

Strategy

Taiex to consolidate; focus on individual stocks

Key message

1. AI demand is real, and it will help sustain the Taiex rally and keep investors engaged.
2. US President-elect Trump's policies may create unpredictable risk, which will likely cap the Taiex rally before the Lunar New Year holiday.
3. We recommend the supply chains of robotics, N2 process, gaming, AI ASIC, and space tech.

Event

AI demand is real, and it will help extend the Taiex rally. That said, subsequent upticks will be moderated by unpredictable risk due to US President-elect Trump's policies.

Analysis

AI demand is real; Taiex rally to continue. The Taiex closed up 28.5% in 2024, which was the second best in the world, slightly trailing the Nasdaq's 28.6% gain. We attribute the stellar 2024 Taiex performance to the AI frenzy, prompted by aggressive installation of AI servers by large CSPs. As Nvidia (US) keeps rolling out more powerful GPU platforms amid growing demand for AI ASIC, which enables bespoke AI model build-out, we believe the AI frenzy will continue in 2025, pushing up Taiex earnings and stock prices. Specifically, we estimate the aggregate weighting of AI-related constituents in Taiex earnings will climb from 6% in 2024 to 9% in 2025, driving total Taiex earnings up 18% YoY in 2025, after a 36% uptick in 2024. AI applications will contribute 14% of 2025F Taiex tech earnings, up from 2024F's 10%, and allow tech sector earnings to climb another 23% YoY in 2025F, following 35% YoY growth in 2024F.

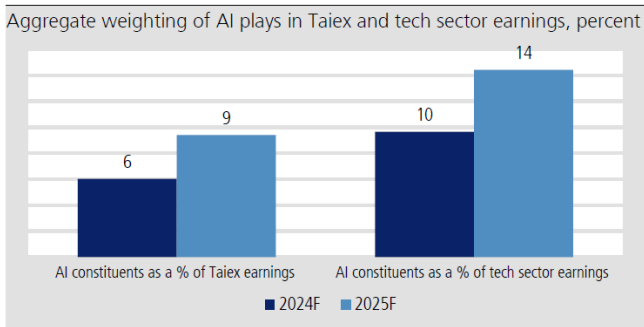
AI stocks to keep attracting investor interest as AI remains in the spotlight. We believe four upcoming major events, namely the International CES on January 7-10, TSMC's (2330 TT, NT\$, OP) earnings call on January 16, Nvidia's results announcement on February 27, and GTC on March 17 will rekindle investor interest in AI-related stocks. Historically, tech stocks tend to perform well right before and after CES, especially 15-30 days after commencement of the event, with Taiex tech stocks advancing 3-4% on average, outperforming the 1-2% gain in the broader market, thanks to announcement of new products or applications. The focus of this year's CES will be AR/VR, robotics, autonomous driving, drones, space technology for AI applications, and new gaming products. We believe related supply chains will be well received by investors. Notably, TSMC will provide 2025 guidance during its upcoming earnings call, and we think the whole market will be focused on what it has to say about AI demand and progress of the ramp-up of the N2 process. Nvidia's results announcement and GTC will reveal actual monetization of AI, and more importantly the development of new AI applications, including humanoid robots and autonomous driving.

US President-elect Trump's policies to create unpredictable risk, which will likely cap Taiex rally before Lunar New Year holiday. Trump will be sworn in as president on January 20. Although his tax cut and deregulation policies are overall favorable to the economy, his other policies, such as deportation of illegal immigrants and high tariffs, will inevitably hurt the US economy. It remains to be seen what policies are top priority for the new president and whether there will be exemptions for certain policies. If Trump adds exorbitant tariffs on imports, causing retaliation from trade partners, the US economy will face more uncertainty. While many of the aggressive policies that Trump introduced in his first term eventually came with exemptions, such as additional tariffs on imported goods from China only amounted to 19%, below the original threat of 45%, and the pledge to deport 11mn illegal immigrants eventually amounted to only 1.0mn. However, we note that Trump faces no reelection pressure in a second term, so he may not feel the pressure to hold back on his aggressive policies this time. Meanwhile, Taiex rallies tend to moderate before the Lunar New Year as some investors prefer to unload stocks before long holidays. The last trading day before the holiday will be January 22, right after Trump's inauguration and earnings season for US stocks. Such a multitude of uncertainties will leave investors even less willing to hold stocks during the Lunar New Year break, which will cap upside for the Taiex.

Conclusion & top picks

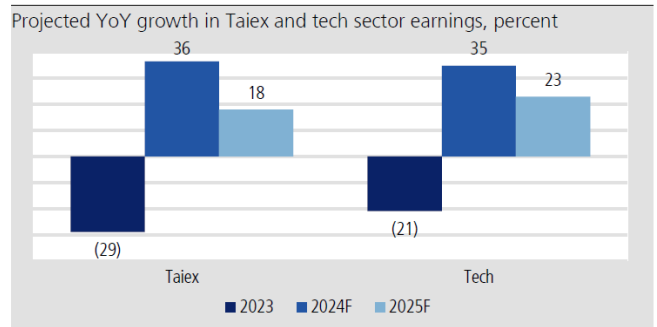
We expect the Taix to consolidate upward before the Lunar New Year holiday, with some individual stocks standing out as outperformers, especially those that will benefit from the four upcoming major events, namely CES, TSMC’s analyst meeting, Nvidia results announcement, and GTC. Our top picks are Delta Electronics (2308 TT) and Hiwin (2049 TT), which will ride the robotics theme; TSMC and Kinik (1560 TT) on N2 process development; gaming NB brands Asustek (2357 TT) and MSI (2377 TT); AI ASIC suppliers Alchip (3661 TT), Faraday (3035 TT), and MediaTek (2454 TT); and space tech suppliers Compeq (2313 TT) and Universal Microwave (3491 TT).

Figure 1: AI constituents to account for 9% of 2025F Taix earnings (up from 6% in 2024) & 14% of tech sector earnings (up from 10% in 2024)



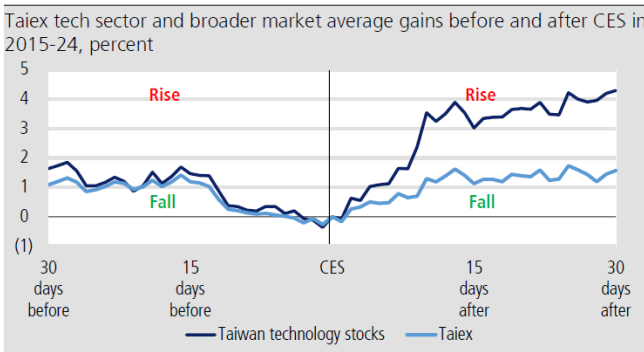
Source: TEJ; KGI estimates

Figure 2: AI demand to drive 36% & 18% YoY growth in 2024-25F Taix earnings, & 35% & 23% YoY growth in tech sector earnings



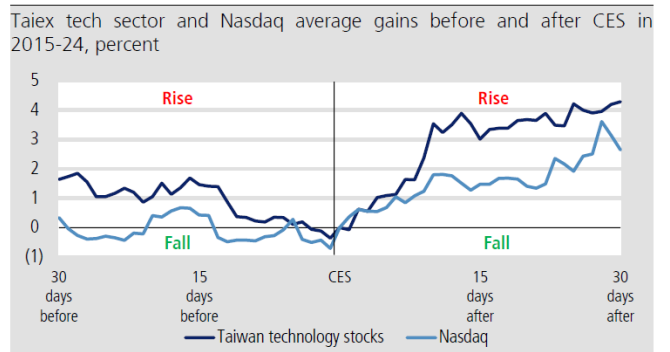
Source: TEJ; KGI estimates

Figure 3: Taix tech sector tends to rise 3-4% on average 15-30 days after commencement of CES, outstripping broader market gains of 1-2%



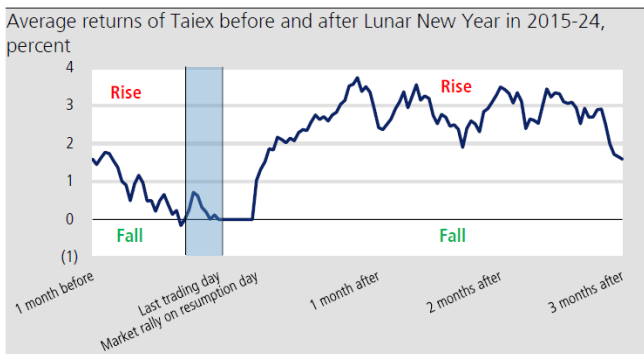
Source: Bloomberg; KGI Research

Figure 4: CES has historically boosted global tech stocks, with stronger gains post event



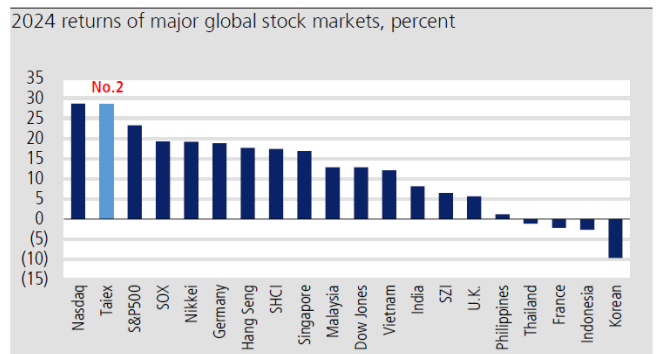
Source: Bloomberg; KGI Research

Figure 5: Taix tends to consolidate upward before Lunar New Year holiday, while major global events that take place during the holiday will be priced-in when trading resumes



Source: Bloomberg; KGI Research

Figure 6: Taix closed up 28.5% in 2024, ranking second among major global stock markets



Source: Bloomberg; KGI Research

Figure 7: Taix & subsector earnings & valuations

Tech	Earning YoY (%)				Forecast PE (x)		Non-tech	Earning YoY (%)				Forecast PE (x)	
	2022	2023	2024F	2025F	2024F	2025F		2022	2023	2024F	2025F	2024F	2025F
Server EMS	(1.7)	3.7	25.8	28.7	19.9	15.1	Cement	(50.7)	31.4	(9.8)	10.2	18.6	16.5
Thermal	34.5	20.5	53.9	54.6	31.2	18.9	Food	(13.6)	6.8	20.4	20.9	20.5	16.9
Power supply	15.1	2.4	10.7	21.5	22.7	18.7	Petrochemicals	(63.1)	(50.6)	(39.8)	65.1	41.7	21.7
ABF	102.5	(68.1)	(58.7)	266.3	308.1	15.3	Apparel	32.1	(11.0)	21.9	12.0	19.4	17.3
Optical communication	-	63.4	34.7	30.1	48.6	37.3	Footwear makers	100.0	(45.2)	19.8	12.2	22.3	19.9
IC design and service	94.8	5.3	29.8	21.0	47.8	34.2	Auto parts	52.8	(24.7)	70.0	17.8	15.0	14.3
Networking PCB	56.1	(22.8)	67.7	37.7	19.7	14.3	Industrial automation	5.2	(14.2)	11.7	15.3	33.3	27.0
Networking	77.3	15.2	7.6	24.9	30.2	16.5	Bicycle	(12.7)	(44.8)	(0.8)	28.2	19.6	15.3
CCL	(7.7)	8.2	79.4	24.5	21.3	17.1	Container shipping	19.7	(94.4)	615.6	(46.0)	4.3	8.8
Tier-one foundry	70.4	(17.5)	39.9	27.9	23.8	18.6	Steel	(75.4)	(89.0)	(34.7)	406.8	48.8	(16.1)
Second-tier foundries	51.6	(33.3)	(18.5)	(5.2)	21.1	21.1	Tourism	(46.5)	176.4	4.2	12.1	16.0	13.5
Handset components	28.4	(36.7)	32.6	12.1	12.0	12.7	Food	(2.7)	92.7	(3.1)	27.6	18.3	13.9
Telecom	2.6	13.7	0.0	5.6	29.5	28.0	Aerospace	135.4	21.3	6.8	26.2	22.8	16.4
IC design (handset/consumer electronics)	(2.9)	(32.6)	30.2	4.7	17.8	16.9	Airlines	(37.8)	185.5	47.6	(36.8)	10.2	17.4
Handset EMS	(26.5)	4.1	18.7	0.7	13.1	13.0	Heavy electrical	(1.9)	41.4	39.4	21.7	26.5	20.1
Cloud digital	16.3	17.1	15.4	19.6	30.5	24.2	Green energy	56.9	90.1	12.8	65.7	25.8	15.4

Source: KGI Research estimates

Figure 8: Taix valuations

	Forward PB(X)								Forward PE(X)								2008 bottom
	Forward 1-year	2024	2025	5-year average	10-year average	20-year average	2007 peak	2008 bottom	Forward 1-year	2024	2025	5-year average	10-year average	20-year average	2007 peak		
Taix	2.07	2.30	2.07	1.75	1.64	1.63	2.28	0.95	17.00	20.04	17.00	15.16	14.99	17.08	21.73	8.80	
Taix excl. TSMC	1.46	1.62	1.46	1.41	1.39	1.47	2.22	0.89	16.15	18.28	16.15	14.84	14.95	16.01	22.71	8.06	

Source: TEI; KGI Research estimates

Figure 9: Our top picks

	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 (%)	
								2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Robotics theme	DELTA	2308 TT	Outperform	512	33,012	418.5	22.3	15.56	18.97	26.9	22.1	4.7	4.2	18.8	20.1	1.9	2.3
	Hiwin	2049 TT	Outperform	294	3,250	302.5	(2.8)	6.84	8.94	44.2	33.8	2.9	2.8	6.8	8.5	1.0	1.3
N2 process development	TSMC	2330 TT	Outperform	1450	885,950	1125	28.9	45.23	57.87	24.9	19.4	6.9	5.5	30.4	31.5	1.4	1.6
	Kinik	1560 TT	Neutral	285	1,321	298	(4.4)	7.48	11.07	39.8	26.9	6.2	5.0	16.6	20.7	1.1	1.6
Gaming PC	Asustek	2357 TT	Outperform	810	14,188	629	28.8	47.81	45.02	13.2	14.0	1.9	1.8	14.5	13.1	5.7	5.4
	MSI	2377 TT	Outperform	210	4,823	188	11.7	10.02	14.03	18.8	13.4	3.0	2.7	16.4	21.2	3.2	4.5
AI ASIC	Alchip	3661 TT	Outperform	3345	7,574	3095	8.1	80.98	83.60	38.2	37.0	6.9	6.3	23.8	17.7	1.3	1.4
	Faraday	3035 TT	Outperform	305	1,923	243	25.5	4.18	8.78	58.1	27.7	4.7	4.3	9.4	16.2	1.2	2.5
	MTK	2454 TT	Outperform	1700	69,311	1425	19.3	67.16	70.24	21.2	20.3	5.7	5.4	27.8	27.1	4.8	4.8
Space tech	Compeq	2313 TT	Outperform	86	2,533	70	22.9	4.92	6.13	14.2	11.4	2.0	1.8	14.3	16.4	2.8	3.5
	UMT	3491 TT	Outperform	330	696	359	(8.1)	8.79	13.14	40.9	27.3	11.2	11.5	27.5	43.3	2.2	3.5

Source: KGI Research

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