



# Ever Glory United Holdings Ltd.

(EGUH SP / ZKX.SI)

## Powering progress

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- Ever Glory United Holdings Limited and its subsidiaries are primarily engaged in the provision of mechanical and electrical (M&E) engineering services.
- Ever Glory United experienced significant growth in FY23. Revenue jumped 69.7% YoY due to an increase in M&E projects and a focus on securing higher-margin contracts. This led to a substantial rise in gross profit and a significant improvement in gross profit margin to 23.1%. To maintain profitability in the face of inflation, the company is closely monitoring project costs.
- Following pandemic-related delays between FY19 and FY22, Singapore's public housing program saw a major upswing in FY23 to address the high demand for housing. This surge in HDB Build-To-Order projects significantly contributed to the strong performance of the construction industry in FY23.
- Singapore's construction market is expected to continue growing, with the public sector acting as a key driver. The National Development Minister recently announced plans to increase the number of Build-To-Order projects under construction from around 100 to 150 by 2025. This government initiative signifies a long-term tailwind for Ever Glory's construction business, as it aims to meet Singapore's current housing needs.

IPO Price	S\$0.22
Shares for public offer	0
Shares for placement	14mn
Initial market cap	S\$18.63mn
Trading commenced	18 May 2023

**Company Background.** Ever Glory United Holdings Limited (Ever Glory) is a Singapore-based company specializing in mechanical and electrical (M&E) engineering services. It caters to both public and private sector projects, offering a comprehensive suite of services for various building types. This includes developing or redeveloping HDB flats, private residences, schools, mixed-use properties, commercial buildings, and industrial facilities.

**Ever Glory's core business is construction, encompassing M&E engineering services.** This segment generates over 95% of its revenue. The Group also has a nascent property development segment contributing less than 5% of revenue. This diversification demonstrates its strategic approach to expanding its business portfolio.

**Project-based revenue and recognition.** Ever Glory operates on a project-based model, securing M&E engineering contracts that drive revenue. Project value and completion timelines directly impact financials. They utilize the percentage-of-completion method, recognizing revenue

progressively as projects advance. This method relies on upfront estimations of total project costs, which can influence recognized revenue and necessitate adjustments. The accuracy of revenue recognition hinges on management's estimates (based on past experience and internal specialists) and provisions for cost overruns.

**Financial highlights and analysis.** Ever Glory reported impressive revenue growth of 69.7% YoY to S\$47.48mn in FY23, compared to S\$27.98mn in FY22. This surge is attributed to an increase in undertaken M&E projects and a focus on higher-margin contracts. Gross profit also saw a significant leap of S\$8.06mn (approximately 279.0% YoY) from S\$2.89mn in FY22 to S\$10.95mn in FY23. The company's profitability is impacted by factors like project costs and execution efficiency.

FY23 saw a rise in gross profit margin to 23.1% due to the focus on higher-margin projects. Management is actively monitoring costs in the inflationary environment to mitigate any negative impact. To achieve sustainable revenue growth, Ever Glory will continue monitoring costs in existing projects and pursue new tenders to expand their order book.

Ever Glory is strategically diversifying its revenue streams by venturing into property development. Its joint development project, a 20-unit residential flat project, is scheduled for completion by the end of 2028. Additionally, it is exploring further opportunities in property development and potential acquisitions to enhance shareholder returns.

**Recent acquisitions.** On 7 February 2024, Ever Glory completed its first acquisition since its IPO – Fire-Guard Engineering Pte Ltd, a specialist fire protection subcontractor. This S\$5.6mn acquisition, financed through internal resources and potential share issuance, complements its existing M&E services. Fire-Guard's expertise is expected to enhance cost efficiency, expand its network, and position it for larger projects. The financial impact will be reflected in the upcoming results for the six months ending 30 June 2024.

On 6 December 2023, Ever Glory's subsidiary, Ever Capital Pte Ltd, partnered with Primest Land and Sunlit Venture Capital for a joint residential property development in District 14. Ever Glory will contribute 25% of the estimated S\$30mn project cost. This strategic move positions it for entry into property development and generating additional revenue, although the short-term financial impact is expected to be minimal.

**Strong performance in its core construction segment.** This success stemmed from a confluence of factors. First, the Singaporean construction industry ramped up significantly, fueled by the easing of COVID-19 restrictions. Second, an influx of foreign workers bolstered the industry's capacity, allowing it to tackle a backlog of projects that had accumulated during the pandemic. Consequently, Ever Glory capitalized on this surge in activity, generating significantly higher revenue compared to FY22.

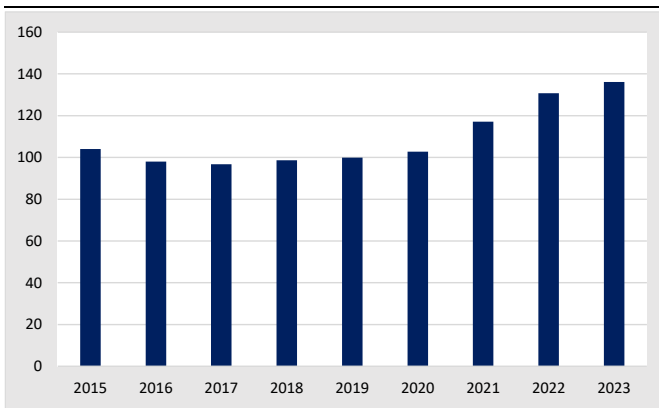
Figure 1: Key financial highlights

(S\$'000)	2H22	2H23	YoY Change	FY22	FY23	YoY Change
Revenue	17,894	20,919	16.9%	27,980	47,478	69.7%
Gross profit	1,893	2,706	42.9%	2,890	10,954	279.0%
GPM	10.6%	12.9%		10.3%	23.1%	
PAT	1,132	1,345	18.8%	1,767	6,831	286.6%
NPM	6.3%	6.4%		6.3%	14.4%	

Source: Company, KGI research

**Inflation presents a challenge to profitability as it drives up raw material prices and labor costs, both key expenditure areas for Ever Glory.** Despite a rise in the cost of sales due to increased project volume, the company's strong revenue growth in FY23 outpaced these cost increases, resulting in significant profit gains. This is reflected in the improved gross profit margin of 23.1% in FY23 vs. 10.3% in FY22 and net profit margin of 14.4% in FY23 vs. 6.3% in FY22. However, ongoing inflationary pressures necessitate close monitoring of project costs and active pursuit of new contracts to ensure sustainable profitability going forward.

Figure 2: Tender price index (2010=100), as of Feb 2024



Source: [Building and Construction Authority](#), KGI research

The Board of Directors recommends a final dividend of S\$0.01 per ordinary share (tax-exempt) subject to shareholder approval at the upcoming Annual General Meeting to be held on or before 30 April 2024. The payment date for the proposed dividend, if approved, will be announced later.

**Market outlook.** Singapore's construction sector is poised for further expansion in 2024, with a projected growth of 1.0% to 3.0% in 2024, following a 5.2% YoY increase in 2023. The total contract awards are projected between S\$32bn and S\$38bn. This upward revision from the initial 2023 forecast (S\$27bn to S\$32bn) reflects two key drivers:

- **Rising Tender Prices:** Increased material costs and a potential labour shortage are putting upward pressure on tender prices.
- **Surge in Public Housing Projects:** Government initiatives addressing housing demand are fuelling a significant rise in public housing developments.

The public sector is expected to be the main driver of construction demand in 2024, contributing an estimated S\$18 billion to S\$21 billion in contracts. This includes major upcoming projects like new public housing developments, the Cross Island MRT Line (Phase 2), infrastructure works for Changi Airport Terminal 5, and Tuas Port advancements.

Private sector construction demand is forecast to range from S\$14 billion to S\$17 billion in 2024. Key areas of activity include residential developments under the Government Land Sales program, expansion of integrated resorts, commercial redevelopment, mixed-use properties, and industrial facilities.

Figure 3: Construction output forecast

Year	Construction demand (Value of contracts awarded per year, S\$'bn)			Construction output (Value of certified progress payments per year, S\$'bn)
	Public	Private	Total	Total
2023P	19.5	14.3	33.8	34.8
2024F	18 - 21	14 - 17	32 - 38	34 - 37
2025 - 2028F	19 - 23	12 - 15	31 - 38	

\*P: Preliminary, F: Forecast

Source: [Building and Construction Authority](#), KGI Research

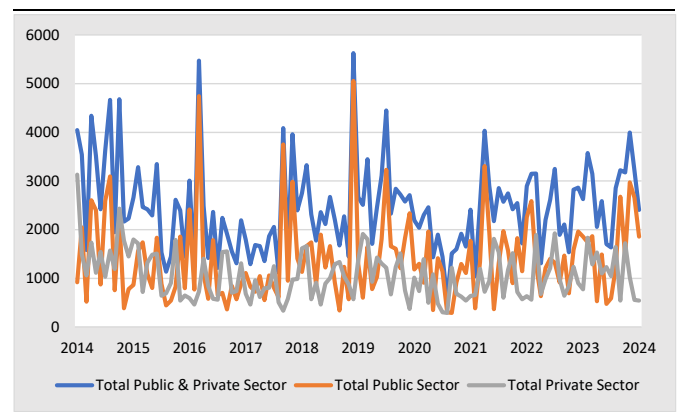
The positive outlook is expected to continue through 2028, with annual construction demand projected between S\$31bn and S\$38bn. The public sector will likely contribute S\$19bn to S\$23bn per year, with a focus on building projects and essential civil infrastructure works.

**Sustainability and Innovation.** The government is actively transforming the built environment sector towards higher productivity and sustainability standards. This includes collaborative contracting models, risk-sharing approaches for emerging challenges, and a focus on quality consultancy services through enhanced Standard Consultancy Agreements (SCA). Additionally, the Quality Fee Method (QFM) framework is being revamped to emphasize merit-based selection and differentiate based on quality scores. These changes are expected to be implemented later in 2024. To encourage broader participation, the government is urging private developers to adopt similar practices for a more resilient and innovative construction sector in the long run.

**Four key trends shaping the industry:**

- **Green Building Boom.** Driven by sustainability goals, there's a rising demand for green buildings that incorporate solutions like smart sensors for water and energy management.
- **Efficient Building Methods.** The government is actively promoting the Design for Manufacturing and Assembly (DfMA) methodology, which emphasizes prefabrication of building components off-site for faster and more efficient on-site assembly.
- **Inclusive Design Focus.** To cater to an aging population, with over a third projected to be above 65 by 2035, there's a growing emphasis on designing accessible spaces that meet the needs of a diverse range of users.
- **Integrated Digital Delivery (IDD).** The use of IDD is increasing. This technology leverages digital tools to connect stakeholders and integrate work processes throughout the construction lifecycle, fostering better collaboration and boosting overall efficiency.

Figure 4: Contracts awarded by Sector and Development Type – Jan 2014 to Jan 2024



Source: [Department of Statistics Singapore](#), KGI Research

**Company outlook**

Singapore's construction industry is poised for growth in 2024, but inflation presents a challenge. Ever Glory United, capitalizing on this growth through its core M&E engineering services, is actively managing costs and exploring property development to diversify revenue streams. Its focus on efficient project execution and strategic diversification positions it well to navigate the market and achieve sustainable growth for shareholders.

**Key Risks:**

1. Business and financial performance are dependent on the state of Singapore's M&E demand.
2. Government initiatives and incentives relating to the construction industry, that may have a material adverse effect on the business and prospects.
3. Revenues and profits may fluctuate with changes in ongoing tenders and orderbook.
4. Inflation impact results in high material costs.
5. Ever Glory United does not have long-term contracts with customers.

Figure 5: Singapore peer comparison

BB ticker	Company Name	Last Price (local \$)	Currency Adj. Market Cap (S\$ m)	Dividend Yield (%)	Net Gearing (%)	P/E (x)	P/B (x)	ROE (x)	ROA (x)
EGUH SP	EVER GLORY UNITED HOLDINGS L	0.395	67	3.8	-22.8	9.1	5.9	96.0	36.2
	<u>Industrial services</u>								
KWAN SP	KING WAN CORP LTD	0.024	17	0.0	0.0	5.1	0.3	5.2	2.8

Source: Bloomberg

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