

## Sopharma AD

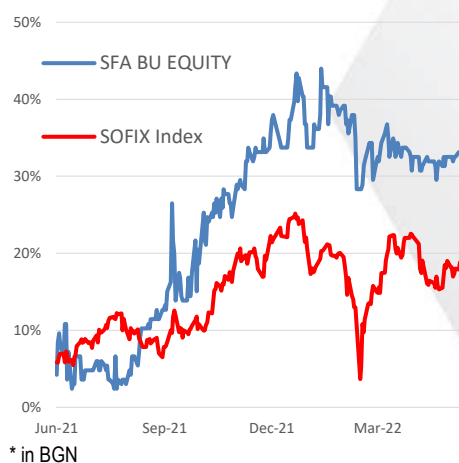
**TARGET PRICE: 5.30**  
**RECOMMENDATION: BUY**

Industry: Pharmaceuticals  
Sector: Healthcare

### Share Information

Price (BGN)	4.42
Price (EUR)	2.26
52-week price change	+24.86%
52-week price range	3.40 – 4.78
Market Cap (BGN)	595,806,714
Market Cap (EUR)	304,631,136
Shares outstanding	124,486,432
Free Float	36.53%
P/E (LTM)	6.24
P/S (LTM)	0.34
P/B	0.90

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



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**Sopharma AD is one of the most affected Bulgarian firms by the conflict in Eastern Europe but so far it mitigates the difficulties.**

### Consolidated Q1 Results

- Sopharma AD (TCKR: SFA) reported **4.9% operating revenue growth YoY** in Q1 2022. Revenue from sales of finished products grew by 3.2%, whereas the revenue from sales of goods (distribution arm) grew by 5.3%. Thanks to the domestic recovery after COVID19, the finished products sold in Bulgaria increased by 19% YoY, retaining Sopharma's market share of 2.74% in Bulgaria. Similarly, it's apparent from the consolidated Sopharma Trading's results that the revenue was driven by pharmacies' strong performance (nearly 20%, up to BGN 246,333).

- On an individual basis, **40% of sales of products are realized in Ukraine and Russia** (BGN 11mln). More interestingly, sales in Russia decreased by 39% YoY whereas in Ukraine grew by 83%. We reckon that the growth could be caused by overstocking ahead of the military conflict and as of that we see it more as a one-off. On the other hand, the difficult logistics and the removal of key Russian banks from the international financial system largely hinder the delivery of pharmaceuticals in Russia. The company states that it *"strives not to stop the supply of medicines as much as possible, as they are essential products that are crucial for the survival of the population."* For now, the company only accepts prepayment orders in the region. A note from May 2022, states the company recorded "38% increase in export sales as a result of erratic recovery of activity in major foreign markets". Considering this, we anticipate volatile but still close to the current sales in Russia.

- Achieve Life Sciences** (TCKR: ACHV), the company Sopharma signed a supply agreement for cytisine with, reported in late April its Phase III *"clinically robust and statistically significant results"*. Primary endpoints demonstrated 6-8x increased odds of smoking abstinence with cytisinicline compared to placebo. Next step for the company is to get FDA approval which may take from 0.5-2 years.

- Despite the inflation the gross margin remained at the same levels which signals for strong pricing power. Both costs for raw materials and benefit expenses per employee increased.

- In 2021 Sopharma Trading AD has **written off BGN 17mln** of investments in its Serbian subsidiary, acquired in 2017. The company has not disclosed any details about the devaluation, however the report of the independent auditor states that firm's investments in its subsidiaries are *"associated with rapid expansion in difficult markets; and / or incomplete capacity utilization and loss reporting. These circumstances imply the risk of overestimation of investments in subsidiaries."* This warns for possible future write offs. Moreover, in Q1 2022 the company has provided additional cash contributions for BGN 4mln that could be an attempt to restructure the subsidiary.

## FINANCIAL SNAPSHOT

### QUARTERLY RESULTS

Financial Metrics	Q1 2021	Q1 2022	% Change	TTM
Total Revenue	386,138	400,553	3.7%	1,674,309
Operating expenses	362,876	377,872	4.1%	1,579,093
EBIT	23,262	22,681	-2.5%	95,216
Operating Margin	6.02%	5.66%	-0.36%	5.69%
EBITDA	36,742	35,492	-3.4%	147,734
Net profit	18,136	20,681	14.0%	92,041
Net Margin	4.70%	5.16%	0.47%	5.50%
Total Assets	1,204,978	1,198,748	-0.5%	-
Equity	646,975	665,656	16.9%	-
Cash & equiv.	37,722	20,465	-9.2%	-
Net Debt	278,998	267,167	-4.2%	-
Debt-to-Equity	49%	43%	-	-

### FINANCIAL RATIOS

Per share	2018	2019	2020	2021
Number of shares	125,916,563	125,786,432	125,786,432	124,486,432
EPS	0.23	0.69	0.24	0.72
DPS	0.00	0.18	0.03	0.18
<b>Growth &amp; Activity</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Revenue growth	-	9.6%	11.2%	14.1%
Earnings growth	-	8.8%	12.6%	10.8%
CAPEX growth	-	45.0%	-33.1%	0.4%
CAPEX/EBITDA	37.0%	40.6%	29.9%	18.2%
Asset Turnover	1.18	1.11	1.17	1.38
WC Turnover	0.00	16.15	21.92	15.44
<b>Return &amp; Profitability</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
ROE	6.0%	15.6%	5.4%	13.8%
ROA	2.8%	7.4%	2.4%	7.4%
ROIC	5.5%	13.5%	4.5%	12.0%
EBITDA margin	6.3%	7.6%	6.2%	9.0%
Operating margin	3.5%	4.2%	3.0%	5.8%
Net margin	2.4%	6.6%	2.0%	5.4%
<b>Gearing &amp; Liquidity</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Debt-to-Equity	0.6	0.7	0.7	0.5
Net Debt to EBITDA	0.3	0.3	0.3	0.5
Interest coverage	33.5	39.2	25.2	48.0
Cash ratio	0.1	0.1	0.0	0.1
Current ratio	1.2	0.0	0.0	0.0

### COMPANY DESCRIPTION

Sopharma AD engages in the provision of pharmaceutical business. Its operations include production and marketing of medical products, medicinal substances as well as dosage forms. It also involved in research, engineering, and implementation activities in the field of phytochemistry, chemistry, and pharmacy. The firm offers dermatological products, gastroenterological, as well as psychoneurological, antiallergic and others. The company was founded in 1933 and is headquartered in Sofia, Bulgaria.

### ANNUAL FINANCIAL RESULTS

Income Statement (BGN th)	2018	2019	2020	2021
Operating Revenue	1,190,091	1,293,166	1,450,205	1,615,658
Financial Income	4,034	15,401	5,081	44,236
<b>Total Revenue</b>	<b>1,194,125</b>	<b>1,308,567</b>	<b>1,455,286</b>	<b>1,659,894</b>
Operating expenses	1,152,023	1,253,265	1,411,696	1,564,097
EBIT	42,102	55,302	43,590	95,797
<b>EBITDA</b>	<b>75,237</b>	<b>99,306</b>	<b>90,223</b>	<b>148,984</b>
<b>Net profit</b>	<b>28,343</b>	<b>86,994</b>	<b>29,805</b>	<b>89,496</b>
<b>Balance Sheet (BGN th)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Current assets	529,915	549,100	612,177	571,232
Cash & equiv.	25,582	27,513	25,293	37,722
Non-current assets	480,688	626,172	629,935	633,746
PP&E and Inv. Properties	386,720	421,099	453,829	416,353
<b>Total Assets</b>	<b>1,010,603</b>	<b>1,175,272</b>	<b>1,242,112</b>	<b>1,204,978</b>
Current Liabilities	432,899	484,052	544,451	423,892
ST Loans	242,859	274,829	255,281	217,392
Non-current liabilities	69,175	115,448	131,066	122,218
LT Loans	43,909	89,686	105,368	99,328
<b>Total Liabilities</b>	<b>502,074</b>	<b>599,500</b>	<b>675,517</b>	<b>546,110</b>
<b>Equity</b>	<b>475,560</b>	<b>556,431</b>	<b>553,269</b>	<b>646,975</b>
Net Working Capital	97,016	65,048	67,726	147,340
Total Debt	286,768	364,515	360,649	316,720
Net Debt	261,186	337,002	335,356	278,998
<b>Cash Flow Statement (BGN th)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
CF from operations	(123,784)	(128,444)	(179,411)	(75,963)
CF from investments	(41,178)	(104,202)	1,495	(68,065)
CAPEX	(27,842)	(40,364)	(27,013)	(27,110)
Purchase of investments	(5,990)	(8,241)	(9,100)	(53,897)
CF from financing	166,477	235,879	175,693	156,606
Change in debt	39,935	49,280	(28,033)	(10,162)
Paid interest	(1,257)	(1,412)	(1,732)	(1,994)
Paid dividends	(22,613)	(3,495)	(22,643)	(63)

	2022	2023	2024	2025	2026	TV
Revenue	1,800,009	1,965,371	2,122,429	2,265,770	2,379,059	2.5%
EBIT	94,350	87,656	87,326	87,311	91,204	
NOPAT	83,688	77,751	77,458	77,445	80,898	
D&A	-46,850	-46,527	-47,173	-47,923	-47,224	
CAPEX	-42,523	-40,744	-40,840	-41,057	-41,590	
ΔNWC	-8,016	-8,615	-6,910	-5,980	0	
FCF	<b>96,031</b>	<b>92,148</b>	<b>90,702</b>	<b>90,291</b>	<b>86,532</b>	<b>1,008,362</b>
Discounted FCF	<b>86,284</b>	<b>74,392</b>	<b>65,793</b>	<b>58,847</b>	<b>50,673</b>	<b>590,499</b>

Cost of Debt =	3.40%
Cost of Equity (CAPM) =	14.62%
β =	1.23
Germany 10-y Gov Bond =	1.20%
Germany Exp Market Return =	8.13%
Country Risk Premium (CRP) =	1.58%
<b>Current WACC =</b>	<b>11.30%</b>

Intrinsic Value	
Enterprise Value =	926,488
Net Debt =	267,167
Minority Interest =	13,901
Equity Value =	645,420
Outstanding Shares =	124,786
<b>Equity Value Per Share =</b>	<b>5.17</b>

- We anticipate seeing above-the-market growth (7-10%) from the Sopharma's distribution segment for the next 3-4 years due to the ongoing development of the pharmacy chain and little to no growth from the manufacturing business, considering a moderate pullback from the Russian and Ukrainian markets that could be compensated by higher sales in the surrounding markets. Due to the high uncertainty, the potential gain from the Supply Agreement with ACHV are not included in the forecasts.

- In the foreseeable future, we expect that the inflation to put downward pressure on the margins due to higher COGS, raw materials and labor cost.

- Due to the higher interest rates, the cost of equity has increased with nearly 2% since our last coverage in December and thus the target price, in accordance to the DCF, has declined.

- The TP, according to sum-of-the-parts CCA model, is BNG 5.44. Considering both methods with equal weights, the final target price we derive is **BNG 5.30**.

- No minority discount was applied to the model. However, it is a common practice that some investors apply this method with 10-20% discount when purchasing a small share in the company. In such case the target price would have been between BNG 4.24 - 4.77.

		Perpetual Growth				
		1.50%	2.00%	2.50%	3.00%	3.50%
WACC	10.0%	5.67	6.02	6.41	6.86	7.38
	10.5%	5.24	5.54	5.89	6.27	6.72
	11.0%	4.86	5.12	5.42	5.76	6.14
	11.3%	4.64	4.89	5.17	5.48	5.83
	11.5%	4.51	4.75	5.01	5.30	5.63
	12.0%	4.20	4.41	4.64	4.90	5.19
	12.5%	3.91	4.10	4.31	4.53	4.79

Company	EV/S	EV/EBITDA	P/E
<b>Sopharma AD/Sofia</b>	<b>0.54</b>	<b>7.22</b>	<b>5.83</b>
Zentiva SA	2.02	11.64	18.89
Biofarm SA	2.06	8.78	9.23
Deva Holding AS	2.79	6.71	5.21
Olainfarm AS	0.87	3.72	8.03
EIS Eczacibasi Ilac ve Sinai	4.52	39.55	8.50
Richter Gedeon Nyrt	2.01	8.39	9.19
Krka dd Novo mesto	1.66	7.28	8.91
Alkaloid AD Skopje	2.06	11.61	19.28
<b>Median</b>	<b>2.04</b>	<b>8.58</b>	<b>9.05</b>
<b>Metric per Share</b>	<b>13.45</b>	<b>1.19</b>	<b>0.74</b>
<b>Equity Value</b>	<b>25.28</b>	<b>8.07</b>	<b>6.70</b>
Medius Holdings Co Ltd	0.13	5.98	9.37
Hokuyaku Takeyama	#N/A N/A	(1.45)	5.36
Jinhong Holding Group Co	1.36	(4.10)	-
Sinco Pharmaceuticals	1.34	13.87	17.98
Sigma Healthcare Ltd	0.24	9.65	-
Ibnsina Pharma SAE	0.46	15.25	7.04
Profarma Distribuidora	0.27	7.50	7.20
Salus dd	0.30	7.40	11.94
Selcuk Ecza Deposu Ticaret	0.27	5.39	7.31
<b>Median</b>	<b>0.29</b>	<b>7.40</b>	<b>7.20</b>
<b>Metric per Share</b>	<b>13.45</b>	<b>1.19</b>	<b>0.74</b>
<b>Equity Value</b>	<b>1.70</b>	<b>6.66</b>	<b>3.18</b>
<b>Weighted Average</b>	<b>5.64</b>	<b>6.90</b>	<b>3.77</b>
<b>TP according to CCA =</b>	<b>5.44</b>		

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