

## 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

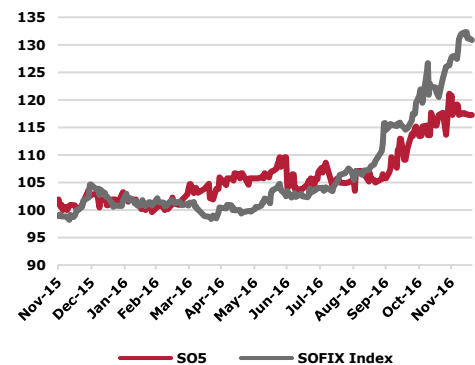
**RECOMMENDATION: HOLD**  
**ONE YEAR PRICE TARGET: BGN 6.03**  
**CURRENT PRICE: BGN 6.18**

**EXCHANGE RATES**  
**EUR/BGN (FIXED): 1.95583**  
**USD/BGN: 1.88714**

#### MARKET DATA

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

#### 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.

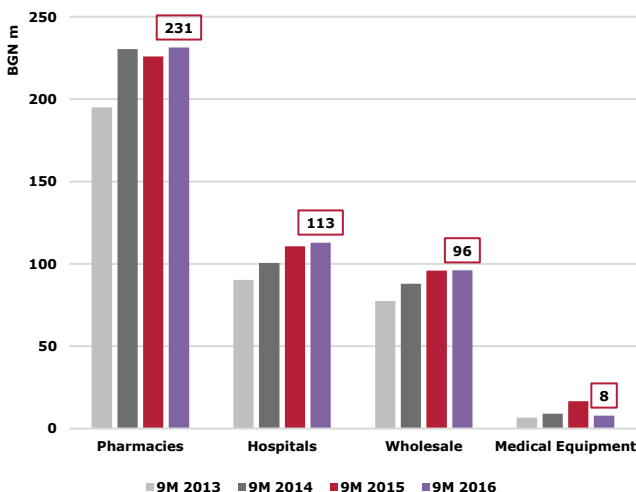
October 2016 preliminary data reveals that some big equipment transactions were postponed into 4Q which should have a smoothing effect for the overall 12M performance. How much smoothing, however, is yet to be seen. Revenues for 3Q16, accordingly, decreased 1.64% y/y to BGN 150.2m while 9M16 top line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

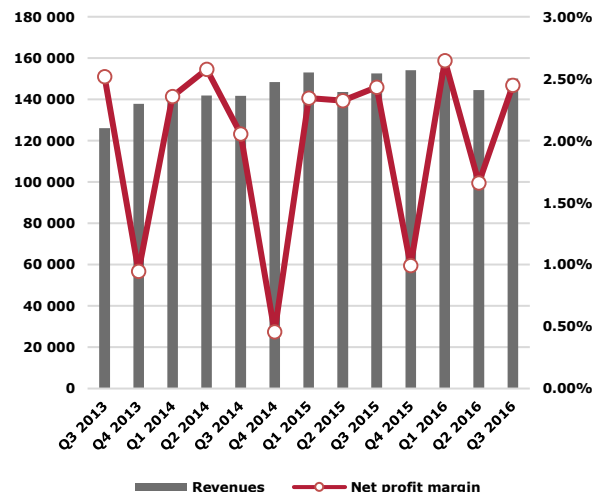
The Company posted better delayed receivables interest collection with interest revenues exceeding interest expenses. Debt costs are in decline in the overall economy, accordingly, having a positive effect on leveraged companies like Sopharma Trading. The latter is heavily relying on bank financing to 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)**

<b>INCOME STATEMENT ('000 BGN)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>9M 2015</b>	<b>9M 2016</b>	<b>TTM</b>	<b>2016F</b>	<b>2017F</b>
<b>Sales</b>	<b>507 027</b>	<b>576 100</b>	<b>603 410</b>	<b>449 248</b>	<b>447 724</b>	<b>601 886</b>	<b>609 444</b>	<b>627 727</b>
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
<b>EBITDA</b>	<b>12 770</b>	<b>15 839</b>	<b>16 733</b>	<b>14 177</b>	<b>12 882</b>	<b>15 438</b>	<b>17 552</b>	<b>19 962</b>
Depreciation and Amortization	2 222	2 954	3 327	2 624	2 552	3 255	3 474	3 139
<b>EBIT</b>	<b>10 548</b>	<b>12 885</b>	<b>13 406</b>	<b>11 553</b>	<b>10 330</b>	<b>12 183</b>	<b>14 078</b>	<b>16 823</b>
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
<b>EBT</b>	<b>10 580</b>	<b>11 861</b>	<b>13 561</b>	<b>11 814</b>	<b>11 249</b>	<b>12 996</b>	<b>14 261</b>	<b>17 263</b>
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
<b>Net Income</b>	<b>9 490</b>	<b>10 639</b>	<b>12 164</b>	<b>10 633</b>	<b>10 124</b>	<b>11 655</b>	<b>12 835</b>	<b>15 536</b>
EARNINGS PER SHARE IN BGN	0.29	0.32	0.37	0.32	0.31	0.35	0.39	0.47
<b>BALANCE SHEET ('000 BGN)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>9M 2015</b>	<b>9M 2016</b>	<b>TTM</b>	<b>2016F</b>	<b>2017F</b>
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
<b>TOTAL CURRENT ASSETS</b>	<b>205 759</b>	<b>220 981</b>	<b>224 444</b>	<b>238 195</b>	<b>243 614</b>	<b>243 614</b>	<b>235 241</b>	<b>237 265</b>
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
<b>TOTAL LONG-TERM ASSETS</b>	<b>28 804</b>	<b>27 807</b>	<b>33 474</b>	<b>30 462</b>	<b>35 522</b>	<b>35 522</b>	<b>39 980</b>	<b>41 807</b>
<b>TOTAL ASSETS</b>	<b>234 563</b>	<b>248 788</b>	<b>257 918</b>	<b>268 657</b>	<b>279 136</b>	<b>279 136</b>	<b>275 220</b>	<b>279 071</b>
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
<b>TOTAL CURRENT LIABILITIES</b>	<b>167 888</b>	<b>180 370</b>	<b>187 379</b>	<b>199 104</b>	<b>210 226</b>	<b>210 226</b>	<b>201 726</b>	<b>201 501</b>
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
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>7 306</b>	<b>5 813</b>	<b>4 190</b>	<b>4 021</b>	<b>2 940</b>	<b>2 940</b>	<b>4 327</b>	<b>4 520</b>
<b>TOTAL LIABILITIES</b>	<b>175 194</b>	<b>186 183</b>	<b>191 569</b>	<b>203 125</b>	<b>213 166</b>	<b>213 166</b>	<b>206 053</b>	<b>206 020</b>
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
<b>TOTAL EQUITY</b>	<b>59 369</b>	<b>62 605</b>	<b>66 349</b>	<b>65 532</b>	<b>65 970</b>	<b>65 970</b>	<b>69 167</b>	<b>73 051</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>234 563</b>	<b>248 788</b>	<b>257 918</b>	<b>268 657</b>	<b>279 136</b>	<b>279 136</b>	<b>275 220</b>	<b>279 071</b>
	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Q1 2015</b>	<b>Q1 2016</b>	<b>TTM</b>	<b>2016F</b>	<b>2017F</b>
<b>NUMBER OF SHARES:</b>	32 905 009	32 905 009	32 905 009	32 905 009	32 905 009	32 905 009	32 905 009	32 905 009
<b>PRICE IN BGN - PERIOD END:</b>	3.20	5.50	5.25	2.83	5.400	6.18	6.18	6.18
<b>MARKET CAP IN BGN - PERIOD END:</b>	<b>105 296 029</b>	<b>180 977 550</b>	<b>172 751 297</b>	<b>93 121 175</b>	<b>177 687 049</b>	<b>203 352 956</b>	<b>203 352 956</b>	<b>203 352 956</b>

Source: Company financial statements, ELANA Trading forecasts

**QUARTERLY FINANCIAL DATA (UNAUDITED)**

<b>INCOME STATEMENT ('000 BGN)</b>	<b>Q3 2014</b>	<b>Q4 2014</b>	<b>Q1 2015</b>	<b>Q2 2015</b>	<b>Q3 2015</b>	<b>Q4 2015</b>	<b>Q1 2016</b>	<b>Q2 2016</b>	<b>Q3 2016</b>
<b>Sales</b>	<b>141 771</b>	<b>148 428</b>	<b>153 079</b>	<b>143 523</b>	<b>152 646</b>	<b>154 162</b>	<b>153 092</b>	<b>144 494</b>	<b>150 138</b>
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
<b>EBITDA</b>	<b>3 911</b>	<b>2 911</b>	<b>4 613</b>	<b>3 650</b>	<b>5 914</b>	<b>2 556</b>	<b>5 330</b>	<b>2 872</b>	<b>4 680</b>
Depreciation and Amortization	766	790	890	896	838	703	841	828	883
<b>EBIT</b>	<b>3 145</b>	<b>2 121</b>	<b>3 723</b>	<b>2 754</b>	<b>5 076</b>	<b>1 853</b>	<b>4 489</b>	<b>2 044</b>	<b>3 797</b>
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
<b>EBT</b>	<b>2 911</b>	<b>1 901</b>	<b>3 587</b>	<b>3 333</b>	<b>4 894</b>	<b>1 747</b>	<b>4 501</b>	<b>2 665</b>	<b>4 083</b>
Income Taxes	0	1 222	0	0	1 181	216	450	267	408
Minority Interest	0	0	0	0	0	0	0	0	0
<b>Net Income</b>	<b>2 911</b>	<b>679</b>	<b>3 587</b>	<b>3 333</b>	<b>3 713</b>	<b>1 531</b>	<b>4 051</b>	<b>2 398</b>	<b>3 675</b>

<b>BALANCE SHEET ('000 BGN)</b>	<b>Q3 2014</b>	<b>Q4 2014</b>	<b>Q1 2015</b>	<b>Q2 2015</b>	<b>Q3 2015</b>	<b>Q4 2015</b>	<b>Q1 2016</b>	<b>Q2 2016</b>	<b>Q3 2016</b>
<b>CASH &amp; NEAR CASH ITEMS</b>	<b>5 008</b>	<b>3 948</b>	<b>2 851</b>	<b>6 639</b>	<b>7 678</b>	<b>4 212</b>	<b>2 269</b>	<b>4 035</b>	<b>2 370</b>
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
<b>TOTAL CURRENT ASSETS</b>	<b>232 839</b>	<b>220 981</b>	<b>232 542</b>	<b>242 709</b>	<b>238 195</b>	<b>224 444</b>	<b>230 292</b>	<b>233 819</b>	<b>243 614</b>
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
<b>TOTAL ASSETS</b>	<b>262 557</b>	<b>248 788</b>	<b>260 543</b>	<b>271 708</b>	<b>268 657</b>	<b>257 918</b>	<b>263 945</b>	<b>268 686</b>	<b>279 136</b>
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
<b>TOTAL CURRENT LIABILITIES</b>	<b>194 740</b>	<b>180 370</b>	<b>189 138</b>	<b>206 325</b>	<b>3 687</b>	<b>187 379</b>	<b>190 099</b>	<b>202 832</b>	<b>210 226</b>
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
<b>TOTAL LIABILITIES</b>	<b>200 796</b>	<b>186 183</b>	<b>194 350</b>	<b>210 913</b>	<b>272 344</b>	<b>191 569</b>	<b>194 156</b>	<b>206 390</b>	<b>213 166</b>
<b>TOTAL EQUITY</b>	<b>61 761</b>	<b>62 605</b>	<b>66 193</b>	<b>60 795</b>	<b>65 532</b>	<b>66 349</b>	<b>69 789</b>	<b>62 296</b>	<b>65 970</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>262 557</b>	<b>248 788</b>	<b>260 543</b>	<b>271 708</b>	<b>337 876</b>	<b>257 918</b>	<b>263 945</b>	<b>268 686</b>	<b>279 136</b>

<b>FINANCIAL AND PERFORMANCE INDICATORS</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>TTM</b>	<b>2016F</b>	<b>2017F</b>
<b>Valuation</b>						
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
<b>Profitability</b>						
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%
<b>Dividend</b>						
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
<b>Liquidity</b>						
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
<b>Credit</b>						
Total debt/equity	1.63	1.77	1.66	1.37	1.57	1.44

## SOPHARMA TRADING Overview

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

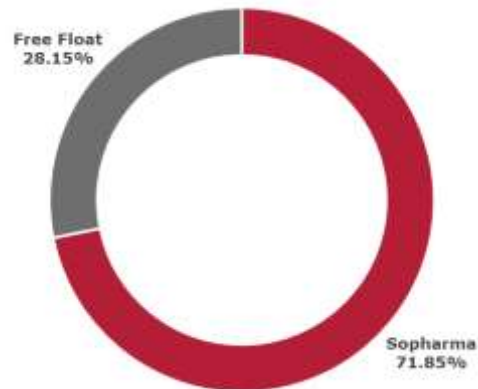
Retail expansion potential via own pharmacy chain to tap on rising disposable income. In mid2016, the company already runs 8 pharmacies in Bulgaria.

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

### STRENGTHS & OPPORTUNITIES

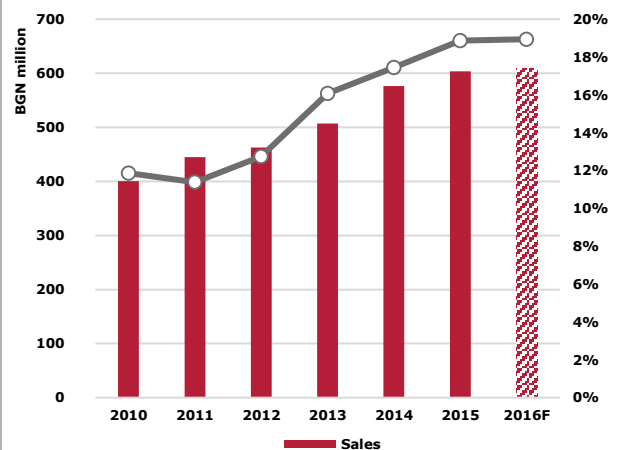
- Excellent corporate governance
- Strong market positions despite heavy competition
- Stable dividend policy

### 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

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

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