FINANCIAL REVIEW

GROUP-WISE ANALYSIS

REVENUE

The Group's consolidated revenue increased by 6.9% YoY to Rs. 22.6 Bn. for the financial year 2018/19 backed by the strong performance of Healthcare, Consumer Goods, and Energy sectors despite Agribusiness sector recording a contraction in revenue during the year due to challenges in the environment in which it operates.

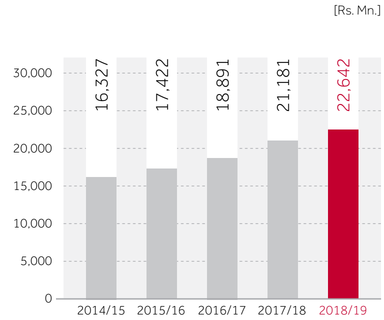
Revenue

Change

Rs. 1.46 Mn

Change

6.9%



Healthcare sector became the biggest revenue contributor for the year in review with a 40% of the total consolidated revenue. The contribution of Agribusiness and Consumer Goods segments stood at 31% and 25% respectively. Healthcare sector recorded the highest revenue growth of 14.1% among the three core sectors. The revenue growth was driven by the volume increase in pharma sub sector and footfall increase in the healthcare retail arm – Healthguard, the Group's health and beauty retail chain. The increase of 8.9% in the Consumer Goods revenue was driven by their largest brand 'Watawala Tea', and their premium brand "Zesta". The challenging market competition was handled with strong brand equity coupled with strong sales strategy. Agribusiness sector had a challenging year with a revenue contraction of 2.0% due to the poor performance in the Tea sub sector which contracted by 13.4% YoY due to unfavourable weather conditions and low market prices at the Colombo Auction. However, the Palm Oil sub sector recorded a revenue growth of 21.5% YoY due to higher Net Sales Average and increased crop. The Dairy farm housed 1,285 cattle, which includes 851 milking cows. Despite being in its gestation period, the Dairy business contributed Rs. 493 Mn. towards the Agribusiness top line. The Energy sector contributed Rs. 356 Mn. due to favourable weather conditions in the catchment areas. The sector was further strengthened by the commencement of its third hydropower plant and the newly installed solar plants during the last quarter of the year.

PROFITABILITY

Gross profit margin stood at 25.2% in 2018/19 compared to 25.4% in the previous year. Margin drop-off is mainly attributed to the Agribusiness drop amounting to 590 basis points. The reduction in Tea sub segment margins had offset the positive margins achieved in Palm Oil sub segment. Tea sub segment margins eroded due to unfavourable weather conditions, lower NSA, and the wage increase during the latter part of the year. Healthcare sector margins improved by 50 basis points mainly due to the higher sales volumes and higher contribution from the medical devices sub sector. The price increase taken for non-price-controlled molecules also partly supported the margin increase. The Consumer Goods segment margins increased by 510 basis points due to the lower tea prices resulting in a lower input cost. On an absolute basis, Group's consolidated gross profit grew to Rs. 5.7 Bn. in 2018/19, up 5.8% YoY mainly on the back of revenue growth despite a drop-in margin.

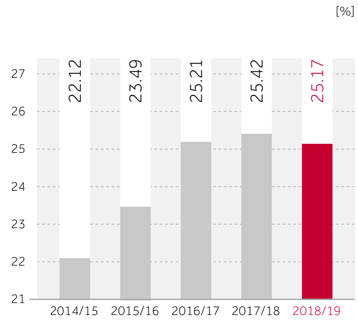
Gross profit margin

Change

Rs. 313 Mn

Change

5.8%



OPERATING PROFIT

Group Operating Profit (EBIT) is below 14.0% YoY to Rs. 2.2 Bn. in 2018/19 compared to Rs. 2.6 Bn. in 2017/18. The decrease was mainly attributed to the operational loss generated at Agricultural sector and the Sunshine Packaging, discontinued business. The 13.4% drop in tea revenue coupled with the cost increase in sub segment negatively affected the operating profit at the Group level. Consolidated administration expenses had gone up by 6.9% mainly driven by the Consumer Goods sector. Group selling and distribution expenses had increased by 22.9%. Healthcare sector and the Consumer sector had increased their spending by 26.3% and 19.0% respectively during the period under review.

FINANCE EXPENSES

Net finance cost for the Group increased to Rs. 560 Mn. in 2018/19 compared to Rs. 366 Mn. in 2017/18. The main contributor for the growth is the holding company which increased its leverage to buyout the shares held in EMSPL by TATA group as a strategic move during the second half of last year. Furthermore, both Healthcare and Agribusiness sectors which funded its increased working capital requirement through short-term borrowings also added to the increase in Group finance cost. The better profitability and improved cashflows had supported the Consumer Goods and Energy sectors to reduce their finance cost compared to the previous year. Interest cover had reduced to 4.0x in 2018/19 compared to 6.8x in the previous year.

TAXATION AND EARNINGS PER SHARE

Income Taxes amounted to Rs. 736 Mn. in 2018/19, up 19.0% YoY due to higher profitability in Consumer Goods sector coupled with higher tax rate and deferred tax in the Energy sector. The effective tax rate stood at 39.1% against the 25.5% in last year. Group EPS stood at Rs. 4.43 in 2018/19 against Rs. 6.08 in the previous year. The lower EPS stems from lower profitability in Agribusiness sector coupled with a marginal increase in the number of shares due to script dividend in the financial year 2017/18.

DIVIDENDS AND SOLVENCY

The Directors have recommended a first and final dividend of Rs. 1.25 per share. The gross dividend amounts to Rs. 187 Mn. in 2018/19 compared to Rs. 205 Mn. in 2017/18. The dividend payout ratio amounts to 70.22% of the Company profit for 2018/19 compared to 137.8% in 2017/18. The Company has access to necessary funds to finance the proposed dividend and the Company's Independent Auditors have certified that the Company meets the requisite solvency levels for the payment of the proposed dividend.

RETURN ON CAPITAL

Return on Capital Employed (ROCE) for the Group decreased to 13.7% for 2018/19, compared to 17.1% return in the previous year due to the lower EBIT.

	2014/15	2015/16	2016/17	2017/18	2018/19
ROE (%)	12.2	12.9	15.0	16.9	10.4
Net Margin (%)	6.4	7.0	8.5	8.5	5.1
Assets T/O (x)	1.2	1.1	1.1	1.1	1.07
Leverage (x)	1.6	1.6	1.6	1.8	2.09

CAPITAL EXPENDITURE

Group Capital Expenditure (CAPEX) which includes both acquisitions and property, plant and equipment and field work in the Agribusiness sector amounted to Rs. 1,438 Mn. in 2018/19, down 32% YoY from Rs. 2,136 Mn. in 2017/18. Capex in the Energy sector was in relation to the third mini-hydropower plant which commenced commercial operations at the latter part of the financial year 2018/19.

CAPITAL STRUCTURE

Group capital employed amounted to Rs. 16.2 Bn. at the end of 2018/19, of which 67.7% was funded through shareholders' equity. Total Group equity amounted to Rs. 11.0 Bn. as at the end of the year, of which Rs. 7.5 Bn. belongs to the shareholders of Sunshine Holdings and Rs. 3.5 Bn. to minority shareholders who have invested in companies within the Group.

BORROWINGS

Interest bearing debt, including short term overdraft balances amounted to Rs. 5.2 Bn. (32.3% of capital employed) at the end of the year 2018/19 compared to Rs. 5.3 Bn. at the end of the previous year.

CASH MANAGEMENT

Net operating cash flow for the year amounted to Rs. 1.6 Bn., a dip from Rs. 1.7 Bn. generated last year. The reduction was mainly arising from the funding facility obtained to facilitate the Estate Management Services Private Limited transaction. Furthermore, reduction in profit before tax by Rs. 330 Mn. also contributed towards the reduction in net operating cash flow. Net cash outflow on investing activities decreased to Rs. 1.0 Bn. in 2018/19 from Rs. 3.4 Bn. in the previous year. Last year's outflow includes the investment of Rs. 1.6 Bn. to increase Sunshine's stake in EMSPL by purchasing the shares owned by TGBL. Net cash inflow from financing activities amounted to Rs. 99 Mn. in 2018/19 compared to Rs. 982 Mn. in 2017/18 with the Holding Company increasing its interest-bearing borrowings to finance the EMSPL transaction during last year.

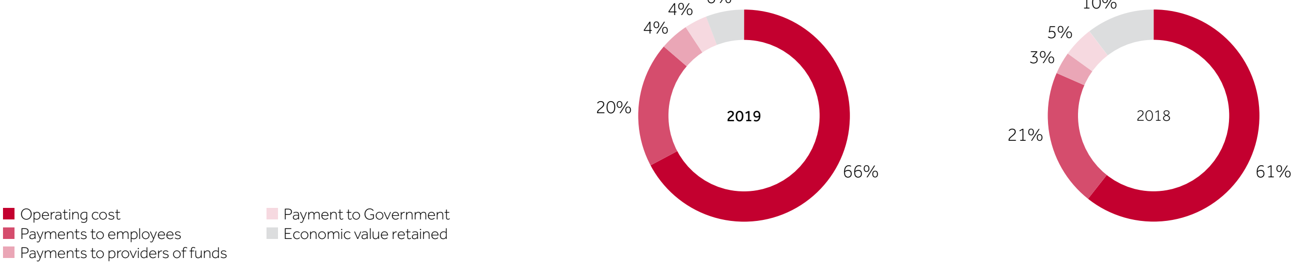
SHARE PRICE AND MARKET CAPITALISATION

The SUN share price closed at Rs. 47.00 at the end of trading on 31 March 2019, lower than at the start of the year, which stood at Rs. 56.10. The 52-week high for the period was Rs. 60.00 and a low of Rs. 42.00. As a result, market capitalization as at the year-end amounted to Rs. 7 Bn.

ECONOMIC VALUE STATEMENT

For the year ended 31 March	2019 Rs.	2018 Rs.
Direct economic value generated		
Revenue	22,641,987,898	21,181,210,416
Interest income	228,475,383	210,384,328
Profit on sale of assets	78,376,481	22,869,231
Other income	243,865,745	517,658,445
	23,192,705,507	21,932,122,420
Economic value distributed		
Payments to external sources for materials and services		
– Operating cost	15,287,284,046	13,297,278,665
	15,287,284,046	13,297,278,665
Payments to employees		
– Salaries, wages and other benefits	4,541,157,583	4,591,018,661
	4,541,157,583	4,591,018,661
Payments to providers of funds		
– Interest to money lenders	506,571,577	378,837,123
– Dividend to minority shareholders	366,484,682	193,990,990
– Dividend to owners of parent	136,527,501	168,932,026
	1,009,583,760	741,760,139
Payment to government		
– Income tax	462,423,561	546,195,414
– Value Added tax	73,092,727	91,608,791
– Nation Building Tax	172,896,397	160,089,783
– JEDB/SLSPC lease rentals	85,068,104	70,938,000
– ESC and other taxes	171,268,163	155,704,353
	964,748,952	1,024,536,341
Economic value retained		
– Profit after dividend	642,621,976	1,635,590,571
– Depreciation and amortisation	747,309,190	641,938,043
Retained for reinvestment/growth	1,389,931,166	2,277,528,614

Economic value



SECTOR-WISE ANALYSIS

HEALTHCARE SECTOR

The Healthcare sector recorded a revenue of Rs. 9.3 Bn., an increase of 14.1% over the previous year mainly due to the rise in pharma revenue by Rs. 590 Mn. The gross profit margin of the sector improved from 23.5% to 24.0% whilst EBIT of the sector recorded an impressive growth of 27.8% or Rs. 115.6 Mn. to Rs. 531.2 Mn. from Rs. 415.6 Mn. The selling and distribution expenses increased mainly due to rise in salaries and incentives, vehicle allowances and the impact of fuel price increases compared to the previous year. Overall, the performance of the healthcare sector has been favourable and reported a profit after tax of Rs. 367.7 Mn. for FY18/19, an increase of Rs. 109.5 Mn. or 42.4% growth YoY.

FMCG SECTOR

The revenue of the FMCG sector grew by 8.9% to Rs. 5.86 Bn., while the profit after tax increased by an impressive 66.4% to Rs. 488.9 Mn. as opposed to Rs. 293.8 Mn. reported in the previous year. The gross margins improved as the tea prices were lower compared to the previous year. The total overhead expenses increased due to the rise in selling and distribution expenses by Rs. 124.3 Mn. (19.0% growth YoY) due to timing of advertising and promotions, and the administrative expenses by Rs. 63.9 Mn. (14.4% growth YoY). The net finance cost reduced remarkably by Rs. 51.5 Mn. (-103.2% growth YoY) due to a favourable improvement of the working capital and the foreign exchange gain. The income tax rate increased from 10% to 28% YoY, leading to an increase in tax expenses by Rs. 145.3 Mn.

AGRI SECTOR

The Agri sector faced a challenging operating environment during the year under review mainly due to drop in tea crop and the tea prices. As a result, revenue dropped by Rs. 189 Mn. (-2.6% growth YoY) to Rs. 7.07 Bn. compared to Rs. 7.27 Bn. in the previous year. The Gross Profit decreased noticeably by Rs. 454.2 Mn. (-26.9% growth YoY), compared to the previous year whilst the gross profit margin contracted by 5.9% to 17.3% from 23.3% mainly due to the drop in tea prices and the impact of the wages and the gratuity provision which was accounted in Q4FY18/19. The administration expenses of the Agri sector increased by Rs. 20.9 Mn. mainly due to the rise in staff related expenses partly negated by reductions in professional fees and sundry expenses.

ENERGY SECTOR

Energy sector revenue increased by Rs. 107.4 Mn. to Rs. 355.8 Mn. from Rs. 248.4 Mn. in FY2017/18 resulting in an increase in EBIT of Rs. 83.4 Mn. to report Rs. 205.4 Mn. compared to Rs. 122.0 Mn. in the previous year. The favourable performance in the Energy sector, due to significant rainfalls is reflected in the increase in PAT by Rs. 15.5 Mn. to Rs. 63.4 Mn. compared to Rs. 47.9 Mn. in the previous year.

OTHER SECTOR

Sunshine Packaging Lanka Limited reported a loss of Rs. 120.0 Mn. for the year under review, which includes the provision for impairment of assets and deferred tax provisions for business and capital assets. The loss from the discontinued operations for the period is nil as opposed to Rs. 210.8 Mn. reported in the previous year.