Earnings release - SUN

SUN: EPS up 85% YoY in 1QFY23 driven by the addition of Export business and improved performance of Healthcare Sector

1QFY23 Highlights

- *Consolidated revenue of LKR 11.7bn, increase of 59.5% YoY*
- *PAT amounted to LKR 1.6bn, increase of 53.7% YoY*
- *Healthcare revenue up 45.9% YoY to LKR 5.8bn*
- *Consumer revenue up 109.0% YoY to LKR 3.9bn*
- *Agri revenue up 31.9% YoY to LKR 1.9bn*
- *EPS of LKR 2.12*

Colombo, August 05, 2022 – Sunshine Holdings PLC (CSE: SUN) top line grew 59.5% YoY to stand at LKR 11.7bn for 1QFY23, amid challenges arising from macroeconomic headwinds. The YoY growth is stemming from significant growth in Healthcare and Agriculture segments compared to 1QFY22, together with the addition of Export Business under Consumer segment via the acquisition of Sunshine Tea (Pvt) Ltd in April 2022. Organic growth was 33.8%.

LKR m	1QFY23	1QFY22	Growth %
Revenue	11,719	7,348	59.5%
EBIT	1,995	1,320	51.2%
EBIT margin	*17.0%*	*18.0%*	
PAT	1,599	1,040	53.7%
PAT margin	*13.6%*	*14.2%*	
PATMI	1,042	564	84.6%
EPS (LKR)	2.12	1.15	84.6%

On reported financials, Sunshine Tea (Pvt) Ltd [SST] is consolidated w.e.f. 1st April 2022. Accordingly, the contribution of SST in 1QFY23 is as follows:

LKR m	SST
	1QFY23
Revenue	1,885
EBIT	265
PAT	224

Healthcare remained the largest contributor to Group revenue in 1QFY23, accounting for 50% of the total, whereas Consumer Sector contributed 33%, and Agribusiness accounted for 16%.

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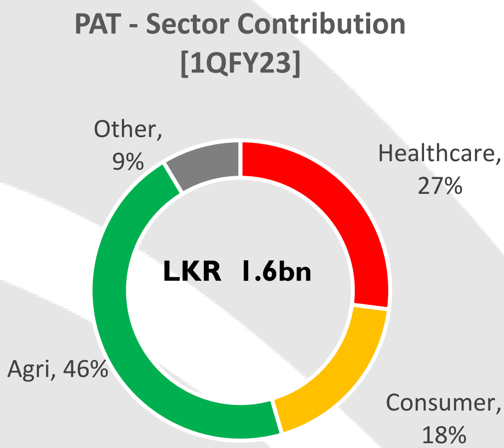
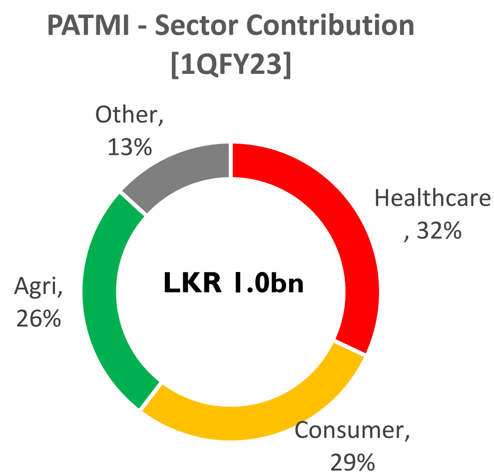
For 1QFY23, PAT amounted to LKR 1.6bn representing an increase of 53.7% YoY, stemming from overall revenue growth and addition of export businesses. Reported Profit After Tax & Minority Interest (PATMI) increased by 84.6% YoY to LKR 1.0bn owing to the growth in PAT and securing 100% ownership of the Healthcare sector w.e.f. 6th June 2022.





The PAT margins decreased to 13.6% during 1QFY23 compared to 14.2% in 1QFY22 mainly driven by a contraction in the Agri sector margins.

Net Asset Value per share increased to LKR 31.35 as at the end of 1QFY23 compared to LKR 26.38 at the end of FY22.

Deal flow

In April 2022, Sunshine Tea (Pvt) Ltd which is a tea export business was acquired for a total consideration of LKR 1.4bn by the Group and the contribution of the acquired company is consolidated under Consumer segment w.e.f. 1st April 2022 onwards. Through this acquisition the Group managed to secure dollar income to somewhat counterbalance its exposure to imports.

On 6th June 2022, a share swap was done with Akbar Brothers (Pvt) Ltd to purchase 28% stake in the Healthcare sector in exchange for a private placement in SUN at a negotiated share price of LKR 60 per share. Subsequent to this transaction, SUN owns 100% of the Healthcare sector.

Business segments

Healthcare

LKR m	1QFY23	1QFY22	Growth %
Revenue	5,835	4,000	45.9%
EBIT	743	401	85.5%
EBIT margin	*12.7%*	*10.0%*	
PAT	432	270	59.9%
PAT margin	*7.4%*	*6.8%*	

Healthcare revenue for 1QFY23 grew 45.9% YoY, driven by price increases to reflect currency depreciation. The sector showcased significant revenue growth in Pharma and Medical Devices Division (MDD) subsectors.

Improvement in EBIT Margin in the Healthcare sector is predominantly owing to price increases reflected in the quarter performance. However, the impact was minimized by margin contraction in both the Retail and Pharma Manufacturing subsectors.

The Pharma subsector witnessed panic buying for chronic care products during 1QFY23 and the demand for wellness and cosmetic products was weak. Medical devices subsegment grew YoY owing to price increases despite the contraction in volume.

Healthguard retail subsegment was adversely affected by reduced footfall and gross margin due to consumer focus on essential medicines compared to wellness products. The business recorded a marginal growth in revenue as volumes contracted significantly. Lina, the Pharma manufacturing business, experienced revenue degrowth mainly due to lower government sales and gross margins declined as a result of the change in product/customer mix coupled with the impact of exchange rate fluctuation.

The Pharma subsector grew 71.8% YoY in 1QFY23 against the corresponding period last year. Movements in other key sub-sectors compared to same quarter last year were: Medical Devices 40.2% YoY, and Retail 0.9% YoY, Manufacturing -13.0% YoY.

Consumer

LKR m	1QFY23	1QFY22	Growth %
Revenue	3,886	1,860	109.0%
EBIT	366	100	266.1%
EBIT margin	*9.4%*	*5.4%*	
PAT	296	61	384.0%
PAT margin	*7.6%*	*3.3%*	

The Consumer sector reported revenue of LKR 3.9bn in 1QFY23, with an increase of 109.0% YoY compared to the corresponding period last year and accounted for 33% of group revenue for the period. The revenue increase was predominantly driven by the addition of export business. Revenue growth excluding export business stands at 7.6%. YoY. Our Consumer brands Zesta, Watawala, Ran Kahata and Daintee continued to maintain and grow market shares.

Tea category experienced a volume contraction of 20.6% YoY in 1QFY23 compared to 1QFY22 and a value degrowth of 3.3% YoY. Confectionery subsegment revenue grew by 41.2% YoY, supported by price increases, despite a volume contraction of 36.5% YoY

Gross margins were impacted by the rising cost of raw materials and the dilution effect due to the acquired export business. However, overall EBIT margin has improved by 404 bps YoY. The improvement in EBIT margin is owing to the higher EBIT margin in export business. EBIT margin excluding export business stood at 5.1%.

PAT from the Consumer segment increased by 384.0% YoY, to stand at LKR 296m for 1QFY23. Export business contributed LKR 224m to the bottom line in 1QFY23. PAT growth excluding export business stood at 17.0% YoY.

Agri

LKR m	1QFY23	1QFY22	Growth %
Revenue	1,852	1,404	31.9%
EBIT	757	784	-3.5%
EBIT margin	*40.9%*	*55.8%*	
PAT	734	724	1.4%
PAT margin	*39.6%*	*51.5%*	

The Agribusiness sector reported revenue increase of 31.9% during 1QFY23 against last year. This growth was predominantly due to increase in Palm oil NSA in line with global commodity trends, despite drop in volumes during the period. The EBIT decreased by LKR 27 million (3.5% contraction YoY) owing to pressure on profitability due to increase in bought crop cost and reduction in crop volumes YoY. Reduction in crop is due to the unavailability of fertilizer for the last two years.

Palm oil production was at 2,770MT for 1QFY23 down 23.7% YoY stemming from the ban on chemical fertilizer during last few quarters. PAT for 1QFY23 amounted to LKR 734m with a marginal growth of 1.4% YoY.

Dairy business recorded a net loss of LKR 40m in 1QFY23 compared to a net profit of LKR 18m during the same quarter last year. Net loss is dairy is mainly stemming from increased feed cost and drop in yield, despite increase in farm gate price. The volume growth in dairy segment was adversely impacted due to inconsistency in feed mix stemming from the scarcity of feed in the market, resulting from import ban on maize and low domestic maize production, which further caused an increase in feed cost and thus contracting the GP margins for 1QFY23.

The company secured over 800 acres of land in April 2022, for cultivation of maize and other fodder crops. Cultivation is expected to commence in the upcoming Maha season.

Outlook

In Healthcare we are closely monitoring the changes in exchange rate which is sensitive on our margins. With price increases, consumer spending power is going to be a key challenge over the next few quarters as volumes are expected to drop. Forex liquidity in the market will be a challenge for all importers and we aim to rationalize our product offering to prioritize essentials.

The Consumer sector will continue to face challenges owing to macroeconomic pressures on consumer purchasing power. However, the impact to the sector is expected to be offset by the addition of the export business. With the new addition of the tea export business, we expect to achieve further growth in the export market which will be a key focus area for the Group.

Further compression on gross margin is expected due to increase in prices on key raw material inputs during the next quarter. Price increases on selected categories, and cost reduction initiatives are expected to mitigate the negative impact on GP margin. The Segment would continue to invest behind its brands selectively to maintain the domestic businesses. We further expect to drive distribution synergies in the retail channels.

In Agribusiness, we expect the declining trend of global palm oil prices to continue in 2QFY23, while expecting marginal volume growth. In the dairy subsector the average herd was 1,866 during 1QFY23 with 792 milking cows. The company expects to improve milk yield by maintaining consistent feed via its own cultivation of maize and fodder crops.

ABOUT SUNSHINE HOLDINGS

Sunshine Holdings PLC is a diversified conglomerate contributing to 'nation-building' by creating value in vital sectors of the Sri Lankan economy – healthcare, consumer products and agribusiness. Established in 1967, the Group is now home to leading Sri Lankan brands such as Zesta Tea, Watawala Tea, Ran Kahata, Daintee Confectionary and Healthguard Pharmacy, with over 2,300 employees and revenue of LKR 32 bn per annum. The business units comprise of Sunshine Healthcare Lanka, Sunshine Consumer Lanka and Watawala Plantations PLC, which are leaders in their respective sectors and many of them certified as a "Great Place to Work" in 2022.

For more information, please visit our Investor Relations page.

https://www.sunshineholdings.lk/investor/financial-reports

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