Earnings release - SUN

SUN EPS grows 9% YoY on the back of 13% top line growth

1Q FY18 Highlights

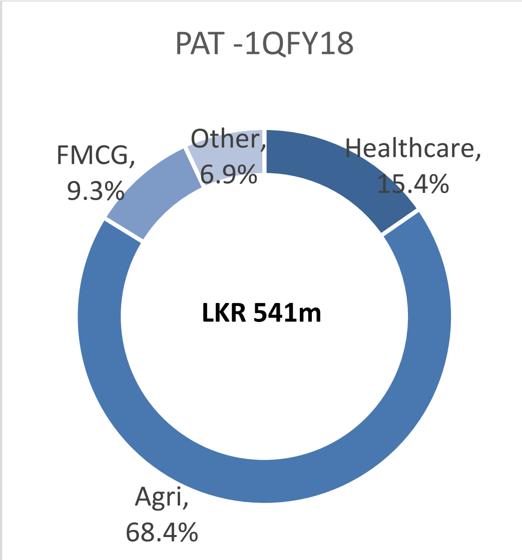
- *Consolidated revenue of LKR5.2bn, an increase of 12.5% YoY;*
- *PAT amounted to LKR541m, up 32.5% YoY, due to strong Agri and FMCG results*
- *Healthcare revenue down 1.2% YoY to LKR 1.9bn revenue*
- *Strong growth in FMCG, revenue up 45.4% YoY to LKR1.1bn*
- *Agri revenue grew 19.8% YoY to LKR2.0bn*
- *EPS grew 8.7% YoY to LKR1.68*

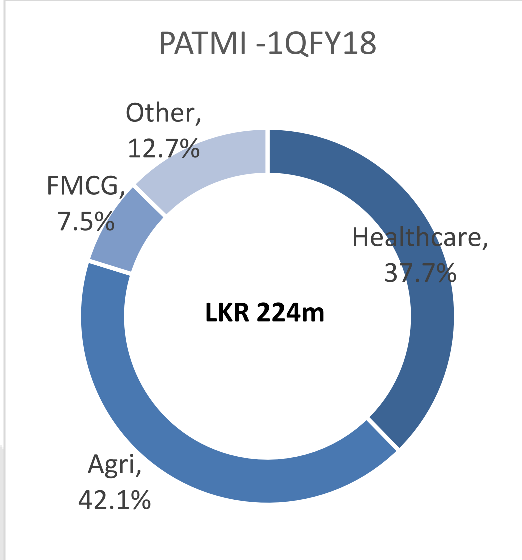
Colombo, August 4, 2017 – Sunshine Holdings PLC (CSE: SUN) reported strong top line growth of 12.5% YoY to stand at LKR5.2bn, coming from strong results in both Agri and FMCG sectors, despite a slight de-growth in the Healthcare sector.

LKRm	1Q FY18	1Q FY17	Growth %
Revenue	5,200	4,621	12.5
EBIT	670	519	29.1
EBIT Margin	*12.9%*	*11.2%*	
Profit for the period	**541**	**408**	**32.5**
PAT Margin	*10.4%*	*8.8%*	
Profit Attributable to			
Equity owners	224	207	8.7
EPS (LKR)	1.68	1.54	8.7

Agribusiness emerged as the largest contributor to Group revenue accounting for 38% of the total, where Healthcare contributed 37% and FMCG 22% of the total revenue.

For 1QFY18, PAT amounted to LKR 541m up 32.5% YoY, on the back of sales growth and operating margin improvement in 1QFY18 (10.4%) compared to 1QFY17 (8.8%). Profit After Tax & Minority Interest (PATMI) grew 8.7% YoY to LKR 224m. Despite an effective control of 25%, the Agri sector represented by Watawala Plantation PLC (CSE: WATA) was the largest contributor to PATMI accounting for 42% of the total.





Net Asset Value per share increased to LKR 47.91 as at end 1Q FY18, compared to LKR 46.25 at the beginning of the year.

Business segments

Healthcare

LKRm	1Q FY18	1Q FY17	Growth %
Revenue	1,935	1,957	(1.2)
EBIT	136	126	7.7
EBIT Margin	*7.0%*	*6.4%*	
Profit for the period	**85**	**80**	**5.8**
PAT Margin	*4.4%*	*4.1%*	

Healthcare revenue for 1QFY18 contracted 1.2% YoY, given the negative impact of NMRA price control which came into effect in 3Q last year. This represents 37% of Group turnover for the period. EBIT margin for 1QFY18 increased by 60 bps to 7.0% due to better margins in medical devices and surgical business supported by tight cost control.

The Pharma sub-segment which represents 70% of Healthcare revenue contracted by 2% YoY, due to the impact of price control. The company's Pharma segment is the 2nd largest player in the country with 11.0% share of the market. Growth in other sub-sectors were: Medical devices (-7% YoY) and Retail (+31% YoY).

Reported PAT for Healthcare amounted to LKR85m in 1QFY18, up 5.8% YoY, and representing a margin of 4.4%. The growth is attributed to higher operating margins, despite a marginal contraction in revenue due to NMRA price control impact.

FMCG

LKRm	1Q FY18	1Q FY17	Growth %
Revenue	1,138	783	45.4
EBIT	69	48	45.3
EBIT Margin	*6.1%*	*6.1%*	
Profit for the period	**51**	**42**	**22.5**
PAT Margin	*4.5%*	*5.3%*	

The FMCG sector reported revenues of LKR 1.1bn in 1QFY18, up 45.4% YoY, on the back of both volume and price growth, and accounted for 22% of group revenue for the period. The domestic branded tea business within FMCG sold 0.95 million kilos of branded tea, up 19% YoY, driven by their largest brand 'Watawala Tea', and their premium brand 'Zesta'.

PAT from the FMCG segment saw an increase of 22.5% YoY, to stand at LKR 51m for the quarter, as a result of growth in revenue, with operating margin steady at 6.1%, in line with the margin for the same period last year. The margins were maintained at steady levels despite higher Ceylon tea prices as a result of price increase for the domestic market and growth in international business.

Agribusiness

LKRm	1Q FY18	1Q FY17	Growth %
Revenue	1,988	1,659	19.8
EBIT	443	292	51.7
EBIT Margin	*22.3%*	*17.6%*	
Profit for the period	**377**	**239**	**58.0**
PAT Margin	*19.0%*	*14.4%*	

The Agribusiness sector represented by Watawala Plantations PLC (WATA) saw revenue growth of 19.8% YoY to LKR 2.0bn, on the back of a 29.6% YoY growth in Tea revenue driven entirely by increase in average selling price. Palm Oil sub sector reported an increase of 12.2% YoY for 1QFY18. Tea crop contracted by 1.9% as the company continues to focus on its strategy of growing quality teas to obtain better prices as the auction. Palm Oil volumes were 10.7% higher than same period last year. The company managed to obtain a higher price for its CPO during 1QFY18, which positively contributed to both top line and bottom line of the Agri sector.

Description	Revenue (LKRm)			Volumes (MT)		
	1Q FY18	1Q FY17	Growth %	1Q FY18	1Q FY17	Growth %
Palm oil	570	508	12.2	2,992	2,703	10.7
Tea	1,313	1,013	29.6	2,433	2,480	(1.9)

PAT for 1QFY18 amounted to LKR 377m, against LKR 239m last year. The growth in profits can be attributed to profitability in the Tea sub-sector compared to losses last year, despite a slight dip in profits in the Palm Oil sub sector coming from wage increases. The Tea sub-sector recorded PAT of LKR 90m for 1QFY18compared to a net loss of LKR 79m for the same period last year.

Palm Oil segment, which made LKR 267m PAT for 1QFY18 against LKR 294m same period last year, continued to be the largest contributor to WATA profits.

Other

Revenue for the Renewable Energy division amounted to LKR 41m in 1QFY18, up 68.5% YoY from LKR 25m during 1QFY17 as a result of the commissioning of the second plant in 3Q last year. Power generation at the 2 plants have been lower than management expectations due to unfavorable weather conditions and grid issues. The sector which currently operates 2 mini-hydro power plants, made a profit of LKR 3m for 1QFY18, compared to a profit of LKR 7m in the same period last year.

Packaging revenues amounted to LKR 36m, down 65.2% YoY in 1QFY18 due to non-fulfilment of customer orders as a result of technical issues with the production facility. The management has decided to halt operations at the end of June 2017 to assess the viability of the operation and possible opportunities to restructure same.

Outlook

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. We continue to focus on reconfiguring cost structures to respond to this market challenge in FY18. Attention will be on growing the Surgical and Medical devices sub sectors which have significant growth potential. The depreciation of the LKR against the USD continues to impact the margins of the entire industry as the regulator controls the maximum retail price of pharmaceuticals.

At Healthguard, the focus continues to be on developing specialty range Beauty and Wellness products in FY18 as we look to introduce newer, exciting ranges of products to the Sri Lankan consumer while attracting more customers to the chain. Overall, we expect improvement in margins as a result of our chosen sales mix.

The FMCG business would continue investments behind our brands to scale both our domestic and international businesses. Margins would continue to be challenged in 2QFY18 because of high tea prices, but this will be mitigated by price increases in all domestic brands.

In the Agri business, we expect to see continued growth in volumes for the Palm Oil segment in FY18, 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 strong performance in 2QFY18. Volumes will be similar to 1Q but our quality strategy will help in achieving relatively high prices at the auction.

On the dairy sub sector, we have imported an initial herd of 400 milking cows from New Zealand. A small part of the new herd has started milking and this will contribute to the top line of the business in 2QFY18. Nevertheless, the interim cost of feeding the whole herd will have a negative impact on Agri profitability.

In the Renewable Energy segment, profits are expected to improve in 2QFY18 with increased rainfall recorded in the area. Better weather will lead to higher output from our 2 plants in Waltrim, including Upper Waltrim Power plant, newly commissioned in 3Q last year. 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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