

## Taiwan strategy 2024

### AI & easing liquidity to lift Taixex to 20,000 in 2024F

#### Key messages

1. AI megatrend to drive Taixex structural earnings growth in 2024-25F.
2. Return of foreign capital and domestic fund inflows to inject fresh funds into the Taixex.
3. Taixex to consolidate upwards and hit 20,000 points in 2024F. We have highlighted 10 major investment themes and 23 beneficiaries.

#### AI megatrend to drive Taixex structural earnings growth in 2024-25F

Historically, the Taixex has benefited from a paradigm shift within the tech sector by delivering solid earnings growth for two consecutive years. We believe the same pattern will repeat on the ongoing AI megatrend. We estimate AI development will drive 20% earnings growth for the AI supply chain in 2024-25. Since 2000, technological innovation and tech product replacement have prompted structural earnings growth for tech firms. During the NB replacement cycle in 2005-07, the smartphone replacement cycle in 2013-15, and the spike in demand for tech products during the COVID-19 pandemic, the Taixex index rose a respective 30%, 21%, and 52%.

#### Taixex to resume structural earnings growth on restocking through 2024F

Assuming a US economic soft landing as the base case scenario for 2024, we anticipate that current restocking, which started in 4Q23, will extend to 2024. Restocking in the manufacturing sector will help Taixex earnings regain growth momentum in 2024F, driving stock rallies. In 2024, we think belated economic suppression, prompted by monetary tightening, will begin to bite, but as the Biden administration is continuing to act upon its fiscal priorities, we believe the US economy will have a soft landing.

#### Foreign capital return & domestic fund inflows to inject fresh funds into Taixex

Global funds have divested over NT\$2.0tn from the Taixex since 2020. We believe incentives for global funds to re-engage in the Taixex will emerge as the Fed's interest rate hike cycle ends in 2024, leading to a weakening US Dollar Index. Additionally, we have seen average domestic household asset allocation undergo structural changes since the pandemic. According to statistics, the cumulative income of life insurance policies has decreased by nearly NT\$3tn since 2020. We thus believe a certain weighting of funds are investing in the Taixex, as well as related high-yield ETF financial products.

#### Taixex to consolidate upwards & hit 20,000 points in 2024F

As the profitability of Taixex-listed companies will surge by over 20% in 2024-25F, coupled with the financial effects induced by global funds buying and domestic fund injections, we are positive the Taixex will hit 20,000. The index is trading at 2024F PE of nearly 19x, or 2025F PE of 16x, versus the long-term average PE of 15x. We think this valuation is fair.

#### Valuation & Action

We believe investors should focus on AI and restocking beneficiaries. Semiconductor, memory, and cloud service providers will benefit from the AI megatrend, and we are also upbeat about the prospects for PC and handset makers, as they will launch AI-enabled models in 2H24F. Manufacturing restocking will help automotive and industrial automation firms resume earnings growth, and we are particularly optimistic about business opportunities stemming from the lightweight automotive trend. Moreover, we

believe low Earth-orbit (LEO) satellites and e-paper, which used to be niche markets with limited use cases, are going to see applications expand in the mainstream market, which will boost earnings growth in their supply chains. We have highlighted 10 major investment themes and 23 beneficiaries, as follows: TSMC (2330 TT, NT\$574, OP), MediaTek (2454 TT, NT\$948, OP), Parade Technologies (4966 TT, NT\$1,075, OP), Alchip Technologies (3661 TT, NT\$3050, OP), Faraday Technology (3035 TT, NT\$380, OP), MPI (6223 TT, NT\$216, OP), WinWay (6515 TT, NT\$756, OP), Quanta Computer (2382 TT, NT\$201, OP), Wistron (3231 TT, NT\$93.3, OP), Wiwynn (6669 TT, NT\$1,780, OP), Lite-On Technology (2301 TT, NT\$109, OP), Accton Technology (2345 TT, NT\$538, OP), Auras Tech (3324 TT, NT\$363, OP), Chenbro Micom (8210 TT, NT\$246.5, OP), EMC (2383 TT, NT\$372, OP), Nanya Technology (2408 TT, NT\$74.2, OP), Acer E-Enabling Service (6811 TT, NT\$275.5, OP), Waffer Technology (6235 TT, NT\$120.5, OP), Hiwin Technologies (2049 TT, NT\$230.5, OP), Compeq (2313 TT, NT\$74.8, OP), E Ink (8069 TT, NT\$178.5, OP), Oneness Biotech (4743 TT, NT\$208, OP), and CTBC FHC (2891 TT, NT\$26.85, OP).

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