

Earnings release - SUN

SUN: EPS up 72% in 1HFY22 driven by latest acquisitions

1HFY22 Highlights

- Consolidated revenue of LKR 15.8bn, increase of 44.3% YoY
- PAT amounted to LKR 2.5bn, increase of 91.1% YoY
- Healthcare revenue up 47.5% YoY to LKR 8.5bn
- Consumer revenue up 35.3% YoY to LKR 3.8bn
- Agri revenue up 60.3% YoY to LKR 3.4bn
- EPS of LKR 2.69

2QFY22 Highlights

- Consolidated revenue of LKR 8.5bn, increase of 37.2% YoY
- PAT amounted to LKR 1.4bn, increase of 93.3% YoY
- Healthcare revenue up 42.0% YoY to LKR 4.5bn
- Consumer revenue up 13.7% YoY to LKR 1.9bn
- Agri revenue up 73.8% YoY to LKR 2.0bn
- EPS of LKR 1.44

Colombo, November 11, 2021 – Sunshine Holdings PLC (CSE: SUN) top line grew 44.3% YoY to stand at LKR 15.8bn for 1HFY22, with Healthcare and Agriculture segments showing significant growth compared to 1HFY21, amid challenges arising from Covid-19 and resultant travel restrictions. On reported financials, results of Daintee Ltd and Akbar Pharmaceuticals (Pvt) Ltd [APL] are consolidated in September 2020 and February 2021 respectively. However, for comparison purpose, adjusted 1HFY21 is presented below to reflect the performance of Daintee and APL.

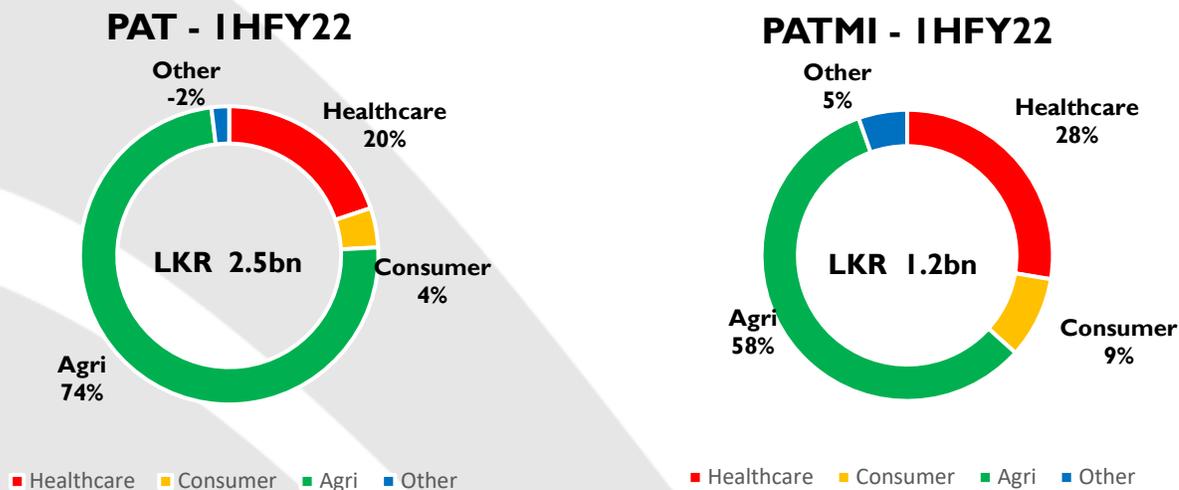
LKR m	1HFY22	1HFY21	Growth %	Adj. 1HFY21*	Growth % vs Adj		2QFY21	Growth %
					1HFY21	2QFY22		
Revenue	15,803	10,951	44.3%	12,792	23.5%	8,456	6,164	37.2%
EBIT	2,980	1,967	51.5%	2,219	34.3%	1,660	1,107	50.0%
<i>EBIT margin</i>	<i>18.9%</i>	<i>18.0%</i>		<i>17.3%</i>		<i>19.6%</i>	<i>18.0%</i>	
PAT	2,457	1,285	91.1%	1,449	69.6%	1,416	733	93.3%
<i>PAT margin</i>	<i>15.5%</i>	<i>11.7%</i>		<i>11.3%</i>		<i>16.8%</i>	<i>11.9%</i>	
PATMI	1,209	704	71.6%			645	383	68.2%
EPS (LKR)	2.69	1.57	71.6%			1.44	0.85	68.2%

*1HFY21 is adjusted to reflect the performance of Daintee and APL

Healthcare remained the largest contributor to Group revenue in 1HFY22, accounting for 54% of the total, whereas Consumer Goods contributed 24%, and Agribusiness accounted for 22%.

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For IHFY22, PAT amounted to LKR 2.5bn representing an increase of 91.1% YoY, stemming from overall revenue growth, increased margins in the Agri sector due to growth in NSA and addition of confectionery and Akbar pharma businesses in FY21. Reported Profit After Tax & Minority Interest (PATMI) increased by 71.6% YoY to LKR 1.2bn.



The PAT margins increased to 15.5% during IHFY22 compared to 11.7% in IHFY21 mainly due to the margin increase in Agri segment.

Net Asset Value per share increased to LKR 25.99 as at the end of IHFY22 compared to LKR 23.48 at the end of FY21. Number of shares increased from 149,554,103 to 448,662,309 shares due to 1 into 3 share split announced in February 2021.

Deal flow

With the aim of re-focusing on its core sectors, the Group divested its stake in the Mini Hydro Power business, under Waltrim Hydropower (Pvt) Ltd to Aitken Spence PLC on the 7th of April 2021. The Group further divested the Solar Power business in September 2021, completely exiting the renewable energy business. Sale proceeds will be re-invested in core business areas going forward.

In the Agribusiness sector, the dairy business under Watawala Dairy Ltd (WDL) raised US\$2m in equity from SBI Japan for an 11% stake in the company on 12 May 2021. The proceeds will be utilized to expand dairy operations and strengthen the balance sheet of WDL.

The Consumer sector secured USD 5m funding from IFC end of May 2021. The LKR-linked disbursement is IFC's first local currency investment in Sri Lanka's consumer goods sector. The proceeds will be channeled in to Consumer Sector while driving efficiency.

Business segments

Healthcare

LKR m	IHFY22	IHFY21	Growth %	Adj IHFY21*	2QFY22	2QFY21	Growth %
Revenue	8,546	5,795	47.5%	6,775	4,546	3,202	42.0%
EBIT	760	646	17.7%	746	359	365	-1.6%
<i>EBIT margin</i>	<i>8.9%</i>	<i>11.1%</i>		<i>11.0%</i>	<i>7.9%</i>	<i>11.4%</i>	
PAT	507	423	19.8%	467	237	252	-6.0%
<i>PAT margin</i>	<i>5.9%</i>	<i>7.3%</i>		<i>6.9%</i>	<i>5.2%</i>	<i>7.9%</i>	

*IHFY21 is adjusted to reflect the performance of APL

Healthcare revenue for IHFY22 grew 47.5% YoY, driven by the addition of Akbar pharma business and improved performance in key subsectors. The sector showcased significant revenue growth in Pharma, Medical Devices Division (MDD) and Retail subsectors.

EBIT Margin contraction in the Healthcare sector is predominantly owing to LKR currency depreciation. However, the impact was minimized by increase in MRP's of selected non-price-controlled SKUs, and margin improvement in MDD subsector. Furthermore, a 9% increase in MRP for gazette products in August 2021, contributed to minimize the impact on margins during the month of September 2021.

Pharma subsector recorded the highest monthly revenue in August 2021 by surpassing LKR 1bn. MDD subsector growth reflects price and volume increase during the period. Despite low footfall due to travel restrictions, the Retail arm was able to achieve growth with special focus on online presence and delivery services. The increase in sales was predominantly due to increased demand for pharma and wellness products.

The merger with Akbar Pharmaceuticals (Pvt) Ltd was in effect from February 2021. Therefore, reported comparative for IHFY21 results does not include the consolidation of APL results. APL contribution to revenue during IHFY22 stood at LKR 931m at a net loss of LKR 31m.

The Pharma subsector grew 29.9% compared to IHFY21. Movements in other key sub-sectors compared to IHFY21 were: Medical Devices 21.6% YoY, and Retail 56.0% YoY. Further, stringent measures are continued to improve overall efficiency of the sector and to improve the working capital by reducing stock holding period while improving debtor collection.

PAT for Healthcare amounted to LKR 507m in IHFY22 at a margin of 5.9%.

Consumer

LKR m	IHFY22	IHFY21	Growth %	Adj. IHFY21*	2Q FY22	2Q FY21	Growth %
Revenue	3,750	2,772	35.3%	3,634	1,890	1,662	13.7%
EBIT	210	212	-0.7%	364	110	126	-12.3%
<i>EBIT margin</i>	<i>5.6%</i>	<i>7.6%</i>		<i>10.0%</i>	<i>5.8%</i>	<i>7.6%</i>	
PAT	109	128	-14.6%	248	48	58	-16.8%
<i>PAT margin</i>	<i>2.9%</i>	<i>4.6%</i>		<i>6.8%</i>	<i>2.6%</i>	<i>3.5%</i>	

*IHFY21 is adjusted to reflect the performance of Daintee

The Consumer sector reported revenue of LKR 3.8 bn in IHFY22, with an increase of 35.3% YoY compared to corresponding period in the previous year and accounted for 24% of group revenue for the period. The revenue increase was predominantly driven by the addition of confectionery business. Revenue growth compared to adjusted IHFY21 stands at 3.2%. YoY

Tea category experienced an 8.0% YoY volume growth in IHFY22 compared to IHFY21. Value growth in the same period stood at 12.5% YoY.

Travel restrictions imposed due to Covid-19 significantly impacted the Confectionery business, which is currently predominantly sold via the general trade channel.. The company is focusing on initiatives to ensure recovery in the following months. Revenue contribution from Daintee Ltd in IHFY22 was LKR 924m.

The reduction in EBIT margin in Tea subsector is owing to increase in raw material cost resulting from higher blend averages and increased advertising and promotional expenses in IHFY22. Adverse impact on Daintee EBIT margin was observed due to increase in raw material cost as a result of LKR currency depreciation, and corrections post-acquisition as per IFRS requirements. PAT from the Consumer segment decreased by 14.6% compared to IHFY21, to stand at LKR 109m for IHFY22. Post-acquisition Daintee contributed LKR 44m to the bottom line in IHFY22. The interest cost on the borrowing undertaken for the purpose of Daintee acquisition is included in IHFY22.

Agri

LKR m	IHFY22	IHFY21	Growth %	2Q FY22	2Q FY21	Growth %
Revenue	3,406	2,125	60.3%	2,002	1,152	73.8%
EBIT	2,020	1,102	83.3%	1,236	606	104.1%
<i>EBIT margin</i>	<i>59.3%</i>	<i>51.9%</i>		<i>61.8%</i>	<i>52.6%</i>	
PAT	1,889	918	105.9%	1,165	511	127.9%
<i>PAT margin</i>	<i>55.4%</i>	<i>43.2%</i>		<i>58.2%</i>	<i>44.4%</i>	

The Agribusiness sector reported revenue increase of 60.3% against the corresponding period last year. This growth was predominantly due to increase in Palm oil NSA in line with global commodity trends.

Palm oil production was at 8,029 MT for IHFY22 which was a growth of 23.5% compared to IHFY21. PAT for IHFY22 amounted to LKR 1.9bn increasing 105.9% YoY due to better margins in palm oil and the profit contribution from Dairy segment. The company is exploring alternative fertilizer application strategy focused on maintaining healthy growth and yields, to minimize the impact of the ban on chemical/inorganic fertilizer.

Dairy segment, which commenced operations in 2018, contributed 2% of Agribusiness sector PAT for IHFY22. The volume growth in dairy segment was adversely impacted due to scarcity of feed in the market which further caused an increase in feed cost and thus contracting the GP margins for IHFY22.

Outlook

In Healthcare we are closely monitoring the changes in exchange rate which is sensitive on our margins. The increase in prices for non-gazette and gazette products in April and August 2021 respectively is expected to offset the adverse impact on margins. The sector will continue to focus on improving the product range and service quality while competing for more government tenders.

At Healthguard, focus will continue to be on the enhancement of the online business platform with expansion in delivery areas and overall improvement.

The sector will further focus on the development and increase in capacity utilization of the pharma manufacturing facilities acquired via the merger with Akbar Pharmaceuticals.

The Consumer Segment would continue to invest behind its brands to scale the domestic businesses. We further expect to drive distribution synergies in the retail channels. Confectionary category, having been impacted due to travel restrictions in the country is expected to recover in the following months. Further, compression on gross margin is expected due to rupee depreciation against the dollar coupled with the increase in global prices on key raw material inputs.

In Agribusiness, we expect to see similar pricing trends in 3QFY22, while expecting marginal volume growth, but below 1Q and 2Q due to seasonality. With reference to the Gazette no. 2222/13 dated 5 April 2021, prohibiting the cultivation of palm oil in Sri Lanka, which we believe will have a negative impact on the long-term performance of the Palm oil business. We are exploring alternative fertilizer to maintain healthy growth and yields despite the ban on chemical fertilizer.

In the dairy subsector the average herd was 1,670 during 2QFY22 with 774 milking cows and we expect to utilize the investment from SBI to expand the herd to reach 1000 milking cows while strengthening the upstream value chain.

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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 24 bn. 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 2021.

For more information, please visit our Investor Relations page.



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

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