Earnings release - SUN

Agri and FMCG sectors fuel top line growth for SUN in 1HFY18

1HFY18 Highlights

- *Consolidated revenue of LKR10.3bn, an increase of 8.9% YoY;*
- *PAT amounted to LKR1.1bn, up 24.2% YoY, due to strong Agri results*
- *Healthcare revenue down 2.0% YoY to LKR 3.9bn*
- *Strong growth in FMCG, revenue up 27.0% YoY to LKR2.4bn*
- *Agri revenue grew 13.9% YoY to LKR3.7bn*
- *EPS grew 25.8% YoY to LKR3.90*

2QFY18 Highlights

- *Consolidated revenue of LKR5.1bn, an increase of 5.4% YoY;*
- *PAT amounted to LKR608m, increase 17.6% YoY, due to lower FMCG & Healthcare results*
- *Healthcare revenue down 2.8% YoY to LKR 2.0bn revenue*
- *Strong growth in FMCG, revenue up 14.1% YoY to LKR1.3bn*
- *Agri revenue grew 7.9% YoY to LKR1.8bn*
- *EPS grew 41.8% YoY to LKR2.25*

Colombo, November 7, 2017 – Sunshine Holdings PLC (CSE: SUN) reported top line growth of 8.9% YoY to stand at LKR10.3bn, coming from strong results in both Agri and FMCG sectors, despite a slight de-growth in the Healthcare sector.

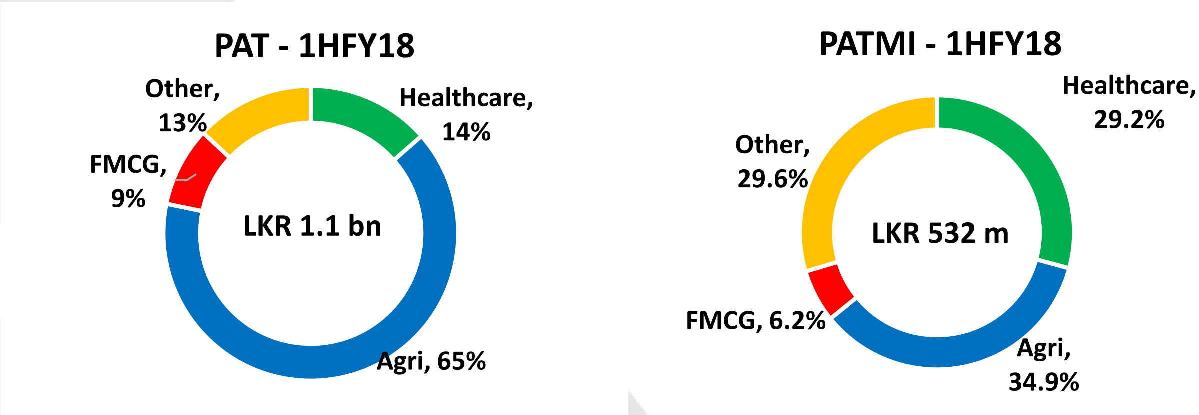
LKR m	1H FY18	1H FY17	Growth %	2Q FY18	2Q FY17	Growth %
Revenue	10,328	9,485	8.9%	5,128	4,864	5.4%
EBIT	1,292	1,153	12.0%	622	634	-1.9%
EBIT Margin	*12.5%*	*12.2%*		*12.1%*	*13.0%*	
Reported PAT	**1,149**	**925**	**24.2%**	**608**	**517**	**17.6%**
PAT Margin	*11.1%*	*9.8%*		*11.9%*	*10.6%*	
Adjusted PAT*	**1,022**	**900**	**13.6%**	**481**	**492**	**-2.2%**
PATMI	532	423	25.8%	307	216	41.8%
Reported EPS (LKR)	3.90	3.10	25.8%	2.25	1.58	41.8%
Adjusted EPS (LKR)*	2.97	3.04	-2.4%	1.32	1.52	-13.7%

*Adjusted for one off gain/loss

Healthcare emerged as the largest contributor to Group revenue accounting for 38% of the total, where Agriculture contributed 36% and FMCG 23% of the total revenue.

For 1HFY18, PAT amounted to LKR 1.0bn up 8.8% YoY, on the back of strong performance in the Agri sector. Profit After Tax & Minority Interest (PATMI) grew 17.3% YoY to LKR 496m.

Despite an effective control of 25%, the Agri sector represented by Watawala Plantation PLC (CSE: WATA) contribution to PATMI accounting for 31% of the total & Healthcare accounting for 31%.



Net Asset Value per share increased to LKR 47.13 as at end 1HFY18, compared to LKR 44.49 at the same period last year.

Business segments

Healthcare

LKR m	1H FY18	1H FY17	Growth %	2Q FY18	2Q FY17	Growth %
Revenue	3,960	4,040	-2.0%	2,025	2,083	-2.8%
EBIT	245	284	-13.6%	109	158	-30.8%
EBIT Margin	*6.2%*	*7.0%*		*5.4%*	*7.6%*	
Profit for the period	**155**	**189**	**-17.9%**	**70**	**109**	**-35.6%**
PAT Margin	*3.9%*	*4.7%*		*3.5%*	*5.3%*	

Healthcare revenue for 1HFY18 contracted 2.0% YoY, given the negative impact of NMRA price control which came into effect in 3Q last year. This represents 38.1% of Group turnover for the period. EBIT margin for 1HFY18 contracted by 80 bps to 6.2% due to margin reductions in both Pharma and Medical Devices segments.

The Pharma sub-segment which represents 67% of Healthcare revenue contracted by 1.2% 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 (-12.6% YoY) and Retail (+24.1% YoY).

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Reported PAT for Healthcare amounted to LKR155m in 1HFY18, down 17.9% YoY, and representing a margin of 3.9%. The decrease is attributed to contraction in revenue and exchange rate impact on cost of sales.

FMCG

LKR m	1H FY18	1H FY17	Growth %	2Q FY18	2Q FY17	Growth %
Revenue	2,410	1,899	27.0%	1,272	1,116	14.1%
EBIT	147	180	-18.4%	78	132	-41.0%
EBIT Margin	*6.1%*	*9.5%*		*6.1%*	*11.9%*	
Profit for the period	**100**	**164**	**-38.6%**	**49**	**122**	**-59.3%**
PAT Margin	*4.2%*	*8.6%*		*3.9%*	*10.9%*	
Adjusted PAT*	**100**	**139**	**-27.5%**	**49**	**97**	**-48.8%**

*Adjusted on one off provision

The FMCG sector reported revenues of LKR 2.4bn in 1HFY18, up 27.0% YoY, on the back of both volume and price growth, and accounted for 23.2% of group revenue for the period. The domestic branded tea business within FMCG sold 2.0 million kilos of branded tea, up 14% YoY, driven by their largest brand 'Watawala Tea', and their premium brand 'Zesta'.

PAT from the FMCG segment saw a decrease of 38.6% YoY, to stand at LKR 100m for the first half. The decline was due to the higher Ceylon Tea prices eroding the GP margins.

Agribusiness

LKR m	1H FY18	1H FY17	Growth %	2Q FY18	2Q FY17	Growth %
Revenue	3,766	3,307	13.9%	1,778	1,648	7.9%
EBIT	743	664	11.9%	300	372	-19.4%
EBIT Margin	*19.7%*	*20.1%*		*16.9%*	*22.6%*	
Profit for the period	**743**	**548**	**35.7%**	**366**	**309**	**18.6%**
PAT Margin	*19.7%*	*16.6%*		*20.6%*	*18.7%*	

The Agribusiness sector represented by Watawala Plantations PLC (WATA) saw revenue growth of 13.9% YoY to LKR 3.7bn, on the back of a 31.6% YoY growth in Tea revenue driven by increase quality and market prices. Palm Oil sub sector reported a slight decrease of 6.9% YoY for

1HFY18. Tea volumes increased by 5.0% while Palm Oil volumes were 1.9% higher than same period last year. The drop in palm oil attributed to the decrease in market price of CPO.

Description	Revenue (LKRm)			Volumes (MT)		
	1H FY18	1H FY17	Growth %	1H FY18	1H FY17	Growth %
Tea	2410	1832	31.6	4,023	3,830	5.0
Palm Oil	1,143	1,228	(6.9)	6,173	6,060	1.9

PAT for 1HFY18 amounted to LKR 743m, against LKR 548m 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 an increase in operational expenses. The Tea sub-sector recorded PAT of LKR 83m for 1HFY18 compared to a net loss of LKR 257m for the same period last year.

Palm Oil segment, which made LKR 536m PAT for 1HFY18 against LKR 741m same period last year, continued to be the largest contributor to WATA profits.

Other

Revenue for the Renewable Energy division amounted to LKR 104m in 1HFY18, up 231.1% YoY from LKR 45m during 1HFY17 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 15m for 1HFY18, compared to a profit of LKR 1m in the same period last year.

Packaging operation had been ceased and the property will be considered as an investment property. The loss from discontinued operation amounted to LKR 195m in 1HFY18, compared to a profit of LKR 10m during the same period last year. One time gain of LKR 125m was made by the revaluation of the investment property. Currently the property is being rented out on a long term basis.

Outlook

In Healthcare, we look to volume increases to somewhat offset the impact of reduced prices in our product portfolio. The YoY contrast of the Revenue and EBIT will be bridged with the above strategy. 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. GOSL has agreed to increase the prices of the 48 kay molecules by 5% to reflect the exchange rate impact.

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 and consolidated distribution center.

The FMCG business would continue to investment behind it's brands to scale both our domestic and international businesses. Margins would continue to be challenged because of high Ceylon tea prices, but this will be somewhat 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 2HFY18, as our agronomic practices pay off in the form of higher yields. We expect prices to slightly increase in the market. In the tea segment, we expect strong performance in 2HFY18. The tea prices are forecasted to remain at the high level due to the lower production.

The Tea business under Watawala Plantations has been transferred to the newly formed Hatton Plantations Limited. Listing of Hatton Plantations in the Colombo Stock Exchange is in progress.

On the dairy sub sector, the total milking cows has reached to 479 and the total number of animals to 637. The next herd of animals are expected from Australia. The daily milking volume had reached to 10,000 liters per day. 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 with better rainfall in the region. The construction of our third plant is underway and is expected to be 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

Contact:
Hiran Samarasinghe
Head of Investor Relations and Strategy
+94 11 4702455
Hiran.Samarasinghe@sunshineholdings.lk

Kirana Jayawardena
Business Analyst
+94 11 4702479
Kirana.Jayawardena@sunshineholdings.lk