Earnings release - SUN

Challenging 3Q for SUN due to drug price control, 9M EPS down 12.6% YoY

9MFY17 Highlights

- *Consolidated revenue of LKR14.1bn, an increase of 10.1% YoY;*
- *PAT amounted to LKR1.3bn, up 27.7% YoY, due to strong Agri performance*
- *Healthcare revenue up 10.5% YoY to LKR 5.8bn revenue*
- *Strong growth in FMCG, revenue up 19.5% YoY to LKR3.0bn*
- *Agri revenue grew 2.7% YoY to LKR4.7bn*

3QFY17 Highlights

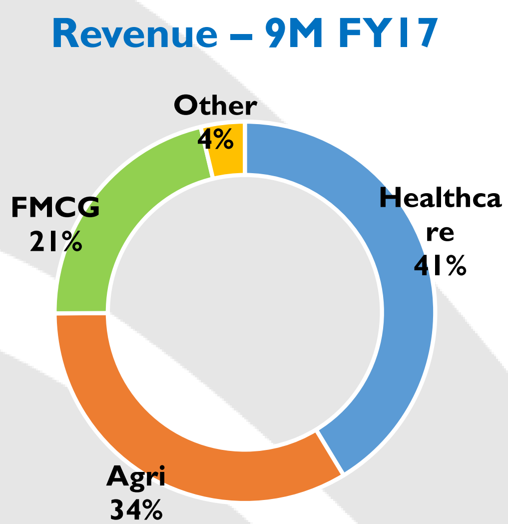
- *Consolidated revenue of LKR 4.42bn, an increase of 3.2% YoY;*
- *Healthcare growth affected by NMRA regulation to post LKR 1.78bn revenue down 3.1% YoY*
- *Agri revenue grew 4.9% on the back of 30% increase in Palm Oil volumes*
- *FMCG revenue up 18.2% YoY to LKR 1.1b*
- *PAT amounted to LKR 402.6m, up 3.2% YoY, with strong profitability in Agri business*
- *However, EPS down 92.3% YoY due to NMRA impact*

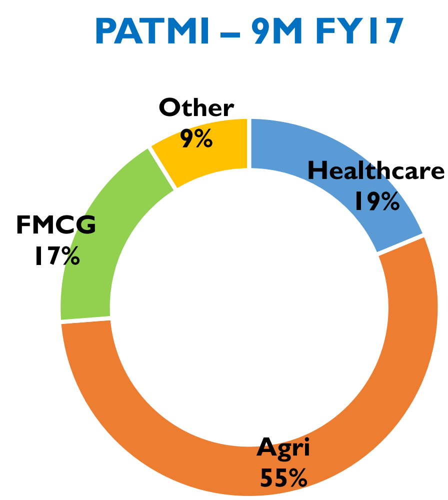
Colombo, February 13, 2017 – Sunshine Holdings PLC (CSE: SUN) reported consolidated revenues of LKR 14.1bn for the nine months ended 31 December 2016 (9MFY17), up 10.1% YoY. PAT grew 27.7% YoY to stand at LKR 1.3bn for 9MFY17, however PATMI declined -12.6% YoY mainly due to reduction in the Healthcare segment profits because of the NMRA price controls.

LKRm	9M FY17	9M FY16	Growth %	3Q FY17	3Q FY16	Growth %
Revenue	14,102	12,807	10.1	4,425	4,288	3.2
EBIT	1,664	1,387	20.0	487	493	(1.1)
EBIT Margin	*11.8%*	*10.8%*		*11.0%*	*11.5%*	
Profit for the period	**1,338**	**1,048**	**27.7**	403	390	**3.2**
PAT Margin	*9.5%*	*8.2%*		*9.1%*	*9.1%*	
Profit Attributable to						
Equity owners	447	511	(12.6)	13.5	174.6	(92.3)
EPS (LKR)	3.31	3.78	(12.6)	0.10	1.29	(92.3)

Healthcare continued to be the largest contributor to group revenue accounting for 41%. Agri was the second largest with 34% followed by FMCG at 21% of the revenue.

For 9MFY17, PAT amounted to LKR 1,338m up 27.7% YoY, with Profit After Tax & Minority Interest (PATMI) coming down -12.6% YoY to LKR 446m due to loss in the Healthcare business on account of price control, with a one-time stock loss of LKR 123m. As, a result Agri was the largest contributor to PATMI in 9MFY17 with LKR 245m, which represents 55% of total PATMI.





Net Asset Value per share increased to LKR 45.04 as at end 9MFY17, compared to LKR 42.78 at the beginning of the year.

Business segments

Healthcare

LKRm	9M FY17	9M FY16	Growth %	3Q FY17	3Q FY16	Growth %
Revenue	5,826	5,271	10.5	1,786	1,844	(3.1)
EBIT	193	400	(51.8)	(91)	128	(171.4)
EBIT Margin	*3.3%*	*7.6%*		*-5.1%*	*6.9%*	
Profit for the period	**91**	**264**	**(65.6)**	**(99)**	**84**	**(217.4)**
PAT Margin	*1.6%*	*5.0%*		*-5.5%*	*4.6%*	

Healthcare revenue for 9MFY17 grew 10.5% YoY, driven by growth in retail. This represents 41% of Group turnover for the period. EBIT margin for 9MFY17 contracted by 430 bps to 3.3%, mainly on account of price control imposed under the NMRA regulation leading to a one-time stock correction loss of LKR 123m.

The Pharma sub-segment which represents 66.6% of Healthcare revenue grew at only 6% YoY, due to the impact of reduced prices. The company's Pharma segment is the 2nd largest player in the country with 12% share of the market. Growth in other sub-sectors was: Surgical (+19% YoY), Retail (+34% YoY), Diagnostics (+6% YoY), Wellness (+16% YoY).

PAT for Healthcare amounted to LKR91m in 9MFY17, down -66% YoY, and representing a margin of 1.6% in 9MFY17.

FMCG

LKRm	9M FY17	9M FY16	Growth %	3Q FY17	3Q FY16	Growth %
Revenue	3,011	2,520	19.5	1,113	941	18.2
EBIT	281	381	(26.3)	101	128	(21.5)
EBIT Margin	*9.3%*	*15.1%*		*9%*	*13.6%*	
Profit for the period	**249**	**343**	**(27.5)**	**85**	**116**	**(26.1)**
PAT Margin	*8.3%*	*13.6%*		*7.7%*	*12.3%*	

The FMCG sector reported revenues of LKR 3.0bn in 9MFY17, up 19.5% YoY, on the back of both volume and price growth, and accounted for 21% of group revenue for the period. The domestic branded tea business within FMCG sold 2.88 million kilos of branded tea, up 8% YoY, driven by their largest brand 'Watawala Tea', and their converter brand 'Ran Kahata'.

PAT from the FMCG segment saw a contraction of 27.5% YoY, to stand at LKR 249m in 9MFY17, with a margin of 8.3%, compared to 13.6% in the same period last year. Low tea prices in the same period last period led to the high margins in 9MFY16. 3Q performance saw rising tea prices affect margins. Business expansion investments pertaining to scaling up of the 'Zesta Connoisseur' brand across Shangri-La properties worldwide continue and had an impact on the operating margins.

Agribusiness

LKRm	9M FY17	9M FY16	Growth %	3Q FY17	3Q FY16	Growth %
Revenue	4,738	4,615	2.7	1,430	1,364	4.9
EBIT	1,183	566	109	519	223	132.8
EBIT Margin	*25%*	*12.3%*		*36.3%*	*16.3%*	
Profit for the period	**1,014**	**439**	**131**	**466**	**177**	**163**
PAT Margin	*21.4%*	*9.5%*		*32.6%*	*13%*	

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The Agribusiness sector represented by Watawala Plantations PLC (WATA) saw revenue growth of 2.7% YoY to LKR 4.7bn, despite a 8% YoY contraction in Tea revenue. Palm Oil sub sector reported an increase of 47% YoY for 9MFY17. Tea Crop was affected by bad weather, even as the company continues to focus on its strategy of growing quality teas to curtail 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 9MFY17, which positively contributed to both top line and bottom line of the Agri sector.

Description	Revenue (LKRm)			Volumes (MT)		
	9M FY17	9M FY16	Growth %	9M FY17	9M FY16	Growth %
Palm Oil	1,736	1,179	**47%**	8,462	7,100	19%
Tea	2,678	2,901	-8%	5,867	7,192	-18%

PAT for 9MFY17 amounted to LKR 1,014m, against LKR 439m 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 27m for 9MFY17 compared to a net loss of LKR 172m in the same period last year.

Palm Oil segment, which made LKR 1,057m PBT for 9MFY17 against LKR 575m 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 251m, down 4.2% YoY in 9MFY17, against LKR 262m in the same period last year. PAT amounted to LKR 2.9m in 9MFY17 lower than LKR 13m recorded in 9MFY16.

Revenue for the Renewable Energy division amounted to LKR 68m in 9MFY17, down 35% YoY from LKR 104m 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 loss of LKR 10.16m for 9MFY17, compared to a profit of LKR 41.8m in the same period last year.

Outlook

At a macro-economic level, consumer sentiment continues to be weaker compared to last year (FY16), as increased tax burden weighs on disposable incomes. Even so, we expect all our businesses to deliver above market growth for FY17.

In Healthcare, we look to volume increases to offset the impact of reduced prices in our product portfolio post the NMRA regulations on price control of 48 drugs. However, the extent of these increases is yet unclear. We will focus on reconfiguring cost structures to respond to this market challenge in 4Q.

At Healthguard, the focus continues to be on developing specialty range Beauty and Wellness products in 4Q as we look to introduce newer and exciting range of products to the Sri Lankan consumer. We will open one Full Service store at Thimbirigasyaya in 4Q. Overall, we expect improvement in margins as a result of our chosen sales mix.

The FMCG business would focus on initiatives to mitigate rising tea prices, which have reached record levels at the Colombo auctions this year. At the same time, we will continue investments behind our brands to scale both our domestic and international businesses. Margins would continue to be challenged in 4Q on account of tea prices.

In the Agri business, we expect to see continued growth in the Palm Oil segment in 4Q, as our agronomic practices pay off in the form of higher yields at the same time as firm prices in the market. In the tea segment, we expect crop to recover as weather shows signs of improvement. Our quality strategy will help us in a relatively high price environment for tea in 4Q.

The Packaging segment has been affected by high import metal prices at a time when printed sheet exports are slowing down and local sales to the Tea Can industry has been sluggish due to high tea prices. We expected a continuation of these challenges in 4Q as we look to scale new export orders won in FY17.

In the Renewable Energy segment, profits are expected to improve in 4Q if the rain patterns improve. Better weather will lead to higher output from our 2 plants in Waltrim, including Upper Waltrim Power plant, newly commissioned in 3Q FY17. The construction for our third plant is underway and is expected to commission in 4Q FY18.

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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