Sino Agro Food, Inc. Reports Q3 2018 Results

Revenue of USD 38.8.0M; EPS of USD .09

Financials

Total revenue decreased USD 9.6M, or 20%, to USD 38.8M for the quarter ended September 30, 2018 when compared on a year over year basis (“YoY”). When compared to Q2 2018 (“QoQ”), revenue increased USD 4.8M, or 14%,

When compared to Q2 2018 (QoQ), revenue from the sale of goods during Q3 2018 decreased USD .4M or 1%. Revenue from project development increased sequentially USD 5.4M, or 490%, to USD 6.5M USD 1.1M.

Third quarter gross profits totaled USD 6.2M compared to USD 6.5M during Q3 2017 and USD 5.4M during Q2 2018, an increase of 15% QoQ.

Fully diluted earnings per share were USD .09 in the third quarter, compared to USD .14 in Q3 2017 (YoY) and versus USD .02 in Q2 2018 (QoQ).

Overview

Results continued a reprioritization of businesses according to bottom line performance and guided by stricter cost control and capital expense rationale for each. In aggregate, all business segments maintained the 16% gross profit margin from the previous quarter, while increasing net income USD 2.57M, or 285%, to USD 3.47M versus the previous quarter. This was mainly due to higher revenue, lower non-operating expenses, and higher income from SIAF’s Investment Associate, Tri-way, Industries Ltd.

These efforts have resulted in each standalone business stabilizing or improving. Integrated Cattle (SJAP) is being deemphasized in the near term due to adverse market conditions; however, it is self-sustaining, showing a small net operating profit in Q3. Seafood and Meat Trading has had consistent revenue with consistent gross margins over many quarters. The Organic Fertilizer (HSA) and the Cattle Farms (MEIJI) segments are both exhibiting generally growing trends expected to continue as previous capital investments are beginning to generate returns and/or strategic partnerships are adding revenue without new capital investment. The same is true of the Plantation segment, although it must recover from some damage suffered as a result of Typhoon Mangkhut.

During the third quarter, because the benefits of business reprioritization had not yet overcome obligations incurred before the reprioritization, equity shares were issued to cover some current and non-current other payables that typically would have been covered through normal cash-flow levels in the past.

The Company has adopted austerity measures to reduce equity funding, and has made substantial strides in that direction. The Company expects the benefits of its reprioritization to more fully materialize in the current quarter.

Other Key Points

- SIAF’s income from its full 36.6% equity investment in Tri-way (“TRW”) increased USD .4M, 0r 29%, to USD 1.8M in Q3 2018 on a YoY basis. QoQ, the income growth was to USD .2M, or 12%.
- Capital expenditure is being restricted to shorter-term, positive profile returns for all businesses to improve cash flow, resulting in all segments booking positive gross profits.
- As of September 30 2018, the Company had net working capital of USD 173.1M, an increase of USD 4.8M YoY, USD 2.5M more than the previous quarter.
- Stockholders’ equity increased YoY by USD 10.1M to USD 622.5M.

Annual Comparison

(USD M, except per share and margin data)	Q3 ’18	Q3 ’17	%
Revenue	38.8	45.4	(20) %
Gross Profit	6.2	6.5	(5) %
Gross Profit Margin	16.0 %	14.4 %	11 %
Earnings Per Diluted Share (FD) (USD)– from continuing and discontinued operations	.09	.14	(36) %

Sequential Comparison

The Company achieved the following results, comparing the third quarter of 2018 to the second quarter:

(USD M, except per share and margin data)	Q3 ’18	Q2 ’18	%
Revenue	38.8	34.0	12 %
Gross Profit	6.2	5.4	15 %
Gross Profit Margin	16.0%	16.0%	0 %
Earnings Per Diluted Share (FD) (USD)	.02	.17	(88) %

The following table breaks out revenue by business segment, comparing the third quarter of 2018 to the second quarter:

Revenue (USD M)	Q3 ’18	Q2 ’18	%
Integrated Cattle Farm (SJAP)	3.5	5.1	(31) %
Organic Fertilizer (HSA)	2.5	2.5	0 %
Cattle Farms (MEIJI)	8.0	6.1	31 %
Plantation (JHST)	1.0	1.0	0 %
Seafood & Meat Trading	17.3	18.2	5 %
Sale of Goods Total	32.9	31.4	(5) %
Project Development Total	6.5	1.1	490 %
Group total	38.8	34.0	12 %

Integrated Cattle (SJAP)

The Integrated Cattle Farm business segment (SJAP) discontinued its value-added processing subsidiary (QZH) December 30, 2017. In addition, the SJAP is downsizing its business until such time as market conditions rebound. It has longer term plans to revitalize and develop the HuangYuen City Center into a trading center for the cattle and beef industry, capitalizing on its current and proposed commercially zoned land bank used by local farmers who contribute to the region’s sale of four million head of cattle annually.

Factoring out QZH, SJAP revenue decreased by USD 2.8 M, or 44% from USD 6.3M in Q3 2017 to USD 3.5M in Q3 2018. The smaller operations maintained gross margins of about 33%.

The live cattle market remaining depressed negatively impacted sales of livestock feed. SJAP increased fertilizer sales by incentivizing district farmers to plant new crops, overcoming the loss of traditional sales to local cooperative cattle raisers.

Overall, despite continued depressed market conditions, and reflecting stricter cost controls, SJAP demonstrated financial self-sufficiency, recording a net operating profit of USD .4M in its standalone financial report, only .17M less than Q3, 2017.

Organic Fertilizer (HSA)

Revenue at HSA increased by USD .72M, or 43% from USD 1.7 M in Q3 2017 to USD 2.4M in Q2 2018. Gross profits increased by USD .42M or 95% from USD .44M in Q3 2017 to USD .86M in Q3 2018.

HSA’s production had been capacity constrained due to the retrofitting of a production plant. The second production plant started operation, producing 3,690 tons of mixed organic fertilizer and sales of USD1.6M in Q2 2018 versus 0 in the comparable 2017 period. Mixed organic fertilizer accounted for 81% of HSA’s gross profit.

Fertilizer sales returned to normal levels after retrofitting two production plants.

Cattle operations at HSA have been delayed due to the Company’s restriction on capital expenditures, as well as limited progress made by the local government with its industrial development plan.

HSA will maintain its direction to keep its capital expenditure as low as possible and to lease out some of its assets that are currently unproductive until such time as it will have built up enough of a cash flow position to afford further capital expenditure. During this quarter HSA leased out its cattle buildings and related facilities to a third party for a period of one year at USD 300,000/year. There are cost savings (i.e. cost of maintenance and general administration etc.) aiding the bottom line.

Subsequent to the end of the third quarter, in October, 2018 HSA also leased out 10 acres of land situated at the front entrance of its property for annual rental of USD 80,000 for 24 months.

Cattle Farms (MEIJI)

Revenue for Q3 2018 totaled USD 8.0M, a YoY increase of USD .75M, The QoQ increase was 1.9M or 31%, representing a strong trend. Gross profit in Q3 2018 was USD .1.3M, a 40% increase YoY and a 125% increase QoQ.

MEIJI revenue and profit in the quarter would have been greater, but were restrained by 357 head of cattle being quarantined, delaying their sale until Q4.

Plantation (JHST)

Revenue at JHST decreased by USD .5M, or 33% from USD 1.5M in Q3, 2017 to USD 1.0M in Q3 2018, which was about the same as Q2 2018. The decrease was primarily due poorer quality flowers and consequent lower market prices, resulting from root disease caused by excessive rain in past years. Gross profits totaled USD .17M, also about the same as the previous quarter.

The experimental crop of Passion Fruits harvested during the quarter had good reception with reasonable and stable prices averaging over RMB20 / kg (or approximately US$3 / kg). These results are encouraging; we are working on improving the yield per acre targeting to start commercial production in spring 2019 with about 100 acres.

At the same time we have successfully attracted the interest of a health-products purveyor to market our Immortal vegetable plants (IVP) under their brand label via their e-commerce platform with shipments covering all corners of China. In this respect, we are redesigning and repackaging our IVPs with the aim to have this sales program launched with commercial harvests beginning from Spring 2019.

There were good crops of passion fruit ready and targeted for harvest in Q4 2018, but unfortunately Typhoon Mangkut damaged all 25 acres of passion fruit. Flooding spoiled part of the cash vegetable crops (about 100 acres) which will impact income in Q4 2018.

The storm also damaged staff quarters, necessitating repair. The storm also damaged the fruit trees planted on approximately 150 acres that will not affect JHST’s 2018/2019 revenues and income, but will take some time before recovery.

Seafood and Meat Trading (Corporate)

Revenue from Seafood and Meat trading increased USD 1.7M, or 24% from USD 15.6M in Q3 2017 to USD 17.3M in Q3 2018. Gross profits decreased by USD .13M, or 8% from USD 1.72M in Q3 2017 to USD 1.59M in Q2 2018.

These results are primarily due to the Company's decision to trade selective products to maintain certain margins developed with select clients. The Company is confident that this strategy provides a solid basis for growth from its consistent performance.

Engineering Technology, Consulting and Services -- Project Development (CA)

Revenue from project development totaled by USD 6.5M in Q3 2018, an increase of 118% from Q3 2017, and an increase of 490% from Q2 2018.

Gross profit of USD 1.0M increased USD .3M, or 39% YoY.

The increase stemmed from SIAF's investment associate, Tri-way Industries Ltd., undertaking several projects, to finish construction and retrofit work on its indoor A Power Module farms and about 20 acres of open dam recirculating system farms.

CEO Commentary

Solomon Lee, Chief Executive Officer of Sino Agro Food, commented, "This was a positive quarter for the Company as we saw a continuation of the trends reported in Q2 2018 in the form of a sequential increase in revenues and stable gross margins. This is the direct result of our restructuring strategy implemented in 2017 that involved divesting some businesses that had become unprofitable, streamlining others, and implementing strict cost controls across several areas of the business. The current operations are leaner and more efficient which, as seen this quarter, is positively impacting our bottom line, with net income increasing 285% to USD 3.47M, compared with the second quarter of 2018. These positive trends are expected to continue as we leverage this platform to continue to steadily grow the business.

"We are pleased to see increased activity at Tri-way, our investment associate, which generated slighter higher income to SIAF on both a year over year and sequential basis. Tri-way's activities also generated revenues to Capital Award, our provider of engineering technology, consulting and services, as we supported its development projects, including the construction and retrofit work on its indoor A Power Module farms and about 20 acres of open dam recirculating system farms.

"As previously discussed, we have downsized our Integrated Cattle farm (SJAP as we adapt to increased market competition, especially from foreign imports. This strategy is working and we are pleased to report an operational profit for the third quarter, in line with our expectations. We partially compensated for the fall in cattle sales by ramping up fertilizer sales. We will continue to monitor this business and seek ways in which we can adapt and grow with changing market dynamics. One longer-term strategy is to establish a trading center for the cattle and beef industry.

"We are particularly pleased with our progress at HSA selling organic fertilizer, which benefited from two fully operational production plants. We also successfully leased out its cattle buildings and related facilities to a third party to provide additional income and maintain control over costs. Likewise, we reported strength from Cattle Farms (MEIJI). As in prior quarters, we saw strength from our seafood and meat trading business, which is well positioned to leverage trends in the market as a result of our transition toward higher quality, and higher margin, products. This remains a core part of our business and we will continue to focus on expanding sales.

"To conclude, although sales are not as high as they were a year ago, we are pleased with the trend toward improved profitability and more sustainable margins. These results validate our strategies to "right size" businesses in the near term while reducing legacy debt until expansion or new initiatives are funded. In the meantime, we are encouraged that positive operational trends will continue to drive improved financials, and grow the value of SIAF, which we believe is deeply undervalued. We are confident in our long term prospects and, therefore, plan to issue a dividend before year-end."

Q3 2018 Interim Report

For detailed segment operational performance and developments, please take the time to read our latest 10-Q filing, or refer to the Q3 2018 Interim Report posted to the Company website at http://sinoagrofood.investorroom.com/download/Sino-Agro-Food_Q3-2018-Interim-Report.pdf.

Earnings Call Information

The Company will host an earnings call on December 7, 2018 to discuss quarterly financial results.

Please submit questions by email to info@sinoagrofood.com. These will be organized and answered on the call.

To listen to the conference call please use the following information:

SIAF Q3 2018 Results Call Information	
Date: December 7, 2018	Time: 10:00 AM, EDT/16:00 PM CET
Participant Dialing Instructions:	
SE: +46 8 5059 63 06	UK: +44 203 139 48 30
NO: +47 23 50 05 59	CN: +86 400 681 54 21
US: + 1 (866) 928-7517	
Conference PIN code: 28684242#The earnings call will also be available over the web.To access, click the following link: Sino Agro Q3 2018 Earnings Call	

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About Sino Agro Food, Inc.

SIAF is a specialized investment company focused on protein food. The Company produces, distributes, markets, and sells sustainable seafood and beef to the rapidly growing middle class in China. Activities also include production of organic fertilizer and produce. SIAF is a global leader in developing land based recirculating aquaculture systems ("RAS"), and with its partners is the world's largest producer of sustainable RAS prawns.

Founded in 2006 and headquartered in Guangzhou, the Company had over 550 employees and revenue of USD 198 million in 2017. Operations are located in Guangdong, Qinghai, and Hunan provinces, and in Shanghai. Sino Agro Food is a public company listed on OTCQX U.S. Premier in the United States and on the Oslo Børs' Merkur Market in Norway.

News and updates about Sino Agro Food, Inc., including key information, are published on the Company's website (http://www.sinoagrofood.com), the Company's Facebook page (https://www.facebook.com/SinoAgroFoodInc), and on twitter @SinoAgroFood.

Forward Looking Statements

This release may contain forward-looking statements relating to the business of SIAF and its subsidiary companies. All statements other than historical facts are forward-looking statements, which can be identified by the use of forward-looking terminology such as "believes," "expects" or similar expressions. These statements involve risks and uncertainties that may cause actual results to differ materially from those anticipated, believed, estimated or expected. These risks and uncertainties are described in detail in our filings with the Securities and Exchange Commission. Forward-looking statements are based on SIAF's current expectations and beliefs concerning future developments and their potential effects on SIAF. There is no assurance that future developments affecting SIAF will be those anticipated by SIAF. SIAF undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required under applicable securities laws.