

Earnings release - SUN

SUN: 22% drop in earnings in 1QFY19 despite 8% growth in top line

1QFY19 Highlights

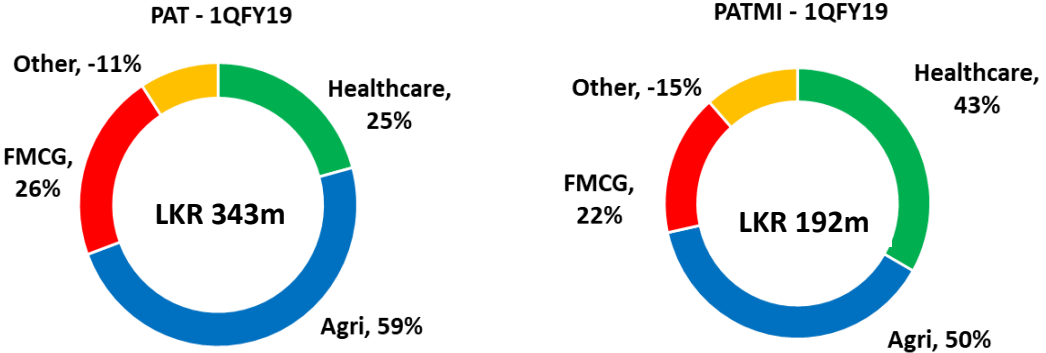
- Private placement to raise Rs. 775 million with SBI Ven Holdings Ltd
- Consolidated revenue of LKR5.6bn, an increase of 8.0% YoY
- PAT amounted to LKR343m, down 38.8% YoY
- Healthcare revenue up 15.6% YoY to LKR 2.2bn
- Strong growth in Consumer, revenue up 22.2% YoY to LKR1.4bn
- Agri revenue contracted by 7.2% YoY to LKR1.8bn
- EPS of LKR 1.40, 21.6% lower than last year

Colombo, August 09, 2018 – Sunshine Holdings PLC (CSE: SUN) reported top line growth of 8.0% YoY to stand at LKR5.6bn, stemming from strong results in Consumer and Healthcare, despite challenges in the Agribusiness sector.

LKR m	1Q FY19	1Q FY18	Growth %
Revenue	5,578	5,164	8.0%
EBIT	600	687	-12.7%
<i>EBIT Margin</i>	<i>10.7%</i>	<i>13.3%</i>	
PAT	343	561	-38.8%
<i>PAT Margin</i>	<i>6.2%</i>	<i>10.9%</i>	
PATMI	192	244	-21.6%
EPS (LKR)	1.40	1.79	-21.6%

Healthcare remained as the largest contributor to Group revenue accounting for 40% of the total, whereas Agriculture contributed 33%, and Consumer 25%.

For 1QFY19, PAT amounted to LKR 343m down 38.8% YoY, on the back of strong performance in the Consumer & Healthcare sector. Profit After Tax & Minority Interest (PATMI) declined by 21.6% YoY to LKR 192m. The Agri sector represented by Watawala Plantation PLC (CSE: WATA) and Hatton Plantations PLC (CSE: HPL) accounted for 50% of PATMI.



The PAT margins had reduced to 6.2% from 10.9% mainly due to lower profitability in the agribusiness sector and higher finance cost at the holding company.

Net Asset Value per share increased to LKR 48.09 as at end 1QFY19, compared to LKR 47.43 at end of 1QFY17.

Corporate Updates

Private Placement

The Board proposed to issue 11.9 million ordinary Sunshine shares to SBI Ven Holdings at a price of Rs. 65 per share, which was approved by the shareholders. Through this private placement, Sunshine Holdings looks to reduce its net debt and net finance cost.

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Business segments

Healthcare

LKR m	1Q FY19	1Q FY18	Growth %
Revenue	2,236	1,935	15.6%
EBIT	148	136	8.6%
<i>EBIT Margin</i>	<i>6.6%</i>	<i>7.0%</i>	
PAT	87	85	3.3%
<i>PAT Margin</i>	<i>3.9%</i>	<i>4.4%</i>	

Healthcare revenue for IQFY19 grew 15.6% YoY, on the back of volume increase in the pharma sub sector and foot fall growth in retail. The IQ growth of 15.6% gives a clear indication of the volume growth, where both quarters were under the new price control regime. EBIT margin for IQFY19 decreased by 40 bps to 6.6% mainly due to currency depreciation.

The Pharma sub-segment which represents 67% of Healthcare revenue grew 15.6% YoY for IQFY19, due to higher sales volumes. The company's Pharma segment currently enjoys 12% share of the local private pharma market (IMS data). Growth in other sub-sectors were: Medical devices (+16.2% YoY) and Retail (+13.7% YoY).

Reported PAT for Healthcare amounted to LKR87m in IQFY19, with a margin of 3.9%.

Consumer

LKR m	1Q FY19	1Q FY18	Growth %
Revenue	1,391	1,138	22.2%
EBIT	132	69	90.5%
<i>EBIT Margin</i>	<i>9.5%</i>	<i>6.1%</i>	
PAT	90	51	77.0%
<i>PAT Margin</i>	<i>6.5%</i>	<i>4.5%</i>	

The Consumer sector reported revenues of LKR 1.4bn in IQFY19, up 22.2% YoY, on the back of both volume and price growth, and accounted for 25% of group revenue for the period. The domestic branded tea business within Consumer sold 1.0m kg of branded tea, up 8.3% YoY, driven by their largest brand 'Watawala Tea', and their budget brand 'Ran Kahata'.

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PAT from the Consumer segment grew by 77% YoY, to stand at LKR 90m for IQFY19. The increase was mainly driven by the higher sales volumes coupled with margin expansion due to reduced tea prices in IQFY19.

Agribusiness

LKR m	1Q	1Q	Growth
	FY19	FY18	%
Revenue	1,844	1,988	-7.2%
EBIT	287	443	-35.2%
<i>EBIT Margin</i>	<i>15.5%</i>	<i>22.3%</i>	
PAT	204	377	-45.8%
<i>PAT Margin</i>	<i>11.1%</i>	<i>19.0%</i>	

The Agribusiness sector represented by WATA and HPL saw revenue decline of 7.2% YoY to LKR 1.8bn due to unfavorable weather conditions. Palm Oil volume contracted by 16.9% YoY for IQFY19 due to a decrease in yield and reflected a YoY revenue drop of 11.5%, despite an increase in NSA. Tea volumes contracted by 14.3% YoY resulting a revenue drop of 9.8% YoY.

Description	Revenue (LKRm)			Volumes (MT)		
	1QFY19	1QFY18	Growth	1QFY19	1QFY18	Growth
			%			%
Tea	1,171	1,298	-9.8%	2,086	2,433	-14.3%
Palm Oil	579	654	-11.5%	2,487	2,992	-16.9%

PAT for IQFY19 amounted to LKR 204m contracting 45.8% YoY. The reduction was mainly due to the unfavorable weather conditions resulting in lower yield.

Other

Revenue for the Renewable Energy division amounted to LKR92m in IQFY19, up 122.5% YoY from LKR41m during IQFY18 as a result of prolonged monsoon rain in the catchment areas. Both operational power plants were able to deliver over and above the management expectations for the IQFY19. The sector made a profit of LKR44m for IQFY19, compared to a loss of LKR2.6m in the same period last year.

Outlook

In Healthcare, we expect strong growth momentum in volumes to continue into 2QF19. The healthcare industry is expecting another phase of price control by the regulator during 2QFY19. Although this was announced by the Minister of Health on 1 August 2018, no guidelines have been issued by the regulator on the same. The depreciation of the LKR against the USD continues to impact the margins of the entire industry. In Medical devices, we expect growth to be driven by 3M Healthcare which appointed Sunshine as the master distributor for its products in Sri Lanka.

At Healthguard, the focus continues to be on developing specialty range of Beauty and Wellness products while attracting more customers to the chain. Overall, we expect improvement in margins as a result of our chosen sales mix and increasing the presence in the digital platform.

The Consumer business would continue to invest behind its brands to scale the domestic businesses. We expect strong margins for 2Q with weak tea prices at the auction during the 1Q. We are mindful of the new players entering the market and will continue to strengthen our distribution and market share.

In the Agribusiness, we expect to see moderate growth in volumes for the Palm Oil segment while prices remain at current levels. In the tea segment, we expect profitability to be challenged due to low crop on the back of adverse weather in the Hatton and Lidula region. Marginal growth in NSA is expected due to lower crop in the market.

On the dairy sub sector, the total milking cows has reached 896 and the total number of animals increased to 1,374. Overall operation is steadily growing to the target of 1,000 milking cows. Nevertheless, the interim cost of feeding the whole herd will have a negative impact on Agri profitability.

In the Renewable Energy segment, construction of our third plant is underway and is expected to be commissioned in the end of August 2018.

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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 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, Tribe 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