

Cloud service sector

Taiwan cloud service sector growth to surpass world & Asia-Pacific region

Key message

1. Taiwan's cloud service sector's output value will post a 2024-26F CAGR of 34%, outpacing the world and Asia Pacific region, as Taiwan's public cloud spending has lagged the global average, deregulation will open a new chapter for financial institutions migrating to the cloud, geographic advantages have attracted three major public cloud service providers, and generative AI will boost the willingness of enterprises to connect to the cloud.
2. Multiple growth engines will drive Taiwan's cloud services over the next 3-5 years: (1) corporate IT spending is focusing on multi-cloud and hybrid-cloud applications; (2) deregulation will create more business opportunities for MSP and cloud service providers; (3) geographic advantages have attracted three major cloud service providers to set up outlets in Taiwan; and (4) information security software and generative AI popularity will bring massive demand for computing and software services.
3. Beneficiaries of high Taiwan cloud service market growth include eCloudvalley (6689 TT, NT\$121.5, OP), which has benefited from high IaaS growth, Acer AEB (6811 TT, NT\$275.5, OP), which has benefited from the growing market share of Microsoft (US) Azure and Copilot debut, and Chief Telecom (6561 TT, NT\$322, OP), which has benefited from growing cloud and digital demand.

Event

We forecast Taiwan's cloud service sector will enter a high-growth stage of over 30% YoY in 2024-26, which will benefit related cloud service companies.

Impact

Taiwan's cloud service market to post 2024-26F output value CAGR of 34%, outpacing the world & Asia Pacific region. The global cloud service sector has grown slower than expected in 2023 on a global economic slowdown. However, Gartner has revised up its 2024-26 global cloud service sector output value CAGR forecast to 21%, with the Asia-Pacific region and Taiwan revised up to a respective 28% and 34%. Taiwan's cloud service market will enter a high-growth stage of over 30% YoY in 2024-26, as public cloud spending has lagged the global average, deregulation will open a new chapter for financial institutions migrating to cloud, geographic advantages have attracted three major public cloud service providers to establish outlets in Taiwan, and generative AI will boost the willingness of enterprises to connect to the cloud, all of which will encourage enterprises, governments, and financial institutions to use cloud internet resources, massive computing ability, and storage services.

Multiple growth engines to boost Taiwan's cloud service providers' business over next three to five years. We expect Taiwan's public cloud sector to grow rapidly over the next three to five years, driven by: (1) Taiwan's public cloud spending has considerably lagged behind the global average, and the focus of corporate IT spending is shifting from optimizing on-premises and single cloud to multi-cloud and hybrid-cloud applications; (2) the Financial Supervisory Commission (FSC) deregulated cloud connection rules in 3Q23, accelerating cloud connection by governments, the financial sector, and the healthcare sector. The government and financial sectors are large, but both have low cloud connection rates. Deregulation will create more business opportunities for managed service providers (MSP) and cloud service providers; (3) geographic advantages have attracted three major clouds to establish outlets in Taiwan. After Google (US) set up its first data center, Amazon (US) AWS and Microsoft (US) Azure started paying more attention to Taiwan's geographic advantages as an East Asian internet hub, accelerating the establishment of their own data centers in Taiwan; and (4) information security software and generative AI popularity will bring massive demand for computing and software services, making companies more willing to connect to the cloud and purchase value-added services and software, which in turn will make them rely on key cloud service providers.

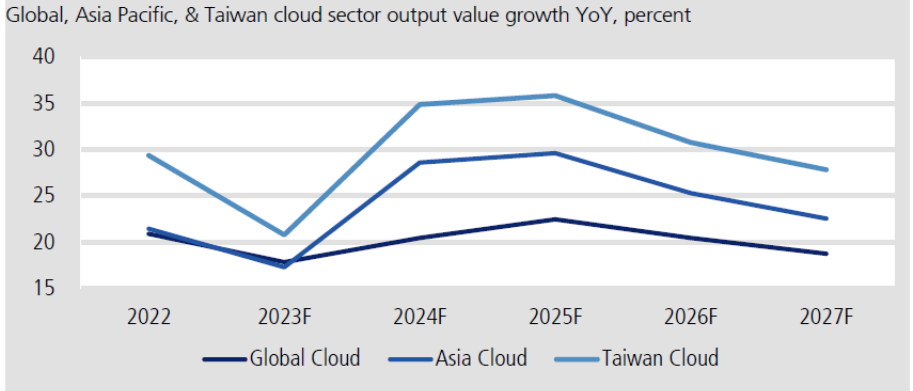
Beneficiaries of high growth of Taiwan cloud service market. We forecast Taiwan's IaaS's output value will post a 2024-26F CAGR of nearly 42%, benefiting Taiwanese MSPs. As a one-stop multi-cloud service MSP, eCloudvalley (6689 TT, NT\$121.5, OP), AWS' first senior consultant in the Greater China region, is one of the most competitive MSP firms in Southeast Asia. With Microsoft Azure expanding its market share and additional software demand brought by the debut of Copilot, Acer AEB (6811 TT, NT\$275.5, OP), one of Microsoft's top two distributors in Taiwan, will benefit. Chief Telecom (6561 TT, NT\$322, OP), Taiwan's largest global network-neutral data center, internet exchange, and public cloud exchange platform provider, will benefit from the high growth of cloud and digital demand in Taiwan. Chief Telecom will expand its IDC data center capacity to meet strong demand.

Stocks for Action

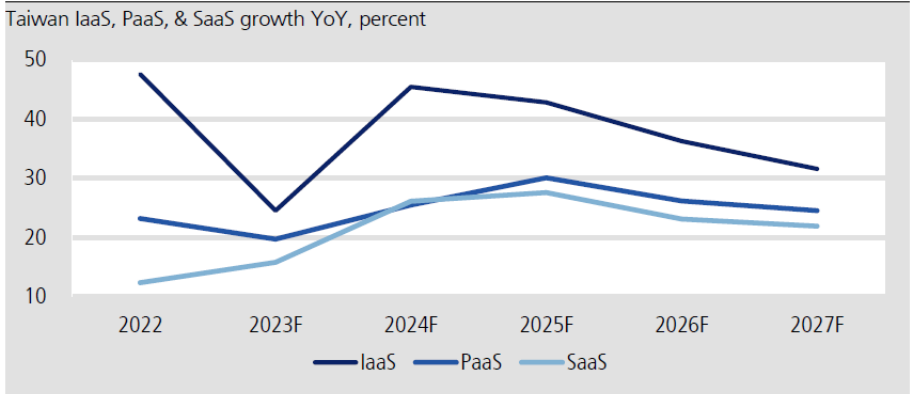
We are positive on Taiwan's cloud service sector, expecting it to grow rapidly over the next three to five years. We maintain Outperform on Acer AEB, eCloudvalley, and Chief Telecom.

Risks

Low cloud capex; serious information security problems.

Figure 1: Taiwan cloud service sector growth to surpass world & Asia-Pacific


Source: Gartner

Figure 2: Taiwan IaaS's output value growth stronger than that of PaaS & SaaS


Source: Gartner

Figure 3: Three major public cloud service providers' Taiwan outlet plans

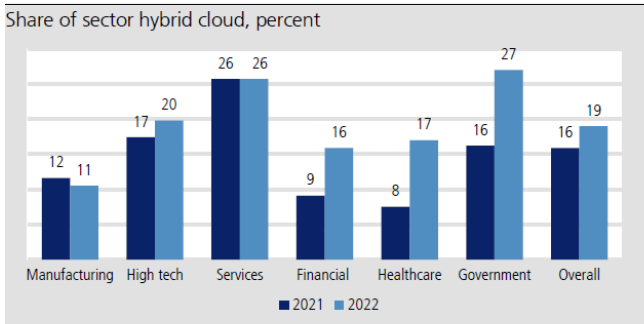
	AWS	Azure	GCP
Project	Local Zone	Data center	Data center
Location	Taipei	Northern Taiwan	Changhua Coastal Industrial Park (already in use), Tainan, Yunlin
Announcement time	Jun-22	2020	2019 (Tainan), 2020 (Yunlin)
Launch time	Oct-22	4Q23-1Q24F	2013 (Changhua Coastal Industrial Park)

Source: KGI Research

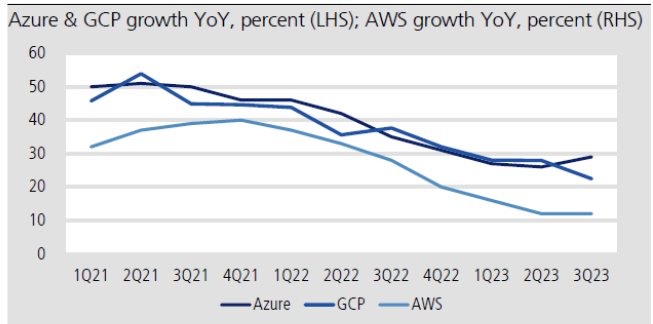
Figure 4: Deregulation of cloud connection for financial sector

Operations	Before amendment	After amendment
Other outsourcing operations approved by competent authorities	Prior approval required	Automatic approval for all financial institutions after the first application is approved by the FSC
Credit card issuance and retail loan marketing	Prior approval required	No application required
Collection of receivables	Prior approval required	No application required
Cross-border outsourcing operations	Prior approval required	Prior approval required for outsourcing of major consumer banking systems to overseas partners
Use of cloud services	Prior approval or notification required	Prior approval required for outsourcing of major consumer banking systems to overseas partners

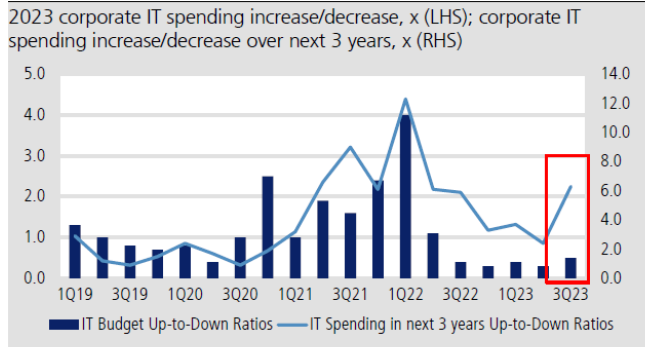
Source: FSC; KGI Research

Figure 5: Corporate cloud strategy moving toward hybrid cloud & multi-cloud


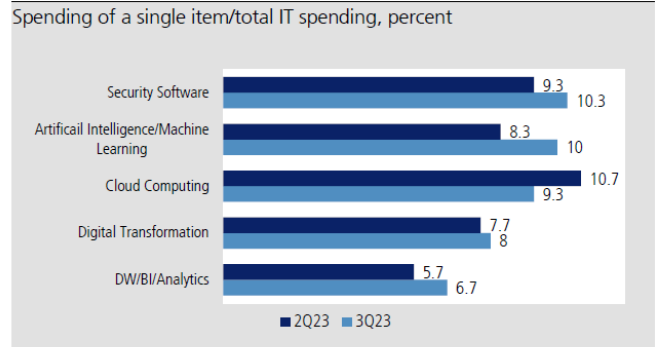
Source: iThome

Figure 6: Azure likely to raise public cloud market share


Source: Bloomberg

Figure 7: Corporate IT spending is accelerating


Source: AlphaWise; Morgan Stanley

Figure 8: Information security software, AI, & cloud computing see highest increase among corporate IT spending


Source: AlphaWise; Morgan Stanley

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