Earnings release - SUN

Record 2Q profit for SUN of LKR 527m up 53.5% YoY, driven by Agri

1HFY17 Highlights

- *Consolidated revenue of LKR9.6bn, an increase of 13.6% YoY;*
- *PAT amounted to LKR935.4m, up 42.2% YoY, due to strong Agri performance*
- *Healthcare revenue up 17.9% YoY to LKR 4.0bn revenue*
- *Strong growth in FMCG, revenue up 20.3% YoY to LKR1.9bn*
- *Agri revenue grew marginally to LKR3.3bn up 1.7% YoY*

2QFY17 Highlights

- *Consolidated revenue of LKR 5.05bn, an increase of 16.5% YoY;*
- *PAT amounted to LKR 527m, up 53.5% YoY, due to strong profitability in Agri business*
- *Healthcare continued its growth momentum to post LKR 2.08bn revenue*
- *Agri revenue grew 5.3% on the back of 37% increase in Palm Oil volumes*
- *Strong growth in FMCG, revenue up 24.8% YoY to LKR 1.1b*

Colombo, November 08, 2016 – Sunshine Holdings PLC (CSE: SUN) reported consolidated revenues of LKR 9.6bn for the half year ended 30 September 2016 (1HFY17), up 13.6% YoY. PATMI grew 29% YoY to stand at LKR 433m for 1HFY17, on the back of a 42.2% YoY growth in PAT to LKR 935.4m due to strong performance in the Agri sector.

LKRm	1H FY17	1H FY16	Growth %	2Q FY17	2Q FY16	Growth %
Revenue	9,676	8,520	13.6	5,056	4,341	16.5
EBIT	1,178	894	31.7	658	494	33.0
EBIT Margin	*12.2%*	*10.5%*		*13.0%*	*11.4%*	
Profit for the period	**935**	**658**	**42.2**	527	344	**53.5**
PAT Margin	*9.7%*	*7.7%*		*10.4%*	*7.9%*	
Profit Attributable to						
Equity owners	433	336	29.0	226.7	173.8	30.4
EPS (LKR)	3.21	2.49	29.0	1.68	1.29	30.4

Healthcare continued to be the largest contributor to group revenue accounting for 41.7%. Agri was the second largest with 34.2% followed by FMCG at 19.6% of the revenue, up from 16.9% last year.

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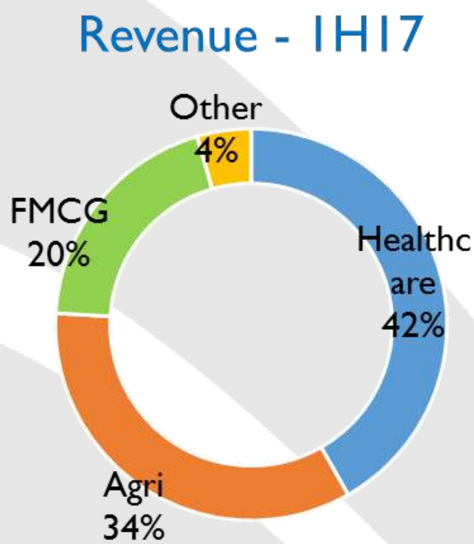
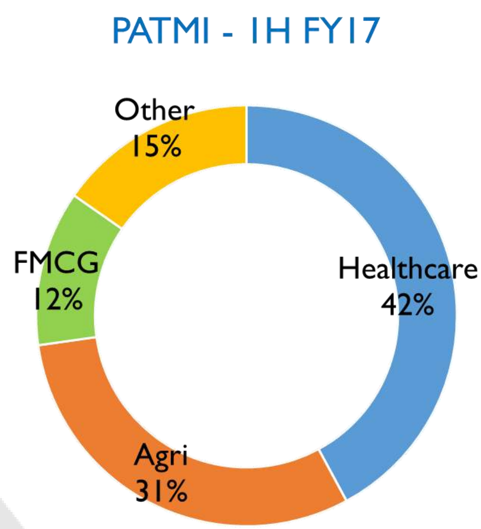
For 1HFY17, PAT amounted to LKR 935m up 42.2% YoY, with Profit After Tax & Minority Interest (PATMI) growing 29.0% YoY to LKR 433m. Healthcare remains the largest contributor to PATMI in 1HFY17 with LKR 182m, which represents 42% of total PATMI.





Net Asset Value per share increased to LKR 44.94 as at end 1HFY17, compared to LKR 42.78 at the beginning of the year.

Business segments

Healthcare

LKRm	1H FY17	1H FY16	Growth %	2Q FY17	2Q FY16	Growth %
Revenue	4,040	3,427	17.9	2,083	1,765	18.0
EBIT	284	272	4.4	158	147	7.3
EBIT Margin	*7.0%*	*7.9%*		*7.6%*	*8.3%*	
Profit for the period	**189**	**180**	**5.2**	**110**	**95**	**15.3**
PAT Margin	*4.7%*	*5.3%*		*5.3%*	*5.4%*	

Healthcare revenue for 1HFY17 grew 17.9% YoY, driven by growth in retail. This represents 42% of Group turnover for the period. EBIT margin for 1HFY17 contracted by 90 bps to 7.0%, on account of currency depreciation, despite tight cost control.

The Pharma sub-segment which represents 66.6% of Healthcare revenue grew 15.4% YoY, above a 14% YoY growth in the overall market as reported by IMS. The company's Pharma segment is the 2nd largest player in the country with 12.2% share of the market. Growth in other sub-sectors were: Surgical (+22% YoY), Retail (+42% YoY), Diagnostics (+2.6% YoY), Wellness (+30% YoY).

PAT for Healthcare amounted to LKR189m in 1HFY17, up 5.2% YoY, and representing a margin of 4.7% in 1HFY17. Contraction in margin is mainly due to an increase in cost of sales as exchange rate fluctuations were absorbed by the company due to price controls for Pharmaceuticals.

FMCG

LKRm	1H FY17	1H FY16	Growth %	2Q FY17	2Q FY16	Growth %
Revenue	1,899	1,579	20.3	1,116	894	24.8
EBIT	180	253	(28.8)	133	164	(19.1)
EBIT Margin	*9.5%*	*16.0%*		*11.9%*	*18.4%*	
Profit for the period	**164**	**228**	**(28.2)**	**122**	**146**	**(16.4)**
PAT Margin	*8.6%*	*14.4%*		*10.9%*	*16.3%*	

The FMCG sector reported revenues of LKR 1.9bn in 1HFY17, up 20.3% YoY, on the back of both volume and price growth, and accounted for 19.6% of group revenue for the period. The domestic branded tea business within FMCG sold 1.89 million kilos of branded tea, up 15% YoY, driven by their largest brand ‘Watawala Tea’, and their converter brand ‘Ran Kahata’.

PAT from the FMCG segment saw a contraction of 28.2% YoY, to stand at LKR 164m in 1HFY17, with a margin of 8.6%, compared to 14.4% in the same period last year. It should be noted that the high margins witnessed during same period last year were mainly due to the low tea prices which prevailed during the period. Business expansion investments pertaining to scaling up of the ‘Zesta Connoisseur’ brand across Shangri-La properties worldwide also had an impact on the operating margins.

Agribusiness

LKRm	1H FY17	1H FY16	Growth %	2Q FY17	2Q FY16	Growth %
Revenue	3,307	3,251	1.7	1,648	1,566	5.3
EBIT	664	343	93.6	372	176	111.6
EBIT Margin	*20.1%*	*10.5%*		*22.6%*	*11.2%*	
Profit for the period	**548**	**262**	**109.4**	**309**	**131**	**136.0**
PAT Margin	*16.6%*	*8.0%*		*18.8%*	*8.4%*	

The Agribusiness sector represented by Watawala Plantations PLC (WATA) saw revenue growth of 1.7% YoY to LKR 3.3bn, despite contraction of 6% YoY in Tea revenue. Palm Oil sub sector reported an increase of 42% YoY for 1HFY17. Given the weak market conditions for Tea, the company strategically cut down on its Tea output (-19% 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 15% higher than the same period last year. The company managed to obtain a higher price for its CPO during 1HFY17, which positively contributed to both top line and bottom line of the Agri sector.

Description	Revenue (LKRm)			Volumes (MT)		
	1H FY17	1H FY16	Growth %	1H FY17	1H FY16	Growth %
Palm Oil	1228	866	42%	6,060	5,259	15%
Tea	1,832	1,956	-6%	3,830	4,710	-19%

PAT for 1HFY17 amounted to LKR 548m, against LKR 262m in the same period last year. The 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 before tax of LKR 211m for 1HFY17 compared to a net loss of LKR 220m in the same quarter last year.

Palm Oil segment, which made LKR 741m PAT for 1HFY17 against LKR 437m last year, continued to be the largest contributor to WATA profits and managed to cover the losses in Tea.

Other

Packaging revenues amounted to LKR 192m, up 13.4% YoY in 1HFY17, against LKR 169m in the same period last year. PAT amounted to LKR 7m in 1HFY17 broadly similar to that of 1HFY16.

Revenue for the Renewable Energy division amounted to LKR 45m in 1HFY17, down 27.9% YoY from LKR 62m during the same period 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 0.8m for 1HFY17, compared to a profit of LKR 21m in the same period last year.

Outlook

At a macro-economic level, we expect weaker consumer sentiment compared to last year (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 2HFY17.

In Healthcare, we expect 2HFY17 to be challenging, given the impact of the price control brought in by the Ministry of Health on 48 drugs. In consultation with its principals, Sunshine Healthcare has reduced the prices of 36 SKU's which were above the said price ceiling stipulated by the Government. We expect a decrease in inventory value of approximately LKR 150m as a result of lower prices in both stock held within Sunshine Healthcare and also stock held with customers (i.e. Retail Pharmacies). Going forward, lower selling prices are likely to affect revenue, partially offset by higher volumes, as we expect consumption of Pharma to increase with better affordability of high quality drugs.

With our specialty retail chain Healthguard, we expect to open one more store during 2HFY17. We have decided to take a cautious approach in our expansion plan given the instability in policy and weak consumer sentiment. Growth will be driven 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 large unbranded volumes currently consumed in the Sri Lankan market. We expect margins to be challenged during 2HFY17 given the increase in Tea raw material prices due to shortages in supply. 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 where price is expected to be similar to what was witnessed in 1HFY17. 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 per the collective agreement, WATA will pay an increased wage of LKR 730 per day w.e.f 15 Oct 2016. The company expects an impact of approximately LKR 200m for FY17.

The group's Metal Packaging plant is expected to mirror its 1H performance on the back of international orders, despite a slowdown in local sales to the Tea industry. The proposed capital infusion from Primeco Group, Hong Kong didn't materialize.

For Renewable Energy, revenue and profits are expected to increase with the commissioning of the Upper Waltrim plant on 18th Oct 2016 increasing the total capacity to 4.2 MW. The 3rd plant is under construction and expected to be completed mid-2018. The group will continue to evaluate other opportunities in renewable energy within Sri Lanka, subject to feasibility.

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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