

Strategy

Taiex rally underpinned by an election & strong sales

Key messages

1. Historically, the Taiex has been more likely to rally during the month before a presidential election, and we believe that this time won't be an exception.
2. The 4Q23 sales achievement ratios of Taiex firms are positive, suggesting a positive outlook for earnings growth.
3. We are upbeat on plays benefiting from a presidential election rally and an impressive sales achievement ratio.

Taiex more likely to rally during the month before presidential election, and we believe that this time won't be an exception

The Taiwanese presidential election is just one month away. Of the past seven presidential elections, five saw the Taiex rally, by 4% on average, and two saw it fall, by an average of 9%, during the one-month period before election day, indicating the chance for a rally is over 70%. The two pre-election Taiex declines were in 2000 and 2016, respectively reflecting the systemic risk of the dotcom bubble burst and China's forex regime reform. That said, the Taiex fared relatively well compared with other Asian emerging markets, indicating the presidential election seems to have some effect on the Taiex one month ahead of its occurrence. In addition, a catch-up rally often occurs after an election, if there is a decline in the month leading up to it. Accounting only for the single factor of a presidential election, we are positive about the Taiex's performance in 1Q24F. Nonetheless, we need to carefully observe cross-Strait relations post-election, and whether high US interest rates will trigger financial risk.

Short-term peaks often seen one to two weeks before a presidential election

While the Taiex has been more likely to rally than decline, as mentioned above, the index often experiences short-term peaks during the one-to-two-week period ahead of an election, when there is a strong wait-and-see market sentiment, and limited "price-chasing". If such a situation occurs this time around, the Taiex will come under correction pressure between the end of December and early 2024F. The correction, however, will not be too deep, as the overall market fundamentals are strong.

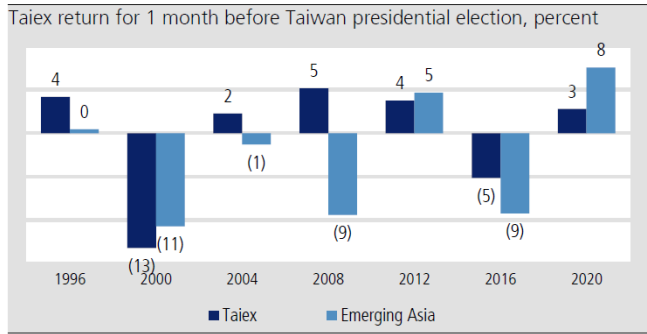
4Q23F sales achievement ratio positive, suggesting clear earnings growth outlook

We note that over two thirds of Taiex- and TPEX-listed firms' October-November sales are in line with, or exceed, projected 4Q23F sales. This indicates an end to the downward revisions to earnings projections seen over the last 18 months, and that the earnings outlook is increasingly bright. In the tech space, handset EMS's October-November sales had the highest sales achievement ratio, at 79%, followed by tier-one foundries, at 73%, handset components makers at 73%, and CCL producers, at 71%, due to a pickup in demand for Android handsets and strong pull-in demand for iPhone manufacturing. On the non-tech front, container shipping led in the sales achievement ratio, at 71%, due to higher shipping costs, boosted by the drought-hit Panama Canal. Aerospace/ military engineering came in second, at 68%, as a result of maintenance business growth at Evergreen Aviation (2645 TT, NT\$107.5, OP), and the food sector ranked third with 68%, thanks to increased sales of hot food entering winter, and explosive demand growth in China's restaurant market. Sales achievement ratio laggards are steel and cement manufacturers, reflecting property sector sluggishness in China.

Valuation & Action

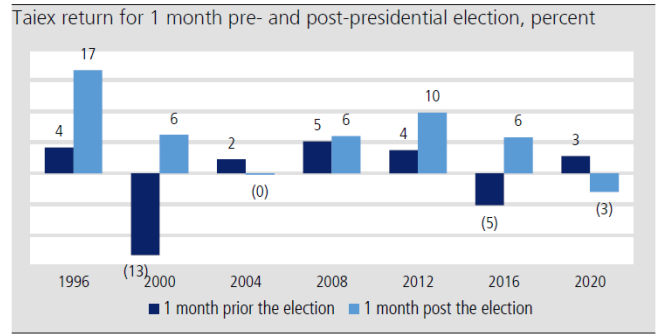
The upcoming presidential election and impressive sales are supportive of a bullish Taiex view. We expect the Taiex will challenge a peak of 18,000 points in 1Q24F, and hit 20,000 points by the end of 2024F. As the Taiex is likely to see a short-term peak in the two weeks before the presidential election, investors can capitalize on this trend by recognizing trading opportunities. We are upbeat on election-benefiting aerospace, heavy electrical and green energy plays, as well as the supply chains of handset components, foundries, CCL and AI sectors, which outperform in sales achievement ratios. Our top picks are Chung-Hsin Electric & Machinery (1513 TT, NT\$125, OP), Evergreen Aviation, DPI (4572 TT, NT\$166.5, OP), CTCL (9933 TT, NT\$43.8, OP), Largan Precision (3008 TT, NT\$2375, OP), MediaTek (2454 TT, NT\$939, OP), TSMC (2330 TT, NT\$578, OP), Elite Material (2383 TT, NT\$381, OP), Alchip (3661 TT, NT\$3520, OP), Compeq (2313 TT, NT\$70.9, OP), Auras (3324 TT, NT\$343, OP), Chenbro (8210 TT, NT\$268, OP).

Figure 1: Taiex has been more likely to rally during the month before a presidential election



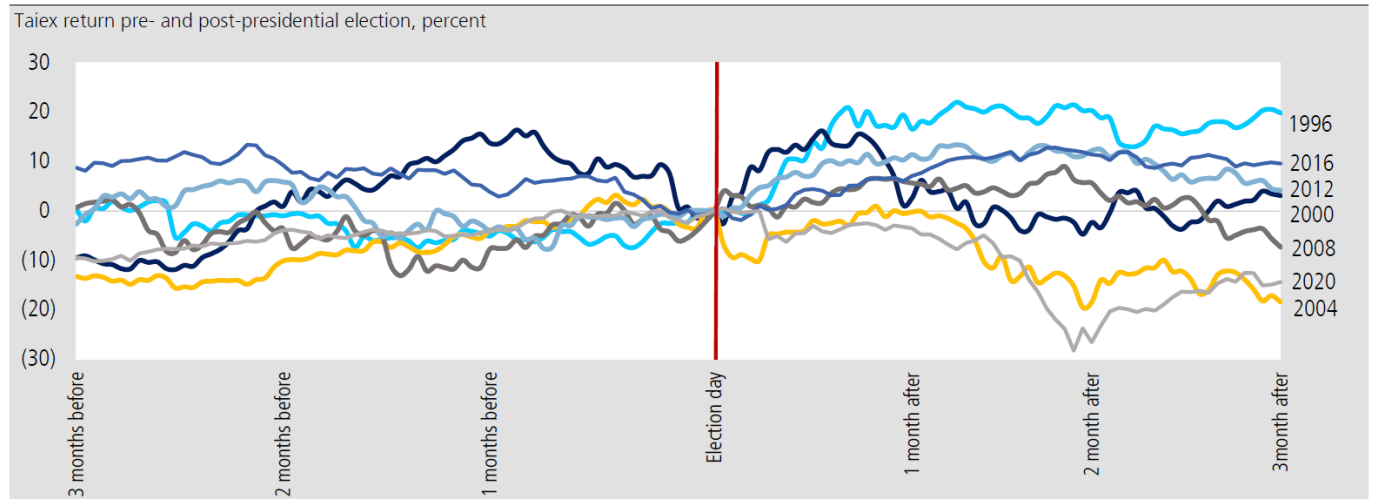
Source: Bloomberg; KGI Research

Figure 2: Taiex likely to see a catch-up rally if there is a decline in the month before the presidential election



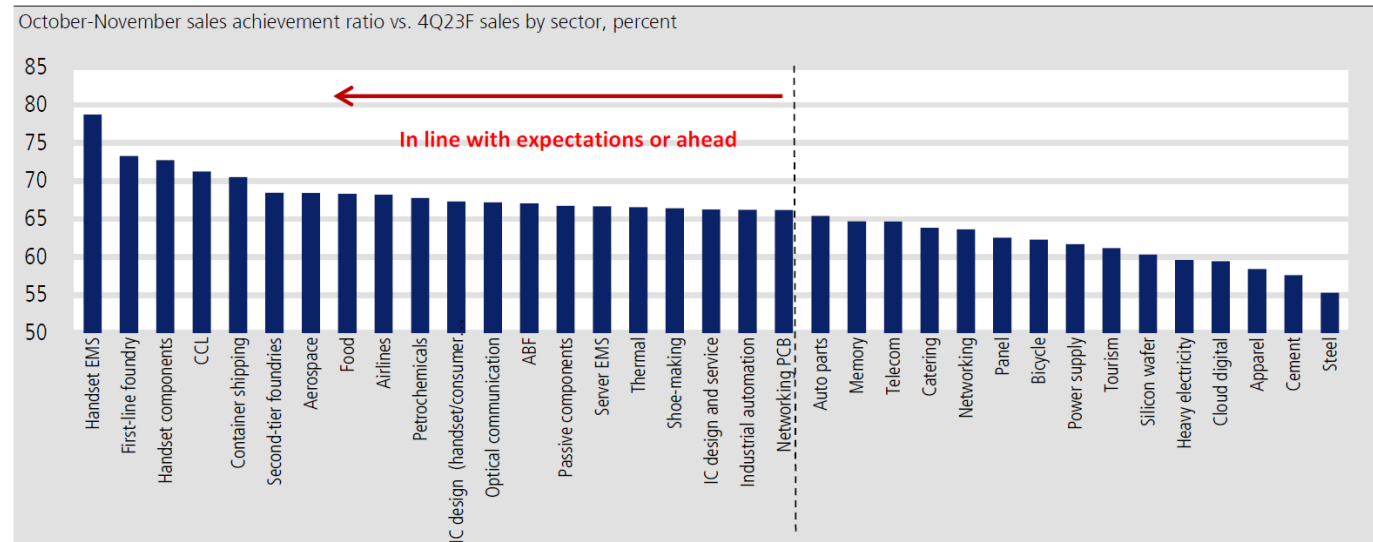
Source: Bloomberg; KGI Research

Figure 3: Taiex often sees short-term peaks in the two weeks before a presidential election

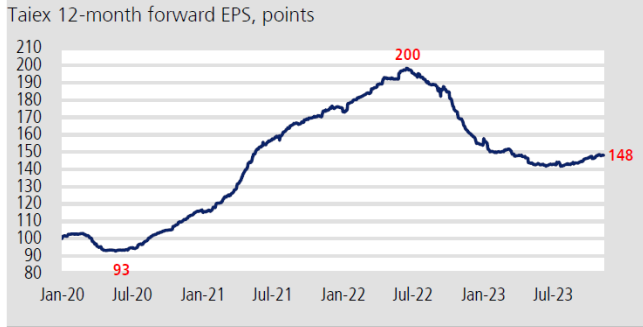


Source: Bloomberg; KGI Research

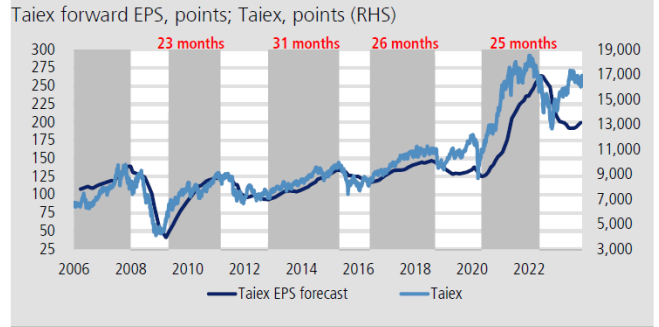
Figure 4: Over two thirds of listed firms have October-November sales in line with, or over, 4Q23F sales projections



Source: TEJ; KGI Research

Figure 5: Upward revisions to projected Taixes earnings


Note: January 2, 2020 = 100
 Source: Bloomberg; KGI Research

Figure 6: Increasing earnings support Taixes bullishness


Note (1): January 2006 as base for Taixes forward EPS
 (2): Shaded areas are earnings upward revision cycles
 Source: Bloomberg; KGI Research

Figure 7: Projected earnings growth YoY – Taixes and subsector, percent

	2022	2023F		2024F	
		KGI forecast	Consensus	KGI forecast	Consensus
Memory	(24.6)	(95.6)	Turned unprofitable	959.0	Turned profitable
Optical communication	-	91.3	91.3	197.9	197.9
Networking PCB	56.1	(23.2)	(19.7)	70.4	71.7
Networking	239.5	48.9	54.8	62.6	67.6
IC design and service	94.8	6.8	5.6	55.6	50.1
ABF	102.5	(68.4)	(67.8)	52.4	66.2
Server EMS	(9.3)	8.2	9.2	41.3	38.0
CCL	(7.7)	10.8	9.5	36.7	49.0
Passive components	(0.8)	(27.2)	(25.0)	34.6	27.0
Thermal	50.6	15.6	15.0	24.9	19.7
First-line foundry	70.4	(20.2)	(19.1)	24.8	18.1
iPhone components	28.4	(35.5)	(34.8)	22.4	18.2
IC design (handset/consumer elec)	(2.9)	(35.7)	(35.9)	20.7	20.2
Handset EMS	(2.1)	(13.8)	(9.4)	20.7	20.0
Cloud digital	16.3	18.0	16.6	19.5	17.3
Power supply	15.1	6.6	4.6	16.8	17.4
Telecom	2.6	6.1	7.6	4.2	7.2
Second-tier foundries	51.6	(36.2)	(36.3)	1.9	(3.4)
Silicon wafer	29.5	25.1	22.9	(7.9)	(6.4)
TFT	Turned unprofitable	Remained unprofitable	Remained unprofitable	Turned profitable	Turned profitable
Technology	17.8	(22.0)	(23.2)	25.0	23.8
Non-tech	(12.0)	(64.4)	(66.8)	7.4	10.6
Taixes	(3.7)	(27.0)	(28.9)	19.5	19.9

	2022	2023F		2024F	
		KGI forecast	Consensus	KGI forecast	Consensus
Steel	(75.4)	(33.6)	(76.0)	168.8	183.6
Shoe-making	100.0	(50.0)	(41.7)	65.9	54.5
Auto parts	52.8	(18.9)	(20.0)	43.5	44.0
Industrial automation	5.2	(13.2)	(11.3)	28.7	25.1
Tourism	(46.5)	167.8	168.8	25.7	22.1
Petrochemicals	(63.1)	(43.0)	(38.9)	24.7	48.1
Food	(2.9)	112.2	118.7	18.7	15.1
Bicycle	(12.7)	(35.3)	(32.0)	17.4	23.7
Aerospace	135.4	39.9	33.8	14.3	13.3
Apparel	32.1	(12.0)	(10.6)	12.0	17.2
Food	(13.6)	23.4	23.2	10.1	6.4
Cement	(50.7)	47.0	37.5	7.5	6.8
Airlines	(37.8)	203.2	211.5	(46.8)	(42.2)
Container shipping	19.7	(92.9)	(94.8)	(92.4)	(64.4)

Note: Ranked by our 2024F earnings growth YoY
 Source: KGI Research

Figure 8: We forecast a Taixes 1Q24F peak of 18,000 points, and 2024F peak of 20,000 points in 4Q24F

Taixes 2024F movements and positives/ negatives

	1Q24	2Q24	3Q24	4Q24
Index movement				
Positives	(1) PC and handset demand recovery (2) Manufacturing extending inventory replenishment since 4Q23 (3) The January Effect and policies supporting a bull run before the presidential elections (4) Apple launches new product (5) Dividend payout announcement	(1) Nvidia introduces the new server chip (2) China new Android handsets launch (3) European and US CBs to commence interest rate cuts sequentially	(1) AI PC production in small quantities (2) iPhone 16 Drives New Product Stocking (3) Massive cash dividend release (4) Intel introduces the new server platform Birch Stream	(1) AI PC ramp up (2) Market's expectation of PC replacement in the following year (4) Seasonal accounting effect
Negatives	(1) Results from the Taiwan presidential elections affect cross-strait relations (2) 2023 annual report check (3) BOJ ending its negative interest rate policy	(1) End demand enters slow season (2) Post-pandemic Revenue Spending Cools Down (3) Moody's updates credit rating for US debts (4) 1Q24 results check (May 15)	(1) 2Q23 corporate results check (August 14) (2) Cash dividend evaporation index	(1) Uncertainties prior to the US presidential elections (2) 3Q24 corporate results check (November 14)
Peak/trough	18,000/17,000	17,600/17,000	17,500/16,600	20,000/17,400
End-quarter closing point	17,400	17,100	17,400	19,800

Source: KGI Research

Figure 9: Taixex and sector returns during one month pre- and post-presidential election, percent

Ranking	1996		2000		2004		2008		2012		2016		2020																
	One month prior the election	One month post the election	One month prior the election	One month post the election	One month prior the election	One month post the election	One month prior the election	One month post the election	One month prior the election	One month post the election	One month prior the election	One month post the election	One month prior the election	One month post the election															
NO.1	Paper and Pulp	10.7	Financial	28.8	Electronics	(9.5)	Glass & Ceramics	21.6	Tourism	9.8	Financial	2.4	Tourism	16.9	Building materials	21.7	Computer and peripherals	9.8	Optoelectronics	26.4	Oil and electricity	2.1	Optoelectronics	11.7	Optoelectronics	6.7	Financial	0.3	
NO.2	Plastics	9.6	Building materials	24.5	Plastics	(9.7)	Chemical Technology	19.2	Rubber	8.7	Electronics	2.2	Oil and electricity	13.6	Chemica	14.8	Components	9.1	Auto	24.3	Plastics	2.0	Electrical	9.6	Auto	5.4	Information	0.1	
NO.3	Rubber	8.6	Tourism	19.5	Tourism	(11.6)	Electronics	11.3	Electrical appliances	8.6	Electrical appliances	1.1	Cement	11.3	Chemical biotechnology	14.0	Cement	8.3	Biotechnology and Medicine	22.3	Steel	1.9	Trade	8.8	Semiconductor	5.3	Food	(0.2)	
NO.4	Tourism	7.9	Steel	16.7	Electrical appliances	(12.1)	Others	10.0	Food	7.9	Plastics	0.8	Plastics	10.9	Information	13.7	Electronics	7.6	Electrical appliances	22.1	Communication network	1.6	Rubber	8.8	Electrical	5.2	Electrical	(0.9)	
NO.5	Textile	6.5	Auto	15.9	Steel	(14.7)	Paper and Pulp	10.0	Aut	7.6	Paper and Pulp	(1.0)	Trade	9.9	Paper and Pulp	13.1	Glass & Ceramics	7.0	Electrical	21.8	Electronics channel	(2.3)	Steel	8.7	Paper and Pulp	4.7	Communication network	(1.7)	
NO.6	Auto	5.6	Food	15.3	Electrical	(15.6)	Rubber	7.4	Glass & Ceramics	6.7	Steel	(2.3)	Building materials	9.7	Computer and Peripheral Equipment	12.8	Oil and electricity	6.2	Other electronics	20.9	Food	(2.7)	Computer and peripherals	8.5	Tourism	3.9	Computer and peripherals	(1.8)	
NO.7	Financial	5.5	Trade	12.7	Textile	(17.1)	Tourism	6.3	Building materials	5.9	Chemical biotechnology	(3.5)	Rubber	9.5	Steel	11.1	Auto	5.7	Information	20.5	Tourism	(3.2)	Biotechnology and Medicine	7.4	Cement	3.5	Electronics channel	(1.8)	
NO.8	Building materials	5.4	Electronics	12.3	Financial	(17.4)	Building materials	5.1	Steel	5.7	Electrical	(3.6)	Textile	8.0	Biotechnology and Medicine	10.3	Electronics	5.1	Building materials	19.2	Glass & Ceramics	(3.5)	Textile	7.2	Electronics	3.4	Paper and Pulp	(2.2)	
NO.9	Cement	5.2	Cement	10.8	Others	(17.6)	Auto	4.9	Others	4.8	Textile	(4.1)	Others	7.8	Electrical appliances	10.3	Semiconductors	5.0	Components	17.7	Cement	(3.8)	Chemical biotechnology	7.2	Building materials	2.6	Trade	(2.2)	
NO.10	Elec. Machinery	4.7	Paper and Pulp	9.3	Chemical Technology	(18.8)	Electrical appliances	3.0	Cement	2.9	Trade	(4.2)	Electronics channel	7.2	Electronics channel	9.7	Food	4.6	Chemical biotechnology	17.4	Electrical appliances	(3.8)	Semiconductor	6.9	Oil and electricity	2.6	Chemicals	(2.2)	
NO.11	Glass & Ceramics	3.7	Textile	8.7	Auto	(18.9)	Electrical	2.7	Plastics	2.9	Glass & Ceramics	(6.8)	Financial	6.0	Components	9.5	Textile	4.6	Chemical	15.4	Textile	(3.8)	Chemicals	6.9	Components	2.5	Steel	(2.4)	
NO.12	Others	3.6	Others	6.4	Trade	(19.3)	Plastics	0.2	Electrical	1.9	Others	(8.0)	Auto	5.8	Communication network	8.7	Tourism	3.6	Tourism	15.0	Rubber	(3.8)	Electronics	6.6	Steel	1.9	Semiconductor	(2.6)	
NO.13	Chemical Technology	3.5	Electrical appliances	6.3	Glass & Ceramics	(19.7)	Steel	(0.4)	Paper and Pulp	1.7	Tourism	(9.4)	Steel	5.4	Others	7.8	Others	3.4	Paper and Pulp	13.2	Others	(4.5)	Electronics channel	6.4	Electrical appliances	1.7	Components	(2.7)	
NO.14	Steel	3.5	Electrical appliances	5.3	Paper and Pulp	(20.5)	Trade	(0.9)	Electrical appliances	1.5	Cement	(11.3)	Semiconductor	5.4	Electronics	7.5	Other electronics	3.4	Glass & Ceramics	13.2	Computer and peripherals	(5.0)	Information	6.1	Others	1.6	Chemical biotechnology	(2.9)	
NO.15	Food	3.3	Chemical biotechnology	4.8	Food	(21.3)	Financial	(2.1)	Chemical biotechnology	1.4	Food	(11.4)	Electrical appliances	5.2	Tourism	7.1	Rubber	3.1	Financial	11.3	Electronics	(5.1)	Electrical appliances	5.9	Trade	1.6	Chemical biotechnology	(3.1)	
NO.16	Electrical appliances	2.5	Rubber	4.8	Rubber	(21.4)	Food	(4.5)	Textile	(0.3)	Paper and Pulp	(12.2)	Electrical	4.6	Financial	6.8	Trade	2.8	Computer and peripherals	11.0	Semiconductor	(5.3)	Glass & Ceramics	5.9	Computer and peripherals	1.6	Cement	(3.7)	
NO.17	Trade	1.3	Plastics	1.8	Building materials	(25.6)	Textile	(6.3)	Financial	(0.6)	Building materials	(13.5)	Food	4.0	Other Electronics	6.6	Plastics	2.8	Electronics	11.0	Paper and Pulp	(5.4)	Food	5.7	Plastics	1.5	Biotechnology and Medicine	(4.1)	
NO.18	Electronics	(6.1)	Glass & Ceramics	(3.0)	Cement	(30.0)	Cement	(9.3)	Trade	(2.5)	Auto	(15.4)	Paper and Pulp	3.9	Electrical	6.1	Biotechnology and Medicine	2.5	Textile	8.0	Chemicals	(5.8)	Financial	5.0	Chemicals	1.4	Textile	(4.1)	
NO.19														Glass & Ceramics	3.0	Optoelectronics	6.1	Chemical Technology	2.5	Others	7.7	Trade	(6.1)	Others	4.8	Food	1.4	Electrical appliances	(4.4)
NO.20														Electronics	2.0	Semiconductor	5.8	Chemical	2.5	Semiconductor	6.6	Optoelectronics	(6.2)	Communication network	1.6	Financial	1.2	Plastics	(4.5)
NO.21														Optoelectronics	1.7	Auto	4.1	Financial	1.9	Plastics	6.3	Electrical	(6.8)	Cement	4.8	Rubber	0.7	Others	(5.2)
NO.22														Chemical	0.7	Rubber	3.9	Steel	1.7	Steel	4.7	Building materials	(7.7)	Components	4.4	Chemical biotechnology	0.7	Optoelectronics	(5.3)
NO.23														Computer and peripherals	0.7	Glass & Ceramics	3.8	Building materials	1.5	Electronics channel	4.5	Information	(8.1)	Other electronics	4.3	Textile	0.2	Other electronics	(5.9)
NO.24														Chemical biotechnology	0.4	Food	3.4	Communication network	0.9	Communication network	4.0	Components	(8.3)	Building materials	3.4	Electronics channel	0.0	Building materials	(6.0)
NO.25														Components	0.2	Textile	2.7	Information	(1.6)	Cement	3.6	Other electronics	(8.4)	Plastics	3.3	Biotechnology and Medicine	(0.1)	Rubber	(6.2)
NO.26														Information	0.1	Trade	1.3	Electrical appliances	(1.6)	Rubber	3.5	Chemical biotechnology	(8.5)	Paper and Pulp	2.3	Glass & Ceramics	(0.3)	Auto	(6.9)
NO.27														Communication network	(0.9)	Cement	0.5	Electrical	(1.6)	Trade	3.2	Auto	(10.7)	Oil and electricity	2.1	Information	(1.1)	Oil and electricity	(8.5)
NO.28														Biotechnology and Medicine	(1.1)	Oil and electricity	(2.5)	Oil and electricity	(1.8)	Food	2.4	Financial	(10.8)	Auto	(0.2)	Other electronics	(1.3)	Glass & Ceramics	(9.5)
NO.29														Other electronics	(2.3)	Plastics	(4.6)	Paper and Pulp	(2.5)	Oil and electricity	(2.8)	Biotechnology and Medicine	(11.1)	Tourism	(0.7)	Communication network	(1.7)	Tourism	(15.2)
Taixex		4.1		16.6		(13.2)		6.2		2.2		(0.2)		5.1		6.0		3.7		9.8		(5.2)		5.8		2.8		(3.0)	

Source: TEJ, KGI Research

Figure 10: Taixex valuations

	Forward PB(X)								Forward PE(X)							
	Forward 1-year	2023	2024	5-year average	10-year average	20-year average	2007 peak	2008 bottom	Forward 1-year	2023	2024	5-year average	10-year average	20-year average	2007 peak	2008 bottom
Taixex	1.78	1.93	1.73	1.70	1.60	1.61	2.28	0.95	17.67	19.90	16.65	14.88	14.83	17.11	21.73	8.80
Taixex excl. TSMC	1.47	1.59	1.42	1.39	1.38	1.46	2.22	0.89	18.03	20.55	17.52	14.48	14.77	15.97	22.71	8.06

Source: KGI Research estimates

Figure 11: Our top picks

Sector	Company	Code	Investment rating	Target price (NT\$)	Mkt cap (US\$m)	Share price (NT\$)	Change +/- (%)	EPS (NT\$)		PE (x)		P/B (x)		ROE (%)		Cash yield (%)	
								2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Electoral policies supporting a bull run	CHEM	1513 TT	Outperform	135.0	1,996	125.00	8.0	3.86	8.46	32.4	14.8	3.7	3.1	12.6	22.8	2.0	4.4
	EGAT	2645 TT	Outperform	157.0	1,278	107.50	46.0	5.00	5.23	21.5	20.5	3.7	3.6	17.0	17.7	4.4	4.6
	DPI	4572 TT	Outperform	230.0	206	166.50	38.1	7.10	7.66	23.5	21.7	3.1	2.7	13.9	13.3	2.1	2.3
	CTCI	9933 TT	Outperform	53.0	1,116	43.80	21.0	2.46	3.55	17.8	12.3	1.9	1.9	11.0	15.5	4.5	6.5
Excellent sales achievement rate	Largan	3008 TT	Outperform	2625.0	10,063	2375.00	10.5	135.80	145.85	17.5	16.3	1.9	1.7	11.2	11.1	2.9	3.1
	MTK	2454 TT	Outperform	956.0	47,685	939.00	1.8	45.35	56.16	20.7	16.7	3.7	3.7	17.1	22.0	5.6	6.5
	TSMC	2330 TT	Outperform	703.0	475,833	578.00	21.6	31.29	39.06	18.5	14.8	4.3	3.6	25.3	26.5	2.1	2.2
	EMC	2383 TT	Outperform	550.0	4,140	381.00	44.4	16.88	23.07	22.6	16.5	5.2	4.5	24.1	29.3	2.5	3.4
	Alchip	3661 TT	Outperform	3520.0	8,298	3520.00	0.0	44.75	70.36	78.7	50.0	16.7	13.3	23.6	32.3	0.6	1.0
	COMPEQ MANUFACT	2313 TT	Outperform	72.0	2,683	70.90	1.6	3.81	5.94	18.6	11.9	2.0	1.9	11.3	16.3	2.1	3.4
	AURAS	3324 TT	Outperform	445.0	967	343.00	29.7	15.86	21.09	21.6	16.3	4.8	4.1	23.0	26.6	2.0	2.7
Chenbro	8210 TT	Outperform	265.0	1,026	268.00	(1.1)	7.75	14.73	34.6	18.2	6.0	5.2	18.2	30.6	1.4	2.9	

Source: KGI Research estimates

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