



AmInvestment Bank

Thematic report

6 Aug 2024

# PLANTATION

*Durians: T'is the season*

**NEUTRAL**

(Maintained)

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*Rationale for report: Sector update*

## Investment Highlights

- **Only a few listed durian companies in Malaysia.** In this report, we look at the durian industry in Malaysia. There are 3 listed companies involved in durian activities on Bursa Malaysia. They are PLS Plantations, DSR Taiko (listed on Leap Market) and Matang. Out of the 3, DSR Taiko and Matang are profitable. We believe that Matang's earnings are mainly driven by palm oil as its durian plantations are still young. PLS Plantations recorded a net loss of RM4.1mil due to lower palm product prices and higher upkeep/maintenance expenses. DSR recorded a net profit of RM1.3mil in 1HFYE6/24. The main durian players in Malaysia are unlisted companies such as Hernan Plantation, Sindiyan Group and Top Fruits.
- **Long gestation period.** Durian trees take many years to mature and reach peak yields. We believe that durian plantations only turn profitable after 8 years of planting.
- **Yield cycle is long.** Durian trees take 5 years to mature. At the peak, the tree can produce more than 100 durians a year compared to 20 durians in the 1<sup>st</sup> year of maturity. Durian trees reach peak yield from Year 20 to 40. Durian trees can last for more than 100 years. Hence, there is little need for replanting.
- **Challenging to plant durians.** Durian cultivation is challenging as the trees are prone to diseases and changes to weather conditions. In addition, farmers must be diligent in applying fertiliser and managing water levels. We believe that the major cost components are labour and fertilisers. We reckon that the cost of maintenance is RM20,000-RM25,000/ha per year.
- **Pahang is Malaysia's main durian producer.** The main producers of durians in Peninsular Malaysia are Pahang, Kelantan and Johor. They account for more than 60% of durian production in Peninsular Malaysia. Most of the durian plantations in Pahang are in Bentong and Raub. Bentong, Raub and Balik Pulau in Penang are suitable for durian plantations due to their slopy terrains. Durians are best planted in slopy areas that are less than 30 degrees.
- **Supply affects durian prices.** Like other commodities, selling prices of durians depend on market forces of demand and supply. Hence if the weather is too dry, durian supply will fall and prices will rise. According to Statista, average selling price of D24 in Malaysia ranged from RM9.95/kg to RM30.10/kg from 2014 to 2022.
- **Malaysia's exports of fresh durians to China will take time.** The long-term prospects of the durian industry are positive due to export opportunities to China. In June 2024, Malaysia received approval to export fresh durian fruits to China. Previously, Malaysia was only allowed to export pulp, paste and frozen fruits to China. Applications for approved permits to export fresh durians to China will be audited by the General Administration of Customs of China in September. Currently, more than 90% of durians produced in Malaysia are consumed domestically. Also, supply is constrained due to the scarcity of suitable land and the long gestation period of the durian tree. It is estimated that there are 85,000ha-90,000ha of planted areas in Malaysia compared to 180,000ha-200,000ha in Thailand. Most of the durian plantations in Malaysia are owned by smallholders with blocks of land smaller than 10 acres.
- **Convert ageing oil palm to durians?** IOI Corporation has 28ha of durian plantations in Johor as of end-FY23. There is potential for plantation companies to convert ageing oil palm trees into durian estates if the terrain and soil are suitable. ESG requirements for durian plantations are also less stringent than palm oil. Only issue is the long payback period for durians. It takes oil palm trees only 3 years to mature compared to 5 years for durians. Durian trees only reach peak yields from 20 years onwards.
- **Planters are interested in solar currently, not durians.** Instead of durians, we believe that plantation companies are focussing on solar development currently. The payback period for a solar farm is shorter than durians and we think that it is easier to manage a solar farm instead of a durian estate. Recall that SD Guthrie has proposed to build a solar farm next to its Kerian Integrated Industrial Park in Perak. The group is also bidding for a LSS5 project.

- **Oil palm planters are preparing for EUDR.** In the meantime, we reckon that large plantation companies are focusing on being ready for the EUDR (EU Deforestation Regulation), which will be implemented at the end of this year. Under the EUDR, exporters must produce documentation and evidence that their products are free from deforestation. Looking ahead, other challenges for the sector include a hike in minimum wage and implementation of the multi-tiered workers' levy.
- **2024E CPO price assumption is unchanged at RM4,000/tonne.** We are keeping our average 2024E CPO price assumption of RM4,000/tonne for pure Malaysian companies. Average MPOB spot price was RM4,014/tonne in 7M2024. We believe that CPO prices would soften in 2H2024 due to the peak production period.
- **Neutral on plantation sector.** We have selective BUYS on a few plantation companies due to the attractive age profile of their oil palm trees and leverage to CPO prices. We recommend BUYS on KL Kepong (FV: RM25.20/share), Genting Plantations (FV: RM6.80) and Hap Seng Plantations (FV: RM2.40).

## EXHIBIT 1: PEER COMPARISONS

	Share price (RM)	FY22 EPS (sen)	FY23 EPS (sen)	FY22 PE (x)	FY23 PE (x)	FY23 DPS (sen)	FY23 div yield (%)
DSR Taiko	1.18	-0.1	0.4	na	310.5	-	-
Matang	0.085	0.3	0.1	32.7	77.3	0.16	1.9
PLS Plantations	0.71	6.4	-7.6	11.0	na	-	-

Source: Companies

## EXHIBIT 2: PALM OIL COMPANIES' VALUATION COMPARISONS

	Share price (RM)	EPS (sen)		PE (x)		Fair values (RM)	Upside	FY24F DPS (sen)	FY24F Div yield	Rec
		FY24F	FY25F	FY24F/FY25F	FY25F/FY26F					
IOI Corp	3.70	18.5	22.9	20.0	16.2	4.10	10.8%	11.0	3.0%	Hold
KLK	20.50	83.6	140.1	24.5	14.6	25.20	22.9%	70.0	3.4%	Buy
SD Guthrie	4.29	15.7	25.2	27.3	17.0	4.55	6.1%	16.0	3.7%	Hold
Gent Plant	5.37	34.8	37.8	15.4	14.2	6.80	26.6%	25.0	4.7%	Buy
Hap Seng Plant	1.64	15.5	15.9	10.6	10.3	2.40	46.3%	7.0	4.3%	Buy
TSH Resources	1.06	7.2	8.2	14.7	12.9	1.20	13.2%	3.0	2.8%	Hold

Source: AmInvestment Bank

## EXHIBIT 3: PRODUCTION AND PLANTED AREAS OF DURIANS IN 2022

	Planted areas ha	Harvested areas ha	Production tonnes	Value of production RM'000
Johor	19,979	15,802	138,946	2,835,878
Kedah	4,207	3,793	35,204	718,513
Kelantan	10,556	5,276	35,464	723,830
Melaka	3,087	1,796	8,161	166,574
NSembilan	3,277	2,544	22,528	459,790
Pahang	15,894	11,953	122,290	2,495,959
Perak	5,597	3,577	26,834	547,678
Perlis	200	200	1,720	35,105
Penang	1,907	1,833	14,856	303,212
Selangor	361	236	635	12,967
Terengganu	2,791	1,297	3,558	72,620
Sabah	6,838	1,735	12,834	261,944
Sarawak	12,572	5,072	32,394	661,170
Labuan	11	8	32	653
Malaysia	87,277	55,122	455,456	9,295,893

Source: Fruit Crop Statistics 2022, Department of Agriculture

## TOPOGRAPHY AND WEATHER CONDITIONS

### □ Slopy terrains are best for durians

Durian trees are usually planted in slopy terrains of less than 30 degrees. The soil has to be high in organic matter and consist of sandy clay or clay loams. Loamy soils are black and contains more nutrients than sandy soils.

Durian trees usually grow under the hot weather i.e between 25 and 32 degrees Celcius. Hence, it is not a surprise that durians are cultivated only in tropical countries. Rainfall should be ample at 1,500mm per year.

Like oil palm, durian trees do not thrive if the weather is too hot or wet. El Nino would affect yields and reduce the production of durians. Wet weather results in durian flowers falling off without bearing fruits.

This year, the weather in Malaysia has been erratic i.e. hot during the day and wet in the evenings. As a result, the durian season is expected to start later in August instead of July.

## YIELD CYCLE

### □ Durian trees mature in Year 5

We understand that older durian trees i.e. more than 20 years old, have the best yields.

Durian yields are low in the early mature years before rising as the trees become older.

Durian trees take 5-6 years to mature. In the first 4 years of cultivation, farmers apply fertilisers and maintain irrigation and water systems.

Fertiliser is usually applied during wet weather as water would help disburse the nutrients. Fertiliser frequency is different for each stage of the growing process.

For example, more fertiliser is applied during the seedling stage. Similar to oil palm, durian trees require potash, nitrogen and phosphorus for fruit and root development.

In Year 5, the yield of the durian tree is 3 tonnes/ha-5 tonnes/ha or 3,000kg/ha-5,000kg/ha, assuming an average weight of 1.5kg. There are roughly 100 trees in a hectare. In the 1st year of maturity, the tree produces 20 durians.

### □ Durian trees reach peak yields after Year 20

At the peak, the durian tree can yield more than 100 fruits per year. Based on an average weight of 1.5kg, this translates into 15 tonnes/ha or 15,000kg/ha. This takes place between Years 20 and 40.

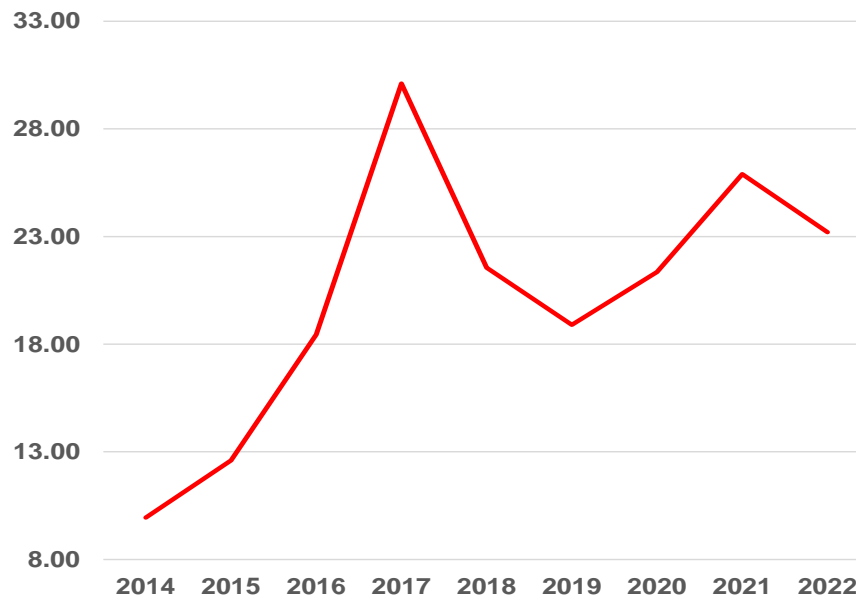
Assuming durian plantings expanded in the 1980s and 1990s in Malaysia, this means that the average age of the durian trees would be 30-40 years old currently.

Durian estates are mainly owned by small farmers. The largest Musang King plantation in Malaysia is owned by Sindiyan Group, which has 3,880ha in Gua Musang, Kelantan.

PLS Plantations manages and operates 40ha of durian plantation in Melaka. Matang has 118ha of durian plantations in Johor.

As durian trees can last for more than 100 years, there is little need for replanting. In fact, we understand that yields are still healthy even after 40 years.

EXHIBIT 3: AVERAGE RETAIL SELLING PRICE OF D24 (RM/KG)



Source: Statista

## TREND OF SELLING PRICES/SUPPLY AND DEMAND DYNAMICS

### ❑ *Selling prices are determined by demand and supply*

According to Statista, the average selling price of a D24 durian ranged from a low of RM9.95/kg to a high of RM30.10/kg from 2014 to 2022 (see Exhibit 3). The highest average price of RM30.10/kg was recorded in 2017.

Like other commodities, durian prices are driven by market forces of demand and supply. If supply is poor due to unfavourable weather conditions, prices would increase.

In 2017, durian prices surged due to a drop in production caused by El Nino. According to the Department of Statistics, durian production in Malaysia dropped by 30.3% to 210,874 tonnes in 2017 from 302,646 tonnes in 2016.

### ❑ *Black Thorn is the most expensive variety*

Black Thorn is the most expensive variety of durians. Second most expensive is Musang King (MK). We believe that Black Thorn is about RM20/kg to RM30/kg more expensive than MK.

We reckon that the selling price of Black Thorn durian is high as compared to other varieties as its branches are more fragile and the tree is more susceptible to strong winds.

Currently, there are about 1.6mil durian trees in Peninsular Malaysia. Out of these, 500,000-600,000 are MK trees.

## COST STRUCTURE

### ❑ *Labour and fertilisers are main cost components*

We believe that the main cost components of running a durian plantation are labour and fertilisers. We reckon that the cost of maintenance is RM20,000/ha to RM25,000/ha per

year. Assuming a yield of 4,500kg/ha (30 durians per tree), this would translate into a cost of RM4.50/kg to RM5.50/kg.

The main capital cost would be land. A prime durian plantation can cost between RM800,000 and RM1mil per acre. Planting durians from scratch is challenging as it takes an experienced manager to navigate the vagaries of weather, topography and manuring.

### ❑ *Low man to land ratio*

The man to land ratio is about one worker for 2ha to 3ha for hilly areas. Assuming a hectare yields 3,000 durians at an average weight of 1.5kg, there would be 9,000kg of durians for 2ha.

Assuming a monthly wage of RM3,500, the cost per kg would be less than RM1.00. Hence, we believe that mature durian plantations would be able to absorb a hike in minimum wage.

## CUSTOMERS AND EXPORT MARKETS

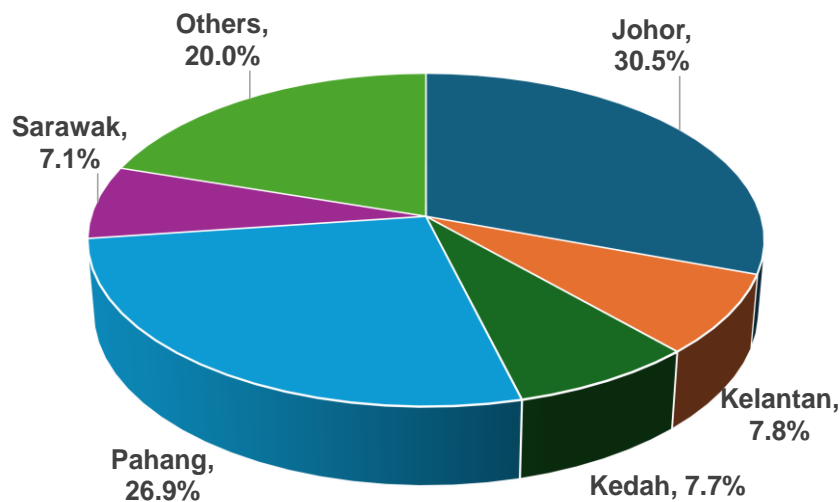
### ❑ *Global durian market dominated by Thailand and Vietnam*

According to Food and Agriculture Organisation of the United Nations, the global durian market was worth US\$3bil per year from 2022 to 2022.

China's imports of fresh durians amounted to 1.4mil tonnes in 2023. Out of these, Thailand accounted for 65.2% or 929,000 tonnes. According to the South China Morning Post, Thailand's market share of China's durian imports (in terms of US\$ value) has declined from 100% in 2021 to 68% in 2023 due to competition from Vietnam. Vietnam's durian exports to China grew to US\$2.1bil in 2023 from zero before 2022.

Vietnam surpassed Thailand as China's top durian importer in 2M2024. Vietnam exported 32,750 tonnes of durians compared to Thailand's 19,000 tonnes. Vietnam's export price is almost 20% lower than Thailand's due to lower

## EXHIBIT 3: BREAKDOWN OF DURIAN PRODUCTION ACCORDING TO STATES IN 2022



Source: Fruit Crop Statistics 2022, Department of Agriculture

transportation costs. It is easier to export to China from Vietnam compared to Thailand.

Going forward, durian production in Thailand may fall due to the hot weather in April and May this year. An industry expert was quoted in the Nation as saying that the drought will reduce Thailand's durian production by 42% or 540,000 tonnes.

#### ❑ *Malaysian durians are mostly consumed domestically; exports are small*

As Malaysia's durians have a stronger taste and flavour compared to Thai durians, there is a niche market for the product. A reason for the distinctive taste is because of the smaller size of the plantations in Malaysia.

We understand that having homogenous trees and variety in a big area affects the quality and taste of the fruit. Most durian plantations in Malaysia are owned by smallholders.

It is difficult for Malaysia to compete with Thailand and Vietnam in the export markets as Malaysia has smaller planted areas and higher transportation costs.

In addition, Malaysia can only export pulp, paste or frozen durians to China.

Hence, Malaysia's durian production caters mainly to the domestic market. Out of the 455,458 tonnes of durian produced in 2022, Malaysia exported only 1,880 tonnes.

#### ❑ *China is Malaysia's largest export market*

According to the Agriculture and Food Security Minister, Malaysia exported durian products worth RM1.1bil in 2022. Out of these, RM887mil worth of products went to China. The export value is expected to reach RM1.8bil in 2030F.

From 2017 to 2023, 234,000 tonnes of durian products were exported. China accounted for 73% of the demand. Singapore was second with export value of RM414.8mil.

In June 2024, Malaysia received approval to export fresh durians to China following the signing of a new phytosanitary protocol. Prior to this, Malaysia could only export pulp, paste and frozen whole fruit to China.

Applications for approved permits to export fresh durians to China will be audited by the General Administration of Customs of China in September 2024.

### **RETURN ON EQUITY (ROE) IS STILL LOW**

#### ❑ *Long time to be profitable*

We understand that it takes 8 years for a durian plantation to break-even. Even though the durian tree takes 5 years to mature, yields are low. Peak yields take place when durian trees are more than 20 years old.

#### ❑ *ROE is still low*

DSR Taiko's ROE was 2% each in 1HFYE6/24 and FY23. Matang's ROE was 1.5% in 9MFYE6/24 and 1.1% in FY23. Matang's earnings came mainly from palm oil as durian plantations are still young.

PLS Plantations recorded a net loss of RM4.1mil in 9MFYE6/24 due to lower palm product prices and higher upkeep/maintenance expenses.

## INDUSTRY PROSPECTS

### □ *Long-term prospects are positive*

An industry expert with Universiti Putra Malaysia said that global demand and trade for durian are expected to grow to more than US\$25bil by 2030F driven mainly by China.

Hence, we believe that prospects for the durian industry are positive. Due to the scarcity of suitable land in Malaysia together with resilient local and overseas demand, we reckon that durian prices can be sustainably supported for the long term.

Supply is also constrained as durian plantations take many years to break-even and reach peak yields. Durian plantations also have to be managed by experienced staff.

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