

Strategy

A return to a bull run in sight

Key message

1. Taiex to challenge the previous peak of 24,416 points. Our main theme for 2025F Taiex investment is “AI for electronics, MAGA for non-electronics”.
2. Tech plays posted decent October-November sales achievement rates.
3. End-demand bolstered by stimulus policies from the Chinese government.

Event

After undergoing pullbacks due to risks stemming from US President-elect Trump in November, the Taiex has showed signs of a bull run returning in early-December. We believe the bull run will extend until at least Chinese New Year (CNY).

Analysis

Taix bull run to challenge the previous peak of 24,416 points. We expect the Taiex bull run to extend until at least CNY, and challenge the previous peak of 24,416, with catalysts including early pull-in demand in sectors driven by risks stemming from Trump, the technology supply chain posting decent October-November sales, the US Fed cutting rates further in late-December, China rolling out expansionary stimulus policies, the seasonal effect of corporations reporting year-end results and guidance, and slow year-end transactions in global funds offering relief to sell-off pressure on the Taiex.

Tech plays posted decent sales achievement rates in October-November. Among the 20 major technology groups under our coverage, more than 80% posted 4Q24F sales achievement rates (cumulative October-November sales) in line with or above expectations. Most of them benefited from the strong demand for AI servers and the mass production and shipments commencement of GB200 AI GPUs. MediaTek’s (2454 TT, NT\$1350, OP) business was bolstered by robust sales of high-end handsets, causing IC design (handsets and consumer electronics) plays to post better-than-expected sales achievement rates. The technology subgroups with the best sales achievement rate are, in descending order, copper foil substrates (74%), optical communications (72%), IC design (handsets and consumer electronics) (71%), server assembly (71%), thermal plays (71%) and Tier-1 foundries (69%). Those with lower sales achievement rates are IC design services (60%) and ABF (63%). The former reflects the deferral of North American AI design projects for Global Unichip (3443 TT, NT\$1250, N), while the latter is capped by sluggish demand for PCs and handsets, dragging down BT and PCB orders.

End-demand shored up by expansionary Chinese stimulus policies. China, which has been a drag to global end-market demand in the past few years, has finally recovered. We have seen the preliminary results of market-rescuing measures implemented at end-September in October housing market sales data. The central government is currently convening the Central Economic Work Conference, which the market expects to roll out more stimulus policies, especially fiscal policies. Historically, it takes nine months after adopting expansionary fiscal policies, and driving the credit impulse indicator to bottom out, for the central government to restore liquidity to the market and revitalize the economy. The credit impulse, the ratio of new credit to domestic GDP, is a leading indicator which measures the credit cycle in a market, and usually rises during an economic recovery. China is the second largest economy after the US, and plays a pivotal role in terms of global end-demand.

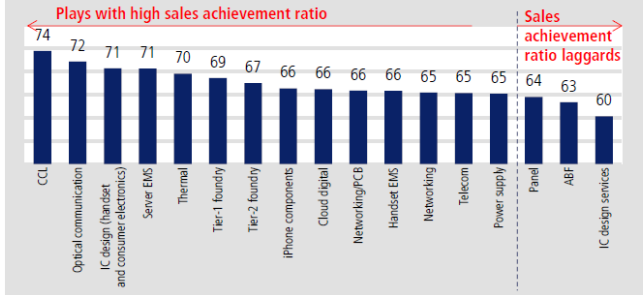
Low trading volumes by global funds at year-end offering relief to sell-off pressure for the Taiex. Global funds divested from the Taiex in November due to risks stemming from the US Presidential election. However, the Taiex is usually led by domestic funds during this period, as global funds enter the holiday season, resulting in a relatively low volume of transactions. The Taiex usually sees a rally into CNY, underpinned by the seasonal effect of corporations reporting year-end results and guidance during the absence of earnings results. The average annual weighting of FINI trading volume in the Taiex is 28%, but it usually drops to 25% in December, and only 20% in the last week of December.

Conclusion & top picks

We are upbeat about signs that the Taiex is entering a bull run, and suggest investors engage during short-term consolidations. Our main theme for 2025F Taiex investment is “AI for electronics, MAGA for non-electronics”. We recommend 25 counters.

Figure 1: Tech plays posted decent October-November sales achievement rates, driven by robust AI demand

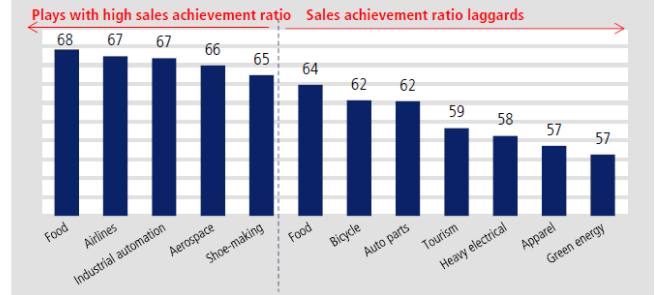
October-November sales achievement rates of tech groups (vs 4Q24 forecast), percent



Source: TEJ; KGI Research estimates

Figure 2: Only 40% of non-tech groups' sales achievement rates met or exceeded expectations

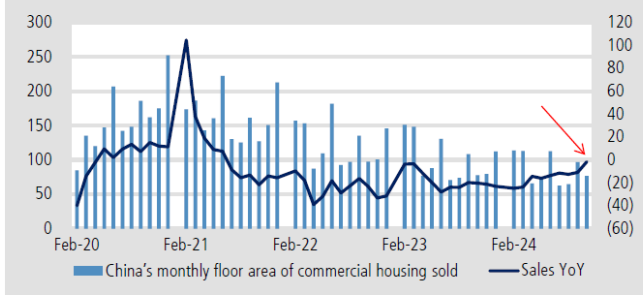
October-November sales achievement rates of non-tech groups (vs 4Q24 forecast), percent



Source: TEJ; KGI Research estimates

Figure 3: China's commercial housing floor area sold decline in October narrowed YoY to -2% from -11%

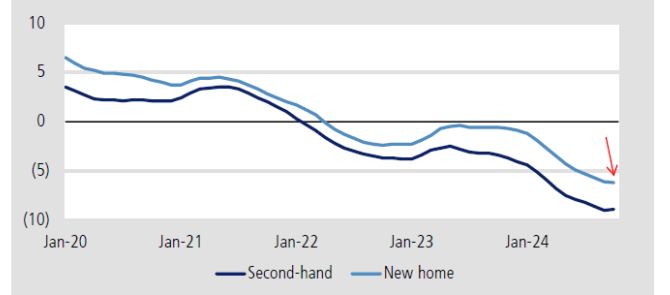
China's monthly floor area of commercial housing sold, mn square meters (LHS); sales area YoY, percent (RHS)



Source: Wind; KGI Research

Figure 4: China's second-hand housing price decline in October narrowed YoY to -8.9% from -9.0%

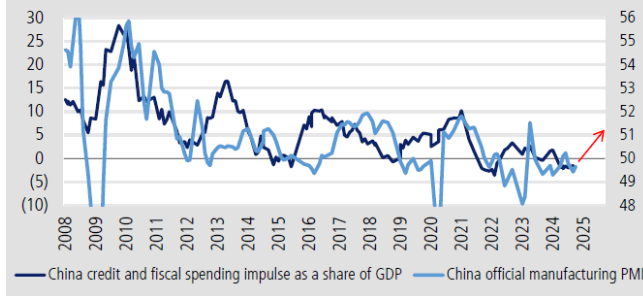
China's second-hand/new home prices in 70 medium & large cities YoY, percent



Source: Wind; KGI Research

Figure 5: China's economy to be revitalized after expansionary fiscal policies are implemented

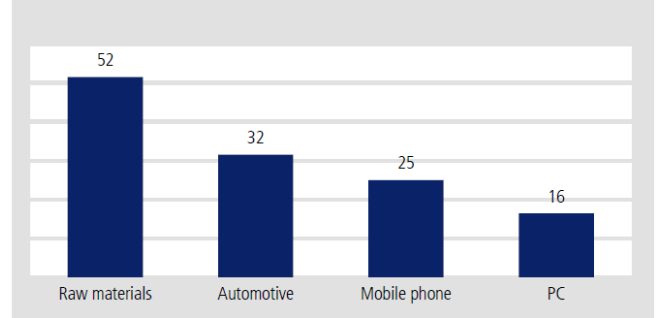
China's credit & fiscal expenditure impulse to GDP, percent (LHS); China's official manufacturing PMI (RHS)



Source: Bloomberg; KGI Research

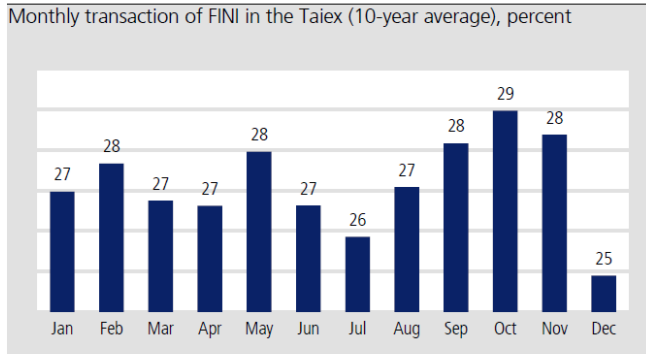
Figure 6: China makes up a large percentage of global end-demand

Global end-demand percentage, China, percent



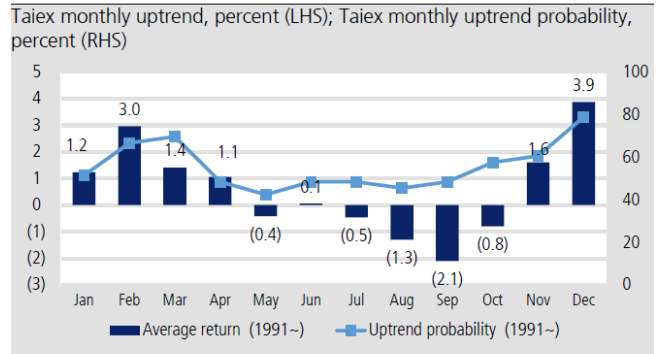
Source: KGI Research

Figure 7: The participation of global funds in the Taieix is usually lowest in December



Source: TEJ; KGI Research

Figure 8: A bull run usually emerges in the Taieix between the end of a calendar year and CNY



Source: TEJ; KGI Research

Figure 9: Taieix & 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	25.6	27.8	19.9	15.4	Cement	(50.7)	31.4	(9.8)	10.2	19.7	17.5
Thermal	34.5	20.5	53.9	54.6	33.8	20.5	Food	(13.6)	6.8	20.4	20.9	22.0	18.2
Power supply	15.1	2.4	10.7	21.5	22.8	18.8	Apparel	32.1	(11.0)	21.9	12.0	19.4	17.3
ABF	102.5	(68.1)	(58.7)	266.3	268.4	14.4	Footwear makers	100.0	(45.2)	19.8	12.2	22.9	20.4
Optical communication	-	63.4	34.7	30.1	43.8	33.7	Auto parts	52.8	(24.7)	69.3	17.9	16.2	15.7
IC design service	94.8	5.3	31.4	19.7	45.4	32.6	Industrial automation	5.2	(14.2)	11.7	15.3	29.7	24.3
Networking PCB	56.1	(22.8)	67.7	31.2	18.1	13.8	Bicycle	(12.7)	(44.8)	(0.8)	28.2	20.8	16.3
Networking	77.3	15.2	6.2	20.8	30.4	16.6	Container shipping	19.7	(94.4)	615.6	(46.0)	4.3	8.7
CCL	(7.7)	8.2	69.7	22.5	21.2	17.3	Steel	(75.4)	(89.0)	(34.7)	406.8	53.3	(18.5)
Tier-one foundry	70.4	(17.5)	39.9	27.9	23.1	18.1	Tourism	(46.5)	176.4	4.2	12.1	16.3	13.8
Second-tier foundries	51.6	(33.3)	(18.5)	(5.2)	19.8	19.7	Food	(2.7)	92.7	(3.1)	27.6	18.4	14.0
Handset components	28.4	(36.7)	32.6	12.1	11.6	12.0	Aerospace	135.4	21.3	6.8	26.2	22.3	16.0
Telecom	2.6	13.7	0.0	5.6	29.9	28.4	Airlines	(37.8)	185.5	47.6	(36.8)	10.0	17.1
IC design (handset/consumer)	(2.9)	(32.6)	30.2	4.7	17.5	16.6	Heavy electrical	(1.9)	41.4	39.4	21.7	26.5	20.1
Handset EMS	(26.5)	4.1	18.7	0.7	13.7	13.6	Green energy	56.9	90.1	12.8	65.7	26.5	15.8
Cloud digital	16.3	17.1	15.4	19.6	30.9	24.6	Taieix	(3.7)	(27.3)	36.4	17.9	20.0	17.0

Source: KGI Research estimates

Figure 10: Taieix valuations

	Forward PB (x)								Forward PE (x)							
	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	2008 bottom
Taieix	2.13	2.30	2.13	1.75	1.64	1.63	2.28	0.95	17.56	20.03	16.99	15.13	14.97	17.08	21.73	8.80
Taieix excl. TSMC	1.53	1.64	1.52	1.41	1.39	1.47	2.22	0.89	16.87	18.57	16.41	14.82	14.94	16.01	22.71	8.06

Source: TEJ; KGI Research estimates

Figure 11: 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 (%)		EPS YoY (%)		PEG (x)	
								2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
AI (PEG<1)	TSMC	2330 TT	Outperform	1450.0	832,812	1045.0	38.8	45.23	57.87	23.1	18.1	6.4	5.1	30.4	31.5	1.5	1.7	39.9	27.9	0.6	0.6
	WinWay	6515 TT	Outperform	1655.0	1,225	1125.0	47.1	34.91	50.26	32.2	22.4	8.4	6.1	29.4	31.2	2.3	3.3	158.7	44.0	0.2	0.5
	M31	6643 TT	Outperform	955.0	929	723.0	32.1	8.02	13.64	90.2	53.0	11.9	11.0	15.4	26.0	0.9	1.5	(26.4)	77.9	(3.4)	0.7
	Hon Hai	2317 TT	Outperform	290.0	80,686	189.0	53.4	11.50	14.48	16.4	13.0	1.7	1.6	10.4	12.4	3.2	4.0	12.2	25.9	1.3	0.5
	QCI	2382 TT	Outperform	400.0	34,068	287.0	39.4	14.58	19.03	19.7	15.1	5.6	5.2	29.3	35.8	4.1	5.3	41.7	30.5	0.5	0.5
	AVC	3017 TT	Outperform	885.0	8,339	700.0	26.4	21.40	31.61	32.7	22.1	10.3	8.3	34.1	41.6	1.5	2.3	54.6	47.7	0.6	0.5
	DELTA	2308 TT	Outperform	512.0	33,088	414.5	23.5	15.56	18.97	26.6	21.8	4.7	4.1	18.8	20.1	1.9	2.3	21.0	22.0	1.3	1.0
	EMC	2383 TT	Outperform	595.0	6,075	572.0	4.0	27.05	33.14	21.1	17.3	6.5	5.7	32.6	35.2	2.8	3.5	69.7	22.5	0.3	0.8
	GCE	2368 TT	Outperform	255.0	3,295	218.0	17.0	12.03	15.79	18.1	13.8	6.2	5.2	34.7	41.1	2.8	3.4	67.7	31.2	0.3	0.4
	Unimicron	3037 TT	Outperform	205.0	6,937	148.0	38.5	4.32	12.78	34.3	11.6	2.4	2.1	7.1	19.3	1.2	3.5	(45.0)	195.8	(0.8)	0.1
	Accton	2345 TT	Outperform	760.0	12,588	730.0	4.1	19.61	25.25	37.2	28.9	14.2	11.8	40.5	44.6	1.8	2.1	22.9	29.3	1.6	1.0
VPEC	2455 TT	Outperform	202.0	923	162.5	24.3	3.72	5.29	43.7	30.7	9.0	8.0	21.4	27.6	2.0	2.8	52.8	42.1	0.8	0.7	
AI (ASIC)	MTK	2454 TT	Outperform	1700.0	66,450	1350.0	25.9	67.16	70.24	20.1	19.2	5.5	5.2	28.0	27.4	5.1	5.0	38.7	4.6	0.5	4.1
	Faraday	3035 TT	Outperform	305.0	1,850	231.0	32.0	4.18	8.78	55.2	26.3	4.5	4.0	9.4	16.2	1.3	2.7	(32.2)	112.4	(1.7)	0.2
	Alchip	3661 TT	Outperform	3345.0	6,625	2675.0	25.0	80.98	83.60	33.0	32.0	5.9	5.4	23.8	17.7	1.5	1.6	92.7	4.2	0.4	7.7
	Andes	6533 TT	Outperform	480.0	613	393.5	22.0	(1.80)	3.97	N.M.	99.0	4.2	4.0	(1.9)	4.2	0.0	0.2	(10.5)	N.M.	N.A.	N.A.
Gaming PC	Asustek	2357 TT	Outperform	810.0	13,787	604.0	34.1	47.81	45.02	12.6	13.4	1.8	1.7	14.5	13.1	5.9	5.6	123.0	(5.8)	0.1	(2.3)
MAGA (Make America Great Again)	DPI	4572 TT	Outperform	195.0	186	155.0	25.8	7.14	7.81	21.7	19.9	3.1	3.0	14.5	15.4	3.7	4.1	15.0	9.3	1.4	2.1
	Hiwin	2049 TT	Outperform	294.0	2,745	252.5	16.4	6.84	8.94	36.9	28.2	2.5	2.3	6.8	8.5	1.2	1.5	18.9	30.8	2.0	0.9
	FE	1519 TT	Outperform	800.0	4,730	536.0	49.3	14.30	22.83	37.5	23.5	19.3	14.7	61.8	78.2	2.1	3.1	59.3	59.7	0.6	0.4
	Lotus Pharm	1795 TT	Outperform	600.0	2,173	266.0	125.6	19.04	29.18	14.0	9.1	3.4	2.7	26.2	32.9	2.1	3.3	21.8	55.0	0.6	0.2
High Dividend Yield	Cathay FHC	2882 TT	Outperform	80.0	30,835	68.4	17.0	7.60	6.68	9.0	10.2	1.2	1.1	14.6	11.0	4.4	4.4	118.9	(12.1)	0.1	(0.8)
	CTBC FHC	2891 TT	Outperform	42.0	23,576	39.1	7.4	3.53	3.59	11.1	10.9	1.7	1.4	15.9	14.0	4.7	4.7	23.6	1.6	0.5	6.8
	Uni-President	1216 TT	Outperform	94.0	14,912	85.4	10.1	3.89	4.70	22.0	18.2	3.8	3.6	17.4	20.3	3.7	4.5	20.4	20.9	1.1	0.9

Source: TEJ; KGI Research

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