Earnings release - SUN

SUN 1Q EPS up 27% YoY, boosted by Agri sector profitability

1QFY17 Highlights

- *Consolidated revenue of LKR 4.6bn, an increase of 10.6% YoY;*
- *PAT amounted to LKR 408m, up 29.9% YoY, due to turn around in Agri results*
- *Healthcare continued on its growth momentum to post LKR 2.0bn revenue*
- *1.6% YoY contraction in Agri revenue on the back of lower Tea volumes*
- *Strong growth in FMCG, revenue up 14.4% YoY to LKR 783m*
- *Strong performance in Packaging and Power, together contributing LKR 15m to PAT*

Colombo, August 09, 2016 – Sunshine Holdings PLC (CSE: SUN) reported consolidated revenues of LKR 4.6bn for the quarter ended 30 June 2016 (1QFY17), up 10.6% YoY. PATMI grew 27.2% YoY to stand at LKR 207m for 1QFY17, on the back of a 29.9% YoY growth in PAT to LKR 408m due to strong performance in the Agri sector, despite a dip in profits for Healthcare and FMCG.

LKRm	1Q FY17	1Q FY16	Growth %
Revenue	4,621	4,179	10.6
EBIT	519	399	30.0
EBIT Margin	*11.2%*	*9.6%*	
Profit for the period	**408**	**314**	**29.9**
PAT Margin	*8.8%*	*7.5%*	
Profit Attributable to			
Equity owners	207	162	27.2
EPS (LKR)	1.53	1.20	27.2

In terms of contribution to group revenue in 1QFY17, Healthcare is the largest contributor accounting for 42.4% (39.8% last year). Agri which was the biggest contributor 1Q last year slips down to 2nd with 35.9% of group revenue (40.3% last year) as a result of the contraction in revenue in the Tea sub-segment. FMCG accounted for 16.9% of the revenue (16.4% last year).

For 1QFY17, PAT amounted to LKR 408m up 29.9% YoY, with Profit After Tax & Minority Interest (PATMI) growing 27.2% YoY to LKR 207m. PAT from both Agri and FMCG sectors has a lower impact on the group PATMI due to lower effective holding. Healthcare remains the largest contributor to PATMI in 1QFY17 with LKR 80m, which represents 38.7% of total PATMI.

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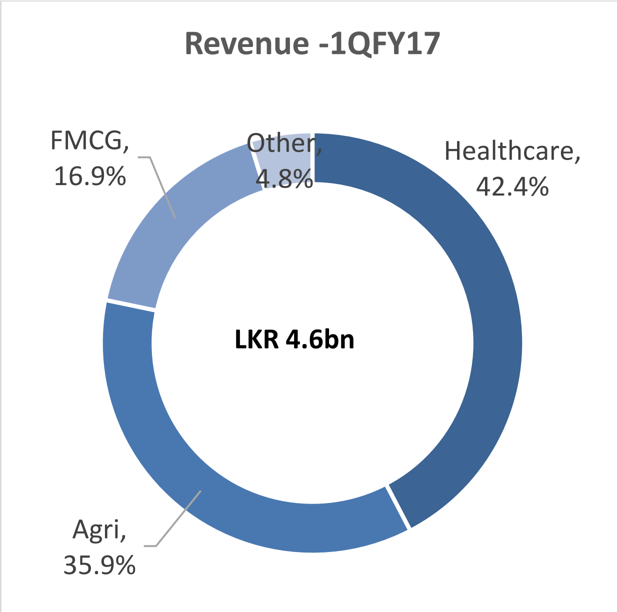

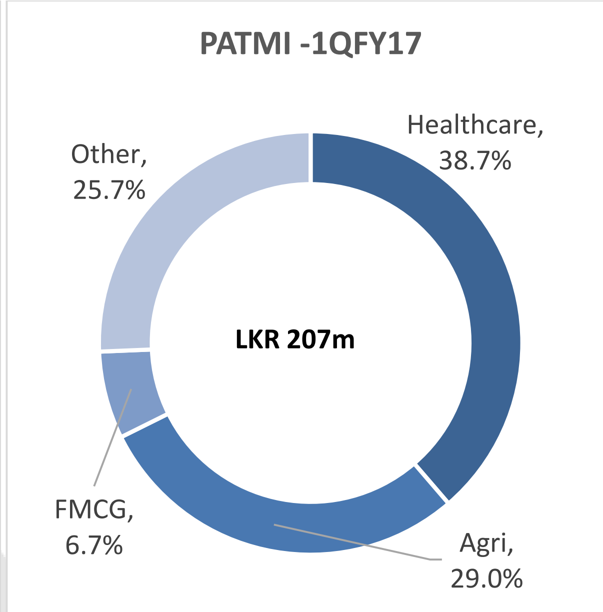

Net Asset Value per share increased to LKR 44.31 as at end 1QFY17, compared to LKR 42.78 at the beginning of the year (FY16).

Business segments

Healthcare

LKRm	1Q FY17	1Q FY16	Growth %
Revenue	1,957	1,662	17.8
EBIT	126	125	1.0
EBIT Margin	*6.4%*	*7.5%*	
Profit for the period	**80**	**85**	**(6.1)**
PAT Margin	*4.1%*	*5.1%*	

Healthcare revenue for 1QFY17 grew 17.8% YoY, in-line with management expectations, and stood at LKR 2.0bn. This represents 42.4% of Group turnover for the period. EBIT margin for 1QFY17 contracted by 110 bps to 6.4%, on account of; depreciation of the Rupee increasing import costs, and the investment into Retail business.

The Pharma sub-segment which made LKR 1.3bn in revenues (66.6% of Healthcare revenue) grew 18.0% YoY, well above a 10.4% YoY growth in the overall market as reported by IMS. The company's Pharma segment is the 2nd biggest player in the country with 11.4% share of the market. Growth in other sub-sectors were: Surgical (+5.4% YoY), Retail (+43.9% YoY), Diagnostics (+0.9% YoY), Wellness (+22.1% YoY) respectively.

PAT for Healthcare amounted to LKR80m in 1QFY17, down 6.1% YoY, and representing a margin of 4.1% in 1QFY17, against 5.1% in the same quarter last year, due to GP margin erosion as cost increase on account of exchange rate fluctuations were absorbed by the company due to price controls for Pharmaceuticals.

FMCG

LKRm	1Q FY17	1Q FY16	Growth %
Revenue	783	685	14.4
EBIT	48	89	(46.6)
EBIT Margin	*6.1%*	*13.0%*	
Profit for the period	**42**	**82**	**(49.1)**
PAT Margin	*5.3%*	*12.0%*	

The FMCG sector reported revenues of LKR 783m in 1QFY17, up 14.4% YoY, on the back of both volume and price growth, and the sector accounts for 16.9% of group revenue for the period. The domestic branded tea business within FMCG sold 798 Tonnes of branded tea, up 13.5% YoY, driven by their largest brand 'Watawala Tea', and their converter brand 'Ran Kahata'

PAT from the FMCG segment saw a contraction of 49.1% YoY, to stand at LKR 42m in 1QFY17, with a margin of 5.3%, compared to 12.0% in the same period last year. It should be noted that the high margins witnessed during 1Q of last year was mainly on account of the low tea prices which prevailed during the period. Business expansion expenditures relating to rolling out the 'Zesta Connoisseur' brand across Shangri-La properties worldwide also had an impact on the operating margins.

Agribusiness

LKRm	1Q FY17	1Q FY16	Growth %
Revenue	1,659	1,685	(1.6)
EBIT	292	167	74.7
EBIT Margin	*17.6%*	*9.9%*	
Profit for the period	**239**	**131**	**82.7**
PAT Margin	*14.4%*	*7.7%*	

The Agribusiness sector represented by Watawala Plantations PLC (WATA) saw a marginal dip in revenue by 1.6% YoY to LKR 1.7bn, on the back of a 4.4% YoY contraction in Tea revenue, despite Palm Oil sub sector reporting an increase of 8.4% YoY for 1QFY17. Given the weak market conditions for Tea, the Company strategically cut down on its Tea output (-4.0% YoY) to curtail losses and to improve the quality, which has paid dividends as seen in the strong growth in profitability, through reduction in Tea losses. Palm Oil volumes were marginally lower that the same period last year, but this was in line with management expectations for the quarter taking into account higher rainfall in the month of May. The company managed to obtain a higher price for its CPO during 1QFY17, which positively contributed to both top line and bottom line of the Agri sector.

Description	Revenue (LKRm)			Volumes (MT)		
	1Q FY17	1Q FY16	Growth %	1Q FY17	1Q FY16	Growth %
Palm Oil	508	469	8.4	2,703	2,801	(3.5)
Tea	1,013	1,059	(4.4)	2,480	2,583	(4.0)

PAT for 1QFY17 amounted to LKR 239m, against LKR 131m in the same period last year. The 82.7% YoY growth in profits can be attributed to reduction in losses in the Tea sub-sector, and the increase in profits in the Palm Oil sub sector which was explained above. The Tea sub-sector recorded a net loss of LKR 79m for 1QFY17 compared to a net loss of LKR 137m in the same quarter last year.

Palm Oil segment, which made LKR 294m PAT for 1QFY17 against LKR 227m last year, 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 LKR 102m, up 7.8% YoY in 1QFY17, against LKR 95m 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, while sales for both the Tea and Confectionery industry picking up. PAT amounted to LKR 8m in 1QFY17 compared to LKR 6m in 1QFY16 as a result of improved capacity utilization.

Revenue for the Renewable Energy division amounted to LKR 25m in 1QFY17, down 23.9% YoY from LKR 32m during the same quarter last year as a result of the change in weather patterns. The mini-hydro plant, which is in its third year of operations, made PAT of LKR 7m for 1QFY17, compared to a profit of LKR 13m in the same quarter last year due to lower revenue.

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 quarter, leveraging on our strong relationships with globally reputed brands. New agencies will also be added to fill in gaps in our product portfolio, especially in chronic care and wellness. We are mindful of the challenges in new product registration with the NMRA and the possible impact of negative exchange rate fluctuations on profitability.

With our specialty retail chain, Healthguard, we were unable to launch the planned store for 1Q due to delays in getting local government approvals for the location, which has now been resolved. 2 new stores will be launched during 2QFY17. Growth will be further enhanced by the online retail store launched in FY16. We expect margins to expand with a shift in sales mix and better economies of scale.

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. It also opened its 3rd Gift Boutique store in the Liberty Plaza mall in order to tap into the gift tea market driven by the Tourism industry.

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 2QFY17, also factoring in the benefit of an increase in duty protection. The Tea sub-segment will continue its low volume, high quality strategy which has given us a better bottom line, despite contractions in top line. Furthermore, as requested by the GoSL, WATA will pay the additional interim allowance of Rs. 100 per day for a period of 2 months (June and July) which will have a negative impact on profitability (LKR 19m in 1QFY17). Wage negotiations are still ongoing, to try to find a long term solution for the industry.

For Renewable Energy, the 2nd plant which has completed construction is expected to generate revenue in 2QFY17. The 3rd plant is under construction and expected to be completed mid-2017. The group will continue to evaluate other opportunities in renewable energy within Sri Lanka, subject to feasibility.

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 3QFY17 with a capital infusion of $2m from Primeco Group, Hong Kong (FDI). As a result, SUN's effective holding of the business will be 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 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

http://www.sunshineholdings.lk/investor%20relations/index.php

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