Earnings release - SUN

SUN: 9MFY23 PAT up 6% YoY, despite volume contraction and higher interest cost

9MFY23 Highlights

- *Consolidated revenue of LKR 38.6bn, increase of 59.9% YoY*
- *PAT amounted to LKR 3.8bn, increase of 5.6% YoY*
- *Healthcare revenue up 36.3% YoY to LKR 17.6bn*
- *Consumer revenue up 133.8% YoY to LKR 14.1bn*
- *Agri revenue up 32.1% YoY to LKR 6.6bn*
- *EPS of LKR 4.55*

3QFY23 Highlights

- *Consolidated revenue of LKR 13.6bn, increase of 64.2% YoY*
- *PAT amounted to LKR 678mn, decrease of 43.9% YoY*
- *Healthcare revenue up 37.0% YoY to LKR 6.0bn*
- *Consumer revenue up 142.6% YoY to LKR 5.5bn*
- *Agri revenue up 27.2% YoY to LKR 2.1bn*
- *EPS of LKR 0.56*

Colombo, February 7, 2023 – Sunshine Holdings PLC (CSE: SUN) top line grew 59.9% YoY to stand at LKR 38.6bn for 9MFY23, amid challenges arising from macroeconomic headwinds. The YoY growth is stemming from the growth in Healthcare and Agriculture segments compared to 9MFY22, together with the addition of Export Business under Consumer segment via the acquisition of Sunshine Tea (Pvt) Ltd in April 2022. Organic growth was 30.7%.

LKR m	9MFY23	9MFY22	Growth %	3QFY23	3QFY22	Growth %
Revenue	38,561	24,109	59.9%	13,634	8,305	64.2%
EBIT	5,822	4,451	30.8%	1,491	1,471	1.4%
EBIT margin	*15.1%*	*18.5%*		*10.9%*	*17.7%*	
PAT	3,779	3,577	5.6%	628	1,120	-43.9%
PAT margin	*9.9%*	*14.8%*		*4.7%*	*13.5%*	
PATMI	2,207	1,820	24.0%	272	611	-55.5%
EPS (LKR)	4.59	4.06	13.1%	0.56	1.36	-58.8%

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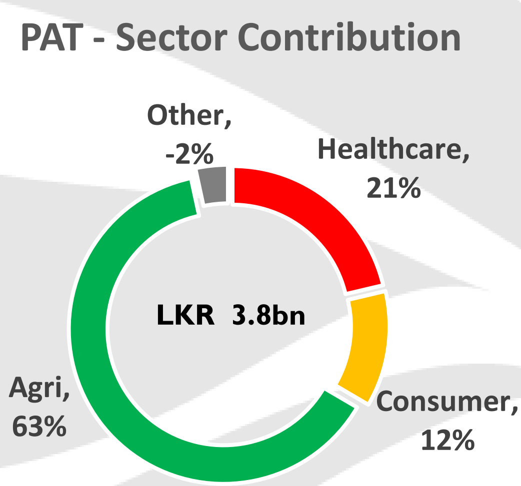
On reported financials, Sunshine Tea (Pvt) Ltd [SST] is consolidated w.e.f. 1st April 2022. Accordingly, the contribution of SST in 9MFY23 is as follows:

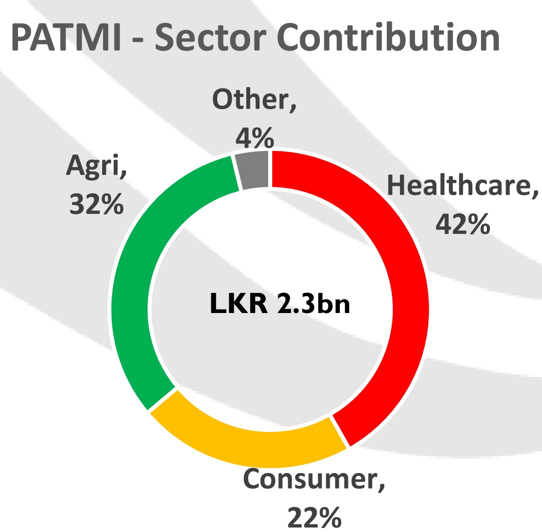
LKR m	Export Contribution
	**9MFY23
Revenue	6,212
EBIT	567
PAT	344

Healthcare remained the largest contributor to Group revenue in 9MFY23, accounting for 46% of the total, whereas Consumer Sector contributed 37%, and Agribusiness accounted for 17%.

For 9MFY23, PAT amounted to LKR 3.8bn representing an increase of 5.6% YoY, stemming from overall revenue growth and addition of the export businesses. Reported Profit After Tax & Minority Interest (PATMI) increased by 24.0% YoY to LKR 2.3bn owing to the growth in PAT and securing 100% ownership of the Healthcare sector w.e.f. 6th June 2022.

Finance cost for 9MFY23 amounted to LKR 1,220m cf. LKR 233m same period last year due to higher interest rates and increased leverage.





The PAT margins decreased to 9.9% during 9MFY23 compared to 14.8% in 9MFY22 mainly driven by a contraction in the Agri and Consumer sector margins.

Net Asset Value per share increased to LKR 32.42 at the end of 9MFY23 compared to LKR 25.05 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.

On 15th September 2022, dairy downstream business i.e., "Pride of Lonach" was successfully divested for LKR 27m to Ross Dairies.

Business segments

Healthcare

LKR m	9MFY23	9MFY22	Growth %	3QFY23	3QFY22	Growth %
Revenue	17,640	12,946	36.3%	6,029	4,400	37.0%
EBIT	2,088	1,253	66.6%	583	493	18.3%
EBIT margin	*11.8%*	*9.7%*		*9.7%*	*11.2%*	
PAT	875	846	3.4%	105	339	-69.0%
PAT margin	*5.0%*	*6.5%*		*1.7%*	*7.7%*	

Healthcare revenue for 9MFY23 grew 36.3% YoY, driven by price increases to reflect LKR currency depreciation. The sector showcased revenue growth in Pharma and Medical Devices Division (MDD) segments despite the continued pressure on volume.

Improvement in EBIT Margin in the Healthcare sector is predominantly owing to price increases reflected in 9MFY23. However, the impact was partially offset by the margin contraction in the Retail segment.

In the Pharma segment, revenue growth of 25.1% YoY is primarily driven by price increases despite volume de-growth due to challenges in consumer purchasing power. Medical devices segment grew 44.6% YoY owing to price increases despite the contraction in volume due to the drop in consumption.

Healthguard retail segment was adversely affected by reduced footfall and gross margin contracted due to consumer focus on essential medicines compared to wellness products. The business recorded a de-growth of -0.9% YoY in revenue both in terms of value and volume during 9MFY23.

Lina Manufacturing - the Pharma manufacturing business, experienced revenue 47.6% YoY, mainly driven by increase in prices. Nevertheless, gross margins declined as a result of the change in product mix coupled with the impact of exchange rate fluctuation. First sale of Metered Dose Inhalers (MDI) was made in July 2022, which totaled LKR 79m in sales for 9MFY23.

Consumer

LKR m	9MFY23	9MFY22	Growth %	3QFY23	3QFY22	Growth %
Revenue	14,090	6,027	133.8%	5,523	2,277	142.6%
EBIT	905	398	127.1%	205	188	8.7%
EBIT margin	*6.42%*	*6.61%*		*3.7%*	*8.3%*	
PAT	498	231	115.7%	5	122	-96.1%
PAT margin	*3.5%*	*3.8%*		*0.1%*	*5.4%*	

The Consumer sector reported revenue of LKR 14.1bn in 9MFY23, with an increase of 133.8% YoY compared to the corresponding period last year and accounted for 36.5% of group revenue for the period. The revenue increase was predominantly driven by the addition of export business. Organic revenue growth stood at 30.7% YoY, driven by price increases to reflect higher input cost. Our Consumer brands Zesta, Watawala, Ran Kahata and Daintee continued to grow market shares, despite challenging consumer sentiment.

Tea category experienced a volume contraction of 20.8% YoY in 9MFY23 compared to 9MFY22 and a value growth of 17.8% YoY. Confectionery segment revenue grew by 75.8% YoY, supported by price increases, despite a volume contraction of 20.6% YoY

Gross margins were impacted by the rising cost of raw materials, fuel, and other utilities. Overall EBIT margin has been constant in 9MFY23 cf. 9MFY22. EBIT margin excluding export business stood at 4.3% for 9MFY23.

PAT from the Consumer segment increased by 115.7% YoY, to stand at LKR 498m for 9MFY23. Export business contributed LKR 344m to the bottom line in 9MFY23. PAT growth excluding export business stood at 2.0% YoY.

Agribusiness

LKR m	9MFY23	9MFY22	Growth %	3QFY23	3QFY22	Growth %
Revenue	6,649	5,033	32.1%	2,070	1,627	27.2%
EBIT	2,757	2,824	-2.4%	724	804	-10.0%
EBIT margin	*41.5%*	*56.1%*		*35.0%*	*49.4%*	
PAT	2,595	2,670	-2.8%	661	781	-15.4%
PAT margin	*39.0%*	*53.0%*		*31.9%*	*48.0%*	

The Agribusiness sector reported revenue increase of 32.1% YoY during 9MFY23. 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 mainly due to the increased cost of bought crop and fertilizers, reduction in crop volumes YoY together with increased feed cost in the Dairy segment.

Palm oil production was at 10,485MT for 9MFY23 down 6.3% YoY stemming from the ban on chemical fertilizer during last few quarters which resulted in 7.4% YoY de-growth in estate crop which is partially offset by 3.1% YoY growth in bought crop. PAT for 9MFY23 amounted to LKR 2,595m which has declined by 2.8% YoY.

Dairy business recorded a net loss of LKR 63m in 9MFY23 compared to a net profit of LKR 37m during 9MFY22. Net loss in dairy is mainly stemming from increased feed cost, despite increase in farm gate selling 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, due to low domestic maize production, which further caused an increase in feed cost and thus contracting the GP margins for 9MFY23.

The company secured over 800 acres of land in April 2022, for cultivation of maize and other fodder crops. Cultivation commenced in October 2022.

Outlook

In Healthcare we are closely monitoring the changes in exchange rate which is sensitive on our margins. With high levels of inflation and tighter fiscal measures, consumer spending power is going to be the key challenge over the next few quarters as volumes are expected to drop. Forex liquidity in the market has slightly improved since June 2022 but will continue to 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 negative impact to the sector is expected to be offset by the recently acquired export business, which we expect to achieve further growth and will be a key focus area for the Group.

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 will continue to drive distribution synergies in the retail channels.

In Agribusiness, we expect the declining trend of global palm oil prices to continue in 4QFY23, while expecting a marginal volume de-growth in 4QFY23 compared to the previous quarter. In the dairy segment, the average herd was 1,753 during 9MFY23 with 845 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 ~LKR50bn 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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