

## SOPHARMA

### INDUSTRY: PHARMACEUTICALS

### RECOVERY SPEEDING UP

**SOPHARMA'S FUNDAMENTALS ARE RECOVERING WELL ABOVE EXPECTATIONS WITH EXCELLENT Q1'17 TOP LINE AND FURTHER IMPROVEMENT IN Q2'17. RECOVERY IS SPEEDING UP CONSIDERABLY WITH BOTH RUSSIA AND UKRAINE ON THE LEAD. THE LATTER GIVES US COMFORT TO FURTHER RAISE OUR ESTIMATES AS THE COMPANY IS CLOSING IN ON PRE 2014 CRISIS LEVELS**

#### TOP LINE RECOVERY SPEEDING UP

Sopharma's top line is recovering faster than expected with Russia advancing quickly after inflecting in late 2016. Q1'17 standalone top line results positively surprised with 12.2% y/y rise to BGN 46.6m while preliminary H1'17 data signal recovery is speeding up to 18% y/y rise in sales. If the pace is sustained, by year end the Company will be closing in on its pre 2014 Russia/Ukraine crisis results.

#### EXPORTS SURGE 24% Y/Y IN Q1'17 AND 30% IN H1'17

Exports drive the recovery with 24% y/y surge in Q1'17 to BGN 29.7m accelerating to 30% y/y in H1'17. Sales in Russia alone advanced 32% y/y in Q1'17 overtaking the Bulgarian market as a top seller. Management expects the Russian uptrend to be sustained by year end which together with a positive development in the Caucasus and Central Asia region to deliver strong 2017 results.

#### PROFITABILITY IN CHECK

Despite a surge in manufacturing costs, standalone operating and net profitability remain in check. EBITDA was flat at BGN 16.5m in Q1'17 while EBIT declined 1.2% y/y to BGN 12.8m on slightly higher depreciation. Net income improved 2.6% y/y to BGN 12m on lower interest expense and reversal of impaired trade loans.

#### INSIDERS CONTINUE TO ADD STOCK

Due to new regulatory regime with respect to insider trading, the latter continued to be active in adding Sopharma stock. In mid-June 2017, key shareholder and CEO Ognyan Donev acquired 0.37% stake and increased his investment to 25.15% of the registered capital via Donev Investments Holding.

#### GOING FORWARD WITH TABEX IN THE US

In mid-June, US SEC approved the merger between Sopharma's smoking cessation drug Tabex US rights holder - Achieve Life Science, and OngoGenex Pharmaceuticals (OGXI US). The latter paves the way for a final OngoGenex shareholders' approval to be put on vote in August 1<sup>st</sup>, 2017. Achieve and OngoGenex plan to get Tabex registered in the US with first significant development expected as early as 2018. If approved, Sopharma to be eligible to royalty and manufacturing benefits.

#### VALUATION/RISKS

**VALUATION:** We are positively surprised by Sopharma's latest financial results which give us the comfort to do a second upward revision in our estimates this year, excluding the Tabex opportunity in the US until any concrete results emerge. We keep our 10% holding discount due to Sopharma's M&A activity. Yet, this yields another increase in our one year price target from BGN 4.82 to BGN 5.20 per share with a BUY recommendation. **RISKS:** Russia and Ukraine on the lookout.

## RESULTS ANALYSIS

**BUY**
**ONE YEAR PRICE TARGET: BGN 5.20**
**CURRENT PRICE: BGN 4.69**
**PREVIOUS PRICE TARGET: BGN 4.82**

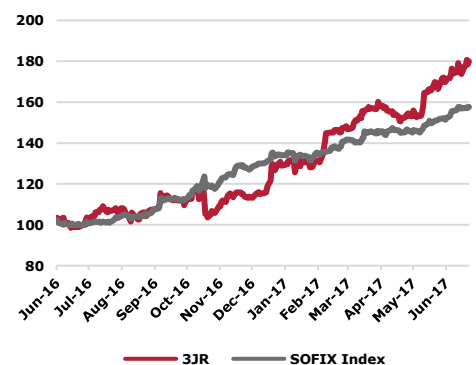
#### EXCHANGE RATES

**EUR/BGN (FIXED): 1.95583**
**USD/BGN: 1.83164**

#### MARKET DATA

Shares Outstanding:	<b>129.6 m</b>
Share Capital:	<b>134.7 m</b>
Free-float:	<b>33%</b>
Treasury Shares	<b>4.20%</b>
Market Cap.:	<b>BGN 633 m</b>
Avg. Daily Vol.:	<b>BGN 140 000</b>
52 Weeks Range:	<b>BGN 2.51 – 4.69</b>
BSE Ticker	<b>3JR</b>
Bloomberg Ticker	<b>3JR BU</b>

#### OUTPACING THE MARKET



Source: Bloomberg

In kBGN, excl. ratios	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Revenues	47 501	34 413	51 391	41 497	37 433	39 915	44 982	46 576
<i>Growth y/y</i>	<i>-11.80%</i>	<i>-23.55%</i>	<i>-0.15%</i>	<i>2.47%</i>	<i>-21.20%</i>	<i>15.99%</i>	<i>-12.47%</i>	<i>12.24%</i>
EBITDA	9 615	6 513	11 820	16 498	4 820	9 027	9 908	16 496
EBIT	5 863	2 929	8 394	12 985	1 325	5 582	6 442	12 824
Net profit	18 667	2 118	-2 647	11 711	22 047	3 257	755	12 012
Equity	413 613	432 516	434 568	443 362	456 343	458 507	462 875	474 871
ROE (TTM)	7.28%	6.24%	6.14%	7.06%	7.62%	7.72%	8.37%	8.29%
ROA (TTM)	5.03%	4.37%	4.38%	5.14%	5.71%	5.94%	6.58%	6.61%
EBITDA margin	20.24%	18.93%	23.00%	39.76%	12.88%	22.62%	22.03%	35.42%
EBIT margin	12.34%	8.51%	16.33%	31.29%	3.54%	13.98%	14.32%	27.53%
Net profit margin	39.30%	6.15%	-5.15%	28.22%	58.90%	8.16%	1.68%	25.79%
EPS	0.14	0.02	-0.02	0.09	0.17	0.03	0.01	0.09
Debt/equity	0.31	0.30	0.25	0.24	0.20	0.19	0.17	0.15
P/E (TTM)	13.04	12.88	13.44	11.68	10.18	11.24	13.72	15.77
P/B (TTM)	0.90	0.75	0.78	0.79	0.74	0.84	1.12	1.26
EV/EBITDA	13.74	13.63	11.85	10.17	10.94	11.16	14.95	16.78

**SOPHARMA'S INDIVIDUAL RESULTS REVIEW**

Sopharma, the leading generic pharmaceutical company in Bulgaria, is recovering faster than expected from the Russia/Ukraine conflict on strong exports.

**Revenue breakdown:** The Company booked 12.2% y/y rise in sales in Q1'17 on 24% surge in exports. The latter was supported by a 32% y/y increase in sales to Russia and 51% y/y rise in other exports markets in the Caucasus and Central Asia region. Ukraine also performed well during the period but is still growing from a low base.

In Q1'17, Russia surpassed Bulgaria as a top seller for the first time since 2015. Sales to Russia stood at BGN 17.3m as of March 2017. Sopharma's management remains positive on the uptrend in the country. If the pace is sustained the standalone results of the Company will considerably close in on its pre 2014 Russia/Ukraine crisis levels.

Exports growth accelerated in Q2'17 as preliminary H1'17 results point to 18% y/y rise in overall revenues on 30% y/y advance in exports.

This implies the Company is recovering faster than we initially expected. Our estimates were for a stable 2017 top line with 3% y/y rise in revenues and a more sensible recovery in 2018 with 6% y/y rise. However, latest financial performances signal our initial estimates were too conservative. Latest results as well as management guidance give us the comfort to considerably increase our expectations. Accordingly, we raise our 2017 top line growth estimate to 15% y/y. We also up our bottom line expectations.

**Profitability review:** The latter has been stable over the last couple of quarters on a normalized basis after a cost optimization program.

In Q1'17, operating profitability remained stable despite the surge in sales. EBITDA was flat y/y at BGN 16.5m on flat basic material costs with 6% y/y decline in API costs to BGN 6.15m and 88% y/y rise in herbs costs to BGN 936k. Sopharma uses herbs for its original phyto-based drugs which are also its top sellers. Top 3 sellers for the Company are original drugs Carsil (liver deases), Tempalgin (painkiller) and Tabex (smoking cessation).

In Q1'17, Sopharma also booked 16% y/y rise in external service costs, mostly on surge in expenses for medicine manufacturing (BGN 2.4m in Q1'17 vs BGN 1.6m in Q1'16).

Further down the line, the Company also book 5.7% y/y rise in

labor costs and 4.5% y/y rise in depreciation expense. Accordingly, EBIT is down 1.2% y/y to BGN 12.8m.

Net income, however, is up 2.6% y/y to BGN 12m on lower interest expenses and reversal of impaired trade loans.

Sopharma continued its delivering on a standalone basis with total interest bearing debt down 33% y/y to BGN 70.6m. Yet, most of the debt burden of the Group comes from the distribution arm Sopharma Trading (SO5 BU). We expect the standalone debt position to be sustained at the current levels or slightly lower as no major investment projects are on the horizon for Sopharma. The latter has yet to fill its operating capacity and is more active in portfolio diversification via M&A, rather than organic expansion.

**M&A activity:** Sopharma finalized its tender offer for Unipharm (59X BU), a long time subsidiary with most of its manufacturing coming from Sopharma. Post the tender offer it increased its stake in Unipharm to 96.63%, acquiring 19% for c.BGN4.9m.

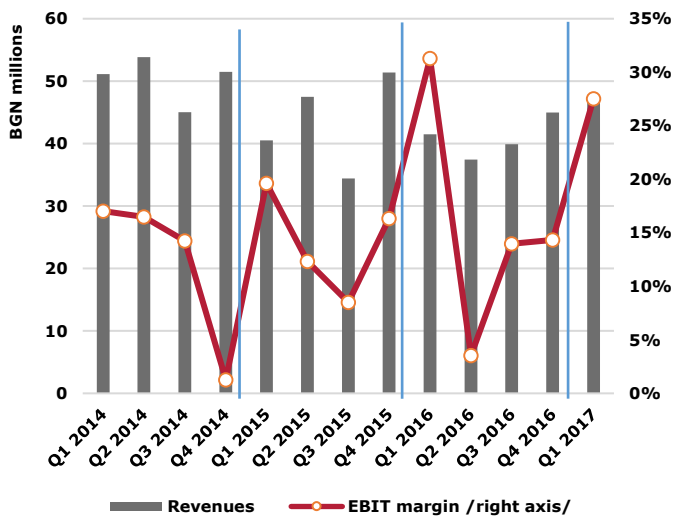
The Company is also in process of merging bandages and other medical consumables producer Medica (5MA BU) after completing a tender offer for it in 2016. The merger will affect Sopharma's standalone top and bottom line as Medica's operations so far have been independent of Sopharma. For 2016, Medica booked BGN 18m in revenues and BGN 2m in net profit.

**TABEX in the US:** Finally, Sopharma is awaiting development with the US registration of its smoking cessation drug Tabex. The Company sold the US rights to Achieve Life Science in 2015 for c.USD 4m.

In 2016, Achieve partnered with OncoGenex Pharmaceuticals (NASDAQ:OGXI) to initiate new trials and FDA registration process. The companies are planning to merger pending on OncoGenex shareholders' approval. The US SEC has approved the merger. Oncogenex shareholders are expected to convene for a meeting Aug 1<sup>st</sup>, 2017.

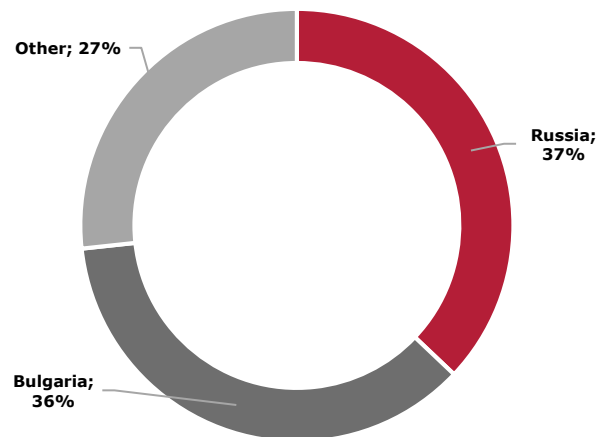
Both companies are also in collaboration with the National Institute of Health for new trials on Tabex. Any significant development on the drug are expected as early as 2018 with Sopharma to earn royalties on major milestones as well as manufacturing orders if the drug is registered. At this stage, we do not incorporate Tabex development in our valuation.

Exhibit 2: Top and bottom line in initial recovery...



Source: Company data

Exhibit 3: Russia returns as a top market in Q1'17



Source: Company data

**INDIVIDUAL FINANCIAL DATA**

<b>Income Statement ('000 BGN)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Q1 2016</b>	<b>Q1 2017</b>	<b>TTM</b>	<b>2017F</b>	<b>2018F</b>
<b>Sales</b>	<b>201 461</b>	<b>173 803</b>	<b>163 827</b>	<b>41 497</b>	<b>46 576</b>	<b>168 906</b>	<b>188 401</b>	<b>199 705</b>
Other operating income	3 973	3 651	4 193	923	933	4 203	4 243	4 328
Change in Inventories	14 039	6 667	360	7 029	4 143	-2 526	188	-200
Cost of Material	-73 920	-61 619	-55 172	-16 452	-17 032	-55 752	-62 172	-66 502
Cost of External Services	-56 396	-41 275	-33 297	-7 036	-8 133	-34 394	-39 564	-41 938
Cost of Labor	-37 605	-35 331	-34 414	-8 820	-9 327	-34 921	-36 738	-38 942
Other Operating Expenses	-9 902	-6 210	-5 244	-643	-664	-5 265	-5 652	-5 991
Total Operating Expenses	-163 784	-137 768	-127 767	-29 435	-34 685	-133 017	-143 938	-153 573
<b>EBITDA</b>	<b>41 650</b>	<b>39 686</b>	<b>40 253</b>	<b>16 498</b>	<b>16 496</b>	<b>40 251</b>	<b>48 706</b>	<b>50 460</b>
Depreciation and amortization	-16 989	-14 549	-13 919	-3 513	-3 672	-14 078	-12 811	-12 581
<b>EBIT</b>	<b>24 661</b>	<b>25 137</b>	<b>26 334</b>	<b>12 985</b>	<b>12 824</b>	<b>26 173</b>	<b>35 895</b>	<b>37 879</b>
Impairment on non-current assets	-3 252	-8 567	-5 627	0	0	-5 627	-2 826	0
Financial revenues	13 001	17 922	24 158	591	993	24 560	9 420	9 985
Financial costs	-4 690	-6 312	-3 176	-702	-413	-2 887	-2 506	-2 353
Financial income (loss)	<b>8 311</b>	<b>11 610</b>	<b>20 982</b>	<b>-111</b>	580	21 673	<b>6 914</b>	<b>7 633</b>
<b>EBT</b>	<b>29 720</b>	<b>28 180</b>	<b>41 689</b>	<b>12 874</b>	<b>13 404</b>	<b>42 219</b>	<b>39 983</b>	<b>45 511</b>
Income taxes	-2 429	-2 826	-3 919	-1 163	-1 392	-4 148	-3 998	-4 551
<b>Net Income</b>	<b>27 291</b>	<b>25 354</b>	<b>37 770</b>	<b>11 711</b>	<b>12 012</b>	<b>38 071</b>	<b>35 985</b>	<b>40 960</b>

<b>Balance Sheet ('000 BGN)</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Q1 2016</b>	<b>Q1 2017</b>	<b>TTM</b>	<b>2017F</b>	<b>2018F</b>
Inventories	57 360	61 701	56 807	66 894	59 148	59 148	58 404	61 909
Receivables from related parties	99 505	78 035	71 076	76 041	76 213	76 213	71 592	77 885
Trade Receivables	23 397	21 466	22 479	16 058	21 307	21 307	26 376	27 959
Other receivables	11 901	6 881	7 304	7 489	9 387	9 387	8 478	7 988
Cash & Cash Equivalents	4 076	3 745	4 343	9 954	2 425	2 425	4 940	6 024
<b>Current Assets</b>	<b>196 239</b>	<b>171 828</b>	<b>162 009</b>	<b>176 436</b>	<b>168 480</b>	<b>168 480</b>	<b>169 791</b>	<b>181 765</b>
Property, Plant & Equipment	211 056	211 943	209 326	210 969	207 204	207 204	208 183	207 693
Intangibles	3 210	2 507	2 177	2 420	2 241	2 241	1 884	1 997
Investment property	22 368	22 160	22 840	22 160	22 840	22 840	25 434	24 963
Investments in subsidiaries	101 449	132 899	152 802	144 001	158 011	158 011	162 025	167 752
Investments available for sale	4 439	5 510	5 229	5 609	0	0	3 768	3 994
Receivables from related parties	33 150	20 505	11 011	12 001	14 528	14 528	15 072	13 979
Other receivables	6	3 257	3 714	3 114	3 662	3 662	377	399
<b>Non-Current Assets</b>	<b>375 678</b>	<b>398 781</b>	<b>407 099</b>	<b>400 274</b>	<b>408 486</b>	<b>408 486</b>	<b>416 743</b>	<b>420 779</b>
<b>Total Assets</b>	<b>571 917</b>	<b>570 609</b>	<b>569 108</b>	<b>576 710</b>	<b>576 966</b>	<b>576 966</b>	<b>586 534</b>	<b>602 543</b>
Share Capital	132 000	134 798	134 798	134 798	134 798	134 798	134 798	134 798
Treasury Stock	-17 203	-17 597	-18 809	-17 603	-18 809	-18 809	-18 809	-18 809
Reserves	246 243	284 227	304 403	284 042	304 387	304 387	329 952	359 771
Retained Earnings	45 484	30 198	42 483	42 125	54 495	54 495	38 103	36 716
<b>Shareholders' Equity</b>	<b>406 524</b>	<b>431 626</b>	<b>462 875</b>	<b>443 362</b>	<b>474 871</b>	<b>474 871</b>	<b>484 044</b>	<b>512 476</b>
Short-term Bank Loans	90 761	68 961	48 291	69 047	41 416	41 416	41 448	37 944
Current Portion of LT Bank Loans	7 431	7 380	7 185	7 153	7 153	7 153	7 536	5 991
Liabilities to Related Parties	4 154	3 070	497	1 834	1 775	1 775	1 884	1 997
Account Payables	7 909	8 014	4 712	5 584	6 418	6 418	7 536	7 988
Tax Liabilities	938	965	609	355	1 582	1 582	942	999
Liabilities to Employees & Soc. Sec.	4 564	4 769	5 363	5 310	6 054	6 054	7 536	7 988
Other Current Liabilities	1 151	1 508	1 514	1 489	1 509	1 509	2 826	1 997
<b>Current Liabilities</b>	<b>116 908</b>	<b>94 667</b>	<b>68 171</b>	<b>90 772</b>	<b>65 907</b>	<b>65 907</b>	<b>69 708</b>	<b>64 904</b>
Long Term Bank Loans	37 972	30 819	23 844	29 200	22 047	22 047	22 608	17 973
Deferred Taxes	4 124	4 697	5 703	4 639	5 686	5 686	5 652	3 395
Liabilities to Employees on Retirement	2 387	2 426	2 649	2 491	2 714	2 714	1 319	1 398
Financial Leases	34	3	0	0	0	0	377	399
Other Long Term Liabilities	3 968	6 371	5 866	6 246	5 741	5 741	2 826	1 997
<b>Non-Current Liabilities</b>	<b>48 485</b>	<b>44 316</b>	<b>38 062</b>	<b>42 576</b>	<b>36 188</b>	<b>36 188</b>	<b>32 782</b>	<b>25 163</b>
<b>Total Liabilities</b>	<b>165 393</b>	<b>138 983</b>	<b>106 233</b>	<b>133 348</b>	<b>102 095</b>	<b>102 095</b>	<b>102 490</b>	<b>90 067</b>
<b>Shareholders' Equity &amp; Liabilities</b>	<b>571 917</b>	<b>570 609</b>	<b>569 108</b>	<b>576 710</b>	<b>576 966</b>	<b>576 966</b>	<b>586 534</b>	<b>602 543</b>

Source: Company IFRS Financial Statements Audited; Elana Trading Estimates

**INDIVIDUAL QUARTERLY FINANCIAL DATA**

<b>Income Statement ('000 BGN)</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>Q4 2016</b>	<b>Q1 2017</b>
<b>Sales</b>	<b>47 501</b>	<b>34 413</b>	<b>51 391</b>	<b>41 497</b>	<b>37 433</b>	<b>39 915</b>	<b>44 982</b>	<b>46 576</b>
Other operating income	1 298	1 097	735	923	1 186	876	1 208	933
Change in Inventories	-807	2 634	-832	7 029	-2 748	-6 774	2 853	4 143
Cost of Material	-15 455	-13 503	-17 087	-16 452	-13 297	-8 524	-16 899	-17 032
Cost of External Services	-10 746	-9 462	-9 951	-7 036	-7 827	-8 110	-10 324	-8 133
Cost of Labor	-10 104	-7 891	-7 797	-8 820	-9 426	-7 803	-8 365	-9 327
Other Operating Expenses	-2 072	-775	-4 639	-643	-501	-553	-3 547	-664
Total Operating Expenses	-42 936	-32 581	-43 732	-29 435	-37 294	-35 209	-39 748	-34 685
<b>EBITDA</b>	<b>9 615</b>	<b>6 513</b>	<b>11 820</b>	<b>16 498</b>	<b>4 820</b>	<b>9 027</b>	<b>9 908</b>	<b>16 496</b>
Depreciation and amortization	-3 752	-3 584	-3 426	-3 513	-3 495	-3 445	-3 466	-3 672
<b>EBIT</b>	<b>5 863</b>	<b>2 929</b>	<b>8 394</b>	<b>12 985</b>	<b>1 325</b>	<b>5 582</b>	<b>6 442</b>	<b>12 824</b>
Impairment on non-current assets	0	0	-8 567	0	0	0	-5 627	0
Financial revenues	14 576	1 775	710	591	22 216	613	738	993
Financial costs	-959	-1 059	-3 466	-702	-1 182	-1 234	-58	-413
Financial income (loss)	13 617	716	-2 756	-111	21 034	-621	680	580
<b>EBT</b>	<b>19 480</b>	<b>3 645</b>	<b>-2 929</b>	<b>12 874</b>	<b>22 359</b>	<b>4 961</b>	<b>1 495</b>	<b>13 404</b>
Income taxes	-813	-1 527	282	-1 163	-312	-1 704	-740	-1 392
<b>Net Income</b>	<b>18 667</b>	<b>2 118</b>	<b>-2 647</b>	<b>11 711</b>	<b>22 047</b>	<b>3 257</b>	<b>755</b>	<b>12 012</b>

<b>Balance Sheet ('000 BGN)</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>Q4 2016</b>	<b>Q1 2017</b>
Inventories	61 816	65 998	57 292	66 894	62 978	59 110	56 807	59 148
Receivables from related parties	93 946	83 364	80 063	76 041	96 186	88 917	71 076	76 213
Trade Receivables	27 339	27 955	21 457	16 058	16 232	19 231	22 479	24 116
Other receivables	6 999	6 234	6 520	7 489	7 409	12 019	7 304	6 578
Cash & Cash Equivalents	3 343	2 843	3 911	9 954	4 741	1 686	4 343	2 425
<b>Current Assets</b>	<b>193 443</b>	<b>186 394</b>	<b>169 243</b>	<b>176 436</b>	<b>187 546</b>	<b>180 963</b>	<b>162 009</b>	<b>168 480</b>
Property, Plant & Equipment	211 606	209 654	210 620	210 969	209 665	208 956	209 326	207 338
Intangibles	2 912	2 516	2 303	2 420	2 362	2 387	2 177	2 107
Investment property	22 365	22 365	22 160	22 160	22 160	22 160	22 840	22 840
Investments in subsidiaries & assoc.	130 313	131 866	133 810	144 001	138 448	138 589	152 802	152 873
Investments available for sale	4 636	5 924	5 425	5 609	5 941	5 839	5 229	5 138
Receivables from related parties	26 937	32 283	20 505	12 001	12 089	12 240	11 011	14 528
Other receivables	5	3 038	3 258	3 114	3 540	3 507	3 714	3 662
<b>Non-Current Assets</b>	<b>398 774</b>	<b>407 646</b>	<b>398 081</b>	<b>400 274</b>	<b>394 205</b>	<b>393 678</b>	<b>407 099</b>	<b>408 486</b>
<b>Total Assets</b>	<b>592 217</b>	<b>594 040</b>	<b>567 324</b>	<b>576 710</b>	<b>581 751</b>	<b>574 641</b>	<b>569 108</b>	<b>576 966</b>
Share Capital	134 798	134 798	134 798	134 798	134 798	134 798	134 798	134 798
Treasury Stock	-17 398	-17 597	-17 597	-17 603	-17 602	-18 637	-18 809	-18 809
Reserves	284 209	284 678	284 143	284 042	300 828	300 744	304 403	304 387
Retained Earnings	30 907	32 689	27 113	42 125	38 319	41 602	42 483	54 495
<b>Shareholders' Equity</b>	<b>432 516</b>	<b>434 568</b>	<b>428 457</b>	<b>443 362</b>	<b>456 343</b>	<b>458 507</b>	<b>462 875</b>	<b>474 871</b>
Short-term Bank Loans	90 659	92 229	68 961	69 047	54 596	52 417	48 291	41 416
Current Portion of LT Bank Loans	7 329	7 363	7 380	7 153	7 153	7 153	7 185	7 153
Liabilities to Related Parties	2 990	3 078	1 609	1 834	3 607	770	497	1 775
Account Payables	6 131	5 322	8 051	5 584	5 913	4 029	4 712	6 418
Tax Liabilities	464	1 077	1 821	355	830	609	609	1 582
Liabilities to Employees & Soc. Sec.	5 835	4 990	4 618	5 310	6 046	5 470	5 363	6 054
Other Current Liabilities	1 430	1 328	1 502	1 489	5 837	5 798	1 514	1 509
<b>Current Liabilities</b>	<b>114 838</b>	<b>115 387</b>	<b>93 942</b>	<b>90 772</b>	<b>83 982</b>	<b>76 246</b>	<b>68 171</b>	<b>65 907</b>
Long Term Bank Loans	34 379	32 582	30 819	29 200	27 436	25 640	23 844	22 047
Deferred Taxes	4 046	5 100	5 161	4 639	5 277	5 554	5 703	5 686
Liabilities to Employees on Retirement	2 602	2 701	2 571	2 491	2 598	2 703	2 649	2 714
Financial Leases	18	9	3	0	-	0	0	0
Other Long Term Liabilities	3 818	3 743	6 371	6 246	6 115	5 991	5 866	5 741
<b>Non-Current Liabilities</b>	<b>44 863</b>	<b>44 135</b>	<b>44 925</b>	<b>42 576</b>	<b>41 426</b>	<b>39 888</b>	<b>38 062</b>	<b>36 188</b>
<b>Total Liabilities</b>	<b>159 701</b>	<b>159 522</b>	<b>138 867</b>	<b>133 348</b>	<b>125 408</b>	<b>116 134</b>	<b>106 233</b>	<b>102 095</b>
<b>Shareholders' Equity &amp; Liabilities</b>	<b>592 217</b>	<b>594 090</b>	<b>567 324</b>	<b>576 710</b>	<b>581 751</b>	<b>574 641</b>	<b>569 108</b>	<b>576 966</b>

Source: Company IFRS Financial Statements

**CONSOLIDATED FINANCIAL DATA**

<b>Income Statement ('000 BGN)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Q1 2016</b>	<b>Q1 2017</b>	<b>TTM</b>
<b>Sales</b>	<b>761 136</b>	<b>840 517</b>	<b>874 984</b>	<b>877 085</b>	<b>215 812</b>	<b>239 728</b>	<b>901 001</b>
Other operating income	4 893	5 465	-2 678	9 483	-345	1 964	11 792
Change in Inventories	-3 307	12 279	4 207	-994	6 694	3 877	-3 811
Cost of Material	-87 148	-96 334	-86 396	-82 906	-23 342	-24 999	-84 563
Cost of External Services	-58 682	-67 207	-65 661	-56 408	-12 443	-13 710	-57 675
Cost of Labor	-74 763	-80 880	-81 501	-87 159	-20 915	-22 737	-88 981
Other Operating Expenses	-14 112	-15 172	-11 599	-14 313	-1 660	-1 438	-14 091
Book value of goods sold	-448 854	-530 842	-568 590	-571 132	-141 564	-153 985	-583 553
Total Operating Expenses	-686 866	-778 156	-809 540	-812 912	-193 230	-212 992	-832 674
<b>EBITDA</b>	<b>79 163</b>	<b>67 826</b>	<b>62 766</b>	<b>73 656</b>	<b>22 237</b>	<b>28 700</b>	<b>80 119</b>
Depreciation and amortization	-23 272	-27 802	-26 326	-28 705	-6 800	-7 234	-29 139
<b>EBIT</b>	<b>55 891</b>	<b>40 024</b>	<b>36 440</b>	<b>44 951</b>	<b>15 437</b>	<b>21 466</b>	<b>50 980</b>
Impairment on non-current assets	-2 898	-494		-967			-967
Financial revenues	6 553	5 392	6 828	7 014	1 302	1 205	6 917
Financial costs	-22 489	-17 594	-21 640	-12 721	-3 941	-2 430	-11 210
Financial income (loss)	<b>-15 936</b>	<b>-12 202</b>	<b>-14 812</b>	<b>-5 707</b>	<b>-2 639</b>	<b>-1 225</b>	<b>-4 293</b>
Profit/Loss from associated companies	892	310	-1 275	8 972	-509	337	9 818
Profit/loss on subsidiaries acquisition/disposal	-11	1 561	7 222	14 860			14 860
<b>EBT</b>	<b>37 938</b>	<b>29 199</b>	<b>27 575</b>	<b>62 109</b>	<b>12 289</b>	<b>20 578</b>	<b>70 398</b>
Income taxes	-5 159	-5 082	-4 975	-7 207	-1 925	-2 394	-7 676
Minority Interest	3 387	3 939	1 286	4 264	-78	1 182	5 524
<b>Net Income</b>	<b>29 392</b>	<b>20 178</b>	<b>21 314</b>	<b>50 638</b>	<b>10 442</b>	<b>17 002</b>	<b>57 198</b>

<b>Balance Sheet ('000 BGN)</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Q1 2016</b>	<b>Q1 2017</b>	<b>TTM</b>
Inventories	140 352	155 910	163 129	171 791	163 496	167 717	167 717
Receivables from related parties	29 149	25 318	27 434	14 982	25 462	14 536	14 536
Trade Receivables	191 127	196 330	205 589	215 583	212 245	219 190	219 190
Other receivables	11 609	22 445	14 505	17 727	13 574	15 376	15 376
Cash & Cash Equivalents	27 134	26 822	23 486	22 539	27 103	24 269	24 269
<b>Current Assets</b>	<b>399 371</b>	<b>426 825</b>	<b>434 143</b>	<b>442 622</b>	<b>441 880</b>	<b>441 088</b>	<b>441 088</b>
Property, Plant & Equipment	306 728	299 037	315 005	321 215	306 401	318 000	318 000
Intangibles	28 347	24 188	35 502	44 486	35 151	44 410	44 410
Investment property	10 526	10 606	10 562	9 483	10 562	9 754	9 754
Investments in subsidiaries	1 640	12 387	5 224	18 715	4 418	19 196	19 196
Investments available for sale	8 187	6 968	7 424	5 721	7 590	5 668	5 668
Receivables from related parties	25 649	33 150	20 505	10 028	11 091	13 529	13 529
Other receivables	3 515	4 202	7 262	6 951	8 153	6 711	6 711
<b>Non-Current Assets</b>	<b>384 592</b>	<b>390 538</b>	<b>401 484</b>	<b>416 599</b>	<b>383 366</b>	<b>417 268</b>	<b>417 268</b>
<b>Total Assets</b>	<b>783 963</b>	<b>817 363</b>	<b>835 627</b>	<b>859 221</b>	<b>825 246</b>	<b>858 356</b>	<b>858 356</b>
Share Capital	132 000	132 000	134 798	134 798	134 798	134 798	134 798
Treasury Stock	32 026	36 069	48 855	62 708	51 899	62 724	62 724
Reserves	195 896	203 260	222 238	259 984	236 051	276 777	276 777
Retained Earnings	54 350	60 308	51 749	33 733	33 621	35 138	35 138
<b>Shareholders' Equity</b>	<b>414 272</b>	<b>431 637</b>	<b>457 640</b>	<b>491 223</b>	<b>456 369</b>	<b>509 437</b>	<b>509 437</b>
Short-term Bank Loans	208 643	217 360	190 785	190 875	187 686	177 921	177 921
Current Portion of LT Bank Loans	7 083	10 772	14 784	9 478	10 857	9 254	9 254
Liabilities to Related Parties	3 822	1 634	2 366	566	7 166	817	817
Account Payables	61 433	71 752	87 440	92 053	80 816	86 867	86 867
Tax Liabilities	4 408	6 023	6 368	5 949	6 478	6 614	6 614
Liabilities to Employees & Soc. Sec.	6 731	7 514	8 894	10 093	10 242	10 959	10 959
Other Current Liabilities	5 282	5 641	4 858	5 142	10 506	5 343	5 343
<b>Current Liabilities</b>	<b>297 402</b>	<b>320 696</b>	<b>315 495</b>	<b>314 156</b>	<b>313 751</b>	<b>297 775</b>	<b>297 775</b>
Long Term Bank Loans	55 992	45 820	38 876	25 924	30 755	23 829	23 829
Deferred Taxes	4 695	5 728	7 952	11 752	9 266	11 676	11 676
Liabilities to Employees on Retirement	3 557	3 786	4 199	4 539	4 213	4 539	4 539
Financial Leases	2 382	2 103	1 957	2 582	1 777	2 273	2 273
Other Long Term Liabilities	5 663	7 593	9 508	9 045	9 115	8 824	8 824
<b>Non-Current Liabilities</b>	<b>72 289</b>	<b>65 030</b>	<b>62 492</b>	<b>53 842</b>	<b>55 126</b>	<b>51 141</b>	<b>51 141</b>
<b>Total Liabilities</b>	<b>369 691</b>	<b>385 726</b>	<b>377 987</b>	<b>367 998</b>	<b>368 877</b>	<b>348 916</b>	<b>348 916</b>
<b>Shareholders' Equity &amp; Liabilities</b>	<b>783 963</b>	<b>817 363</b>	<b>835 627</b>	<b>859 221</b>	<b>825 246</b>	<b>858 353</b>	<b>858 353</b>

Source: Company IFRS Financial Statements Audited

**KEY FINANCIAL AND PERFORMANCE INDICATORS**

<b>STANDALONE BASIS</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>TTM</b>	<b>2017F</b>	<b>2018F</b>
<b>VALUATION</b>							
PRICE/EARNINGS (P/E)	14.85	14.33	13.15	13.72	15.30	16.15	14.19
PRICE/BOOK (P/B)	1.33	0.96	0.78	1.12	1.22	1.20	1.13
PRICE/SALES (P/S)	2.29	1.95	1.94	3.16	3.44	3.09	2.91
EV (IN 000' BGN)	637 786	524 165	440 319	593 291	649 559	648 020	637 252
EV/EBITDA	11.16	12.59	11.10	14.74	16.14	13.30	12.63
<b>PROFITABILITY</b>							
RETURN ON COMMON EQUITY, (%)	9.04%	6.71%	5.87%	8.16%	8.02%	7.43%	7.99%
RETURN ON ASSETS, (%)	6.11%	4.77%	4.44%	6.64%	6.60%	6.14%	6.80%
EBITDA MARGIN, (%)	26.45%	20.67%	22.83%	24.57%	23.83%	25.85%	25.27%
OPERATING MARGIN, (%)	21.03%	12.24%	14.46%	16.07%	15.50%	19.05%	18.97%
NET INCOME MARGIN, (%)	15.52%	13.55%	14.59%	23.05%	22.54%	19.10%	20.51%
<b>DIVIDEND</b>							
DIVIDEND YIELD, (%)	1.80%	0.00%	2.69%	2.50%		1.56%	1.56%
DIVIDEND PER SHARE	0.07	0.00	0.07	0.10		0.07	0.07
<b>LIQUIDITY</b>							
CURRENT RATIO	1.58	1.68	1.82	2.38	2.56	2.44	2.80
QUICK RATIO	1.10	1.09	1.09	1.44	1.52	1.48	1.72
<b>CREDIT</b>							
LT DEBT/EQUITY, (%)	13.14%	9.34%	7.14%	5.15%	4.64%	4.67%	3.51%
TOTAL DEBT/EQUITY, (%)	40.83%	33.49%	24.83%	17.14%	14.87%	14.79%	12.08%
TOTAL DEBT/TOTAL ASSETS, (%)	27.57%	23.81%	18.78%	13.94%	12.24%	12.21%	10.27%
EBIT/INTEREST EXPENSE	7.94	5.68	7.13	12.75	14.38	17.91	19.12

<b>CONSOLIDATED BASIS</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>TTM</b>
<b>VALUATION</b>					
PRICE/EARNINGS (P/E)	16.83	19.43	16.29	10.24	10.59
PRICE/BOOK (P/B)	1.19	0.91	0.76	1.06	1.19
PRICE/SALES (P/S)	0.65	0.47	0.40	0.59	0.67
EV (IN 000' BGN)	739 145	639 207	568 230	722 052	792 380
EV/EBITDA	9.34	9.42	9.05	9.80	9.89
<b>PROFITABILITY</b>					
RETURN ON COMMON EQUITY, (%)	7.09%	4.67%	4.66%	10.31%	11.23%
RETURN ON ASSETS, (%)	3.75%	2.47%	2.55%	5.89%	6.66%
EBITDA MARGIN, (%)	10.40%	8.07%	7.17%	8.40%	8.89%
OPERATING MARGIN, (%)	7.34%	4.76%	4.16%	5.13%	5.66%
NET INCOME MARGIN, (%)	3.86%	2.40%	2.44%	5.77%	6.35%
<b>DIVIDEND</b>					
DIVIDEND YIELD, (%)	1.80%	0.00%	2.69%	2.50%	
DIVIDEND PER SHARE	0.07	0	0.07	0.10	
<b>LIQUIDITY</b>					
CURRENT RATIO	1.34	1.33	1.38	1.41	1.48
QUICK RATIO	0.83	0.77	0.81	0.81	0.87
<b>CREDIT</b>					
LT DEBT/EQUITY, (%)	13.52%	10.62%	8.49%	5.28%	4.68%
TOTAL DEBT/EQUITY, (%)	65.59%	63.47%	53.41%	46.06%	41.42%
TOTAL DEBT/TOTAL ASSETS, (%)	34.66%	33.52%	29.25%	26.34%	24.58%
EBIT/INTEREST EXPENSE	6.37	4.38	3.95	4.44	5.15

Source: Company IFRS Financial Statements; Elana Trading estimates

**SOPHARMA Overview**

**COMPANY PROFILE**

Sopharma is one of the biggest Bulgarian groups of companies. It is a leading producer, exporter and distributor of pharmaceutical products with a strong presence in Eastern and South-Eastern Europe, offering a wide range of prescription medicines and OTC products.

The Group is vertically integrated and includes both production and distribution. It operates 13 pharmaceutical factories in Bulgaria, all in compliance with GMP (Good Manufacturing Practices), and one in Ukraine. It is also the owner of the leading healthcare product distributor in Bulgaria – Sopharma Trading (SO5 BU) and the majority shareholder in a leading distributor and owner of a large pharmacy chain in the Baltics and Belarus – Briz, Latvia.

Sopharma’s products portfolio consists of more than 210 products, mainly generics. It includes 15 original drugs, of which 12 are phyto-based. The original products, in particular Carsil and Tempalgin, are key contributors to the revenues from export markets. The most important products for domestic sales are generic pharmaceuticals with the leading painkiller drug Analgin.

**FUNDAMENTAL STORY**

Sopharma is a key player on the domestic pharmaceutical market: 2nd largest domestic pharma producer with 13% market share in unites sold. It is second in volumes and 6<sup>th</sup> in value in Bulgaria.

The Company’s main advantages are the compliance with EU standards and industry developments. In the last 5 years it underwent a large scale investment program in new facilities and modernization. Thus increased capacity to answer rising demand.

Generic products are likely to gain even larger market share as the Bulgarian government is focused on cost-containment measures.

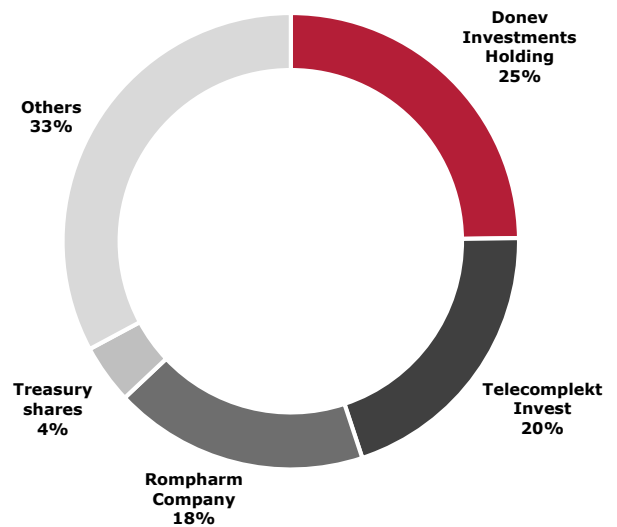
Original products are expected to add significantly to bottom line. Highest achievers are Tabex, Tribestan and Carsil. In order to answer the increasing demand from aging population, the Group has focused on therapeutic areas such as cardiology, gastroenterology, pain relief, neurology and psychiatry, and urology.

Key top line contributor in Bulgaria is the Group’s distribution arm – Sopharma Trading (SO5). It’s a market leader with 23% market share by offering a wide range of medical products and turnkey hospital solutions.

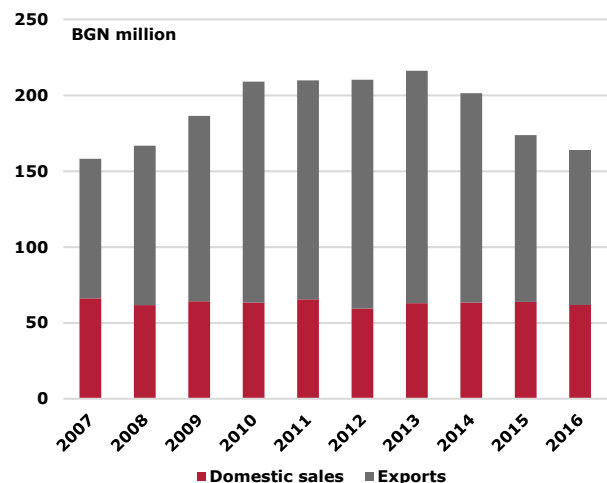
**STRENGTHS & OPPORTUNITIES**

- Good corporate governance
- Well diversified portfolio
- Wide distribution network in Bulgaria
- Strong domestic position

**SHAREHOLDERS’ STRUCTURE**



**INDIVIDUAL SALES GROWTH**



**WEAKNESSES & THREATS**

- Heavy exposure to Russia & Ukraine
- Strong rivalry among domestic players
- Weak financial performance of the Bulgarian hospitals due to state budget dependence and poor management

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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.

Q2 2017 Recommendation Review			Market Maker Services
Recommendation	#	Share	
BUY	6	32%	SKK BU
HOLD	10	53%	
SELL	0	0%	
Under review	3	15%	

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