Earnings Release - SUN

SUN records EPS growth of 20% YoY to LKR4.34 – Top Line hits LKR17.4bn

FY16 Highlights

- *Consolidated revenue of LKR17.4bn, an increase of 6.7% YoY;*
- *PAT amounted to LKR1,218m, up 16.3% YoY, due to strong Healthcare and Agri performance*
- *Healthcare revenue up 17.9% YoY to LKR7.2bn*
- *Strong growth in FMCG, revenue up 18.0% YoY to LKR3.4bn*
- *Agri revenue contracted 8.0% to LKR6.3bn due to change in tea strategy*

4QFY16 Highlights

- *Consolidated revenue of LKR4.6bn, an increase of 12.4% YoY;*
- *PAT amounted to LKR196m, down 18.4% YoY*
- *Healthcare grew 19.6% YoY, to LKR1.9bn – the highest ever quarter for the business*
- *FMCG revenue up 13.6% YoY to LKR920m but margins contracted due to higher raw material cost*
- *Agri revenue up 7.4% YoY. Spike in margin on the back of improvement in Tea quality*

Colombo, May 30, 2016 – Sunshine Holdings PLC (CSE: SUN) reported consolidated revenues of LKR17.4bn for the financial year ended 31 March 2016 (FY16), up 6.7% YoY. Adjusted PATMI grew 7.6% YoY to stand at LKR587m for FY16, on the back of a 9.8% adjusted YoY growth in PAT to LKR1,281m despite challenges in the Agri sector.

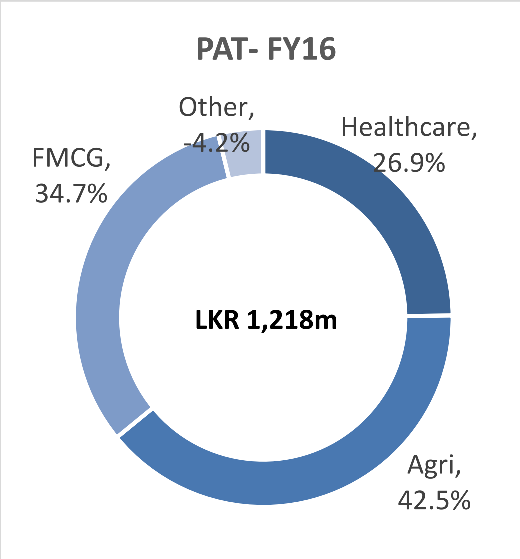
LKRm	FY16	FY15	Growth %	4Q FY16	4Q FY15	Growth %
Revenue	17,422	16,327	6.7	4,615	4,105	12.4
EBIT	1,661	1,413	17.5	273	142	92.2
EBIT Margin	*9.5%*	*8.7%*		*5.9%*	*3.5%*	
Profit for the period	**1,218**	**1,047**	**16.3**	**169**	**207**	**(18.4)**
PAT Margin	*7.0%*	*6.4%*		*3.7%*	*5.0%*	
Normalized PAT*	**1,218**	**1,108**	**9.8**	**169**	**207**	**(18.4)**
Profit Attributable to						
Equity owners	587	484	21.2	78	76	2.8
EPS (LKR)	4.34	3.62	19.9	0.57	0.60	(4.1)

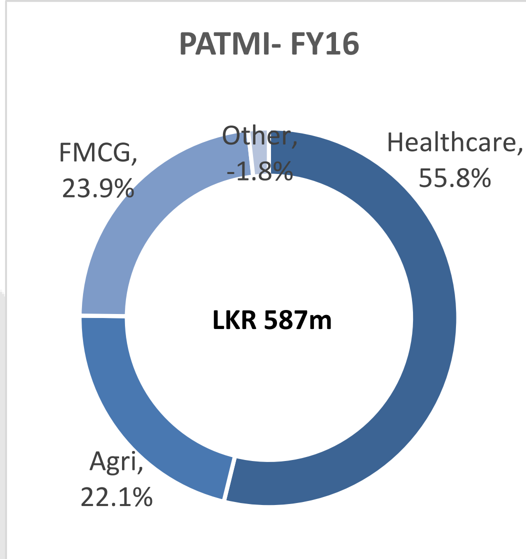
*Full year numbers for last year adjusted for one off G'will write off

In terms of contribution to group revenue in FY16, Healthcare has emerged as the largest contributor accounting for 41.1% (37.2% last year). Agri which was the biggest contributor last year slips down to 2nd with 36.2% of group revenue (41.9% last year). FMCG, a fast growing segment, accounted for 19.7% of the revenue (17.9% last year)

For FY16, PAT amounted to LKR1,218m up 9.8% YoY after adjustment. PAT for FY15 (last year) was adjusted for a one-off G'will write off of LKR62m taken in 3QFY15. PAT margin amounted to 7.0% in FY16 compared to an adjusted 6.8% in FY15. The expansion in PAT margin is attributed to the Agri sector, despite Healthcare and FMCG reporting a slight contraction.

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 for FY16 with LKR327m, which represents 55.8% of total PATMI.





Net Asset Value per Share increased to LKR42.78 as at end FY16, compared to LKR39.24 at the beginning of the year (FY15).

Business Segments

Healthcare

LKRm	FY16	FY15	Growth %	4Q FY16	4Q FY15	Growth %
Revenue	7,161	6,076	17.9	1,891	1,580	19.6
EBIT	514	382	34.8	114	32	257.3
EBIT Margin	*7.2%*	*6.3%*		*6.1%*	*2.0%*	
PAT	**327**	**232**	**41.2**	**63**	**57**	**10.3**
PAT Margin	*4.6%*	*3.8%*		*3.3%*	*3.6%*	
Normalized PAT*	**327**	**293**	**11.6**	**63**	**57**	**10.3**

* Full year numbers for last year adjusted for one off G'will write off

Healthcare Revenue for FY16 grew 17.9% YoY, well above the growth of the overall market, to stand at LKR7.1bn. The Healthcare segment has overtaken Agri to be the biggest contributor to Group Revenue, accounting for 41.1% of the total. EBIT margin for FY16 marginally contracted to 7.2% compared to an adjusted EBIT margin of 7.3% (6.3% reported) in FY15 on the back of supply-side pressure from business partners and FX pressure in 2HFY16. 4QFY16 EBIT margin stands at 6.1% against 2.0% during the same quarter last year which was burdened by high promotional cost and stock provisions.

The Pharma sub segment which made LKR4.7bn in revenues (66.3% of Healthcare revenue) grew 15.9% YoY over FY15. Strong growth in this segment has outperformed the overall market which grew 6% YoY as reported by IMS. The company's Pharma segment is the 2nd biggest private player in the country with 12.5% share of the market. Growth in other sub sectors were: Surgical (+10.9% YoY), Retail (+25.6% YoY), Diagnostics (+25.6% YoY), and Wellness (+40.8% YoY) respectively.

PAT for Healthcare amounted to LKR327m in FY16, up 11.6% YoY on an adjusted FY15 PAT, however margins contracted slightly to 4.6% where GP margin pressure from suppliers and exchange rate impact were somewhat countered by higher productivity and tight control in overheads.

FMCG

LKRm	FY16	FY15	Growth %	4Q FY16	4Q FY15	Growth %
Revenue	3,440	2,915	18.0	920	810	13.6
EBIT	469	445	5.4	88	156	(43.6)
EBIT Margin	*13.6%*	*15.3%*		*9.5%*	*19.2%*	
PAT	**423**	**393**	**7.7**	**80**	**138**	**(42.4)**
PAT Margin	*12.3%*	*13.5%*		*8.7%*	*17.1%*	

The FMCG sector reported revenues of LKR3.4bn for the FY16, up 18.0% YoY, on the back of both volume and price growth, stemming from growth in disposable income and increased distribution reach. The branded tea business within FMCG sold 3.7m kg of branded tea, up 15.9% 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 7.7% YoY, to stand at LKR423m in FY16, with a margin of 12.3%, compared to 13.5% in the last year. The slight contraction in profitability is attributable to expenses incurred to expand the export business, partly offset by lower raw material costs, resulting from depressed Ceylon Tea prices which affects the FMCG business favorably, as well as volume growth resulting from increase in distribution and availability.

Investment into international expansion amounts to ~LKR88m for FY16, of which LKR44m is accounted for in 4QFY16, which explains the contraction in margin for 4QFY16.

Agribusiness

LKRm	FY16	FY15	Growth %	4Q FY16	4Q FY15	Growth %
Revenue	6,299	6,848	(8.0)	1,684	1,568	7.4
EBIT	669	550	21.7	103	(28)	n/a
EBIT Margin	*10.6%*	*8.0%*		*6.1%*	*-1.8%*	
PAT	**518**	**391**	**32.5**	**79**	**(18)**	**n/a**
PAT Margin	*8.2%*	*5.7%*		*4.7%*	*-1.1%*	

The sector represented by Watawala Plantations PLC (WATA) saw revenue contract by 8.0% YoY to LKR6.3bn, on the back of a 12.7% YoY contraction in Tea revenue, and an 8.7% YoY decrease in volumes. Given the weak market conditions for tea, the Company strategically cut down on its output to curtail losses and to improve the quality, which has paid dividends as seen in the strong growth in profitability. The Palm Oil sub sector contracted by 3.3% YoY for FY16, as a result of a dip in prices, following a drop in global commodity prices.

Description	Revenue (LKRm)			Volumes (MT)		
	FY16	FY15	Growth %	FY16	FY15	Growth %
Palm oil	1,504	1,555	(3.3)	9,019	8,854	1.9
Tea	4,118	4,717	(12.7)	9,413	10,311	(8.7)

PAT for FY16 amounted to LKR518m, 32.5% over last year. Loss for the Tea segment contracted to LKR222m in FY16, compared to a loss of LKR445m in FY15 on the back of lower volumes and better quality. Palm Oil segment which made LKR684m PAT for FY16, continued to be the largest contributor to WATA profits and managed to cover the losses in both Tea and Rubber.

Other

Packaging revenues amounted to LKR362m, up 34.1% YoY in FY16, against LKR270m last year. This performance is in line with management expectations for the segment, with the printed sheet business ramping up its contribution to Revenue. PAT amounted to LKR16m in FY16 compared to a loss of (LKR24m) in FY15 as a result of improved capacity utilization coming from new export orders and lower raw material prices.

Revenue for the Renewable Energy division amounted to LKR120m in FY16, up 6.9% YoY from LKR113m during 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, achieved a PAT of LKR32m for FY16, compared to LKR20m in FY15.

Outlook

At a macro-economic level, we expect consumer sentiment to improve at a slower rate than in FY16, given the increased tax burden and policy instability in the short term. Nevertheless, we expect all our businesses to deliver above market growth for FY17.

In Healthcare, we expect our agency business to continue its growth momentum into the next year, leveraging on our strong relationships with globally reputed brands. New agencies will also be added during FY17 to fill in gaps in our product portfolio, especially in chronic care and wellness. The company has also invested in HR initiatives to reduce attrition and improve the efficiency of its sales teams. We are mindful of the challenges in new product registration with the NMRA and negative exchange rate fluctuations.

On our specialty retail chain Healthguard, we will continue to expand aggressively with 6 more outlets planned to be opened in key locations in Colombo. Growth will be further enhanced by the online retail store launched in FY16. The stores will focus on Pharma, Wellness and Beauty and we expect margins to expand with a shift in sales mix and better economies of scale. The Company has also invested in a new training center to further improve customer service levels.

For FMCG, we will continue to expand distribution reach and improve availability of our products with a special emphasis on growing volumes in modern trade outlets. We will also focus on the converter brand 'Ran Kahata' which will tap into the huge unbranded volumes currently consumed in the Sri Lankan market. The company will also leverage on its new international marketing team to aggressively grow its export business.

In Agri, the Palm Oil sub segment is expected to grow on the back of an increase in volume and price. We expect local Crude Palm Oil (CPO) prices to slightly improve in early FY17 as it recovers from a trough and also factoring in the benefit of an increase in duty protection. The Tea sub segment will continue its low volume and high quality strategy which has given us a better bottom line, despite contraction in top line. Furthermore, wage negotiations with the estate workers are still ongoing and are expected to be resolved in early FY17 which will have a material negative impact on profitability.

On Renewable Energy, we have commenced construction of 2 new projects for which PPAs have been signed during FY16 and expect to complete construction of the 2nd plant by early FY17 and the 3rd by end of FY17. We expect the current plant to generate stable returns for FY17.

The group's Metal Packaging plant is confident it can mimic its FY16 performance for the following year given a strong order book which will result in improved machine utilization. The business will be expanded during FY17 with a capital infusion of $2m from Primeco Group, Hong Kong (FDI). And as a result SUN's effective holding of the business will diluted down to 60%.

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 11,000, generates over US$ 120 million in revenue. Sunshine Holdings is consistently ranked among the LMD Top 50 companies in Sri Lanka.

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