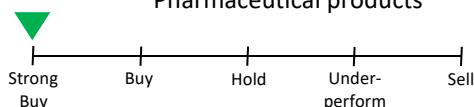


Recommendation: STRONG BUY

Sector: Healthcare/

Pharmaceutical products



Last Close Price 4.48 BGN Target Price BGN 5.50

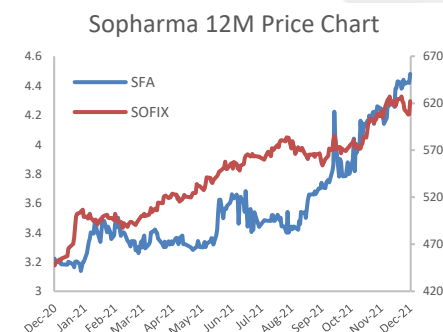
Share Information

Price (BGN)	4.26
52-week price change	42.28%
52-week price range	2.98 - 4.34

Market Cap (BGN)	576,935,008
Market Cap (EUR)	296,090,394
Shares outstanding	124,686,432
Free Float	34.6%

P/E (ttm)	18.53
P/S (ttm)	2.49
P/BV	0.93

Source: SIS Calculations and Market Data
The BGN is pegged at one euro equals 1.95583 leva.



* in BGN

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Sopharma AD

Opportunities ahead and attractive valuation

The leading Bulgarian pharma distributor and manufacturer saw its sales climb to a record level in Q3 2021 but headwinds from export markets, mainly Russia, are affecting current performance. Still, with solid presence on the local market and the Company actively exploring future growth opportunities, we see further upside potential for the stock.

Q3 Results

Sopharma AD reported 15.8% YoY revenue growth in the first nine months of the year of 2021, driven by strong results from the distribution segment – 19.7% and a slight fall of 1% in the revenue from the manufacturing business. Moreover, the lower OpEx has additionally contributed to the 68% growth in the operating profit YoY.

The group states that the sales from the manufacturing segment in Russia have decreased by 12% YoY which has also mainly caused the slowdown of the sales of finished goods. The reasons are: 1) the COVID-19 effect on the market and 2) the gradual introduction of drug serialization, which led to turmoil in the production and export of part of the portfolio.

Since the beginning of 2021, Sopharma AD has received Marketing Authorization for Carsil 22.5 mg coated tablets in Belarus – one of the bestselling traditional drug in Bulgaria. Moreover, it has received 12 Authorizations for the use of medicinal products for new destinations in Asia and Eastern Europe.

The group announced in June that it will issue 44,932,633 warrants with strike a price of BGN 4.13 and an issue price of one warrant of BGN 0.28. The warrants public offering will be successful only if at least 22,466,317 warrants are bought. The expiration period of the warrants is 3 years after the issuance.

Key Statistics	2020A	LTM	2021E	2022E	2023E
Revenue	1,451,503	1,614,427	1,635,672	1,803,097	1,967,424
Revenue Growth	12.2%	15.9%	12.7%	10.2%	9.1%
Gross Margin	22.1%	23%	22.7%	21.7%	20.7%
EBITDA Margin	6.4%	7.6%	7.6%	6.9%	6.2%
Net Margin	1.74%	3.79%	4.45%	3.65%	3.4%
ROE	4.5%	10%	12.5%	10.9%	10.7%
Debt-to-Equity	0.65	0.48	0.65	0.67	0.68
Net Debt to EBITDA	3.74	2.21	2.86	3.07	3.25
Total Assets	1,242,112	1,222,638	1,270,712	1,359,684	1,429,638

Source: SIS Calculations

Investment Thesis

- **Distribution segment is rapidly expanding**

The group's distribution arm is expanding rapidly by executing its strategy to aggressively acquire pharmacies to gain a leading position. This step has reflected positively on growth in revenue and the gross margin of the segment. Moreover, we believe that the group's efforts to gain online presence and optimize the warehouse and delivery operations will be cost saving and will further boost the margins. (Page 5)

- **Stable growth in export markets**

Although the sales of final products in Europe have decreased during the first half of 2021, the fall is to some extent temporary. We continue to see value-creating opportunities from the export market, supported by the good results from Baltic countries and potential market expansion in Serbia. (Page 6)

- **Stable market position**

Sopharma is consistently ranked as one of the largest pharmaceutical companies in Bulgaria in terms of revenues and it has taken the 6th position for 2020. Additionally, Sopharma Trading AD remains the largest hospital supplier in Bulgaria and the second largest pharmaceutical distributor in the country. (Pages 3 & 5)

- **Potential Tabex breakthrough**

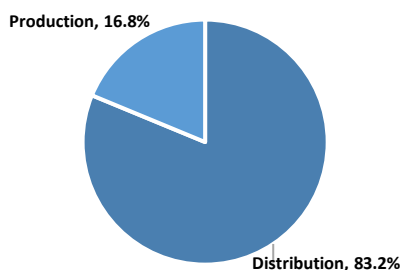
According to the Tabex' pipeline, there is a potential NDA submission in the next year and even a breakthrough in the US market in a 3-year period from now. Currently, due to the Chantix' recall, the smoking cessation market in the US is diluted and there is a tremendous opportunity for cytisine-based drugs. (Page 4)

- **Share price remains undervalued**

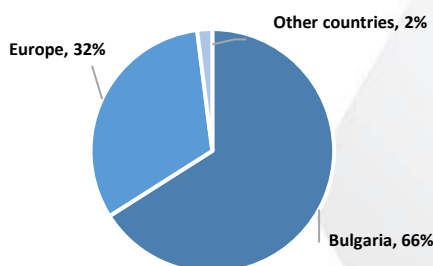
We have conducted DCF and Comparative Companies Analysis (Sum of the parts) in order to assess fair value of Sopharma's shares. Our findings indicate that shares currently trade at a significant 22.77% discount from fair value. (Pages 11-12)

Business Overview

Revenue breakdown by activity



Revenue breakdown by location



Sopharma AD (and its subsidiaries) is a leading pharmaceutical producer and distributor in Bulgaria, with stable positions in the local health care sector and strong presence in Eastern Europe, Balkans, Russia and Ukraine. It operates in two main business segments – production and distribution.

Production Business and Production Market Overview

Sopharma Group operates its Production business through its parent company “*Sopharma AD*” (medicinal substances and finished drug forms) as well as some of its subsidiaries: “*Biopharm Engineering AD*” (infusion solutions), “*Phyto Palauzovo AD*”, “*Veta Pharma AD*” and “*PAO Vitamini*”.

The group has 9 pharmaceutical plants in total and manufactures more than 200 products in its portfolio, 15 of which are traditional products and the rest – generic. The Company's traditional products (in particular *Tabex*, *Carsil* and *Tempalgin*) make a major share of its export market income, while the company's generic products are of significant importance for domestic sales, *Analgin* being the leader among these products.

The product portfolio of “*Sopharma*” AD focuses on the following therapeutic areas: cardiology, gastroenterology, pain management, cough and cold, immunology and dermatology, respiratory tract and asthma, neurology and psychiatry, urology and gynecology, nephrology, surgery, orthopedics, and traumatology.

The most significant pharmaceutical products in terms of their contribution to the amount of revenues are:

- ***Carsil*** - traditional plant-based product used to treat gastro-enterology diseases
- ***Tempalgin*** - traditional drug used as a painkiller
- ***Tabex*** - traditional plant-based product used for the treatment of nicotine dependence
- ***Tribestan*** - traditional plant-based product that stimulates the sexual functions
- ***Broncholitin*** - traditional plant-based product used for treatment of diseases affecting the respiratory system and causing coughing and catarrhal changes
- ***Analgin*** - generic analgesic (pain reliever)

Sopharma is also very focused on expanding its product portfolio as well as target new markets. Currently, there is pharmaceutical development of 4 new medicinal products underway. Since the beginning of the year, the group has received 6 authorizations for the use of medicinal products for new destinations.

Based on “*Sopharma AD*” financial figures, which account for two-thirds of the production business revenue, approximately 58% of the company's sales revenue is generated from the Export market, 80% of which is in Europe.

Top 10 pharmaceutical companies in Bulgaria for 2021 by revenue

Novartis	7.2%
Roche	6.5%
Merck Sharp Doh	4.4%
Actavis	3.9%
Pfizer	3.7%
Sopharma	3%
Abbvie	3.0%

Top 10 pharmaceutical companies in Bulgaria for 2021 by volume

Sopharma	11%
Actavis	9.4%
Novartis	3.8%
Merck Sharp Doh	0.9%
Pfizer	0.6%
Roche	0.2%
Abbvie	0.03%

Source: Company data

According to our estimations, at the end of H1 2021, the Russia share consisted of 18%. The rest 42% of the sales revenue is generated in Bulgaria, where it holds a 3% share of the total value of the Bulgarian pharmaceutical market and 11% in terms of sales in volume. The market is very competitive and fragmented. The largest player accounts for no more than 7.2% of the total market value. It is evident that the group has managed to retain its competitive position till now as it has sustained its 3% market share since 2018.

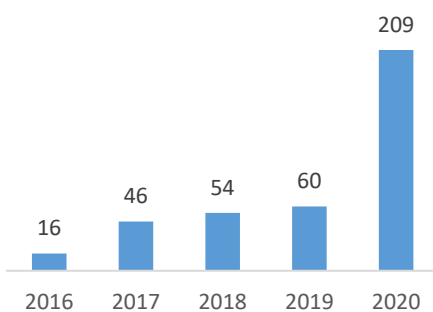
In October 2017 Sopharma AD entered into a 20-year exclusive agreement to supply cytosine API to Achieve Life Science, a clinical-stage pharmaceutical company committed to the global development and commercialization of cytosine for smoking cessation. Achieve Life Science also acquired in 2015 the rights to commercialize in the US Sopharma’s Tabex – one of the company’s bestselling traditional drugs.

Although the company doesn’t have any finished products yet, it is conducting Phase III clinical trials on evaluating the cessation efficacy and safety of cytosiniline in adult cigarette smokers. The top-line data is anticipated to be released by the end of the first half of 2022. According to various studies, the Phase III transition success rate is approximately 58-59%. Moreover, Cytosiniline demonstrated up to five times greater likelihood to reach smoking abstinence compared to placebo. If successful, the drug will be filled for NDA (New Drug Application), where it will take a year before the completion of the review.

The US smoking-cessation market is currently an enormous opportunity since one of the two approved anti-smoking drugs was recalled over concerns of carcinogen presence. Although there are at least 2 years till the final approval of the drug, we have not reflected any expectations of this partnership in our forecast.

Sopharma’s efforts continue to be focused on entering foreign markets, developing new drugs and finding potential synergy targets.

Number of Sopharma's drugstores



Source: Company data

Distribution Business and Distribution Market Overview

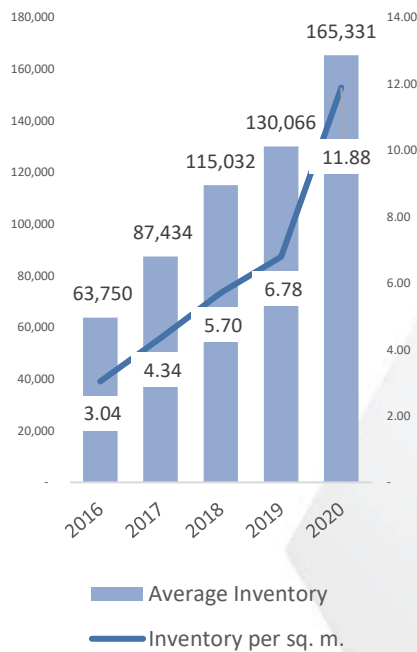
Sopharma’s distribution arm accounts for 83% of the generated revenue, but it has the typical for the sector low gross margin of 12%. The distribution activity of the group is executed mainly through “Sopharma Trading AD” (76% ownership) which distributes in Bulgaria and Serbia and “SIA Briz Trading” (100% ownership) which distributes in the Baltic countries. Because “Sopharma Trading AD” and its subsidiaries form most of the revenue in this segment, we will focus solely on it.

The company offers a broad portfolio of products to its clients - nearly 15,000 pharmaceutical items has 2 warehouse clusters in Serbia and 3 in Bulgaria. It is due to this network that they have access to any point in Bulgaria within 4 hours. The company operates 130 vehicles which are used to serve nearly 3000 clients, among whom are Astra Zeneca, Johnson & Johnson, Novartis, Novo Nordisk etc. The company states that according to the latest trends the major wholesale

merchants begin focusing their efforts on attracting the end users. That is why the “Sopharma Trading AD” is divided into the retail and wholesale business.

It has been aggressively acquiring a number of pharmacy chains and today is one of the largest pharmacy chains since 2015 in the country with 209 drugstores as of 2020. This number ranks second after the 301 “Mareshki” drugstores. Furthermore, the group’s retail arm “SOpharmacy” is also one of the leading online pharmacies, offering more than 10,000 products. It has adapted quickly during the COVID-19 and at the end of 2020 it executed the first E-Prescription drug purchase in Bulgaria.

The effect of warehouse optimization



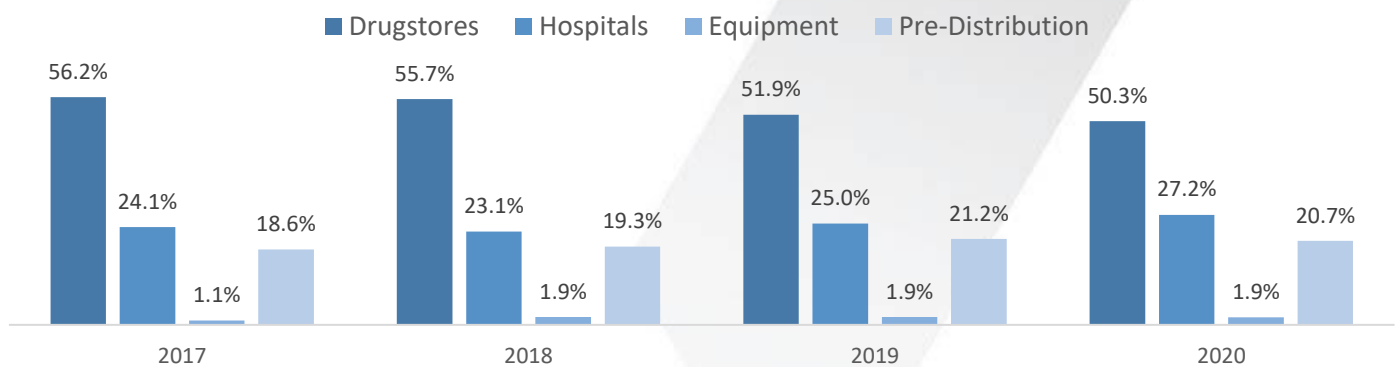
Source: Company data and SIS calculations

According to “Market Links” survey, half of the internet users in Bulgaria are willing to buy prescription medication online, which represents a big opportunity for the group to cut its operational expenses. The group states that currently, its strategy will focus on expanding its online presence by developing a mobile app and ongoing consolidation of the retail chains.

Apart from the pharmacy segment, the group has 3 more revenue streams: Wholesales to Hospitals, Pre-distribution Wholesales and Equipment sales. The revenue generated from the drugstore’s segments, directly through its brand “SOpharmacy” and indirectly by wholesale to other drugstores accounts for nearly half of the revenue.

In 2014 the company installed in one of its 3 warehouse clusters the first automated storage system KNAPP for more efficient fulfilment and greater optimization. In 2021 finished the second instalment of the same system in Sofia. The efficacy of the optimization is evident from the rising number of inventories per sq. meter through the years. As we forecast the distribution revenue to grow in the mid-term horizon, we expect that the inventory will naturally expand, and hence the optimization of the warehouse spaces will still be an ongoing trend.

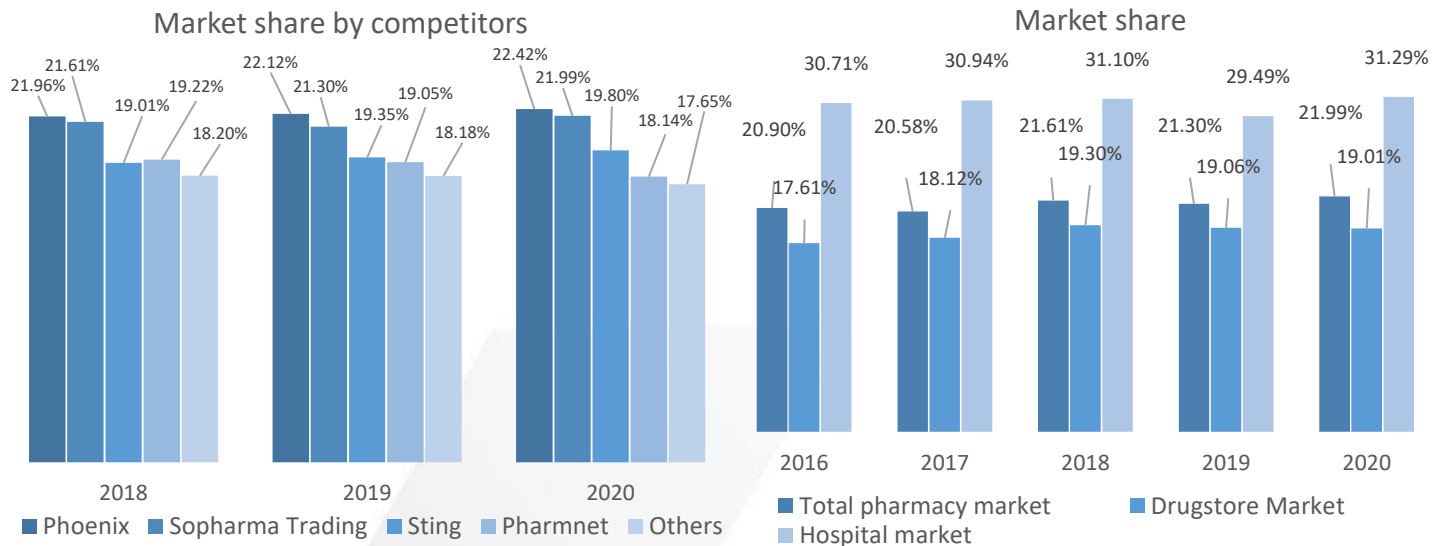
Revenue Share by Segment



Source: Company data

As for 2020 “Sopharma Trading AD” holds the second largest market share by revenue – 21.99%. The first one remains “Phoenix Pharma” with less than a half per cent more market share. It is evident that the 4 largest players – take 82.35%

of the whole market. The stable market shares through the years is evidence of how competitive the market is. Nonetheless, “Sopharma Trading AD” remains the leading pharma distributor to hospitals which according to IQVIA data accounted for 22% of the total turnover drug market in 2019.

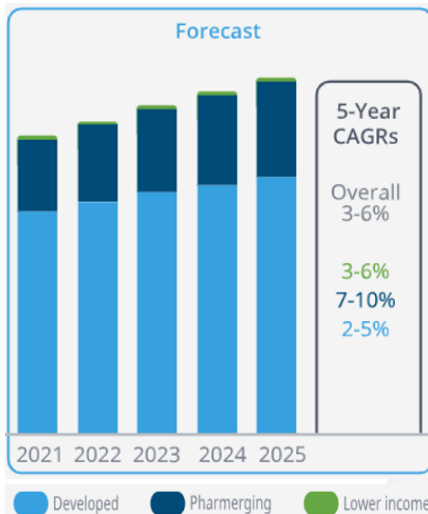


Since 2020, two major pharmaceutical manufacturers, Sanofi and Glaxo Smith Cline have decided to close their offices in Bulgaria and neighbouring countries and rely on local distributors. The reason they state is the decision to direct their funds towards Research and Development instead of building supply chain networks. As this trend is very pronounced for the big pharma companies, it is likely that the rest such as Roche, Abbvie, Merck and others will follow the same moves. Considering the clientele of Sopharma, we believe that this offers a great potential for Sopharma’s distributing services to attract large portion of the retrieving companies share.

Considering the fact that from the period between 2018 and 2020 Sopharma Trading AD enlarged its warehouse space in Serbia 3.75 times, we presume that the group expects a larger volume of orders in the region.

Reflecting on the company's strategy 5 years ago, we can assert that “Sopharma Trading AD” possess excellent execution capabilities as it managed to accomplish its milestones – rapid nationwide expansion of “SOpharmacy” and achieving a strong digital presence. Therefore, we are positive about the future outlook of the group which entails the application of AI to optimize the inventories and develop precise order forecasts and the ongoing product portfolio advancement.

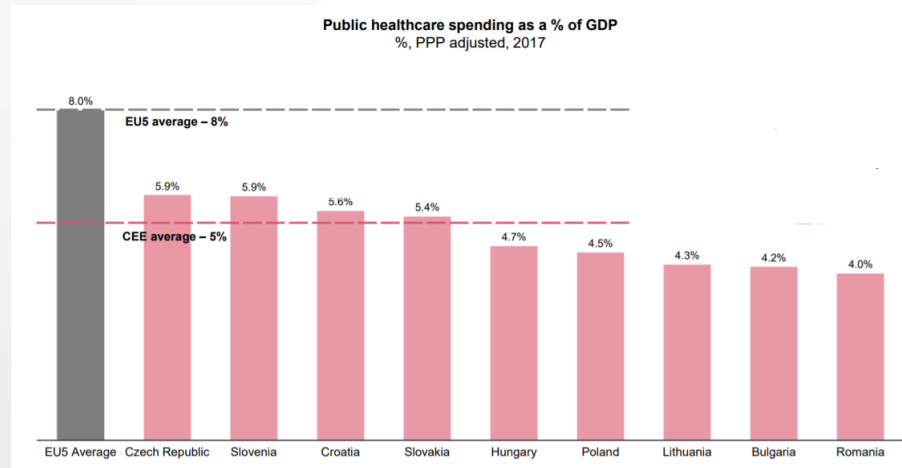
Macro Overview



Source: PWC, June 2021

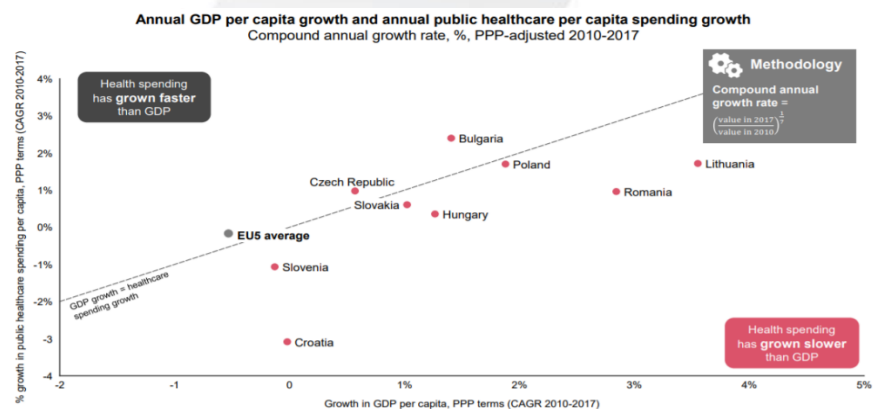
According to IQVIA the pharma market trends look supportive for the companies in the region: global pharmaceutical markets are expected to grow by 3-6% p.a. by 2025, whereas the forecast for the so called “Pharmerging” countries, to which category we refer the CEE countries, is for even faster growth in the range 7-10%.

According to research published from PWC in June 2021, the countries in CEE, in particular Bulgaria, have lower public healthcare spending as a % of GDP – on average 5% vs 8% for EU5 (in Bulgaria it’s even lower – 4.2%). That is why we refer to these countries as “Pharmerging”.

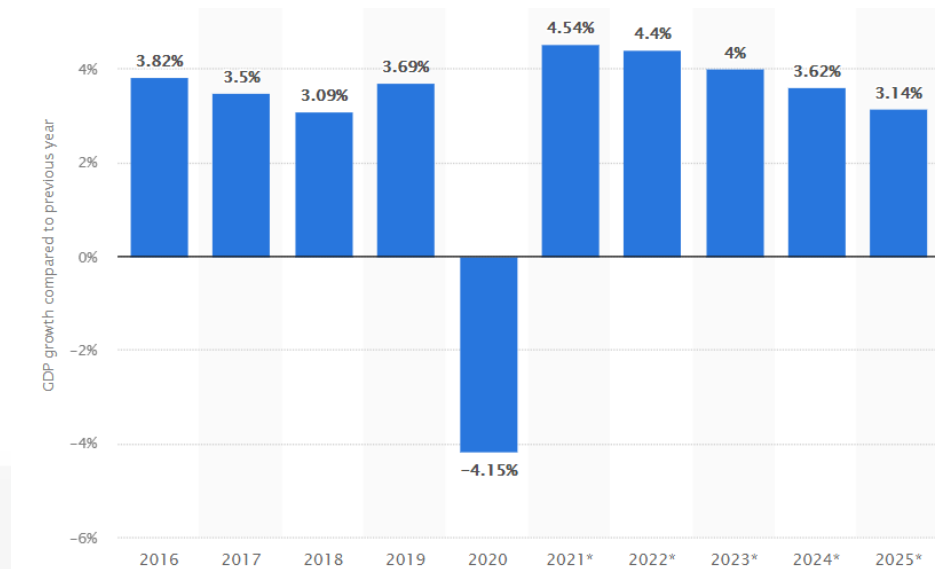


Source: PWC, June 2021

However, compared to other CEE and EU5 countries, Bulgaria has had the highest healthcare spending growth per GDP growth. Approximately for every percentage growth in the Gross Domestic Product, the healthcare spending has been increasing by 1.7% for 2010-2017. According to Statista, Bulgaria’s forecasted GDP growth for 2021-2025 is 4% p.a.



Source: PWC, June 2021



Source: Statista

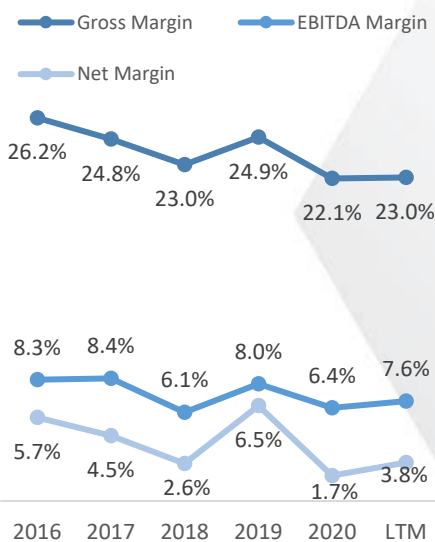
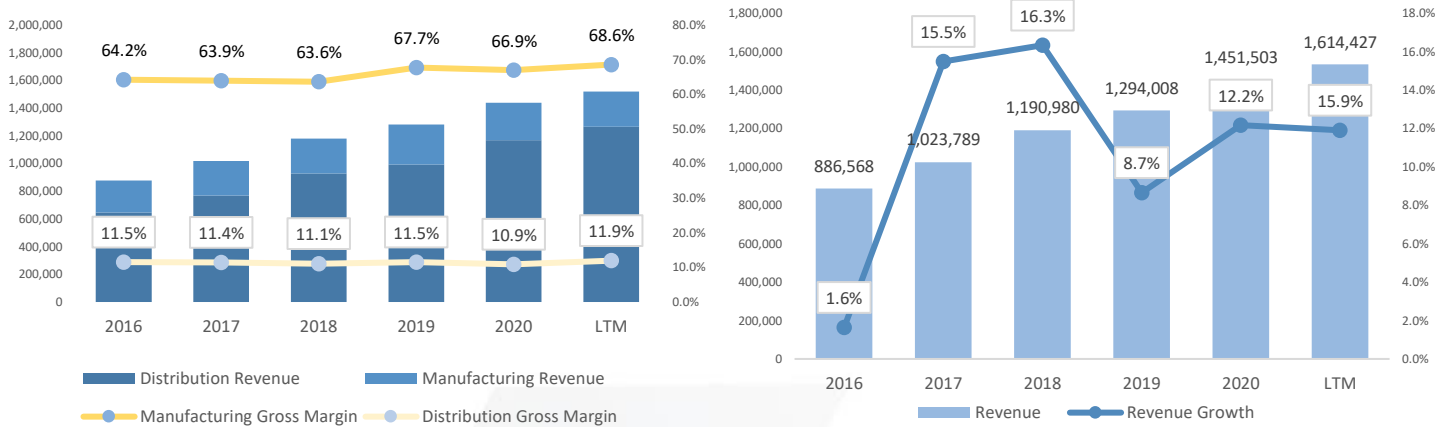
On the other hand, the healthcare budget for 2021 is BGN 6.5bln, 38% higher than 2020. Healthcare spending is particularly important for Sopharma because the company is financially exposed to the hospitals due to the revenue it generates from them through medicine wholesales and equipment sales. Many hospitals receive grants from the Ministry of Health for necessary equipment purchases or to cover their obligations from suppliers, which are namely the pharmaceutical companies.

From a regulation point of view, the placement of an unparalleled drug on the market is costly and takes a long time which serves as a barrier for many pharmaceutical manufacturers, including Sopharma AD. A new drug should firstly be sold for a whole year to the National Health Insurance Fund without a charge and after that year - sold with a significant discount which varies a lot.

On the other hand, the Healthcare systems in CEE, including Bulgaria, have come under pressure from ageing populations and rising costs. Hence the various policy initiatives to cut costs by substituting, where possible, branded therapies with their generic equivalents. This could put generic drugs producers in a stronger position.

As we see the potential for the sector, we also remain aware of the existing specific market risks posed by changing regulatory environment, increasing-price competition and political and macroeconomic factors. Thus, the cautious optimism on which our forecasts are based.

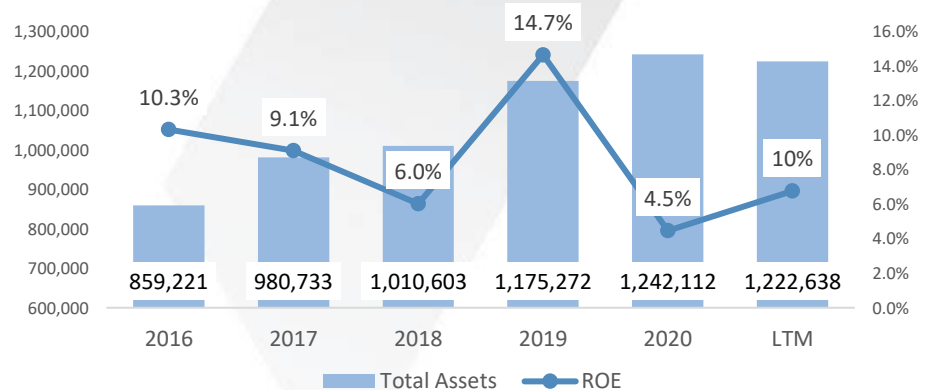
Financial Analysis



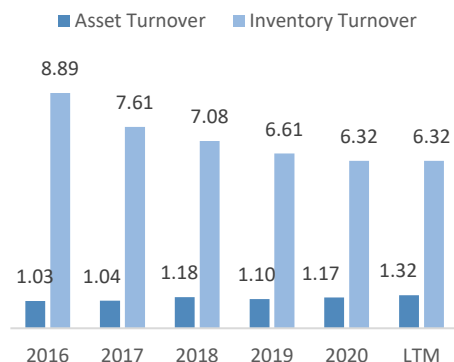
Source: Company data

Full financial data and forecasts are given in the Appendix, on page 14. The company's revenue has been growing with a volatile pace for the last 5 years with a median growth rate of 12.2%. The Distribution arm of the group has been the major contributor to the revenue, with a median revenue growth of 13.5% for the past 5 years, compared to 2.1% median growth of the production segment. However, Manufacturing business' gross margin is 6 times higher than that of Distribution business. Due to the growing portion of the Distribution revenue, the group's gross margin has been declining since 2016. More importantly, however, is the fact that both segments mark a slight growth in the margins.

Thanks to its constant investments, the group has been expanding its assets. On the other side, due to the volatile net income, the Return on Equity has been variable through the years but with a median return of 9% for the last 5 years.

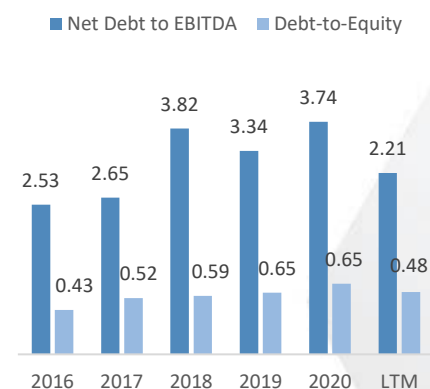


Source: Company data



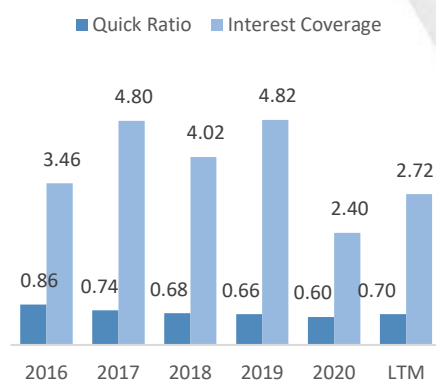
Source: Company data

The group has been reporting good levels of asset and inventory turnover. Although the asset has been slowly increasing, the inventory turnover has been falling mostly due to the steep growth of the inventory offsetting the turnover effect.



Source: Company data

The group's margins are at first glance unsatisfiable and follow a descending trend. However, it is perfectly natural, considering the growing share of the Distribution segment which suppresses the overall margins. The group reliance on debt financing is relatively high – Debt-to-Equity ratio of 0.48 for 30.09.2021. Furthermore, its Net Debt-to-EBITDA ratio ranges between 2-4 through the years. Even though that the interest coverage ratio seems healthy, we note that consistent levels of Net Debt-to-EBITDA more than 4-5 in long term are alarming and can hurt the company.



Source: Company data

The descending trend in the quick ratio is evidence of poor working capital management. The company's revenue share from the hospital, where deferred payment policy applies as it can take a period of 2 years or more for state hospitals to pay their supplies. On the other hand, the group is financed heavily by short-term loans and factoring agreements, resulting in a shrinking quick ratio.

Valuation

Comparative Companies Analysis

Because the group is divided into 2 businesses, we have compared Sopharma with 2 groups of pharmaceutical companies – solely manufacturing and solely distributing pharmaceutical products, which have similar enough financial profiles as Sopharma. Finally, we have estimated the weighted average of the peers' values based on the Sopharma's revenue portion of each segment and therefore 83% weight is allocated to the Distribution Segment and 17% to the Manufacturing Segment.

Name	Activity	Country	Market Cap	Revenue LTM	Total Assets
Zentiva SA	Manufacturing	Romania	716.9	220.7	408.8
Biofarm SA	Manufacturing	Romania	304.8	95.5	147.3
Deva Holding AS	Manufacturing	Turkey	833.3	289.0	418.8
Olainfarm AS	Manufacturing	Latvia	255.4	259.2	343.0
EIS Eczacibasi Ilac ve Sinai v	Manufacturing	Turkey	667.3	141.5	809.7
Richter Gedeon Nyrt	Manufacturing	Hungary	8534.7	3114.4	5051.0
Krka dd Novo mesto	Manufacturing	Croatia	1019.0	403.4	581.3
Alkaloid AD Skopje	Manufacturing	Macedonia	974.9	483.1	588.0
PharmaSGP Holding SE	Manufacturing	Germany	571.0	122.5	203.1
<i>Median (17% Weight)</i>			716.9	259.2	418.8
Medius Holdings Co Ltd	Distribution	Japan	296.7	3751.6	1289.6
Hokuyaku Takeyama Holdings Inc	Distribution	Japan	266.5	3728.7	2030.6
Jinhong Holding Group Co Ltd	Distribution	China	427.5	517.5	1105.2
Sinco Pharmaceuticals Holdings	Distribution	China	759.2	614.9	340.6
Sigma Healthcare Ltd	Distribution	Australia	669.3	4565.0	1493.8
Ibsina Pharma SAE	Distribution	Egypt	369.6	2293.2	1023.3
Profarma Distribuidora de Prod	Distribution	Brazil	182.3	1921.5	1165.8
Salus dd	Distribution	Slovenia	271.8	858.2	286.5
Selcuk Ecza Deposu Ticaret ve	Distribution	Turkey	1036.7	3227.6	1354.4
Neuca SA	Distribution	Poland	1466.0	4008.1	1508.0
<i>Median (83% Weight)</i>			398.5	2760.4	1227.7
<i>Weighted Average</i>			451.9	2341.1	1092.1
Sopharma AD/Sofia		Bulgaria	544.6	1519.9	1245.3

Source: SIS Calculations and Bloomberg Data; Values are in million leva.

Name	Gross Margin %	EBITDA Margin %	ROE	Net Debt to EBITDA	Debt-to-Equity %	Asset Turnover	Inventory Turnover	Quick Ratio	EV/S	EV/EBITDA	P/E	P/B
Zentiva SA	-	16.19	8.13	-4.16	0.73	0.54	2.17	2.84	2.60	17.94	27.61	2.31
Biofarm SA	-	34.49	19.74	-1.36	0.00	0.65	1.23	2.12	2.45	4.64	12.12	2.37
Deva Holding AS	54.25	37.20	48.55	0.61	66.92	0.64	1.37	1.32	2.63	7.67	8.64	2.95
Olainfarm AS	59.27	21.04	7.65	-0.56	13.56	0.75	1.68	1.76	0.98	3.72	9.06	0.92
EIS Eczacibasi Ilac ve Sinai v	33.07	14.85	6.60	-6.99	3.17	0.19	5.75	2.67	2.98	31.80	15.38	0.90
Richter Gedeon Nyrt	56.24	29.61	15.65	-0.16	1.79	0.60	2.21	2.80	2.69	7.25	16.14	1.95
Krka dd Novo mesto	59.37	32.58	16.97	-0.72	0.68	0.69	1.52	2.27	2.09	5.11	11.65	2.03
Alkaloid AD Skopje	44.79	17.96	11.01	0.58	11.37	0.82	1.81	0.86	2.14	9.09	19.77	2.26
PharmaSGP Holding SE	-	36.37	18.52	-3.85	0.73	0.64	2.19	12.30	-	-	17.45	3.05
<i>Median (17% Weight)</i>	55.25	29.61	15.65	-0.72	1.79	0.64	1.81	2.27	2.53	7.46	15.38	2.26
Medius Holdings Co Ltd	10.21	1.44	14.20	1.54	74.65	3.00	22.64	0.92	0.08	5.98	7.78	1.17
Hokuyaku Takeyama Holdings Inc	7.48	1.13	3.15	-8.15	0.68	1.82	14.31	0.95	-	-	8.54	0.29
Jinhong Holding Group Co Ltd	11.38	3.02	-25.00	-	122.19	0.33	32.26	0.12	1.65	47.04	-	1.25
Sinco Pharmaceuticals Holdings	13.36	7.38	113.84	0.29	48.10	2.49	10.52	0.73	0.53	2.34	12.98	8.67
Sigma Healthcare Ltd	10.67	2.37	10.31	1.64	40.24	3.05	9.91	0.62	0.23	10.23	8.61	1.00
Ibsina Pharma SAE	7.85	3.32	14.08	9.88	494.26	2.13	8.28	0.68	0.46	18.33	15.10	2.15
Profarma Distribuidora de Prod	13.93	4.01	5.21	3.69	62.76	1.60	5.41	0.73	0.34	7.57	6.14	0.53
Salus dd	11.31	3.84	16.57	0.24	21.93	2.80	8.72	0.80	0.35	6.39	10.05	2.14
Selcuk Ecza Deposu Ticaret ve	7.31	3.43	17.40	-1.49	2.44	2.32	11.24	1.06	0.21	10.09	9.29	1.83
Neuca SA	10.60	3.15	21.73	0.96	33.32	2.52	7.67	0.46	0.47	10.57	24.30	4.10
<i>Median (83% Weight)</i>	10.64	3.23	14.14	0.96	44.17	2.40	10.22	0.73	0.35	10.09	9.29	1.54
<i>Weighted Average</i>	18.11	7.66	14.39	0.68	37.06	2.11	8.81	0.99	0.72	9.65	10.31	1.66
Sopharma AD/Sofia	23.00	7.60	10.00	2.21	48.00	1.32	6.32	0.66	0.58	8.56	13.91	0.87

Source: SIS Calculations and Bloomberg Data

Manufacturing segment	Median	Metrics per Share	Equity Value	Distribution segment	Median	Metrics per Share	Equity Value	Weighted Average
EV/S	2.53	12.31	28.71	EV/S	0.35	12.31	1.91	6.40
EV//EBITDA	7.46	0.98	4.92	EV//EBITDA	10.09	0.84	6.07	5.88
P/E	15.38	0.49	7.56	P/E	9.29	0.32	3.02	3.78
Average			9.34	Average			4.54	5.35

Source: SIS Calculations

The Fair Value of the company according to the Comparable Companies Valuation is **BGN 5.35**

Cost of Equity (CAPM) =	9.50%
β (5y weekly) =	1.23
Germany 10-y Gov Bond =	-0.30%
Germany Exp Market Return =	6.7%
Bulgaria Moody's Rating =	Baa1
Country Risk Premium (CRP) =	1.55%
Bulgaria Equity Risk Premium =	7.97%

Cost of Debt =	3.34%
Interest on Loans =	8,483
Interest on Lease Liabilities =	1,879
Value of all Loans =	248,435
Value of all Lease Liabilities =	61,490
Implied Tax Rate =	11.30%
Weighted Equity =	601,424
Weighted Debt =	309,925
WACC =	8.23%

Intrinsic Value	
Enterprise Value =	1,006,304
Cash =	22,192
Debt =	309,768
Minority Interest =	13,901
Equity Value =	704,827
Number of Outst. Shares	124,686
Equity Value Per Share =	5.65

Source: SIS Calculations

Method	Weight	Price
DCF	50.00%	5.65
CCA	50.00%	5.35
Weighted Average =		5.50

Source: SIS Calculations

Discounted Cash Flow Model

	2021	2022	2023	2024	2025	TV
Revenue	1,635,672	1,803,097	1,967,424	2,123,527	2,266,040	1.5%
Revenue growth %		10.2%	9.1%	7.9%	6.7%	
EBIT	79,828	77,728	76,380	79,502	83,484	
EBIT growth %		-3%	-2%	4%	5%	
NOPAT	70,807	68,945	67,749	70,518	74,050	
D&A	-44,487	-46,850	-46,527	-47,173	-47,923	
CAPEX	-40,370	-40,705	-40,201	-41,338	-42,765	
ΔNWC	-4,408	-7,472	2,188	3,076	9,749	
FCF	79,331	82,561	71,886	73,278	69,459	1,036,897
Discount factor	108.30%	1.17	1.27	1.38	1.49	1.49
Discounted FCF	73,252	70,392	56,594	53,268	46,623	695,998

Source: SIS Calculations

The Cost of Debt is estimated by calculating the weighted average fixed interest rates of all long-term loans.

In accordance with the DCF, with perpetual growth of 1.5% and WACC of 8.19% the fair value is **BGN 5.65**

Sensitivity Analysis:

		Perpetual Growth				
		1.00%	1.25%	1.50%	1.75%	2.00%
WACC	7.0%	6.76	7.07	7.40	7.77	8.17
	7.2%	6.47	6.75	7.07	7.40	7.78
	7.7%	5.82	6.06	6.32	6.60	6.91
	8.2%	5.23	5.43	5.65	5.88	6.14
	8.7%	4.78	4.95	5.14	5.34	5.55
	9.2%	4.35	4.50	4.66	4.83	5.02
	9.5%	4.12	4.26	4.41	4.56	4.73

Source: SIS Calculations

By allocating equal weights to the Discounted Cash Flow model and Comparative Companies Analysis, we derive the fair value of **BGN 5.50**

Appendix:

BGN, thousands	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Income Statement								
Revenue from sales of goods	928,334	993,061	1,168,870	1,344,201	1,505,505	1,663,583	1,813,305	1,949,303
% Growth	20.9%	7.0%	17.7%	15.00%	12.00%	10.50%	9.00%	7.5%
Revenue from sales of finished products	250,809	288,526	269,956	275,625	281,413	287,323	293,357	299,517
% Growth	0.5%	15.0%	-6.4%	2%	2%	2%	2%	2.1%
Revenue	1,179,143	1,281,587	1,438,826	1,619,826	1,786,918	1,950,905	2,106,662	2,248,820
% Growth	15.9%	8.7%	12.3%	12.6%	10.3%	9.2%	8.0%	6.7%
Other operating income/(losses), net	11,837	12,421	12,677	15,846	16,179	16,519	16,866	17,220
% Growth	77.1%	4.9%	2.1%	25%	2.1%	2.1%	2.1%	2.1%
Total Revenue	1,190,980	1,294,008	1,451,503	1,635,672	1,803,097	1,967,424	2,123,527	2,266,040
% Growth	16.3%	8.7%	12.2%	12.7%	10.2%	9.1%	7.9%	6.7%
Raw materials and consumables used	(91,303)	(93,234)	(89,324)	(85,444)	(90,052)	(93,380)	(96,808)	(100,338)
Hired services expense	(75,897)	(75,239)	(80,869)	(87,009)	(91,110)	(94,150)	(95,920)	(96,258)
Employee benefits expense	(119,441)	(127,087)	(133,547)	(150,512)	(165,148)	(179,332)	(192,601)	(204,478)
Carrying amount of goods sold	(825,571)	(878,504)	(1,041,687)	(1,178,864)	(1,321,833)	(1,467,280)	(1,601,148)	(1,723,184)
D&A	(33,135)	(44,004)	(46,633)	(44,487)	(46,850)	(46,527)	(47,173)	(47,923)
Assets under construction and write-off of assets	8,773	(3,479)	2,124	(4,494)	3,166	3,166	3,166	3,166
Other operating expenses	(15,263)	(12,769)	(15,767)	(5,035)	(13,541)	(13,541)	(13,541)	(13,541)
Total Expenses	-1,151,837	-1,234,316	-1,405,703	-1,555,844	-1,725,368	-1,891,044	-2,044,025	-2,182,556
EBIT	39,143	59,692	45,800	79,828	77,728	76,380	79,502	83,484
EBITDA	72,278	103,696	92,433	124,314	124,578	122,907	126,675	131,407
Finance income	4,034	10,953	5,081	7,197	7,663	8,154	8,664	9,185
Finance costs	(9,728)	(12,391)	(19,099)	(16,009)	(17,702)	(16,253)	(16,016)	(15,843)
Profit from associates and joint ventures, net	2,076	44,660	5,976	7,837	4,026	4,026	4,026	4,026
Profit from acquisition and disposal of subsidiaries	-	5,976	(323)	2,988	2,988	2,988	2,988	2,988
EBT	35,525	108,890	37,435	81,840	74,703	75,295	79,164	83,840
Income Tax Expense	-4,975	-4,975	-4,975	-9,050	-8,812	-8,659	-9,013	-9,464
Implied Tax Rate	-14.0%	-4.6%	-13.3%	-11%	-11%	-11%	-11%	-11%
Net profit for the year	30,637	84,359	25,280	72,791	65,891	66,637	70,152	74,376
% Growth	-33%	175%	-70%	188%	276%	25%	15%	2%

Source: SIS Calculations and Company data

BGN, thousands	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Balance Sheet								
Property, plant and equipment	324,525	378,625	395,872	406,220	411,318	414,374	416,924	418,960
Intangible assets	62,195	42,829	58,272	57,099	56,611	56,821	57,054	57,324
Long-term receivables from related parties	23,055	91,794	59,726	51,277	58,969	67,814	77,986	84,684
Investments in associates and joint ventures	20,383	62,985	62,811	77,385	85,124	93,636	102,999	108,299
Other non-current assets	50,530	49,939	53,254	50,291	62,951	60,920	61,247	57,205
Total Non-current assets	480,688	626,172	629,935	642,272	674,972	693,565	716,210	726,472
Inventories	235,763	229,873	287,569	284,650	325,921	365,815	410,215	448,316
Trade receivables	235,911	255,660	250,707	280,051	290,590	297,284	299,501	308,204
Other current assets	58,241	63,567	73,901	63,739	68,201	72,975	78,083	83,549
Total Current assets	529,915	549,100	612,177	628,440	684,712	736,073	787,799	840,069
Total Assets	1,010,603	1,175,272	1,242,112	1,270,712	1,359,684	1,429,638	1,504,009	1,566,540
Short-term bank loans	242,859	274,829	255,281	276,015	305,102	321,578	328,951	311,579
Trade payables	124,476	116,407	164,919	174,460	187,551	192,366	200,508	216,901
Current portion of long-term bank loans	14,874	16,730	31,172	21,568	19,864	18,659	15,435	13,486
Other current liabilities	50,690	76,086	93,079	93,079	116,349	145,436	181,795	227,244
Total Current liabilities	432,899	484,052	544,451	565,122	628,866	678,039	726,689	769,210
Long-term bank loans	41,124	56,832	34,567	34,797	37,628	40,000	34,568	21,518
Finance lease liabilities	2,486	25,840	49,593	45,250	45,250	45,250	45,250	45,250
Other non-current liabilities	25,565	32,776	46,906	42,802	42,802	42,802	42,802	42,802
Non-current liabilities	69,175	115,448	131,066	122,849	125,680	128,052	122,620	109,570
Total Liabilities	502,074	599,500	675,517	687,971	754,546	806,091	849,309	878,780
Equity	475,560	556,431	553,269	568,840	591,237	609,646	640,799	673,860
Non-controlling interest	32,969	19,341	13,326	13,901	13,901	13,901	13,901	13,901
Total Equity	508,529	575,772	566,595	582,741	605,138	623,547	654,700	687,761

Source: SIS Calculations and Company data

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