

SOPHARMA (3JR BU)

INDUSTRY: PHARMACEUTICALS

EXPANSION MODE ON

LEADING BULGARIAN PHARMA GROUP SOPHARMA EXCELLED IN 2017, HITTING RECORD FINANCIAL RESULTS ON STRONG EXPORTS, MARKET EXPANSION, M&A AND SYNERGIES. WITH NEW STRATEGIC PARTNERSHIPS THE GROUP IS BACK IN INVESTMENT MODE TO MATCH DEMAND AND FURTHER BOOST PERFORMANCE

VERTICALLY INTEGRATED PHARMA GROUP WITH A WELL-DIVERSIFIED PORTFOLIO

Sopharma is a leading generic drugs producer in Bulgaria, 13% market share in volumes, with a portfolio of 210+ products, 15 of which original. Top 5 drugs, mostly original, generate 45% of the Company's revenues. Controls the biggest pharma wholesaler in Bulgaria – Sopharma Trading (SO5 BU), market leader on both pharmacy and hospital segments of the market.

RECORD PERFORMANCE IN 2017

The Group booked record performance in 2017 with the top line hitting BGN 1bn and best EBITDA ever on strong organic and M&A driven growth. Individual bottom line margins healthy above historical and peer averages at 20%+ as cost and group optimization kicked in. The Company has almost completed its optimization program by merging key production subsidiaries.

MARKET EXPANSION MODE ON VIA DISTRIBUTION ARM

In 2017, distribution arm Sopharma Trading entered the USD 1.1bn Serbian market by acquiring 70% in local peer Lekovit. In the midterm, the latter targets 20%+ market share via a mirror image of Sopharma Trading's vertical integrated wholesale and retail strategy. Serbia to be a key pocket of growth for Sopharma coupled with Bulgarian retail expansion with the acquisition of local pharmacy chain and the development of branded Sopharmacy network.

NEW CAPACITY INVESTMENTS RESTARTED TO MEET RISING DEMAND

In 2018, Sopharma started a BGN 30m investment in a new lyophilic production plant. The latter to double capacity of life-saving top seller drug methylprednisolone with current demand at 150% of existing facilities. A new cytosine extraction facility also on the way to supply expected registration of smoking cessation drug Tabex in the US as well as expand its presence to the East.

STRATEGIC PARTNERSHIP TO OPEN UP THE US MARKET

After transferring Tabex marketing rights in the US to American clinical stage pharma company Achieve Life Sciences (ACHV US), Sopharma retained a long-term manufacturing agreement to supply cytosine – the key ingredient. Achieve is expected to start Phase III clinical trial with the US Food and Drug Administration (FDA) in mid-2018 which if successful would lead to filing a New Drug Application to market the drug in the US.

ATTRACTIVE MARKET MULTIPLES KEY STOCK CATALYST

Big minority shareholder exit depressed the stock performance for the last 6 months, yet allowing excellent entry point for long term investors as multiples dropped well below market averages with an fP/E of 8x. Sopharma's active buy-back program as well as employee stock ownership plans from current Treasury stock to further support stock liquidity.

VALUATION/RISKS

VALUATION: We value the Company at BGN 5.42 per share using a Sum-of-the-parts method, excluding dividends income, and reiterate a BUY recommendation. **RISKS:** Highly competitive domestic market, uncertain political environment in key export markets;

Standalone data(k BGN, ex. ratios)	2015	2016	2017	2018F
REVENUES	173 803	182 396	205 259	252 115
EBITDA	39 686	43 849	57 309	77 353
EBIT	25 137	28 363	41 071	58 461
NET PROFIT	25 354	38 347	42 140	62 309
ROE	5.87%	8.27%	8.81%	11.80%
ROA	4.44%	6.69%	7.15%	9.67%
EBITDA MARGIN	22.83%	24.04%	27.92%	30.68%
NET PROFIT MARGIN	14.59%	21.02%	20.53%	24.71%
EPS	0.20	0.30	0.32	0.50
DEBT/EQUITY	0.25	0.17	0.16	0.15
P/E	13.15	13.52	12.86	8.40
P/B	0.78	1.12	1.09	0.99
EV/EBITDA	11.10	13.43	10.42	7.63
PAYOUT RATIO	35.78%	33.79%	35%	21%
DIVIDEND YIELD	2.69%	2.50%	2.82%	2.50%

BUY

ONE YEAR PRICE TARGET: BGN 5.42
CURRENT PRICE: BGN 4.16
PREVIOUS PRICE TARGET: BGN 5.20

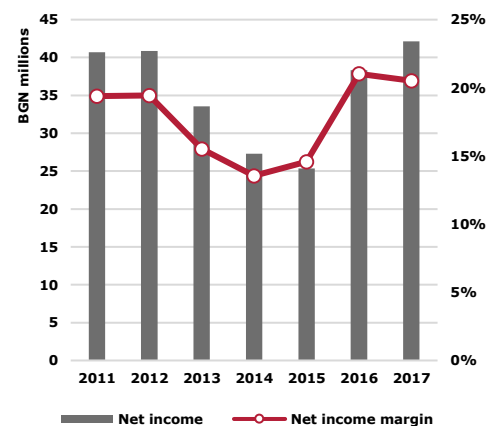
EXCHANGE RATES

EUR/BGN (FIXED): 1.95583
USD/BGN: 1.58418

MARKET DATA

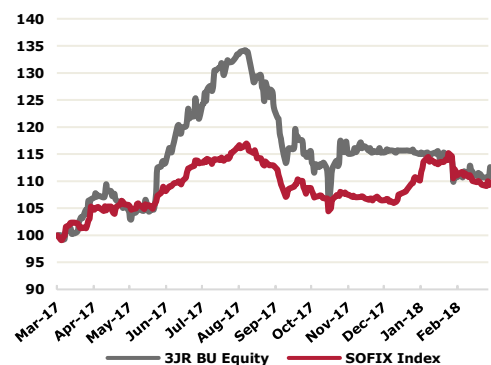
Shares Outstanding:	125.8m
Share Capital:	134.8m
Free-float:	35%
Treasury Shares	6.7%
Market Cap.:	BGN 560m
Avg. Daily Vol.:	BGN 360,000
52 Weeks Range:	BGN 3.67-4.97

INCOME MARGIN SURPASSED PRE-CRISIS LEVEL



Source: Company data

PRICE PERFORMANCE



Source: Bloomberg

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EXECUTIVE SUMMARY

WE CONFIRM OUR BUY RECOMMENDATION FOR SOPHARMA WITH ONE YEAR PRICE TARGET OF BGN 5.42 PROVIDING 30% UPSIDE IN THE NEXT 12 MONTHS

THE COMPANY

Sopharma (the Group, the Company) is the biggest vertically integrated human health pharmaceutical group in Bulgaria. It incorporates the leading generic drug producer Sopharma, serving both the local and export markets with strong presence in Eastern Europe, Russia and ex-CIS countries, as well as the biggest pharma wholesaler in Bulgaria – Sopharma Trading (SO5 BU).

The Group's operations include:

- Production of pharmaceutical products, mostly generics with 15 original drugs;
- Production of medical supplies and consumables (bandages, plasters, syringes, sanitary and other disposables products)
- Distribution of 10 000+ medical products, drugs, herbal substances, food supplements, vitamins, equipment and cosmetics via its key subsidiary Sopharma Trading.

Bulgaria accounts for 68% of the Group's top line as the distribution arms' results way heavy on the top line and less so on the bottom line due to smaller wholesale margins. On an individual level, however, Bulgaria accounts for 38% of Sopharma's revenues, the rest coming from Europe – 51%, and other countries – 11%, mostly Caucasus and Central Asia. The Company is a domestic pharmaceutical leader with 13% market share in volumes and 4% market share in value, as of the end of 2017. Key export markets are Russia and Ukraine with 40%+ of sales at the end of 2017 which have been in recovery since end of 2016.

With a major hit in 2014 from Russia and Ukraine, Sopharma accelerated a long announced optimization program and initiated a market expansion strategy. As of the end of 2017, it has almost completed its operational efficiency optimization by divesting non-core operations and absorbing subsidiaries – herbal substances company Bulgarian Rose-Sevtopolis (in 2015) and sanitary materials producer Medica (in 2017). A third merger, namely with the generics drug producer Unipharm, is to be completed by mid-2018.

Pursuant to its expansion strategy, the Group acquired several local and foreign companies to tap on new export markets as well as expand its retail segment presence. Key acquisitions include 70% stake in Serbian wholesaler Lekovit, a leader on the smaller pharmacies segment with a 20%+ share target on the USD 1.1bn Serbian pharmaceutical market, as well as 100% stake in the 4th biggest pharmacy chain in Bulgaria in terms of value – Pharmastore, operating 19 seasoned pharmacies. Additionally, the Group develops its own-branded retail chain – Sopharmacy, increasing the number of pharmacies to 24, as of the end of 2017.

Sopharma's expansion plans are to be further boosted by its cytisine-based smoking cessation drug Tabex that is substantially cheaper than its analogs. In 2015, the Company sold its commercialization rights in the US and Western Europe to the American clinical stage pharma company Achieve Life Sciences (ACHV US). In 2017, Sopharma entered into an exclusive 20 year agreement with Achieve to manufacture the active ingredient (API) and finished tablets of Tabex upon receipt of US FDA certification. Achieve has been moving forward with Tabex' registration in the US and is expected to commence Phase 3 clinical trial in mid-2018. If successful, it will file a New Drug Application with the FDA. Sopharma is entitled to royalties on sales in the US.

On the domestic market, generic products are expected to gain larger market share as the Bulgarian government is set to focus on cost-containment measures.

Sopharma is one of the biggest groups of companies in Bulgaria. It is also a blue chip on the Bulgarian Stock Exchange, second largest by market capitalization. It is among the most liquid stocks and part of the main index SOFIX. The Company is a regular dividend payer with an average payout ratio of 28% for the last six years. It has also an active buyback program recently revitalized as the stock was under pressure since mid-2017 due to a large portfolio investor seeking an exit. The latter opens an opportunity for institutional investors to enter at attractive multiples with liquidity to be boosted by a new employee stock ownership plan.

THE COUNTRY AND THE MARKET

Bulgaria is under a currency board and the Bulgarian Lev is pegged to the Euro at fixed rate of 1.95583. Joining the Eurozone is a midterm strategic goal for the country.

The current political situation is stable as Bulgaria took over the presidency of the Council of Europe on Jan 1st, 2018. In the short term no political surprises are expected, yet mid to long term turbulences are possible as structural reforms remain on the agenda.

The Bulgarian economy booked 3.6% y/y real GDP growth in 2017, slightly decelerating from 2016 levels, driven by domestic demand and investments. 2018 consensus estimates point to 3.8% GDP growth. The unemployment rate reached its lowest level in nine years with disposable income rising fast.

The Bulgarian pharmaceutical market has been steadily outpacing global pharma growth with 10% y/y rise in 2017 and 5% to 7% CAGR expected in the midterm. Increased share of chronic diseases, combined with growing domestic demand and aging population both in Bulgaria and neighboring countries to provide opportunities for growth.

THE VALUATION

We use the sum of the parts methodology to value Sopharma. The non-consolidated results are the base for the valuation of its main production facilities. It is the primary profit generating asset, even after the exclusion of future income from dividends.

We value the stock of Sopharma at BGN 5.42 per share or 30% above current market prices.

SOME RISKS

Strong rivalry on the domestic pharmaceutical market, including heavy price competition between retailers and pharmacies.

Uncertainty on the export market with heavy reliance on Russia and Ukraine and a long new-market-entrance process.

Relatively limited size of local market due to the population size, as it is susceptible to shocks caused by funding shortfalls and other one-off factors.

Chaotic regulatory changes as the government controls reimbursed drug prices.

COMPANY OVERVIEW

Sopharma is the largest Bulgarian pharmaceutical producer. In 2017, it reached 1st position in sales volume, outperforming its year-long competitor Actavis.

Largest Bulgaria generic pharma in volumes sold

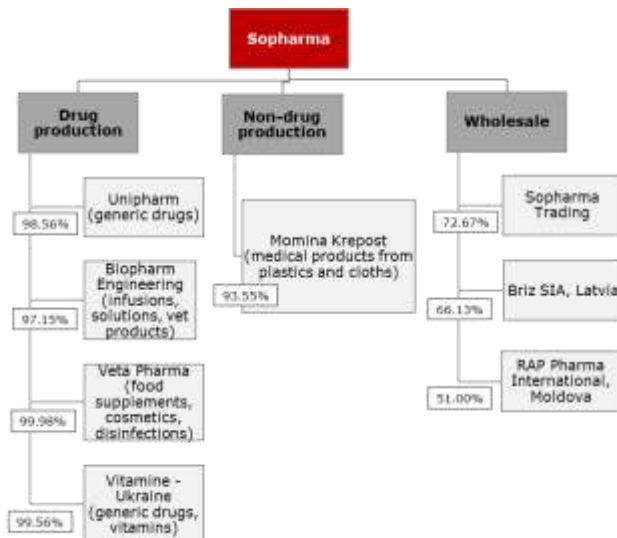
The Company’s portfolio includes 210 drugs, mostly generics, with 15 original, 12 of which phyto-based. In Bulgaria, it markets mainly generics. Best-sellers include painkiller Analgin (5-6% of sales), life-saving Methylprednisolone (2-3%), Vicetin, Vitamin C and Nivalin (2-3%). Sopharma’s original drugs are top export sellers led by gastro-enterological drug Carsil (~20%), painkiller Tempalgin (~10%) and tobacco cessation drug Tabex (~8%). Top 10 drugs make up 60% of revenues, with top 5 mostly originals, generating 45%.

The Group is vertically integrated and includes production and distribution operations, both on wholesale and retail, with 48 subsidiaries under direct or indirect control. It incorporates 12 production facilities in Bulgaria and one plant in Ukraine. All facilities have EU-GMP (Good Manufacturing Practices) certification with the exception of the Ukrainian plant, which is certified by local authorities, complying with CIS standards.

15 original drugs in the portfolio, which are top sellers

The Group has a top-notch distribution network in Bulgaria via the biggest wholesaler in the country – Sopharma Trading. The latter holds a 21% market share in Bulgaria via contracts with 350+ medical facilities and 3 500 pharmacies. Its portfolio includes 10 000+ drugs, medical equipment and appliances, vitamins, cosmetics and food additives as well exclusive portfolio for numerous pharma producers. In 2017, Sopharma Trading expanded its market presence into Serbia by acquiring the local wholesaler Lekovit. It also expanded its local presence with the acquisition of Pharmastore pharmacy chain and is building on its own-branded Sopharmacy network. Sopharma also controls distributors and pharmacy chains in Moldova, Belarus and other ex-Soviets.

Exhibit 1: Major business lines with their key subsidiaries



SHAREHOLDERS’ STRUCTURE

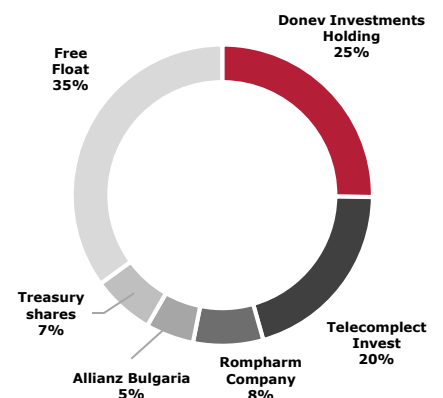
Sopharma’s registered capital is BGN 134.8m distributed in 134 797 899 ordinary shares with a nominal value of BGN 1 per share. The current number of outstanding shares is 125.8 million.

125.8 million outstanding shares

Two shareholders control Sopharma, namely Donev Investments Holding and Telecomplect Invest. Sopharma’s CEO Mr. Ognyan Donev, controls the former and shares control over the latter with a partner – local lawyer Ventsislav Stoev.

The third largest shareholder - Rompharm Company, is a Bulgarian pharmaceutical entity which built its position in Sopharma gradually in 2013-2014 up to a c.18% stake. Since mid-2017, it is exiting the position and as of the end of 2017 holds 7.5%. The exit depressed considerably Sopharma’s stock performance over the last 6 months, yet opening room for long term institutional entry at an attractive valuation.

The rest of Sopharma’s stock is free float – 35%, held by numerous local and international institutional and retail investors. Local pension funds are the biggest shareholders in the free float. Sopharma holds 6.7% in Treasury stock and in February 2018 renewed its buyback program for another five years. It activated the buybacks with Rompharm’s exit and plans to continue to be active on the market. Insiders as CEO Ognyan Donev were also active buyers over the last 6 months.



POTENTIAL CATALYSTS

OPENING HORIZONS WITH ACQUISITIONS AND MARKET EXPANSION: The Group's expansion strategy via acquisition in Serbia and in Bulgaria to move Sopharma forward. Serbian wholesaler Lekovit ultimate target is 20%+ market share both on the wholesale and retail segments which should reflect a fivefold rise while the pharmacy acquisitions and development in Bulgaria to move Sopharma closer to being the 2nd biggest pharmacy operator.

Expansion into local and export markets to trigger growth

EXCESS DEMAND TO DRIVE GROWTH: Sopharma's plans to build additional production facilities for lyophilic products and cytosine extraction to drive growth as demand already exceeds supply. Demand for lyophilic life-saving drug methylprednisolone stands at 150% of current production capacity.

TABEX – THE ANTI-TOBACCO DRUG, IN THE US: Long proven in Eastern Europe, the smoking cessation drug Tabex' registration and cytosine commercialization in the US to potentially open up major new pocket of growth for Sopharma both as a production base and via sales royalties. Sopharma's American partner Achieve Life Sciences is moving forward with Tabex Phase III clinical trials with the US FDA. Following a successful completion of the latter, Achieve will file for the approval of the medication on the US market.

SHARE PRICE CATALYST: Rompharm's exit from its 18% stake in Sopharma led to considerable erosion in the latter's share price since mid-2017. The stake is already considerably lower (7.5%) thus should free the share price appreciation potential.

PHARMACEUTICAL SECTOR OVERVIEW

GLOBAL PHARMACEUTICAL SECTOR

The global pharmaceutical market is expected to grow by around 3% per year and to reach USD 1.5 trillion in 2021, which is approximately USD 370bn higher than the volume for 2016, according to research data published by IQVIA. The latter projects that spending on medicine will grow by 4%–7%, primarily driven by newer medicines in developed markets and increased volume in emerging markets. However, developed countries are expected to offset the increased costs from new medicines with the use of generic pharmaceuticals.

Emerging markets to drive growth

The aging population will be the growth engine in rich countries. Due to the increase of net income in developing countries, the latter started to experience health issues that used to be typical for developed economies. These include both communicable and chronic diseases, among which diabetes, chronic heart disease, Alzheimer's disease. Besides growth in demand, we expect to witness also an increased pressure on drug prices.

The overall growth of health care costs leads to increased use of cheaper generic drugs. The generic drug market is expected to reach approximately USD 380bn by 2021, growing at a CAGR of around 10.8 % between 2016 and 2021, according to IQVIA.

10% CAGR expected for generics

Russian and Ukraine markets deserve a closer look as they continue to be Sopharma's main export markets. Although Ukraine has been slowly emerging from the crisis that hit the country in 2014, the cost of life is increasing, while the purchasing power of consumers is still reduced compared to 2013 levels. Thus, customers have shifted their preferences towards less expensive generic drugs. Only at the end of 2016 did they turn to more expensive drugs. All of this implies a rather slow recovery of the demand in the sector, which will inevitably reflect on Sopharma's revenues from the Ukrainian market. This matches Sopharma's expectations for a rather moderate growth and gradual stabilization of its positions in Ukraine.

Russia, on the other hand, has been promoting domestic production of drugs under its Pharma 2020 Strategy. Increased investments in the sector have already led to considerable growth in domestically produced drugs, the latter reaching 59% of drugs' volume in 2017. This has already started pushing down prices. The increase in the domestically produced pharmaceuticals has been driven by the entrance of foreign producers into the Russian pharmaceutical manufacturing business. However, the majority of these are generic products, while innovative medications are still imported. Thus, there is no immediate threat to Sopharma's positions on the Russian market, which matches the Company's expectations for similar to 2017 sales volumes in Russia in 2018.

LOCAL PHARMACEUTICAL SECTOR

The pharmaceutical production industry in Bulgaria is mostly generic. The major Bulgarian players are Sopharma and Actavis (which was recently acquired by Israeli pharma giant Teva and is expected to start closing down plants). The production capacity of plants in Bulgaria to produce generics is 21bn tablets and capsules, 200m ampoules, syrups and ointments, 125 tons substances. About 80% of the overall production is exported to EU and third countries, and 20% is sold on the Bulgarian market.

Highly competitive with two major generic players

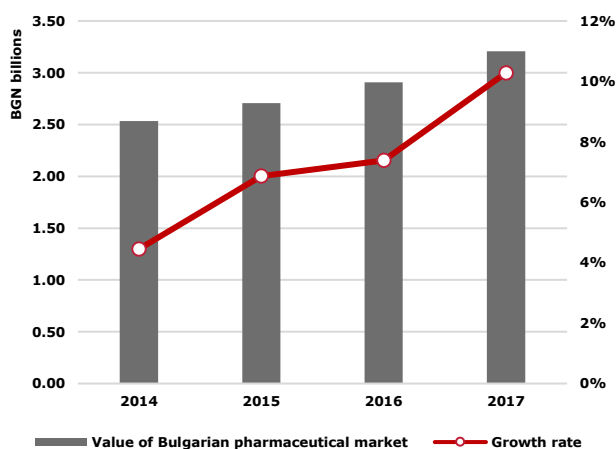
The overall pharma market in Bulgaria, however, is valued at BGN 3.2bn in 2017 with market leaders in terms of sales being the global manufacturers such as Novartis (7% market share), Roche (6%), Actavis (6%), Glaxosmithkline (4%), Abbvie (4%), Sanofi-

Aventis (4%), Astra Zeneca (3%), Bayer (3%) and Pfizer (3%). Sopharma holds 4% in terms of value and 13% market share in terms of volumes sold, a leader in the latter, as of the end of 2017.

Overall, the Bulgarian pharmaceuticals market has been steadily on the increase, substantially surpassing global average growth of 5.3% in the past three years and reaching a 10% y/y rise in 2017. Major growth drivers were new expensive drugs as well as the increase in patients' disposable income and higher public funds availability. Consensus expectations are that the market will continue to grow at a moderate rate (5% and 7% per year).

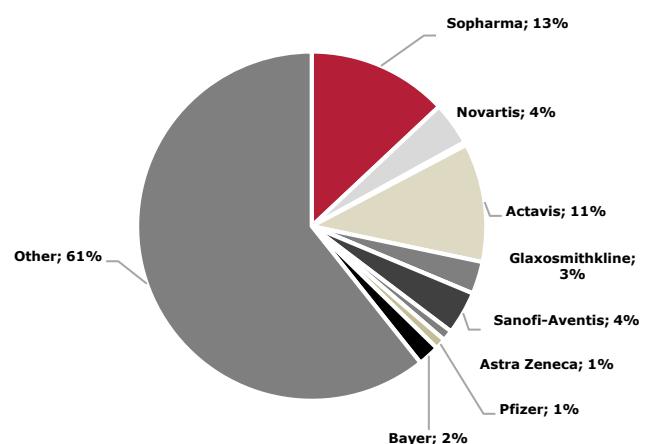
In terms of pharma wholesale, four major distributors cover 80%+ of the market in Bulgaria for medicines, medical devices, equipment and food supplements. These are led by Sopharma's subsidiary Sopharma Trading (SO5 BU), which holds 21.2% market share, followed by Libra – Phoenix, Pharmnet and Sting, each holding around 20% market share. Pharmaceuticals distribution remains highly competitive. Distributors rely on income from other activities such as marketing services, exclusive contracts and representation, and etc. to improve financial flows and margins. Accordingly, market consolidation is on the rise with wholesalers investing in retail chains to capture additional margins despite a formal ban on vertical integration.

Exhibit 2: A market steadily on the rise



Source: IQVIA

Exhibit 3: Market players by sales volumes



Source: Sopharma, 4Q 2017

SOPHARMA'S MARKET PRESENCE

Sopharma is a leading Bulgarian generic pharma group, local market's number one in terms of sales volumes for the last three years.

On an individual level, Sopharma traditionally generates about 38% of its revenues from Bulgaria, the rest coming from export markets. Russia is the top export country contributing to about 30% of the non-consolidated revenues, followed by Ukraine. The latter is yet to recover post the 2014 pre-crisis level. Due to expected improvements in the Ukrainian macroeconomic environment and growth in demand for more expensive original products, Sopharma's management projects a gradual growth of sales and stabilization of its market position in 2018. The rest of the sales come from other European countries with 11% generated outside Europe, mainly Caucas and Central Asia.

When adding the distribution arm, Sopharma Trading, which up to now operated only in Bulgaria, the Group's exposure in Bulgaria rises to c. 68% of the overall top line. With the latest acquisition in Serbia, the latter to change considerably over the next couple of years as the Group expands its market share in the country. Currently, Lekovit holds 7% overall market share and is a leader among the small pharmacies in the country. It targets a fivefold rise which should also translate into considerable penetration for Sopharma's own portfolio on the Serbian market. The latter is currently considered highly underdeveloped c. 10 years in development behind the Bulgarian pharmaceutical market.

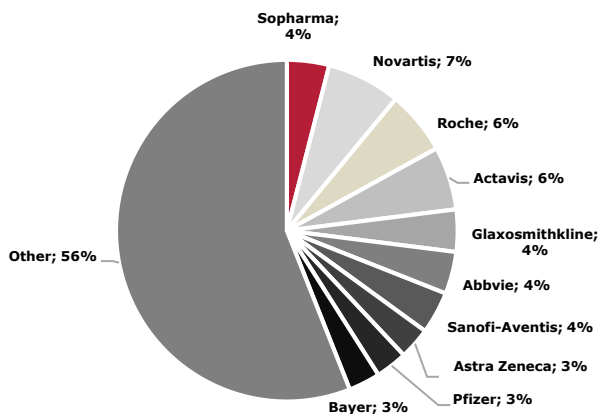
The Group is expected to further boost its market presence both on the local market as Sopharma Trading acquired the Bulgarian pharma chain Pharmastore. The latter operates 19 pharmacies in the cities of Sofia and Burgas and holds fourth place by sales value on the Bulgarian retail pharma market, according to data from IQVIA.

In addition, the Group continues the expansion of its own branded Sopharmacy chain started back in 2015, with 25 pharmacies in total as of the end of 2017. According to IQVIA, the latter holds the tenth place in terms of sales value on the Bulgarian retail market. Finally, Sopharma Trading also acquired an online pharma store – www.farma.bg, to tap on additional sources of sales and margins.

As a portfolio, Sopharma alone produces and markets 210 drugs, mostly generics. It also has 15 original drugs which are export top sellers led by gastroenterological drug Carsil (~20% of sales). In Bulgaria, Sopharma markets mainly generics with the painkiller Analgin top seller with c.5-6% of sales. Top 10 drugs make up 60% of Sopharma's revenues, with top 5 mostly originals.

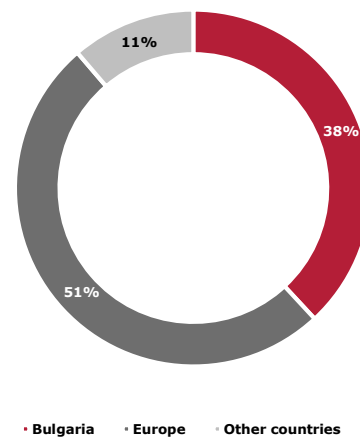
Sopharma's main distribution arm, Sopharma Trading, services a portfolio of 10 000+ drugs, medical supplies, equipment, cosmetics and other consumables. It also has an exclusive portfolio of drug and non-drug products from producers like Aboca, Abbott, General Electric, Hartmann, Jamieson, Skincode, SVR, and etc.

Exhibit 4: Sopharma is among top 7 companies by value, as there is no clear market leader



Source: Sopharma, 4Q 2017

Exhibit 5: Europe generates the biggest part of Sopharma's individual sales



Source: Sopharma, 4Q 2017

FINANCIAL ANALYSIS AND VALUATION

Sopharma is a well-diversified vertically integrated holding company with strong presence on the Bulgarian pharmaceutical market. The wholesale unit Sopharma Trading, the Group's biggest subsidiary, is a high top line and low margin contributor to the Group compared to the remaining units. To value the Group we use the sum-of-the-parts method and provide peer multiples for comparative purpose only.

The unconsolidated multiples are presented in the next table. As at the end of 2017, Sopharma's P/E ratio stood a little higher than the average for SOFIX with value of 12.86. Forward P/E is 8.40 on the expected profit from expanded top and bottom line due to the merger of Medica and Unipharm into Sopharma as well as further improvement in organic sales from exports.

Recovery evident, performance expected to further improve

	2015A	2016A	2017A	2018F
Current Price	2.60	4.00	4.16	4.16
Number of Shares Outstanding	129,578,603	129,578,603	125,764,919	125,764,919
Market Capitalization	336,904,368	518,314,412	523,182,000	523,182,000
Net Profit	25,354,000	38,347,000	42,140,000	62,309,000
P/E	13.15	13.52	12.86	8.40
Equity	431,626,000	463,415,000	478,257,000	527,861,000
P/B	0.78	1.12	1.09	0.99
Sales	173,803,000	182,396,000	205,259,000	252,115,000
P/S	1.94	2.84	2.55	2.08
EV	440,319,000	588,855,000	597,152,000	590,170,000
EBITDA	39,686,000	43,849,000	57,309,000	77,353,000
EV/EBITDA	11.10	13.43	10.42	7.63
ROE	5.87%	8.27%	8.81%	11.80%
ROA	4.44%	6.69%	7.15%	9.67%

SOPHARMA PEER MULTIPLES REVIEW

Company	Country	Ticker	Mkt Cap (EUR m)	P/E	ROE	P/B	P/S	EV/EBITDA T12M
Sopharma	Bulgaria	3JR BU	293	12.73	9.66	1.19	0.59	9.59
Zentiva	Slovakia	SKF SK	533	63.24	15.27	4.88	12.83	17.02
Richter Gedeon	Hungary	RICHT HB	3 295	19.97	8.29	1.47	2.30	10.97
Otcpharm	Russia	OTCP RM	406	4.66	19.63	0.83	1.08	3.02
Olaines	Latvia	OLF1R LR	123	10.61	11.95	1.24	1.00	7.56
Krka	Slovenia	KRKG SV	1 889	13.47	9.72	1.28	1.49	6.25
Grindeks	Latvia	GRD1R LR	72	6.99	7.47	0.56	0.54	4.51
Eastpharma	Turkey	EAST LI	69	3.57	15.04	0.46	0.38	4.34
Deva	Turkey	DEVA TI	179	9.40	15.20	1.44	1.09	7.61
Des Biotika	Slovakia	BSL SK	23	25.40	3.08	0.81	0.96	8.25
Stada	Germany	SAZ GR	5 240	61.45	20.22	5.43	2.26	13.58
Galenika	Serbia	FITO SG	67	10.43	17.60	1.72	2.40	3.08
Alkaloid	Macedonia	ALK MS	186	14.15	8.89	1.36	1.26	6.49
AVERAGE			952	19.70	12.46	1.74	2.17	7.87
MEDIAN			186	12.73	11.95	1.28	1.09	7.56

Source: Bloomberg

SOPHARMA INDIVIDUAL RESULTS ANALYSIS AND VALUATION

In 2017, Sopharma has restored its position in Russia and is recovering its Ukrainian market position as the country is gradually exiting its crisis mode. This led to top line improvement and sales up 13% y/y reaching BGN 205.3m, slightly below FY2013 high. The latter was also positively affected by the consolidation of the results of medical consumables subsidiary Medica, merged in August 2017.

Due to successful cost optimization, the Company's OPEX increased by only 7% y/y while sales revenues surged 12.5% y/y. As a result, Sopharma's net profit increased 10% y/y to BGN 42.2m, outpacing the Company's 2016 net result which was also boosted by a one-off sale of assets in 2016 for BGN 12.7m.

Individually, Sopharma's results represent mainly the production part of the Group, which is also the most profitable. Despite the considerable topline erosion in the period 2014-2016 due to the Ukrainian crisis and Russia's currency volatility problems, Sopharma was able to almost restore its market positions in the latter. Yet, it still misses 30% on the pre-crisis sales levels in the former. Management expects Ukrainian sales to gradually go up in 2018.

As Sopharma has almost finalized its optimization program, with total utilization of merged Medica's production capacity to be reached in 2018, the Company has taken the decision to further boost its production capacity with two new investments – a lyophilic production plant in Sofia and cytosine production facility in Kazanlak. The investment is projected to cost roughly BGN 50m with BGN 30m estimate for the lyophilic plant. Sopharma has already received full planning permission and is to proceed with the construction of the Sofia plant. The latter will take up around two years to be completed and will double the lyophilic production capacity. On its completion, Sopharma will immediately utilize 80% of the latter. The cytosine production facility is still at an early planning stage, but is also expected to start in 2018 with the construction lasting about two years.

These would be the two major CAPEX expenditures over the forecasted period with smaller ones in two subsidiaries. The Company will back up the investment plans of solutions manufacturer Biopharm Engineering and medical consumables producer Momina Krepost, by injecting a total of BGN 10m (BGN 5m per subsidiary). Half of each investment will be covered by an EU grant on successful completion of the projects, planned for the end of 2019. Pursuant to the investments, Biopharm will be able to meet increasing demand, while Momina Krepost will boost its products' competitiveness compared to Chinese alternatives available on the domestic market.

Following the completion of the lyophilic plant in 2020, we expect sales growth to accelerate mainly on increased methylprednisolone production. In 2021, we envision a rather moderate growth rate on gradual utilization of the new cytosine production capacity without taking into account a potential US market commercialization. In addition, post-2020 Sopharma's revenues are also expected to get a boost from Serbian market expansion. In 2022, we estimate a slow growth deceleration to 4.5%, with terminal value growth rate set at 2%.

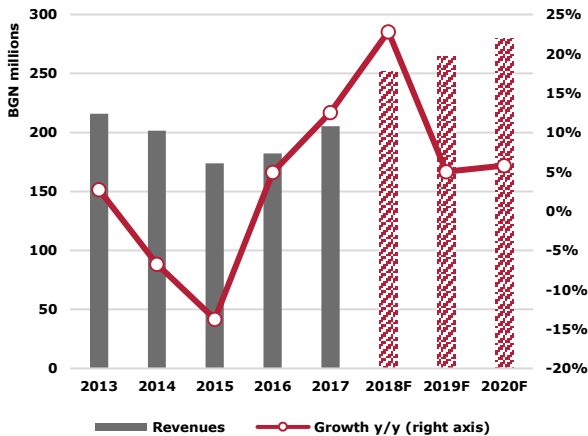
Over the last few years, Sopharma decreased considerably its debt levels on a standalone basis. We expect an increase in long-term debt for the implementation of Sopharma's investment program, yet the Company's debt-to-equity ratio to remain at healthy levels. We

Rising demand in Bulgaria and higher export to drive organic growth

also project increase in the interest expenses as the interest rates are expected to rise in the upcoming years. Depreciation expenses are projected to grow following the completion of the new production facilities in 2020-2021. Labor costs are projected to gradually increase throughout the forecasted period following the market expectations for higher wages and due to employment of additional workers in the new production facilities.

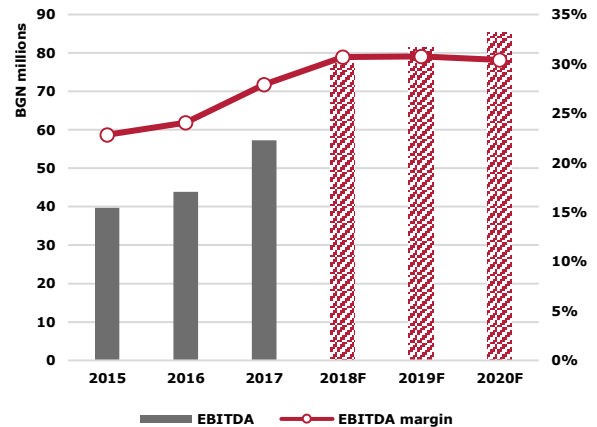
Overall, we expect Sopharma to expand its EBITDA margin to an average of 30.5% on increased efficiency, followed by an average net income margin of 23.7% for the forecasted period.

Exhibit 6: Almost restored export positions; bound to grow on recent mergers and higher export expectations



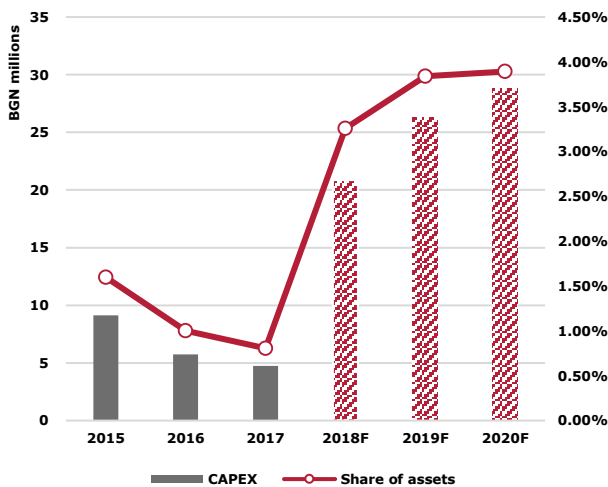
Source: Elana Trading estimates, company data

Exhibit 7: Increase of EBITDA margin, following optimization of costs and use of free capacity



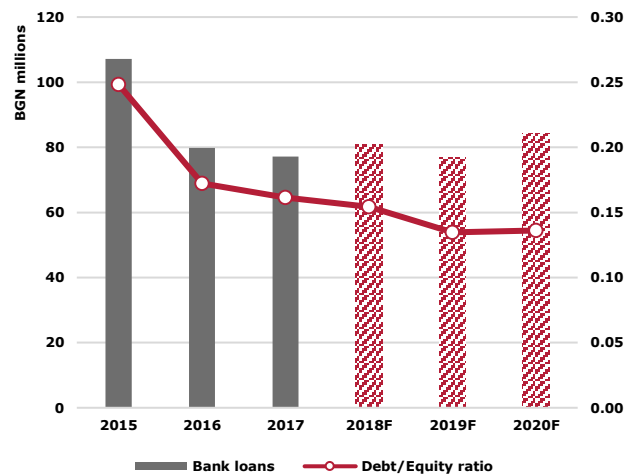
Source: Elana Trading estimates, company data

Exhibit 8: Investments in new capacity envisioned for the next two to three years



Source: Elana Trading estimates, company data

Exhibit 9: Debt levels to stay healthy despite upcoming capacity expansion



Source: Elana Trading estimates, company data

Our forecasts and DCF calculations are adjusted to exclude the dividend income from subsidiaries as we add their value under the sum-of-the-parts method.

The first year of the model takes into consideration the merger of Unipharm and Medica, as well as an organic 8% growth rate for Sopharma. For the following year we envision a slowdown of the growth to 5%, while in 2020 the revenue growth rate is set at 5.8% on boosted production capacity of the new lyophilic plant and Serbian sales. For 2021 and 2022 we project lower growth of 5.2% and 4.5% respectively, as we expect gradual utilization of the cytosine facility and expansion of market sales on the Serbian market. We imply a 2% growth rate for the terminal year valuation.

In our forecast, we do not take into account the potential impact of getting Tabex registered and marketed in the US as it is too early to estimate the size of the impact from such a major event for Sopharma, if realized.

In our DCF model we use a beta of 1 (a little higher than Bloomberg's 0.98), as Sopharma moves with the market. To calculate the weighted average cost of capital we also take the Bulgarian 10 year bond yield as we believe it is a good estimate for a risk free rate as well as an equity risk premium of 7.27% which we believe is adequate for the Bulgarian market.

We arrive at a BGN 4.58 per share standalone value

Cost of debt is at lowest levels already and we expect it to rise post 2018. Thus, we arrive at an average cost of capital of 8.6%.

All of the aforementioned factors return a standalone intrinsic value of BGN 4.58 for Sopharma shares.

KEY ASSUMPTIONS

	2018F	2019F	2020F	2021F	2022F
SALES	252 115	264 721	280 075	294 639	307 897
SALES GROWTH Y/Y	22.8%	5.0%	5.8%	5.2%	4.5%
EBITDA	77 353	81 438	85 203	89 559	93 422
EBITDA GROWTH RATE Y/Y	35%	5.28%	4.62%	5.11%	4.31%
EBITDA MARGIN	27.92%	30.68%	30.76%	30.42%	30.40%
CAPEX	20 861	26 287	28 797	14 417	13 049
NET INCOME	62 309	65 225	65 354	67 864	70 395
NET INCOME GROWTH Y/Y	47.86%	4.68%	0.20%	3.84%	3.73%

WACC CALCULATION

	2018F	2019F	2020F	2021F	2022F	TERMINAL YEAR
RISK FREE RATE	1.50%	1.50%	2.00%	2.50%	3.00%	3.00%
EQUITY RISK PREMIUM	7.27%	7.27%	7.27%	7.27%	7.27%	7.27%
BETA	1.00	1.00	1.00	1.00	1.00	1.00
COST OF EQUITY	8.77%	8.77%	9.27%	9.77%	10.27%	10.27%
COST OF DEBT	2.65%	3.49%	4.00%	4.20%	4.40%	4.40%
EFFECTIVE TAX RATE	10%	10%	10%	10%	10%	10%
AFTER-TAX COST OF DEBT	2.38%	3.14%	3.60%	3.78%	3.96%	3.96%
WEIGHT OF EQUITY	82%	84%	84%	84%	84%	84%
WACC	7.62%	7.85%	8.35%	8.80%	9.25%	9.25%

SOPHARMA STANDALONE DISCOUNTED CASH FLOWS

BGN'000	2018F	2019F	2020F	2021F	2022F	TERMINAL YEAR
EBIT	58 461	61 602	61 976	64 388	66 348	60 613
EBIT(1-T)	52 615	55 442	55 778	57 949	59 713	54 551
ADD: D&A	18 891	19 836	23 227	25 171	27 074	20 414
LESS: INVESTMENTS	20 861	26 287	28 797	14 417	13 049	18 843
LESS: CHANGE NWC	20 877	30 488	8 143	5 321	3 242	7 858
FCF	29 769	18 503	42 065	63 382	70 495	48 264
PV FCF	27 406	15 682	32 822	45 530	46 620	
SUM OF PV FCF	168 059					
PV OF CONTINUING VALUE	481 994					
TOTAL PV FREE CASH FLOWS	650 053					
LESS: OUTSTANDING DEBT	77 186					
PLUS: FINANCIAL ASSETS	3 216					
PV OF EQUITY	576 083					
NUMBER OF SHARES	125 765					
PRICE PER SHARE	4.58					

SOPHARMA TRADING VALUATION

Sopharma Trading's operations are heavily influenced by the health care system in the country. Its product portfolio consists mainly (i.e. 82%) of imported products. The company follows the general market upwards trend while maintaining excellent trade relationships with all producers. Sopharma Trading has showed an impressive increase of revenues reaching a CAGR of 9.12% for the last 10 years.

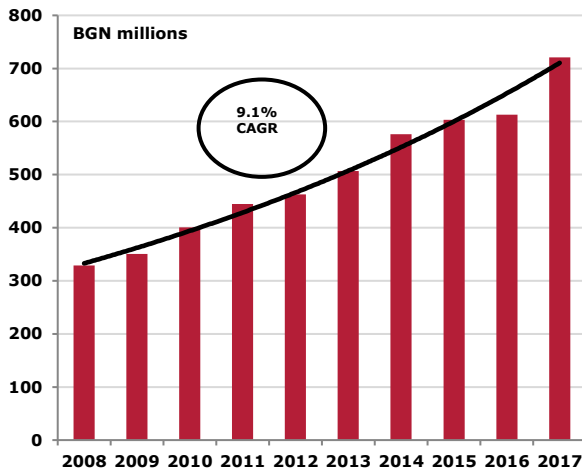
Leading wholesaler in Bulgaria

Sopharma Trading is the market leader with more than 21% of this highly competitive market. Deliveries to hospitals is the company's strongest suit where it is responsible for

more than one-third of the supplies. In addition, 2017 reports a 33% y/y growth in deliveries to pharmacies to BGN 426.3m. The company has been steadily increasing revenues from pharmacies and hospitals subsectors, with some fluctuations in the wholesale and medical equipment subsectors.

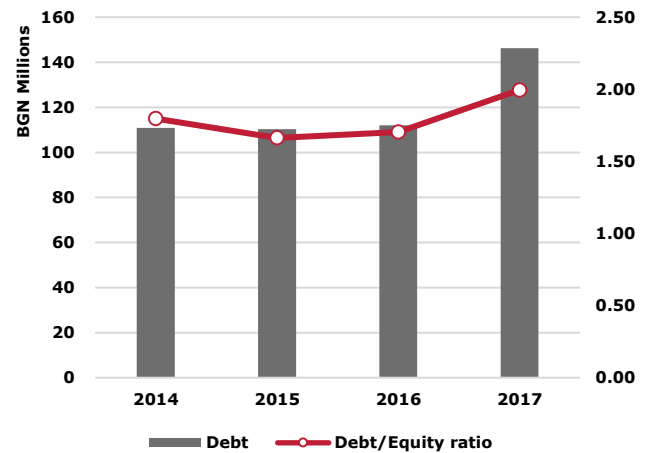
The company is expected to double its revenues and triple its net profit until 2021 mainly on improved local and export market positions. The latter are expected on Sopharma Trading's acquisition spree in 2017, as a result of which the company acquired a 70% stake in Serbian wholesaler Lekovit and 100% stake in Bulgarian pharmacy operator Pharmastore. With its current 7% retail market share, Lekovit opens the venue to a USD 1.1bn pharma Serbian market. Sopharma Trading is to build on its retail network to gradually enter the wholesale market segment, targeting a 20%+ overall market share. Pharmastore, on the other hand, adds 19 pharmacies and paves the way to the establishment of a national pharmacy chain in Bulgaria.

Exhibit 10: Steady revenue increases led to CAGR of 9.1% for the last 10 years



Source: Company data

Exhibit 11: Debt levels are on the increase due to acquisition spree in 2017



Source: Company data

The current price of Sopharma Trading is BGN 8.05 per share, or capitalization of BGN 265 million. This price can be justified only when compared to average multiples of medicine distribution companies. Our discounted cash flows model is pointing to a higher value of the stock, mainly due to the low cost of capital and the expected profitability improvement on growing the top line and expanding into Serbia.

Yet to keep it conservative when it comes to valuing the Sopharma Group, we take into account the current market capitalization of Sopharma Trading and discount it further by 25% on group complexity and interconnectivity.

VALUATION OF SUBSIDIARIES

We evaluate the rest of the listed subsidiaries again by their current market capitalization with a 25% discount and value the non-listed subsidiaries by their equity value on Sopharma's books as of the end of 2017, applying 50% discount. This will reflect their smaller contribution to the net profit and lower liquidity. The value of other assets is included in the final calculation under the SotP method.

VALUATION OF THE GROUP

We use the sum of the parts model to value the shares of Sopharma. The list includes the main subsidiaries.

Finally, we apply a 10% holding discount to the final value of Sopharma, arriving at a fair value for the Group of BGN 5.42 per share.

	MARKET CAP	SHARE	ELANA VALUATION	VALUE	DISCOUNT	VALUE
SOPHARMA - STANDALONE			576 083 284	576 083 284	0%	576 083 284
SOPHARMA TRADING (SOS BU)	264 885 322	72.67%		192 492 163	25%	144 369 123
BRIZ - LATVIA		66.13%		22 270 000	50%	11 135 000
BIOPHARM ENGINEERING		97.15%		8 384 000	50%	4 192 000
VITAMINE - UKRAINE		99.56%		1 127 000	50%	563 500
SOPHARMA UKRAINE		100.00%		9 669 000	50%	4 834 500
MOMINA KREPOST (SMR BU)	5 073 552	93.55%		4 746 308	50%	2 373 154
VETA PHARMA		99.98%		9 666 000	50%	4 833 000
DOVERIE UNITED HOLDING (SDOV BU)	35 130 185	32.57%		11 441 901	25%	8 581 426
TOTAL VALUE OF SOPHARMA:						756 964 987
CURRENT MARKET CAP:						523 182 063
PREMIUM/(DISCOUNT):						30.22%
HOLDING DISCOUNT						10.00%
FAIR PRICE PER SHARE:						5.42

RECOMMENDATION AND PRICE TARGET

The intrinsic value of Sopharma's stock is higher than the market quotes. The favourable market and the Group's position in that market, which ultimately will result in growth and enhanced profits, are some of the factors to contribute to Sopharma's management attempts to increase shareholders' value.

We maintain our **BUY** recommendation with price target that is 30% higher than the current quotes.

In terms of significant investors involved in our stock market, we share the following observations:

- Foreign investors prefer Sopharma shares for their higher liquidity and low volatility. These factors will continue to attract buyers that look for exposure both in local pharmaceutical and capital markets.
- Bulgarian company Rompharm is trying to sell its stake in Sopharma, as a result of which it has suppressed the stock price appreciation. With the investor's stake already 3x lower, we expect the exit to be finalized soon which should unleash the stock's performance.
- Domestic private investors view the stock as stable and perspective for longer-term holding, rather than short-term speculation with high return.
- Insiders continue to add Sopharma stock at current market levels.
- Continued buybacks as well as planned employee share bonus program to further boost liquidity.

Recommendation: BUY

Target Price: BGN 5.42

Increase: 30%

STOCK PRICE DYNAMICS



Source: Bloomberg

INDIVIDUAL FINANCIAL DATA

STATEMENT OF INCOME (IN '000 BGN)	2014A	2015A	2016A	2017A	2018F	2019F
SALES	201 461	173 803	182 396	205 259	252 115	264 721
OTHER OPERATING INCOME	3 973	3 651	4 065	4 499	4 602	5 050
CHANGE IN INVENTORIES	14 039	6 667	-283	6 650	252	265
COST OF MATERIALS	73 920	61 619	61 918	69 488	83 525	87 701
COST OF EXTERNAL SERVICES	56 396	41 275	36 486	38 887	38 950	40 898
COST OF LABOR	37 605	35 331	38 263	43 811	49 254	51 717
OTHER OPERATING EXPENSES	9 902	6 210	5 662	6 913	7 887	8 282
TOTAL OPERATING EXPENSES	163 784	137 768	142 612	152 449	179 365	188 333
EBITDA	41 650	39 686	43 849	57 309	77 353	81 438
DEPRECIATION AND AMORTIZATION	16 989	14 549	15 486	16 238	18 891	19 836
EBIT	24 661	25 137	28 363	41 071	58 461	61 602
IMPAIRMENT ON NON-CURRENT ASSETS	3 252	8 567	5 633	4 466	0	0
FINANCIAL REVENUE	13 001	17 922	22 233	11 926	12 914	13 559
FINANCIAL EXPENSE	4 690	6 312	2 518	2 109	2 143	2 689
FINANCIAL INCOME (LOSS)	8 311	11 610	19 715	9 817	10 770	10 870
EBT	29720	28 180	42445	46 422	69 232	72 472
INCOME TAXES	2429	2 826	4098	4 282	6 923	7 247
NET INCOME	27 291	25 354	38 347	42 140	62 309	65 225
EARNINGS PER SHARE IN BGN	0.22	0.20	0.30	0.32	0.50	0.52

BALANCE SHEET (IN '000 BGN)	2014	2015	2016	2017	2018F	2019F
INVENTORIES	57 360	61 701	61 711	65 509	78 421	84 598
RECEIVABLES FROM RELATED PARTIES	99 505	78 035	73 596	74 920	75 635	76 769
TRADE RECEIVABLES	23 397	21 466	25 411	22 498	23 969	26 472
THIRD PARTIES LOANS	0	0	2 445	3 201	3 782	3 971
OTHER RECEIVABLES AND PREPAID EXPENSES	11 901	6 881	5 336	4 420	7 925	9 627
CASH & CASH EQUIVALENTS	4 076	3 745	9 275	3 216	13 759	38 719
TOTAL CURRENT ASSETS	196 239	171 828	177 774	173 764	203 492	240 156
PROPERTY, PLANT & EQUIPMENT	211 056	211 943	225 470	222 817	234 445	240 896
INTANGIBLES	3 210	2 507	6 280	6 506	6 411	6 978
INVESTMENT PROPERTY	22 368	22 160	22 840	24 799	25 212	26 472
INVESTMENTS IN SUBSIDIARIES	101 449	132 899	120 661	128 699	140 645	147 578
INVESTMENTS AVAILABLE FOR SALE	4 439	5 510	5 229	7 206	6 303	5 294
RECEIVABLES FROM RELATED PARTIES	33 150	20 505	11 047	21 583	25 212	23 825
OTHER RECEIVABLES	6	3 257	3 714	4 209	2 631	2 757
TOTAL NON-CURRENT ASSETS	375 678	398 781	395 241	415 819	440 858	453 801
TOTAL ASSETS	571 917	570 609	573 015	589 583	644 349	693 957
SHARE CAPITAL	132 000	134 798	134 798	134 798	134 798	134 798
TREASURY STOCK	-17 203	-17 597	-18 809	-33 834	-33 454	-33 454
RESERVES	246 243	284 227	304 403	330 675	336 906	343 428
RETAINED EARNINGS	45 484	30 198	43 023	46 618	89 611	135 268
TOTAL SHAREHOLDER'S EQUITY	406 524	431 626	463 415	478 257	527 861	580 041
SHORT-TERM BANK LOANS	90 761	68 961	48 291	53 088	45 452	29 190
CURRENT PORTION OF LONG TERM BANK LOANS	7 431	7 380	7 461	7 392	7 563	5 294
LIABILITIES TO RELATED PARTIES	4 154	3 070	375	7 082	2 521	1 324
ACCOUNT PAYABLES	7 909	8 014	5 767	1 618	9 036	9 415
TAX LIABILITIES	938	965	833	1 511	1 472	1 535
LIABILITIES TO EMPLOYEES & SOCIAL SECURITY	4 564	4 769	5 771	7 172	8 635	9 014
OTHER CURRENT LIABILITIES	1 151	1 508	1 552	1 223	2 713	2 839
TOTAL CURRENT LIABILITIES	116 908	94 667	70 050	79 086	77 393	58 610
LONG TERM BANK LOANS	37 972	30 819	24 064	16 706	27 733	42 355
DEFERRED TAXES	4 124	4 697	6 570	6 432	4 286	5 294
LIABILITIES TO EMPLOYEES ON RETIREMENT	2 387	2 426	2 930	3 624	3 530	3 706
FINANCIAL LEASES	34	3	0	0	252	265
OTHER LONG TERM LIABILITIES	3 968	6 371	5 986	5 478	3 295	3 686
TOTAL NON-CURRENT LIABILITIES	48 485	44 316	39 550	32 240	39 095	55 306
TOTAL LIABILITIES	165 393	138 983	109 600	111 326	116 488	113 917
SHAREHOLDERS' EQUITY AND LIABILITIES	571 917	570 609	573 015	589 583	644 349	693 957

NUMBER OF SHARES:	126,885,870	129,578,603	129,578,603	125,764,919	125,764,919	125,764,919
PRICE IN BGN - PERIOD END:	3.09	2.68	4.00	4.16	4.16	4.16
MARKET CAP IN BGN - PERIOD END:	392,077,000	347,271,000	518,314,000	523,182,000	523,182,000	523,182,000

FINANCIAL AND PERFORMANCE INDICATORS (STANDALONE)	2014	2015	2016	2017	2018F	2019F
Valuation						
Price/Earnings (P/E)	14.33	13.15	13.52	12.86	8.40	8.02
Price/Book (P/B)	0.96	0.78	1.12	1.09	0.99	0.90
Price/Sales (P/S)	1.95	1.94	2.84	2.55	2.08	1.98
EV (in 000' BGN)	524 165	440 319	588 855	597 152	590 170	561 303
EV/EBITDA	12.59	11.10	13.43	10.42	7.63	6.89
Profitability						
Return on common equity	6.71%	5.87%	8.27%	8.81%	11.80%	11.24%
Return on assets	4.77%	4.44%	6.69%	7.15%	9.67%	9.40%
EBITDA margin	20.67%	22.83%	24.04%	27.92%	30.68%	30.76%
Operating margin	12.24%	14.46%	15.55%	20.01%	23.19%	23.27%
Net income margin	13.55%	14.59%	21.02%	20.53%	24.71%	24.64%
Dividend						
Dividend yield	0.00%	2.69%	2.50%	2.82%	2.50%	2.49%
Dividend per share	0.00	0.07	0.10	0.12	0.10	0.10
Liquidity						
Current ratio	1.68	1.82	2.54	2.20	2.63	4.10
Quick ratio	1.19	1.16	1.62	1.33	1.57	2.59
Credit						
LT debt/equity	0.09	0.07	0.05	0.03	0.05	0.07
Total debt/equity	0.33	0.25	0.17	0.16	0.15	0.13
Total debt/total assets	0.24	0.19	0.14	0.13	0.13	0.11
EBIT/interest expense	9.59	11.26	13.74	29.98	32.91	25.86

Source: Elana Trading estimates and company data

CONSOLIDATED FINANCIAL DATA

STATEMENT OF INCOME (IN '000 BGN)	2014	2015	2016	2017	2018F	2019F
SALES	840 517	874 984	877 085	1 016 109	1 173 606	1 349 647
OTHER OPERATING INCOME	5 465	2 678	9 483	4 693	5 420	6 748
CHANGE IN INVENTORIES	12 279	4 207	994	9 287	10 726	12 822
COST OF MATERIALS	96 334	86 396	82 906	92 027	106 291	128 216
COST OF EXTERNAL SERVICES	67 207	65 661	56 408	63 611	73 471	83 678
COST OF LABOR	80 880	81 501	87 159	100 886	116 523	128 216
OTHER OPERATING EXPENSES	15 172	11 599	14 313	10 888	12 576	13 496
BOOK VALUE OF GOODS SOLD	530 842	568 590	571 132	676 126	780 926	893 466
TOTAL OPERATING EXPENSES	778 156	809 540	812 912	934 251	1 079 060	1 234 252
EBITDA	67 826	62 766	73 656	86 551	99 966	122 143
DEPRECIATION AND AMORTIZATION	27 802	26 326	28 705	30 204	34 886	40 489
EBIT	40 024	36 440	44 951	56 347	65 081	81 654
IMPAIRMENT ON NON-CURRENT ASSETS	494	0	967	0	0	0
FINANCIAL REVENUE	5 392	6 828	7 014	8 378	9 677	11 067
FINANCIAL EXPENSE	17 594	21 640	12 721	11 695	13 508	16 196
FINANCIAL INCOME, NET	-12 202	-14 812	-5 707	-3 317	-3 831	-5 129
PROFIT/LOSS FROM ASSOCIATED COMPANIES	310	1 275	8 972	812	938	1 215
PROFIT/LOSS ON SUBSIDIARIES ACQUISITION/DISPOSAL	1 561	7 222	14 860	0	0	0
EBT	29 199	27 575	62 109	53 842	62 188	77 740
INCOME TAXES	5 082	4 975	7 207	7 792	6 219	7 774
MINORITY INTEREST	3 939	1 286	4 264	5 897	6 811	8 551
NET INCOME	20 178	21 314	50 638	40 153	49 158	61 414
BALANCE SHEET (IN '000 BGN)	2014	2015	2016	2017	2018F	2019F
Inventories	155 910	163 129	171 791	217 563	222 985	242 936
Receivables from related parties	25 318	27 434	14 982	4 690	5 868	6 748
Trade Receivables	196 330	205 589	215 583	235 050	246 457	256 433
Other receivables and prepaid expenses	22 445	14 505	17 727	20 439	23 472	26 993
Cash & Cash Equivalents	26 822	23 486	22 539	33 338	16 415	34 452
Current Assets	426 825	434 143	442 622	511 080	515 197	567 563
Property, Plant & Equipment	299 037	315 005	321 215	317 678	328 610	344 160
Intangibles	24 188	35 502	44 486	85 209	85 673	85 028
Investment property	10 606	10 562	9 483	9 811	11 736	10 797
Investments in subsidiaries	12 387	5 224	18 715	19 888	21 125	24 294
Investments available for sale	6 968	7 424	5 721	7 982	5 868	6 748
Receivables from related parties	33 150	20 505	10 028	20 599	23 472	26 993
Other receivables	4 202	7 262	6 951	7 916	9 389	10 797
Non-current assets	390 538	401 484	416 599	469 083	485 873	508 817
Total Assets	817 363	835 627	859 221	980 163	1 001 070	1 076 380
Share Capital	132 000	134 798	134 798	134 798	134 798	134 798
Reserves	36 069	48 855	62 708	53 667	58 583	64 724
Retained Earnings	203 260	222 238	259 984	281 832	288 369	309 331
Minority Interest	60 308	51 749	33 733	34 168	39 903	40 489
Shareholders' Equity	431 637	457 640	491 223	504 465	521 652	549 343
Short-term Bank Loans	217 360	190 785	190 875	193 974	199 513	195 699
Current Portion of Long Term Bank Loans	10 772	14 784	9 478	14 478	15 257	20 245
Liabilities to Related Parties	1 634	2 366	566	651	2 347	2 699
Account Payables	71 752	87 440	92 053	132 400	129 097	148 461
Tax Liabilities	6 023	6 368	5 949	7 860	8 215	9 448
Liabilities to Employees & Social Security	7 514	8 894	10 093	12 765	12 910	14 846
Other Current Liabilities	5 641	4 858	5 142	32 573	14 083	16 196
Current Liabilities	320 696	315 495	314 156	394 701	381 422	407 593
Long Term Bank Loans	45 820	38 876	25 924	50 540	64 548	80 979
Deferred Taxes	5 728	7 952	11 752	15 045	12 910	14 846
Liabilities to Employees on Retirement	3 786	4 199	4 539	5 056	5 868	6 748
Financial Leases	2 103	1 957	2 582	1 933	2 934	3 374
Other Long Term Liabilities	7 593	9 508	9 045	8 423	11 736	13 496
Non-Current Liabilities	65 030	62 492	53 842	80 997	97 996	119 444
Total Liabilities	385 726	377 987	367 998	475 698	479 418	527 037
Shareholders' Equity and Liabilities	817 363	835 627	859 221	980 163	1 001 070	1 076 380

FINANCIAL AND PERFORMANCE INDICATORS (CONSOLIDATED)	2014	2015	2016	2017	2018F	2019F
Valuation						
Price/Earnings (P/E)	19.43	16.29	10.24	13.03	10.64	8.52
Price/Book (P/B)	0.91	0.76	1.06	1.04	1.00	0.95
Price/Sales (P/S)	0.47	0.40	0.59	0.51	0.45	0.39
EV (in 000' BGN)	639 207	568 230	722 052	748 836	786 086	785 652
EV/EBITDA	9.42	9.05	9.80	8.65	7.86	6.43
Profitability						
Return on common equity	4.67%	4.66%	10.31%	7.96%	9.42%	11.18%
Return on assets	2.47%	2.55%	5.89%	4.10%	4.91%	5.71%
EBITDA margin	8.07%	7.17%	8.40%	8.52%	8.52%	9.05%
Operating margin	4.76%	4.16%	5.13%	5.55%	5.55%	6.05%
Net income margin	2.40%	2.44%	5.77%	3.95%	4.19%	4.55%
Dividend						
Dividend yield	0.00%	2.69%	2.50%	2.82%	2.50%	2.49%
Dividend per share	0.00	0.07	0.10	0.12	0.10	0.10
Liquidity						
Current ratio	1.33	1.38	1.41	1.29	1.35	1.39
Quick ratio	0.77	0.81	0.81	0.69	0.70	0.73
Credit						
LT debt/equity	10.62%	8.49%	5.28%	10.02%	12.37%	14.74%
Total debt/equity	63.47%	53.41%	46.06%	51.34%	53.54%	54.05%
Total debt/total assets	33.52%	29.25%	26.34%	26.42%	27.90%	27.59%
EBIT/interest expense	4.38	3.95	4.44	7.32	8.46	10.61

Source: Elana Trading estimates and company data

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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 2017 Recommendation Review			Market Maker Services
Recommendation	#	Share	
BUY	5	31%	SKK BU; 4KX BU
HOLD	11	69%	
SELL	0	0%	

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