of distributable net income. Accordingly, we expect DPS to rise by only 3% in 2017 but faster onward. We expect BGN 0.31 per share to be distributed among shareholder from 2016 profits. The latter is still lucrative offering 5%+ yield even at current market quotes. The latter have expanded 19% YTD exceeding profits expansion for the year. Local demand remains active as investor are chasing yield in the current low interest rate environment in Bulgaria.

MARGINS SETTLING SLIGHTLY LOWER



Source: Company data

ANNUAL FINANCIAL DATA (AUDITED)

INCOME STATEMENT ('000 BGN)	2013	2014	2015	9M 2015	9M 2016	TTM	2016F	2017F
Sales	507 027	576 100	603 410	449 248	447 724	601 886	609 444	627 727
Other operating income	3 315	4 794	5 518	3 959	4 098	5 657	4 754	4 896
Change in Inventories	0	0	0	0	0	0	0	0
Cost of Materials	2 973	3 364	3 061	2 240	2 238	3 059	3 047	3 139
Cost of External Services	5 962	7 918	11 142	7 354	7 475	11 263	11 579	11 299
Cost of Labor	13 685	15 578	17 562	12 858	13 900	18 604	18 893	19 460
Other operating expenses	6 030	2 570	2 194	1 723	1 387	1 858	2 438	3 139
COGS	470 987	535 625	558 236	414 855	413 940	557 321	560 689	575 626
Total Operating Expenses	499 794	568 009	595 522	441 654	441 492	595 360	600 120	615 801
EBITDA	12 770	15 839	16 733	14 177	12 882	15 438	17 552	19 962
Depreciation and Amortization	2 222	2 954	3 327	2 624	2 552	3 255	3 474	3 139
EBIT	10 548	12 885	13 406	11 553	10 330	12 183	14 078	16 823
Financial revenue	2 987	2 522	3 856	3 020	3 150	3 986	3 230	3 139
Financial expense	2 955	3 546	3 701	2 759	2 231	3 173	3 047	2 699
Interest Expense	1 861	2 998	3 040	2 311	1 841	2 570	2 438	2 511
EBT	10 580	11 861	13 561	11 814	11 249	12 996	14 261	17 263
Income Taxes	1 090	1 222	1 397	1 181	1 125	1 341	1 426	1 726
Minority Interest	0	0	0	0	0	0	0	0
Net Income	9 490	10 639	12 164	10 633	10 124	11 655	12 835	15 536
EARNINGS PER SHARE IN BGN	0.29	0.32	0.37	0.32	0.31	0.35	0.39	0.47
BALANCE SHEET ('000 BGN)	2013	2014	2015	9M 2015	9M 2016	TTM	2016F	2017F
Inventories	55 039	62 877	60 785	50 028	53 046	53 046	54 850	56 495
Receivables from related parties	2 620	2 232	3 447	2 215	8 169	8 169	3 047	2 825
Trade Receivables	141 889	151 058	152 105	167 871	170 702	170 702	170 644	169 486
Other receivables and prepaid expenses	2 816	866	3 895	10 403	9 327	9 327	2 438	2 511
Cash & Cash Equivalents	3 395	3 948	4 212	7 678	2 370	2 370	4 261	5 947
TOTAL CURRENT ASSETS	205 759	220 981	224 444	238 195	243 614	243 614	235 241	237 265
Property, Plant & Equipment	25 322	21 825	20 977	20 453	20 585	20 585	27 425	28 248
Intangibles	920	3 312	6 730	5 696	8 364	8 364	4 876	5 022
Investment property	0	0	0	0	0	0	0	0
Investments in subsidiaries	0	0	2 684	834	4 070	4 070	4 876	5 650
Investments available for sale	2 256	2 412	2 396	2 384	2 287	2 287	2 438	2 511
Receivables from related parties	0	0	404	800	186	186	0	0
Other receivables	306	258	283	295	30	30	366	377
TOTAL LONG-TERM ASSETS	28 804	27 807	33 474	30 462	35 522	35 522	39 980	41 807
TOTAL ASSETS	234 563	248 788	257 918	268 657	279 136	279 136	275 220	279 071
Short-term Bank Loans	89 573	105 218	103 872	107 643	85 538	85 538	85 322	81 605
Current Portion of Long Term Bank Loans	1 390	1 788	2 574	2 405	2 467	2 467	2 438	2 511
Liabilities to Related Parties	31 895	28 097	30 127	34 508	46 628	46 628	46 318	47 707
Account Payables	40 618	38 872	45 744	48 890	50 752	50 752	45 099	46 452
Tax Liabilities	1 559	3 241	2 798	3 571	4 584	4 584	2 438	2 511
Liabilities to Employees & Social Security	1 169	1 356	1 473	1 488	1 678	1 678	1 828	1 883
Other Current Liabilities	1 684	1 798	791	599	18 579	18 579	18 283	18 832
TOTAL CURRENT LIABILITIES	167 888	180 370	187 379	199 104	210 226	210 226	201 726	201 501
Long Term Bank Loans	5 539	3 837	3 875	3 687	2 487	2 487	2 438	2 511
Deferred Taxes	0	0	0	0	23	23	305	377
Liabilities to Employees on Retirement	251	316				0	244	251
Financial Leases	1 498	1 651				0	1 280	1 318
Other Long Term Liabilities	18	9	315	334	430	430	61	63
TOTAL LONG-TERM LIABILITIES	7 306	5 813	4 190	4 021	2 940	2 940	4 327	4 520
TOTAL LIABILITIES	175 194	186 183	191 569	203 125	213 166	213 166	206 053	206 020
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	18 836	21 019	21 019	19 736	21 289
Retained Earnings	9 773	12 589	14 610	13 791	12 046	12 046	16 526	18 857
TOTAL EQUITY	59 369	62 605	66 349	65 532	65 970	65 970	69 167	73 051
TOTAL LIABILITIES & EQUITY	234 563	248 788	257 918	268 657	279 136	279 136	275 220	279 071
	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	5.400	6.18	6.18	6.18
MARKET CAP IN BGN - PERIOD END:	105 296 029	180 977 550	172 751 297	93 121 175	177 687 049	203 352 956	203 352 956	203 352 956

Source: Company financial statements, ELANA Trading forecasts

QUARTERLY FINANCIAL DATA (UNAUDITED)

INCOME STATEMENT ('000 BGN)	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
Sales	141 771	148 428	153 079	143 523	152 646	154 162	153 092	144 494	150 138
Other operating income	1 157	1 330	1 053	1 946	960	1 559	1 446	1 069	1 583
Change in Inventories	0	0	0	0	0	0	0	0	0
Cost of Materials	825	842	678	917	645	821	688	746	804
Cost of External Services	2 115	2 286	2 113	2 277	2 964	3 788	2 021	2 828	2 626
Cost of Labor	3 809	4 018	4 054	4 632	4 172	4 704	4 269	4 975	4 656
Other Operating Expenses	244	1 377	344	519	860	471	451	507	429
COGS	132 024	138 324	142 330	133 474	139 051	143 381	141 779	133 635	138 526
Total Operating Expenses	139 783	147 637	150 409	142 715	148 530	153 868	150 049	143 519	147 924
EBITDA	3 911	2 911	4 613	3 650	5 914	2 556	5 330	2 872	4 680
Depreciation and Amortization	766	790	890	896	838	703	841	828	883
EBIT	3 145	2 121	3 723	2 754	5 076	1 853	4 489	2 044	3 797
Financial revenue	571	822	800	1 483	737	836	771	1 381	998
Financial expense	805	1 042	936	904	919	942	759	760	712
Interest Expense	707	816	749	757	805	729	613	641	587
EBT	2 911	1 901	3 587	3 333	4 894	1 747	4 501	2 665	4 083
Income Taxes	0	1 222	0	0	1 181	216	450	267	408
Minority Interest	0	0	0	0	0	0	0	0	0
Net Income	2 911	679	3 587	3 333	3 713	1 531	4 051	2 398	3 675

BALANCE SHEET ('000 BGN)	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
CASH & NEAR CASH ITEMS	5 008	3 948	2 851	6 639	7 678	4 212	2 269	4 035	2 370
ACCOUNTS & NOTES RECEIVABLE	158 170	151 058	170 763	176 542	167 871	152 105	166 398	162 035	170 702
INVENTORIES	52 056	62 877	54 988	54 713	50 028	60 785	57 065	55 298	53 046
OTHER CURRENT ASSETS	17 605	3 098	3 940	4 815	12 618	7 342	4 560	12 451	17 496
TOTAL CURRENT ASSETS	232 839	220 981	232 542	242 709	238 195	224 444	230 292	233 819	243 614
NET FIXED ASSETS	27 257	25 137	25 226	25 674	26 149	27 707	28 093	28 285	28 949
OTHER LONG-TERM ASSETS	2 256	2 412	2 412	2 412	2 384	2 396	2 238	2 270	2 287
TOTAL LONG-TERM ASSETS	29 718	27 807	28 001	28 999	30 462	33 474	33 653	34 867	35 522
TOTAL ASSETS	262 557	248 788	260 543	271 708	268 657	257 918	263 945	268 686	279 136
ACCOUNTS PAYABLE	41 273	38 872	45 406	45 129	1 488	45 744	46 989	43 444	50 752
SHORT-TERM BORROWINGS	100 516	107 006	109 026	110 563	83 398	106 446	85 569	85 001	88 005
OTHER SHORT-TERM LIABILITIES	52 951	34 492	34 706	50 633	203 274	35 189	57 541	74 387	71 469
TOTAL CURRENT LIABILITIES	194 740	180 370	189 138	206 325	3 687	187 379	190 099	202 832	210 226
LONG-TERM BORROWINGS	5 794	5 488	4 892	4 275	4 021	3 875	3 618	3 091	2 487
OTHER LONG TERM BORROWINGS	262	325	320	313	203 459	315	439	467	453
TOTAL LONG-TERM LIABILITIES	6 056	5 813	5 212	4 588	268 657	4 190	4 057	3 558	2 940
TOTAL LIABILITIES	200 796	186 183	194 350	210 913	272 344	191 569	194 156	206 390	213 166
TOTAL EQUITY	61 761	62 605	66 193	60 795	65 532	66 349	69 789	62 296	65 970
TOTAL LIABILITIES & EQUITY	262 557	248 788	260 543	271 708	337 876	257 918	263 945	268 686	279 136

FINANCIAL AND PERFORMANCE INDICATORS	2013	2014	2015	TTM	2016F	2017F
Valuation						
Price/Earnings (P/E)	11.10	17.01	14.20	17.45	15.84	13.09
Price/Book (P/B)	1.77	2.89	2.60	3.08	2.94	2.78
EV (in '000 BGN)	199 901	289 524	278 860	291 475	285 694	279 701
EV/EBITDA	15.65	18.28	16.67	18.88	16.28	14.01
Profitability						
ROE	16.08%	17.44%	18.87%	17.67%	18.56%	21.27%
ROA	4.05%	4.28%	4.72%	4.18%	4.66%	5.57%
EBIT margin	2.08%	2.24%	2.22%	2.02%	2.31%	2.68%
Net income margin	1.87%	1.85%	2.02%	1.94%	2.11%	2.48%
Dividend						
Dividend yield	4.51%	5.09%	5.39%	3.72%	5.05%	6.11%
Dividend per share (BGN)	0.23	0.27	0.30	n/a	0.31	0.38
Liquidity						
Current ratio	1.23	1.23	1.20	1.16	1.17	1.18
Quick ratio	0.90	0.88	0.87	0.91	0.89	0.90
Credit						
Total debt/equity	1.63	1.77	1.66	1.37	1.57	1.44

SOPHARMA TRADING Overview

Ticker	S05	Recommendation	HOLD	Outstanding Shares	32.9 m
Bloomberg ticker	S05 BU	Last review	December 21 st 2016	Free Float	28%
Current Price	BGN 6.18	1Y Target Price	6.03	Avr. Daily Volume	BGN 12,000

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 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 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.

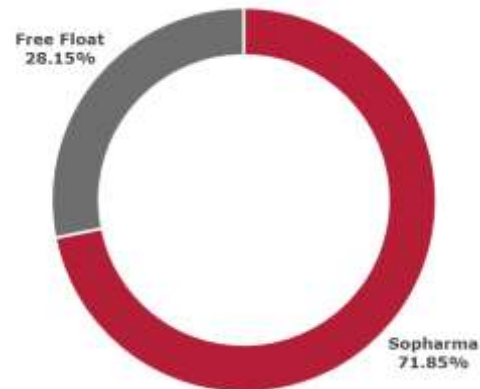
Retail expansion potential via own pharmacy chain to tap on rising disposable income. In mid2016, the company already runs 8 pharmacies in Bulgaria.

Eyes expansion in Serbia with an exclusive portfolio as well as Sopharma OTC products.

STRENGTHS & OPPORTUNITIES

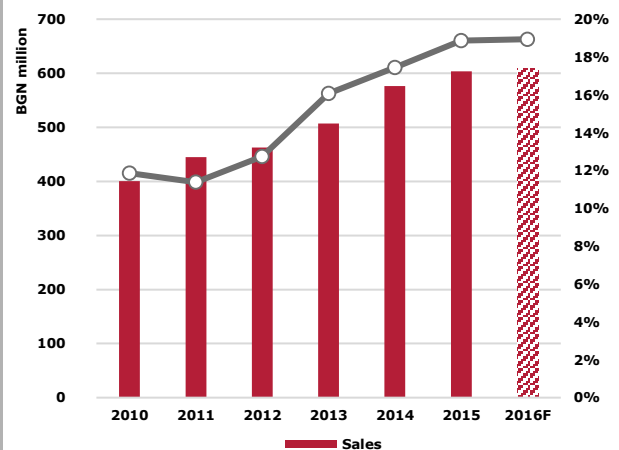
- Excellent corporate governance
- Strong market positions despite heavy competition
- Stable dividend policy

SHAREHOLDERS' STRUCTURE



Source: Company data

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



Source: Company data; Elana Trading estimates

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

Disclaimer

Regulatory Restrictions: No publication of ELANA Trading should be construed as an offer (or solicitation of an offer) to **U.S. persons** to buy or sell financial instruments or any financial product, make any investment or participate in any particular trading strategy (collectively "Offers"). No Publication of ELANA Trading should be construed as an Offer (or solicitation of an offer) in any jurisdiction in which such Offer would be illegal. Any such perceived Offer will not be honoured by ELANA Trading.

Analyst Certification: The research analyst(s) certifies that: (1) all of the views expressed in this document accurately reflect his or her personal views about any and all of the subject securities or issuers; (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this document.

Financial Interest: ELANA trading does and seeks to do business with companies covered in its research reports. This may and includes investment banking services for which ELANA Trading shall be remunerated. ELANA Trading has performed investment banking services for Sopharma in the last 12 months for which it was remunerated with a flat fee. ELANA Trading may trade or own shares of the analyzed companies. The research analyst(s) is not holding shares of the analyzed companies, unless otherwise noted. As a result, investors should be aware that ELANA trading may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Regulatory Authority: Financial Supervisory Commission, *Budapest* Street 16, 1000 Sofia, Bulgaria

Information Disclosure: All reasonable care has been taken to ensure the facts stated are accurate and opinions given are fair and reasonable. Our recommendations are based on information available to the public that we consider to be reliable but for the completeness and accuracy of which we assume no liability. Neither ELANA Trading, nor its directors, officers or employees shall in any way be responsible for its contents. The views expressed may differ from the views of other firm departments or representatives. Additional information is available upon request. Unless otherwise noted, sources for all information in charts and tables are ELANA Trading's calculations.

Risks for Investors: Information in this document should not be regarded as an offer to buy or sell any financial instruments. The investment possibilities discussed in this document may not be suitable for certain investors depending on their specific investment objectives and time horizon or in the context of their overall financial situation. In particular, the risks associated with an investment in the securities or the financial instruments under discussion are not explained in its entirety.

The prices or values of the securities may go down as well as up and can fluctuate and fall against the investor. The securities or investments may cause the investor to lose the amount invested. Past performance is not a guide to future performance. Changes in exchange rates may have an adverse effect on the value, price or income of the securities or investments.

Valuation Methods: Company valuations are based on the following methods: multiple-based (P/E, P/B, EV/EBITDA), historical valuation approaches, peer comparisons, discount models (DCF, DDM) or asset-based evaluation methods. Valuation models are dependent on macroeconomic factors, including interest rates, foreign exchange rates, prices of raw materials, and any expectations about the economy, the market sentiment. The valuation is based on expectations that might change rapidly and without notice, depending on developments specific to individual industries and countries. Recommendations and target prices derived from the models might therefore change accordingly. The application of models depends on forecasts of a range of economic variables, thus there is a range of reasonable variations within models. Any valuation is dependent upon inputs that are based on the subjective opinion of the analysts carrying out this valuation.

Recommendations: Analyst(s) recommendations are based on the specific factors for the company, sector, country and global developments, as compared to market indices. Recommendations and opinions reflect ELANA Trading's expectations over the 12-month period following publication from the perspective of long-only investment clients. ELANA Trading reserves the right to express different or contrary recommendations and opinions for different timescales or for other types of investment client. Except as otherwise noted, expected performance over next 12 months vary for different recommendations for Bulgarian stocks as follows:

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.

Q3 2016 Recommendation Review			Market Maker Services
Recommendation	#	Share	
BUY	7	37%	SKK BU
HOLD	9	47%	
SELL	0	0%	
Under review	3	16%	

Copyrights: The copyrights of ELANA Trading analyses belong to the Research Department of the brokerage and their content cannot be used for commercial purposes. Replication and redistribution of ELANA Trading analyses content is expressly prohibited without the prior written consent of the appointed contacts listed below.

For more information, please contact:

Research Analyst	Phone:	E-mail:	Internet:
Tatyana Vasileva	+359 2 810 00 24	vasileva@elana.net	www.elana.net