

**Sopharma (3JR BU)**
**Share Data**

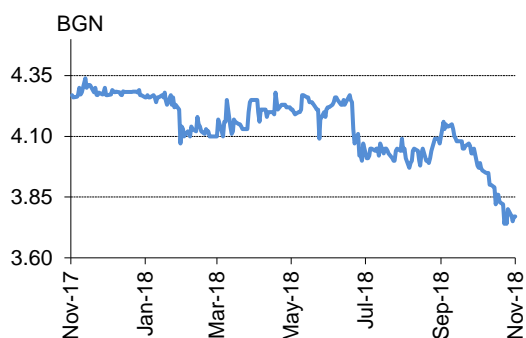
Price	3.77
52 weeks Price Change	-13.19%
52 weeks Price Range	3.740 - 4.343
Market Cap (BGN)	473 829 370
Market Cap (EUR)	242 265 110
Shares outstanding	125 684 183
DPS	0.10
Dividend yield	2.65%
EPS	0.24
Sales per share	1.59
Book value per share	3.85
FCF per share	0.28
P/E	15.72
P/S	2.38
P/B	0.98
EV/Sales	2.79
EV/EBITDA	12.50
ROA	4.98%
ROE	6.19%
Current Ratio	1.99
Total Debt Ratio	0.15
Interest Coverage	24.69
Assets Turnover	0.33

Source: Company data, Sofia International Securities Equity Research

**Shareholder Structure**

Donev Investments Holding	25.33%
Telekomplekt Invest	20.41%
Rompharm Company	6.03%
Treasury shares	6.76%
Free Float	41.47%

Source: Company data, Sofia International Securities Equity Research

**Share Price of Sopharma (3JR BU)**


Source: Bloomberg, Sofia International Securities Equity Research

**Top line improves but increased spending weighs on profitability**

Sopharma's quarterly revenue ticked up 4.2% YoY on individual basis in Q3 2018 to BGN 58.4m. This helped the company reduce the overall sales drop in 2018 so far. Revenues for the first nine months of the year were down by 3.7% on annual basis to BGN 152.1m, after 8% YTD YoY decline was reported last quarter. Improvement is observed both on domestic and export markets.

Sales in European markets fell by 5.4% YoY between January and September to BGN 88.8m, dragged down by 11% drop in revenues generated in Russia, which remains a challenging market so far this year, along with Poland, Belarus and other Balkan countries. Positive news came from another key market – Ukraine, where the company saw its revenue grow again. Domestic sales accelerated a bit this quarter limiting year-to-date drop to 3.2% YoY.

Total operating expenses rose 7% on annual basis in the nine-month period, to BGN 136m. The company cut its expenses for materials by 5.4% YoY to BGN 54.3m, but otherwise, all major cost categories were growing as of 30 Sept. Most notably, external services expenses rose by 19.1% on higher marketing and maintenance costs. Personnel expenses, on the other hand, are 7.9% up over the same period to BGN 38.6m and are expected to increase further in Q4 due to an approved one-time bonus scheme for the company's employees.

With revenue and expenses trends drifting apart in a negative way, operating profit fell 39% to BGN 20.9m, whereas EBIT margin contracted to 13.7% - the lowest level since 9m 2015.

Net financial expenses for the nine-month period were in line with last year's results. Sopharma reported higher income from its equity participations but this was offset by lower investment income. Interest expenses were down 14.9% to BGN 0.8m. Overall, the net effect was financial income in the amount of BGN 9m. (9m 2017: BGN 8.96m).

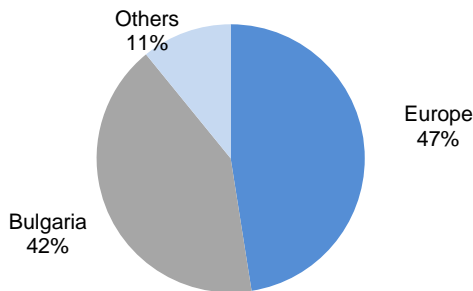
As a result, YTD pre-tax profit reached BGN 29.9m., down by 31% on annual basis.

Total assets reached BGN 617m as of the end of the third quarter of 2018, with net debt trending slightly up (+BGN 0.5m) on QoQ basis. Still, debt ratios remain at a healthy level with D/E at 0.19x and interest coverage for the first nine months of the year at 24.7x.

Selected Financials	2016	2017	2017	2018
BGN '000	FY	FY	9M	9M
Sales	182 396.0	205 259.0	157 985.0	152 076.0
Sales YoY	4.94%	12.53%	19.25%	-3.74%
EBIT	22 730.0	41 847.0	34 248.0	20 888.0
EBIT Margin	12.46%	20.39%	21.68%	13.74%
Net Income	38 313.0	42 239.0	39 818.0	27 716.0
Net Margin	21.01%	20.58%	25.20%	18.23%
PP&E	225 470.0	239 721.0	219 798.0	235 981.0
Trade Receivables	25 411.0	23 258.0	24 727.0	21 663.0
Inventories	61 711.0	69 018.0	66 385.0	70 241.0
Total assets	573 015.0	591 151.0	594 249.0	617 008.0
Equity	463 415.0	477 478.0	490 266.0	484 224.0
Non-Current Debt	24 064.0	16 691.0	18 501.0	11 354.0
Current Debt	55 752.0	60 480.0	52 741.0	80 185.0
Trade Payables	5 767.0	7 713.0	5 806.0	6 414.0

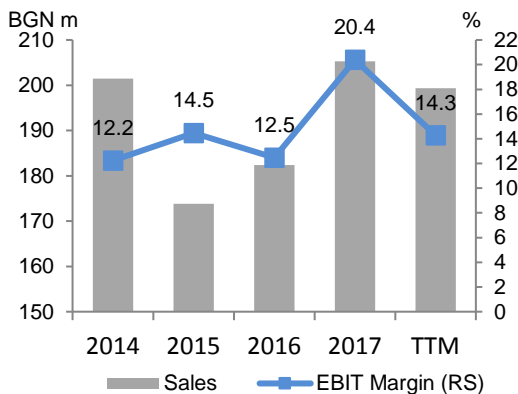
Source: Company data, Sofia International Securities Equity Research; Some of 2017 results were restated

### Sales by segments in 9m 2018



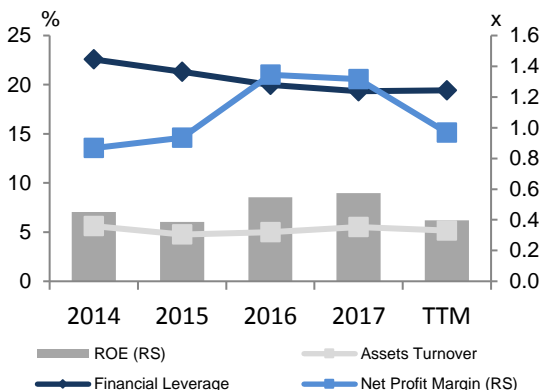
Source: Company data, Sofia International Securities Equity Research

### Sales vs. EBIT Margin



Source: Company data, Sofia International Securities Equity Research

### ROE (DuPont Decomposition)



Source: Company data, Sofia International Securities Equity Research

Income statement	2016	2017	2017	2018
BGN '000	FY	FY	9M	9M
<b>Sales</b>	<b>182 396.0</b>	<b>205 259.0</b>	<b>157 985.0</b>	<b>152 076.0</b>
Operating costs	-142 329.0	-158 125.0	-119 195.0	-124 515.0
<b>EBITDA</b>	<b>43 849.0</b>	<b>58 085.0</b>	<b>47 909.0</b>	<b>34 374.0</b>
Depreciation	-15 486.0	-16 238.0	-13 661.0	-13 486.0
<b>EBIT</b>	<b>22 730.0</b>	<b>41 847.0</b>	<b>34 248.0</b>	<b>20 888.0</b>
Net financial result	19 715.0	9 831.0	8 958.0	8 998.0
t/o interest expense	-2 065.0	-1 358.0	-993.0	-846.0
<b>EBT</b>	<b>42 445.0</b>	<b>46 398.0</b>	<b>43 206.0</b>	<b>29 886.0</b>
Taxes	-4 132.0	-4 159.0	-3 388.0	-2 170.0
<b>Net Income</b>	<b>38 313.0</b>	<b>42 239.0</b>	<b>39 818.0</b>	<b>27 716.0</b>
Minorities	0.0	0.0	0.0	0.0
<b>Net Income after minorities</b>	<b>38 313.0</b>	<b>42 239.0</b>	<b>39 818.0</b>	<b>27 716.0</b>

### Balance sheet

PP&E	225 470.0	239 721.0	219 798.0	235 981.0
Intangibles	6 280.0	12 457.0	3 659.0	12 229.0
Other Non-Current Assets	163 491.0	155 613.0	173 954.0	161 800.0
<b>Non-Current Assets</b>	<b>395 241.0</b>	<b>407 791.0</b>	<b>397 411.0</b>	<b>410 010.0</b>
Inventories	61 711.0	69 018.0	66 385.0	70 241.0
Trade Receivables	25 411.0	23 258.0	24 727.0	21 663.0
Cash & Cash Equivalents	9 275.0	5 764.0	8 069.0	8 533.0
Other Current Assets	81 377.0	85 320.0	97 657.0	106 561.0
<b>Current Assets</b>	<b>177 774.0</b>	<b>183 360.0</b>	<b>196 838.0</b>	<b>206 998.0</b>
<b>Total Assets</b>	<b>573 015.0</b>	<b>591 151.0</b>	<b>594 249.0</b>	<b>617 008.0</b>
<b>Equity</b>	<b>463 415.0</b>	<b>477 478.0</b>	<b>490 266.0</b>	<b>484 224.0</b>
Non-Current Debt	24 064.0	16 691.0	18 501.0	11 354.0
Other Non-Current Liabilities	15 486.0	17 222.0	15 309.0	17 503.0
<b>Non-Current Liabilities</b>	<b>39 550.0</b>	<b>33 913.0</b>	<b>33 810.0</b>	<b>28 857.0</b>
Trade Payables	5 767.0	7 713.0	5 806.0	6 414.0
Current Debt	55 752.0	60 480.0	52 741.0	80 185.0
Other Current Liabilities	8 531.0	11 567.0	11 626.0	17 328.0
<b>Current Liabilities</b>	<b>70 050.0</b>	<b>79 760.0</b>	<b>70 173.0</b>	<b>103 927.0</b>
<b>Total Equity and Liabilities</b>	<b>573 015.0</b>	<b>591 151.0</b>	<b>594 249.0</b>	<b>617 008.0</b>

### Cash Flow Statement

Cashflow from Operations	31 441.0	44 915.0	31 079.0	11 207.0
Cashflow from Investments	11 228.0	-19 749.0	-11 001.0	-8 062.0
Cashflow from Financing	-39 348.0	-31 225.0	-21 112.0	-376.0
<b>Net Cash</b>	<b>3 321.0</b>	<b>-6 059.0</b>	<b>-1 034.0</b>	<b>2 769.0</b>

Source: Company data, Sofia International Securities Equity Research; Some of 2017 results were restated

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