Earnings release - SUN

SUN: Strong Healthcare sector cushions revenue drop from tea plantation exit

1QFY20 Highlights

- *Strategic exit from tea plantation business*
- *Consolidated revenue of LKR5.2bn, a decrease of 6.5% YoY*
- *PAT amounted to LKR 573mn, above 67.9% YoY*
- *Healthcare revenue up 10.5% YoY to LKR 2.5bn*
- *Degrowth in Consumer, revenue down 5.8% YoY to LKR1.3bn*
- *Agri revenue down 24.5% YoY to LKR1.4bn*
- *EPS of LKR 2.28, increase 64.2% YoY*

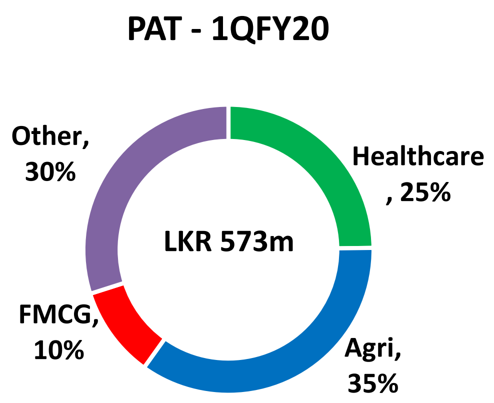
Colombo, August 05, 2019 – Sunshine Holdings PLC (CSE: SUN) reported top line contracted 6.5% YoY to stand at LKR 5.2bn, mainly due to the sale of a majority stake in the tea plantation business represented by Hatton Plantations PLC (HPL) during the quarter. Both Consumer and energy sectors also contributed towards the degrowth of consolidated revenue for the period.

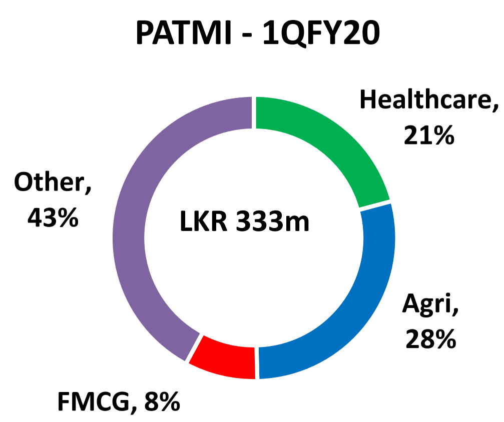
LKR m	Reported			Excluding HPL		
	1Q FY20	1Q FY19	Growth %	1Q FY20	1Q FY19	Growth %
Revenue	5,210	5,575	-6.5%	4,698	4,404	6.7%
EBIT	911	599	52.1%	962	523	84.0%
EBIT Margin	*17.5%*	*10.7%*		*20.5%*	*11.9%*	
PAT	**573**	**341**	**67.9%**	**634**	**287**	**121.1%**
PAT Margin	*11.0%*	*6.1%*		*13.5%*	*6.5%*	
PATMI	**333**	**190**	**75.7%**			
EPS (LKR)	2.28	1.39	64.2%			
Adj. PAT*	**230**	**341**	**-32.6%**	**291**	**287**	**1.6%**

*Adjusted for one off gain of Hatton Plantation PLC sale

Healthcare remained as the largest contributor to Group revenue accounting for 44% of the total, whereas Agribusiness contributed 25%, and Consumer goods accounting for 23%.

For 1QFY20, PAT amounted to LKR 537m above 67.9% YoY, mainly due to the profit arises from the sale of Hatton Plantation PLC amounting to LKR 343m. Profit After Tax & Minority Interest (PATMI) increased by 75.7% YoY to LKR 333m. Agribusiness was the main contributor for the group PATMI.





The PAT margins increased to 11.0% for 1QFY20 from 6.1% last year same period mainly due to the profit gained from the sale of Hatton Plantations PLC.

Net Asset Value per share increased to LKR 53.76 as at end 1QFY20, compared to LKR 48.09 at end of 1QFY19.

Business segments

Healthcare

LKR m	1Q FY20	1Q FY19	Growth %
Revenue	2,471	2,236	10.5%
EBIT	230	148	55.6%
EBIT Margin	*9.3%*	*6.6%*	
PAT	**141**	**87**	**60.8%**
PAT Margin	*5.7%*	*3.9%*	

Healthcare revenue for 1QFY20 grew 10.5% YoY, on the back of volume and price growth in the pharma and medical devices sub sector. Higher volumes, stronger Rupee, and increased contribution from the Medical Devices sub sector propeled EBIT margin by 270 bps in 1QFY20 cf. Same quarter last year.

The Pharma sub-segment which represents 66% of Healthcare revenue grew 6.3% YoY for 1QFY20, due to higher sales volumes and price increases. The company's Pharma segment currently enjoys 11% share of the local private pharma market (IMS data). Movements in other sub-sectors were: Medical devices (+36.9% YoY) and Retail (-2.3% YoY).

Reported PAT for Healthcare amounted to LKR141m in 1QFY20, up 60.8% YoY at a margin of 5.7%.

Consumer

LKR m	1Q FY20	1Q FY19	Growth %
Revenue	1,311	1,391	-5.8%
EBIT	85	132	-35.6%
EBIT Margin	*6.5%*	*9.5%*	
PAT	**58**	**90**	**-36.0%**
PAT Margin	*4.4%*	*6.5%*	

The Consumer sector reported revenues of LKR 1.3bn in 1QFY20, down 5.8% YoY, due challenges in its top brand "Watawala Tea" and accounted for 23% of group revenue for the period. The domestic branded tea business within Consumer sold 1.0m kg of branded tea, up

1.6% YoY, driven by their budget brand 'Ran Kahata', despite volumes in the other 2 brands remaining flat.

PAT from the Consumer segment degrow by 36.0% YoY, to stand at LKR 58m for 1QFY20. The decrease was mainly due to lower sales value.

Agribusiness

LKR m	Reported			Excluding HPL		
	1Q FY20	1Q FY19	Growth %	1Q FY20	1Q FY19	Growth %
Revenue	1,392	1,844	-24.5%	880	673	30.7%
EBIT	314	287	9.5%	365	210	73.4%
EBIT Margin	*22.5%*	*15.5%*		*41.5%*	*31.3%*	
PAT	**199**	**204**	**-2.6%**	**260**	**150**	**73.7%**
PAT Margin	*14.3%*	*11.1%*		*29.6%*	*22.2%*	

The Agribusiness sector represented by WATA and HPL saw reported revenue decline of 24.5% YoY to LKR 1.4bn mainly due to unfavorable weather conditions impacting the tea plantations managed by HPL and the divestment of majority stake in the said business during the latter part of the quarter.

The controlling stake of 51% of Hatton plantation PLC's was sold to Lotus Renewable Energy (Private) Limited on 28th May 2019. The group will fully exit the tea plantation sector during 2QFY20. Given low growth, escalating wage cost, and earnings volatility in the tea plantation sector, the group has strategically decided to focus its agri business in palm oil and dairy.

Palm oil production was at 3,257 MT for the 1QFY20 which was higher 28% YoY.

PAT for 1QFY20 amounted to LKR 199m contracting 2.6% YoY. The reduction was mainly due to the losses in the Tea Sub-segment.

Renewable Energy

Revenue for the Renewable Energy division amounted to LKR26m in 1QFY20, down 72.2% YoY from LKR92m during 1QFY19 as a result of lower rainfall in the catchment areas and plant maintenance. The sector PAT was negative LKR42m for 1QFY20, compared to a profit of LKR44m in the same period last year. The Group also ventured into solar power with its new company -Sky Solar, with an installed capacity of 1MW.

Outlook

In Healthcare, we expect strong growth for 2QFY20, especially in the Medical devices sub-division. We are closely monitoring the changes in exchange rate which is sensitive on our margins. The sector will continue to focus on improving the product range and service quality.

At Healthguard, the focus continues to be on developing specialty range of Beauty and Wellness products while attracting more customers to the chain, which was negatively impacted during 1Q due to security concerns in the country.

The Consumer business would continue to invest behind its brands to scale the domestic businesses. We expect some increase in tea input cost which will create pressure on the margins. We are mindful of the new players entering the market and will continue to strengthen our international business operation efficiency.

In Agribusiness, we expect to see moderate growth in volumes for the Palm Oil segment due to shift in yield curve while prices are expected to be stable in the short term. Palm oil duty increased by Rs 25/- with effective from 12th July 2019 which will further increase revenue towards 3QFY20.

On the dairy sub sector, the total milking cows for the period stood at 813 and the total number of animals stand at 1,380. We expect to further rationalize the feed cost and increase selling price due to higher demand.

In the Renewable Energy segment, we will continue to focus on rooftop solar project. On 25 July 2019, the Sunshine Energy partnered with SBI Japan for a $2m capital infusion to growth the solar power business, for a 30% stake in the company.

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. The business units comprise of Sunshine Healthcare Lanka Limited, Watawala Plantations PLC, Watawala Tea Ceylon Limited and Sunshine Energy Private Limited which are leaders in their respective sectors, have secured partnerships with 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 and Watawala Tea. The Estate Management Services Limited (EMS), the agri-business arm of Sunshine Holdings PLC, manages Watawala Plantations, Sri Lanka's largest palm oil producer. The company's healthcare marketing unit is the second largest in its sector nationally.

For more information, please visit our Investor Relations page.

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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