

SUN: EPS up 60% YoY in 1HFY23 driven by the addition of Export business and improved performance of All Sectors

1HFY23 Highlights

- Consolidated revenue of LKR 24.9bn, increase of 57.7% YoY
- PAT amounted to LKR 3.2bn, increase of 28.2% YoY
- Healthcare revenue up 35.9% YoY to LKR 11.6bn
- Consumer revenue up 128.4% YoY to LKR 8.6bn
- Agri revenue up 34.4% YoY to LKR 4.6bn
- EPS of LKR 3.93

2QFY23 Highlights

- Consolidated revenue of LKR 13.2bn, increase of 56.2% YoY
- PAT amounted to LKR 1.6bn, increase of 9.5% YoY
- Healthcare revenue up 27.0% YoY to LKR 5.8bn
- Consumer revenue up 147.6% YoY to LKR 4.7bn
- Agri revenue up 36.2% YoY to LKR 2.7bn
- EPS of LKR 1.82

Colombo, November 11, 2022 – Sunshine Holdings PLC (CSE: SUN) top line grew 57.7% YoY to stand at LKR 24.9bn for 1HFY23, amid challenges arising from macroeconomic headwinds. The YoY growth is stemming from significant growth in Healthcare and Agriculture segments compared to 1HFY22, together with the addition of Export Business under Consumer segment via the acquisition of Sunshine Tea (Pvt) Ltd in April 2022. Organic growth was 32.3%.

LKR m	1HFY23	1HFY22	Growth %	2QFY23	2QFY22	Growth %
Revenue	24,928	15,803	57.7%	13,209	8,456	56.2%
EBIT	4,331	2,980	45.3%	2,336	1,660	40.7%
<i>EBIT margin</i>	<i>17.4%</i>	<i>18.9%</i>		<i>17.7%</i>	<i>19.6%</i>	
PAT	3,151	2,457	28.2%	1,551	1,416	9.5%
<i>PAT margin</i>	<i>12.6%</i>	<i>15.5%</i>		<i>11.7%</i>	<i>16.7%</i>	
PATMI	1,935	1,209	60.0%	893	645	38.6%
EPS (LKR)	3.93	2.46	60.0%	1.82	1.31	38.6%

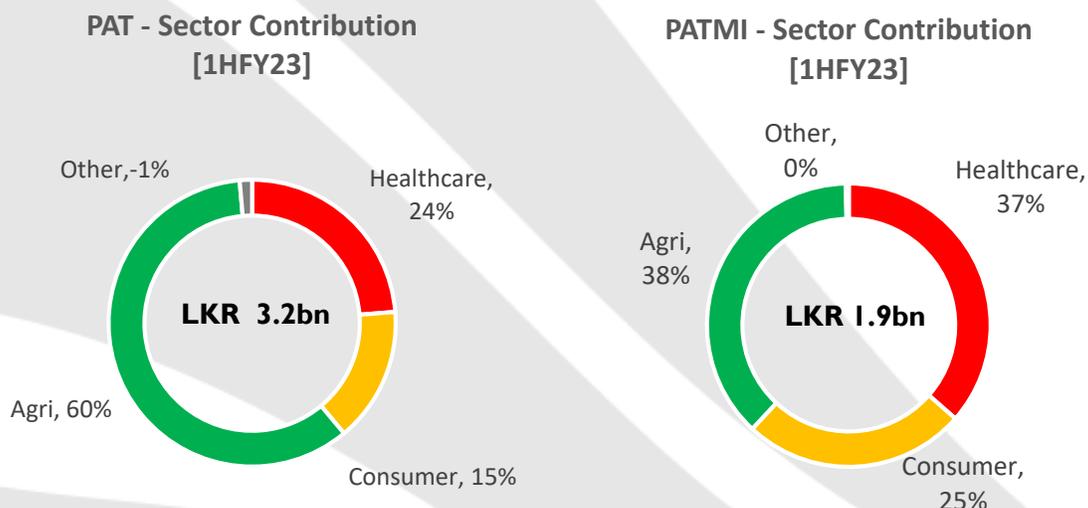
On reported financials, Sunshine Tea (Pvt) Ltd [SST] is consolidated w.e.f. 1st April 2022. Accordingly, the contribution of SST in 1HFY23 is as follows:

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LKR m	SST	
	1HFY23	
Revenue	4,016	
EBIT	446	
PAT	336	

Healthcare remained the largest contributor to Group revenue in 1HFY23, accounting for 47% of the total, whereas Consumer Sector contributed 34%, and Agribusiness accounted for 18%.

For 1HFY23, PAT amounted to LKR 3.2bn representing an increase of 28.2% YoY, stemming from overall revenue growth and addition of the export businesses. Reported Profit After Tax & Minority Interest (PATMI) increased by 60.0% YoY to LKR 1.9bn 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 12.6% during 1HFY23 compared to 15.5% in 1HFY22 mainly driven by a contraction in the Agri sector margins.

Net Asset Value per share increased to LKR 31.86 at the end of 1HFY23 compared to LKR 26.38 at the end of FY22.

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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	1HFY23	1HFY22	Growth %	2QFY23	2QFY22	Growth %
Revenue	11,611	8,546	35.9%	5,776	4,546	27.0%
EBIT	1,505	760	98.0%	762	360	111.9%
<i>EBIT margin</i>	<i>13.0%</i>	<i>8.9%</i>		<i>13.2%</i>	<i>7.9%</i>	
PAT	770	507	51.7%	337	237	42.3%
<i>PAT margin</i>	<i>6.6%</i>	<i>5.9%</i>		<i>5.8%</i>	<i>5.2%</i>	

Healthcare revenue for 1HFY23 grew 35.9% YoY, driven by price increases to reflect LKR currency depreciation. The sector showcased significant revenue growth in Pharma and Medical Devices Division (MDD) segments.

Improvement in EBIT Margin in the Healthcare sector is predominantly owing to price increases reflected in 1HFY23. However, the impact was minimized by margin contraction in both the Retail and Pharma Manufacturing segments.

In the Pharma segment, revenue growth is primarily driven by price increases despite volume de-growth due to changes in consumer behavior and basket size compared to 1HFY22. Medical devices segment grew YoY owing to price increases despite the contraction in volume due to consumption drop.

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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 in revenue both in terms of value and volume.

Lina Manufacturing - the Pharma manufacturing business, experienced revenue growth mainly driven by increase in prices. Nevertheless, gross margins declined as a result of the change in product/customer mix coupled with the impact of exchange rate fluctuation. First sale of Metered Dose Inhalers (MDI) was made in July 2022, which contributed LKR 37m in sales for IHFY23.

The Pharma segment grew 52.2% YoY in IHFY23 against the corresponding period last year. Movements in other key sub-segments compared to same period last year were: Medical Devices 36.1% YoY, Retail -6.6% YoY and Manufacturing 10.0% YoY.

Consumer

LKR m	IHFY23	IHFY22	Growth %	2QFY23	2QFY22	Growth %
Revenue	8,567	3,750	128.4%	4,681	1,890	147.6%
EBIT	700	210	232.7%	334	110	202.6%
<i>EBIT margin</i>	<i>8.2%</i>	<i>5.6%</i>		<i>7.1%</i>	<i>5.8%</i>	
PAT	493	109	350.1%	197	48	307.3%
<i>PAT margin</i>	<i>5.8%</i>	<i>2.9%</i>		<i>4.2%</i>	<i>2.6%</i>	

The Consumer sector reported revenue of LKR 8.6bn in IHFY23, with an increase of 128.4% YoY compared to the corresponding period last year and accounted for 34% 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 21.3% YoY. Our Consumer brands Zesta, Watawala, Ran Kahata and Daintee continued to grow market shares.

Tea category experienced a volume contraction of 23.4% YoY in IHFY23 compared to IHFY22 and a value growth of 1.0% YoY. Confectionery segment revenue grew by 83.3% YoY, supported by price increases, despite a volume contraction of 19.7% YoY

Gross margins were impacted by the rising cost of raw materials, fuel, and other utility bills. However, overall EBIT margin has improved by 256 bps YoY. The improvement in EBIT margin is owing to the dilution effect of the higher EBIT margin in the export business. EBIT margin excluding export business stood at 5.6% for IHFY23.

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PAT from the Consumer segment increased by 350.1% YoY, to stand at LKR 493m for 1HFY23. Export business contributed LKR 336m to the bottom line in 1HFY23. PAT growth excluding export business stood at 43.3% YoY.

Agri

LKR m	1HFY23	1HFY22	Growth %	2QFY23	2QFY22	Growth %
Revenue	4,579	3,406	34.4%	2,727	2,002	36.2%
EBIT	2,033	2,020	0.6%	1,276	1,236	3.2%
<i>EBIT margin</i>	<i>44.4%</i>	<i>59.3%</i>		<i>46.8%</i>	<i>61.8%</i>	
PAT	1,934	1,889	2.4%	1,200	1,165	3.0%
<i>PAT margin</i>	<i>42.2%</i>	<i>55.4%</i>		<i>44.0%</i>	<i>58.2%</i>	

The Agribusiness sector reported revenue increase of 34.4% YoY during 1HFY23 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 increased marginally due to the increased revenue in both Palm Oil and Dairy segments which is partially offset by increased cost of bought crop and reduction in crop volumes YoY together with increased feed cost in the Dairy segment.

Palm oil production was at 6,839MT for 1HFY23 down 14.8% YoY stemming from the ban on chemical fertilizer during last few quarters which resulted in 17.7% YoY de-growth in estate crop which is partially offset by 15.2% YoY growth in bought crop. PAT for 1HFY23 amounted to LKR 1,975m with a marginal growth of 6.0% YoY.

Dairy business recorded a net loss of LKR 42m in 1HFY23 compared to a net profit of LKR 32m during 1HFY22. Net loss in dairy is mainly stemming from increased feed cost, 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, due to low domestic maize production, which further caused an increase in feed cost and thus contracting the GP margins for 1HFY23.

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 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 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 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 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 2HFY23, while expecting marginal volume growth compared to 1H. In the dairy segment, the average herd was 1,854 during 1HFY23 with 818 milking cows. The company expects to improve milk yield by maintaining consistent feed via its own cultivation of maize and fodder crops.

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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 ~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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