

## SOPHARMA

### INDUSTRY: PHARMACEUTICALS

#### COVID-19 EFFECTS AND DEVELOPMENT PROSPECTS

Current COVID-19 pandemic has already affected all participants in the Bulgarian economy. For Sopharma, this has led to increased demand for specific groups of medicines, including quinin-based medical products for fighting COVID-19, whose export was banned temporarily by the Bulgarian minister of healthcare with the aim of guaranteeing the local needs for this medicine. Sopharma's Investor relations director has expressed certainty that the Company will be able to supply the local market (the initially needed quantity was 250k packages). Furthermore, as soon as the ban is lifted, the Company will be able to export the needed quantities to its foreign clients. In addition, the increase in the demand for food supplements, vitamins and medical consumables has led to a surge in purchases towards some of Sopharma's subsidiaries, namely Sopharma Trading and Vita Pharma.

Currently, Sopharma's production is done by smaller teams at more shifts so that the possibility of a person being infected with COVID-19 is minimized.

Supply chains are not interrupted and exports go as planned, with no expectations of possible delays as at the moment. Furthermore, border control in Europe is trying to process documents of vehicles transporting medical products as fast as possible.

Thus, despite the COVID-19's negative overall impact, the current pandemic gives opportunity for increase in revenues and profits for Sopharma and its subsidiaries. Given the strong dynamics, forecasts are hard to be made, yet Elana Trading's team expects ca. 15% y/y growth in the standalone profit of Sopharma for 2020.

#### FINANCIAL RESULTS FY2019 AND CURRENT STATE

During 2019, Sopharma marked an improvement in its standalone financials, the main driver for this being export sales. The latter reached BGN 137.3m. (up 15.4% y/y) thanks to an increase of 32% y/y in Russian sales and a 5% y/y growth in Ukraine. Furthermore, sales grew in the Balkan's region, Poland, the Czech Republic and Moldova. During the year, Sopharma kept local sales flat y/y at BGN 91.6m, remaining #1 in terms of local sales in volumes in Bulgaria.

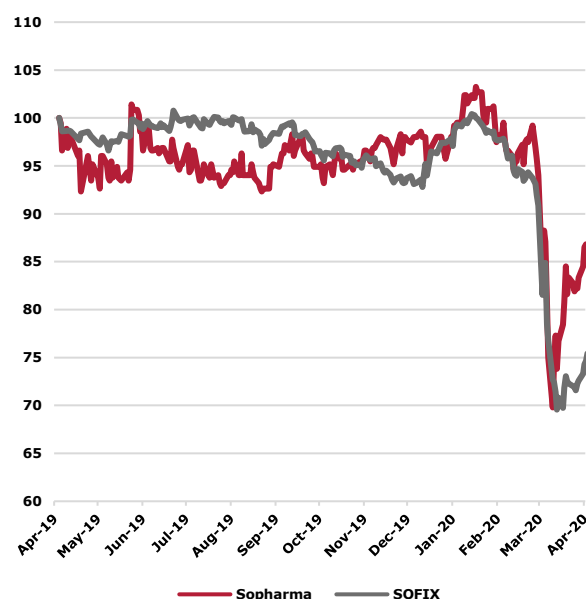
Thanks to good OPEX management, high net financial income and income from dividends and shareholdings, the standalone net profit for FY2019 came to BGN 40.4m, up 33% y/y.

Preliminary Company data for Q1'20 point to 4% y/y drop in sales, yet in Mar'20 alone revenues grew by 11% y/y as a result of flat local sales and 21% y/y boost in export. The latter is due to Sopharma's successful strategy targeting the increase in its market shares abroad, especially in Russia, Ukraine, Poland, Moldova and Serbia. The newly constructed warehouse in Moldova has a capacity surpassing the current needs of the Moldova market and has the potential to turn into a regional logistic hub for Sopharma, boosting its market presence in the neighboring countries.

#### STRENGTHS AND OPPORTUNITIES

- During health-related crisis the pharmaceutical sector is more resilient compared to other economic sectors;
- Sopharma Group's closed production cycle strengthens its competitive position;
- Increase in the demand for certain medical products following the pandemic's outbreak;
- Opportunity to take advantage of increased demand for quinin-based products.

#### SOPHARMA'S SHARES ARE SHOWING FASTER RECOVERY COMPARED TO SOFIX



Source: Bloomberg

#### FINANCIAL INDICATORS (AT A STANDALONE BASIS)

<i>in BGN '000, except ratios</i>	2018	2019	2020F
Revenues	212 418	230 691	242 226
EBITDA	45 212	64 385	65 353
EBIT	27 798	46 038	45 975
Net profit	33 298	40 382	48 429
ROE	6.81%	7.73%	8.90%
ROA	5.47%	5.95%	7.52%
EBITDA margin	21.28%	27.91%	26.98%
Net profit margin	15.68%	17.50%	19.99%
EPS	0.26	0.32	0.38
Debt/equity	0.17	0.21	0.11
P/E	13.04	10.41	7.54
P/B	0.89	0.80	0.67
EV/EBITDA	11.22	8.17	6.46
DPS	0.05	0.10*	0.11
Dividend yield	1.45%	2.99%	3.79%

\*THE COMPANY ANNOUNCED AN INTERIM DIVIDEND FOR FY2019 OF BGN 0.05 PER SHARE, OUR EXPECTATIONS ARE FOR A SECOND INTERIM DIVIDEND OF THE SAME AMOUNT

SOURCE: COMPANY'S STANDALONE FINANCIAL STATEMENTS; ELANA TRADING ESTIMATES  
 USD/BGN: 1.8039

#### WEAKNESSES AND RISKS

- Strong competition both on local and export level;
- Strong exposure to Russia and Ukraine;
- Risk of closing down any of the production centers in Bulgaria or abroad in case any of the employees gets infected with COVID-19

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<b>HOLD</b>	Target price in +/-10% range of the current quotes
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<b>Q1 2020 Recommendation Review</b>			<b>Market Maker Services</b>
<b>Recommendation</b>	<b>#</b>	<b>Share</b>	
BUY	6	38%	SKK BU; Korado; Elana Agrocredit; Albena; Expat Bulgaria SOFIX UCITS ETF
HOLD	10	62%	
SELL	0	0%	

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