Earnings release - SUN

SUN EPS up 10% YoY, despite lackluster performance in Agri

1QFY16 Highlights

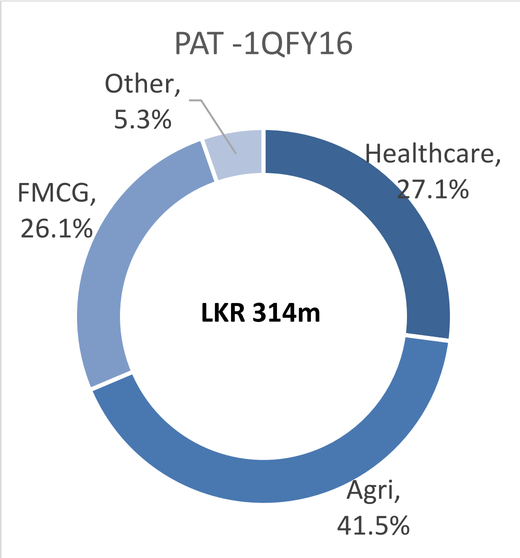
- *Consolidated revenue of LKR4.2bn, an increase of 4.9% YoY;*
- *PAT amounted to LKR314m, down 3.7% YoY, due to poor Agri results*
- *Healthcare growth strong even in challenging market conditions to post LKR1.7bn revenue*
- *Strong growth in FMCG, revenue up 16.3% YoY to LKR685m*
- *Strong performance in Packaging and Power, together contributing LKR18m to PAT*

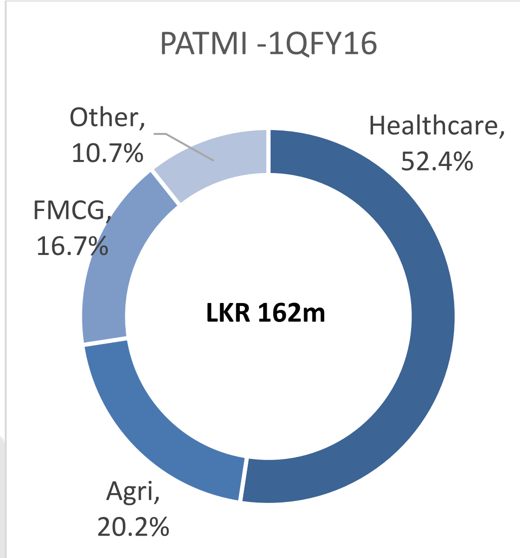
Colombo, August 14, 2015 – Sunshine Holdings PLC (CSE: SUN) reported consolidated revenues of LKR4.2bn for the quarter ended 30 June 2015 (1QFY16), up 4.9% YoY. PATMI grew 10.8% YoY to stand at LKR162m for 1QFY16, despite a 3.7% YoY contraction in PAT to LKR314m due to weak performance in the Agri sector.

LKRm	1Q FY16	1Q FY15	Growth %
Revenue	4,179	3,984	4.9
EBIT	399	443	(9.8)
EBIT Margin	*9.6%*	*11.1%*	
Profit for the period	**314**	**326**	**(3.7)**
PAT Margin	*7.5%*	*8.2%*	
Profit Attributable to			
Equity owners	162	147	10.8
EPS (LKR)	1.20	1.10	9.7

All segments, except for Agri contributed towards top-line growth during 1QFY16. Agri, still the biggest contributor to group revenue (40.3% of group revenue), contracted 10.4% YoY, with Healthcare close behind (39.8% of group revenue) grew 17.5% YoY. Revenue contribution from FMCG increased to 16.4% of total in 1QFY16, against 14.8% during same quarter last year, and grew 16.3% YoY.

For 1QFY16, PAT amounted to LKR314m down 3.7% YoY, but Profit After Tax and Minority Interest (PATMI) was up 10.8% YoY to LKR162m. PAT from both Agri and FMCG sectors has a lower impact on the group PATMI due to lower effective holding. Healthcare still remains the largest contributor to PATMI in 1QFY16 with LKR85m, which represents 52.4% of total PATMI.





Net Asset Value per share increased to LKR40.44 as at end 1QFY16, compared to LKR39.24 at the beginning of the year (FY15).

Business segments

Healthcare

LKRm	1Q FY16	1Q FY15	Growth %
Revenue	1,662	1,415	17.5
EBIT	125	110	13.7
EBIT Margin	*7.5%*	*7.8%*	
Profit for the period	**85**	**74**	**14.3**
PAT Margin	*5.1%*	*5.3%*	

Healthcare revenue for 1QFY16 grew 17.5% YoY, exceeding management expectations, and stood at LKR1.7bn. This represents 39.8% of Group turnover for the period. EBIT margin for 1QFY16 contracted by 20 bps to 7.5% in 1QFY16 mainly on account of bulk diagnostic sales to the Public sector, and supply side pressure from business partners.

The Pharma sub segment which made LKR1.1bn in revenues (66.5% of Healthcare revenue) grew 16.7% YoY over 1QFY15, despite a slight contraction in the overall market as reported by IMS. The company's Pharma segment is the 2nd biggest player in the country with 11.6% share of the market. Growth in other sub sectors were; Surgical (+8.6% YoY), Retail (+12.9% YoY), Diagnostics (+40.6% YoY), Wellness (-1.8% YoY) respectively.

PAT for Healthcare amounted to LKR85m in 1QFY16, up 14.3% YoY, but margin contracted to 5.1% in 1QFY16, against 5.3% in the same quarter last year, due to GP margin erosion.

FMCG

LKRm	1Q FY16	1Q FY15	Growth %
Revenue	685	589	16.3
EBIT	89	34	165.3
EBIT Margin	*13.0%*	*5.7%*	
Profit for the period	**82**	**29**	**181.7**
PAT Margin	*12.0%*	*4.9%*	

The FMCG sector reported revenues of LKR685m in 1QFY16, up 16.3% YoY, on the back of both volume and price growth, and the sector accounts for 16.4% of group revenue for the period. The branded tea business within FMCG sold 703 Tons of branded tea, up 8.5% YoY, primarily driven by their largest brand 'Watawala Tea' – which is the number one selling Tea brand in Sri Lanka.

PAT from the FMCG segment grew 181.7% YoY, to stand at LKR82m in 1QFY16, with a margin of 12.0%, compared to 4.9% in the same period last year. The huge spike in profitability is attributed to a poor 1QFY15 where the segment suffered from lower quantities due to a change in trade compensation scheme, and hence not directly comparable.

Agri-business

LKRm	1Q FY16	1Q FY15	Growth %
Revenue	1,685	1,880	(10.4)
EBIT	167	300	(44.4)
EBIT Margin	*9.9%*	*16.0%*	
Profit for the period	**131**	**231**	**(43.5)**
PAT Margin	*7.7%*	*12.3%*	

The Agri sector represented by Watawala Plantations PLC (WATA) saw its revenue contract by 10.4% YoY to LKR1.7bn, on the back of an 18.8% YoY contraction in Tea revenue, despite Palm Oil sub sector reporting an increase of 24.4% YoY for 1QFY16. Agri revenue is below management expectations due to weak market conditions for both Tea and Palm Oil, but this was somewhat cushioned by higher volumes in Palm Oil (+34.7% YoY) resulting from our good agri practices. Volumes for Tea contracted 24.8% YoY, by design due to curtailment of bought crop in a declining market.

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Description	Revenue (LKRm) 1Q FY16	Revenue (LKRm) 1Q FY15	Revenue (LKRm) Growth %	Volumes (MT) 1Q FY16	Volumes (MT) 1Q FY15	Volumes (MT) Growth %
Palm Oil	469	377	24.4	2,801	2,079	34.7
Tea	1,059	1,305	(18.8)	2,583	3,434	(24.8)

PAT for 1QFY16 amounted to LKR131m, against LKR231m in the same period last year. The dip in profits can be primarily attributed to Tea, which recorded a net loss of LKR137m for 1QFY16 compared to a profit of LKR32m same quarter last year. 1QFY15 for tea was profitable due to higher market prices, better volumes and favorable weather. However, since mid-2015, Ceylon tea prices have collapsed on account of turmoil in key export markets.

Palm Oil segment which made LKR277m PAT for 1QFY16, continued to be the largest contributor to WATA profits and managed to cover the losses in both Tea and Rubber. Net Selling Average (NSA) for Palm Oil saw a contraction in 1QFY16, in-line with global prices affected by the drop in crude oil.

Other

Packaging revenues amounted to LKR95m, up 13.5% YoY in 1QFY16, against LKR84m in the same period last year. This performance is in-line with management expectations for the segment with the printed sheet business ramping up its contribution to revenue, despite lull sales for both the Tea and Confectionery industry. PAT amounted to LKR6m in 1QFY16 compared to LKR391k in 1QFY15 as a result of improved capacity utilization.

Revenue for the Renewable energy division amounted to LKR32m in 1QFY16, up 110.3% YoY from LKR15m during same quarter last year, due to heavy inter-monsoon rainfall and improved plant and grid stability. The mini-hydro plant, which is in its second year of operation, made PAT of LKR13m for 1QFY16, compared to a loss of LKR6m in the same quarter last year.

Outlook

For 2QFY16, we are confident that both Healthcare and FMCG sectors will continue to perform well on the back of the momentum gained during 1QFY16. Our Healthcare Retail chain 'Healthguard' expanded its retail footprint during 1QFY16 by adding 2 new full service stores located in Kirula Road, and Colombo 03. Furthermore our flag ship store which was re-launched in 4QFY15 has stabilized in terms of footfall to pre-refurbishment levels, and we are encouraged by the increase in basket value and margins as a result of the sales mix tilting towards the Beauty and Wellness segments, as opposed to the prescribed pharma. Two more store are planned to be opened before the end of FY16. In the agency business (covering pharma, surgical, diagnostics, and wellness) we expects more traction from the new products which were introduced during FY15. We are mindful of the contraction in margins due to pressure from our business partners and we are continuously on the lookout for new molecules in high growth therapeutic classes.

In FMCG, we will continue to expand distribution reach and improve availability of our products. If Tea prices continue to remain soft, we expect this segment to maintain the high margins which it currently enjoys. With the aim of expanding our product portfolio, we have invested in our own water bottling plant which is currently under construction. Upon completion we will also re-launch our bottled water brand 'Zest' subject to obtaining the necessary regulatory approvals.

For the Agri sector, we expect our Palm Oil sub segment to continue its strong performance for FY16 on the back of increased volumes as more trees move into maturity. We expect local Crude Palm Oil (CPO) prices to be challenged during the next quarter, given the global dip in CPO prices.

We are also mindful of the demand side issues in Tea associated with buying at the auctions slowing down due to issues in key Ceylon Tea markets within CIS and the Middle East. Furthermore, wage negotiations with the estate workers are still ongoing and are expected to be resolved in 2QFY16. In response to a go slow campaign by the associates, all Regional Plantation Companies including WATA had to shut down all tea factories for ~10 days during the month of July 2015. We estimate the loss in revenue for this period to amount to approx. LKR100m which will marginally impact 2Q results.

On the renewable energy front, we have commenced construction of 2 new projects for which PPA's have been signed during FY15. We expect the current plant to generate stable returns for 2QFY15.

The group's metal packaging plant is confident it can mimic its 1QFY15 performance for the following quarter given a strong order book which will result in improved machine utilization.

ABOUT SUNSHINE HOLDINGS

Sunshine Holdings PLC is a diversified holding company contributing to 'nation building' by creating value in vital sectors of the Sri Lankan economy – including healthcare, agribusiness, fast moving consumer goods and renewable energy. Many of its business units are leaders in their respective sectors, have secured partnerships with multiple top global brands and have won prestigious awards at the national as well as the regional level. The leading brands of the group include Zesta, Healthguard, Watawala Tea, Pedia Plus and Diabeta Plus. Sunshine Holdings' jointly-owned plantation company is Sri Lanka's largest palm oil producer and has also been the country's largest tea producer for several consecutive years. The company's healthcare marketing unit is the second largest in its sector nationally. Its tea sector also consists of Sri Lanka's best-selling tea brand locally. The group, which provides employment to approximately 12,000, generates over US$ 120 million in revenue. Sunshine Holdings is consistently ranked among the LMD Top 50 companies in Sri Lanka.

For more information, Please visit our Investor Relations page

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