

## Strategy

### 2H24F outlook lackluster despite decent 2Q24 earnings

#### Key message

1. Besides the AI sector, 2H24F outlook lackluster despite decent 2Q24 earnings.
2. 2Q24 earnings results beat on forex gains and realized capital gains of life insurers.
3. 2024-25F TaieX earnings to grow by a respective 26.8% and 17.4% YoY.

#### Besides the AI sector, 2H24F outlook lackluster despite decent 2Q24 earnings

Overall 2Q24 TaieX earnings results were better than expected, and quarterly net profit rose by 38% YoY, outperforming our original forecast of 12% growth YoY. However, the outlook for 2H24F is generally lackluster. Excluding the AI-related supply chain, many companies have revised down earnings guidance, suggesting most sectors' sales could be lukewarm in 2H24F. Although we witnessed a wave of inventory replenishment for PCs, Android handsets, consumer electronics and other related terminal applications from end-2023 to 1H24, restocking demand from downstream customers has significantly cooled since 3Q24 began, on additional economic issues arising in 2H24F. Simultaneously, although inventory adjustments of automotive and industrial related products are coming to an end, demand recovery seems to be sluggish. Additionally, although the highly anticipated iPhone 16 has seen seasonal stockpiling since end-2Q24, Apple Intelligence, to be launched after October, will initially only support American English, reducing demand for immediate replacement. As a result, the relevant supply chain has not yet seen signs of Apple increasing orders.

#### 2Q24 earnings beat on forex gains & realized capital gains for life insurers

Overall 2Q24 quarterly net profit of TaieX-listed companies increased by 38% YoY. Among them, quarterly earnings for electronics, conventional industry, and financial stocks were up by a respective 28%, 56%, and 41% YoY. According to our analysis, forex gains accounted for a considerable proportion of electronic plays' earnings, as the NT dollar depreciated by 1.7% against the US dollar in 2Q24, pushing up quarterly earnings by 2.2%. Financial stocks benefited from higher volume and pricing in the stock market, resulting in significant increase in realized capital gains for life insurance firms, and brokerage fee income growth for securities firms. We estimate the 2Q24 quarterly earnings of insurance-centric FHCs increased by 75% YoY, far outpacing the financial sector as a whole.

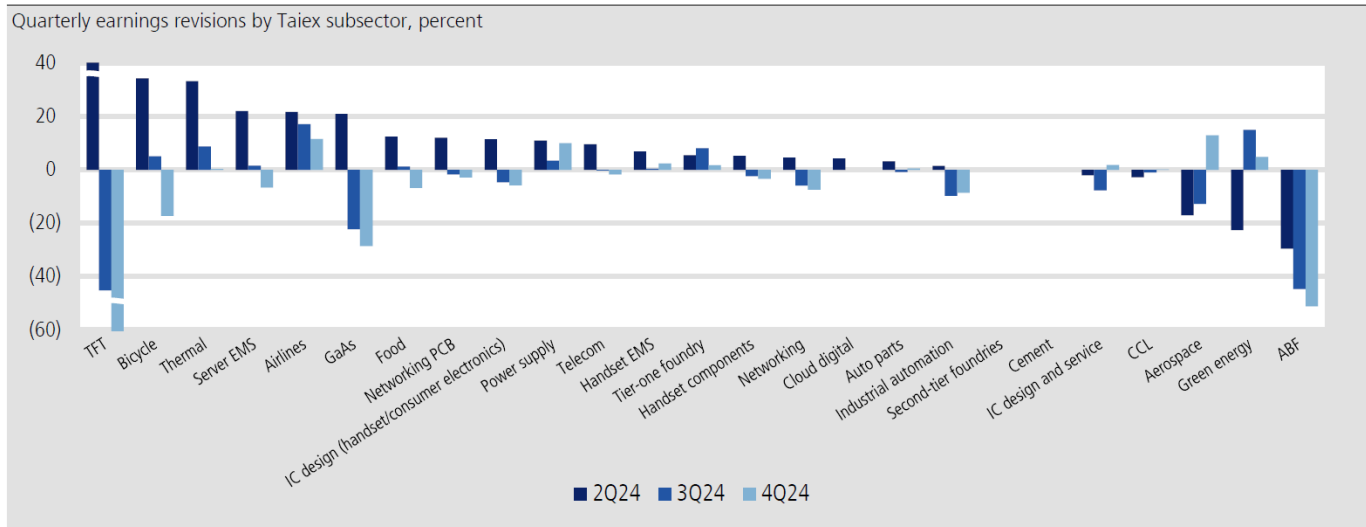
#### 2024-25F TaieX earnings to grow by a respective 26.8% & 17.4% YoY

Given the latest earnings reports and 2H24F guidance, we estimate 2024-25F TaieX-listed companies earnings will grow by a respective 26.8% and 17.4% YoY, versus previous forecasts of 20.5% and 19.4%, suggesting that while 2024F earnings will exceed our previous expectations, our forecasts for 2025F earnings forecasts were largely correct, as we believe the earnings growth decreases result from a higher comparison base. In addition, 2024-25F earnings of individual TaieX subsectors are a mixed bag, with the positives including the AI supply chain, aviation, bicycles, and food subsectors. In contrast, the earnings forecasts for the ABF, gallium arsenide, handset components, aerospace, and industrial automation subsectors have generally been revised down.

#### Valuation & Action

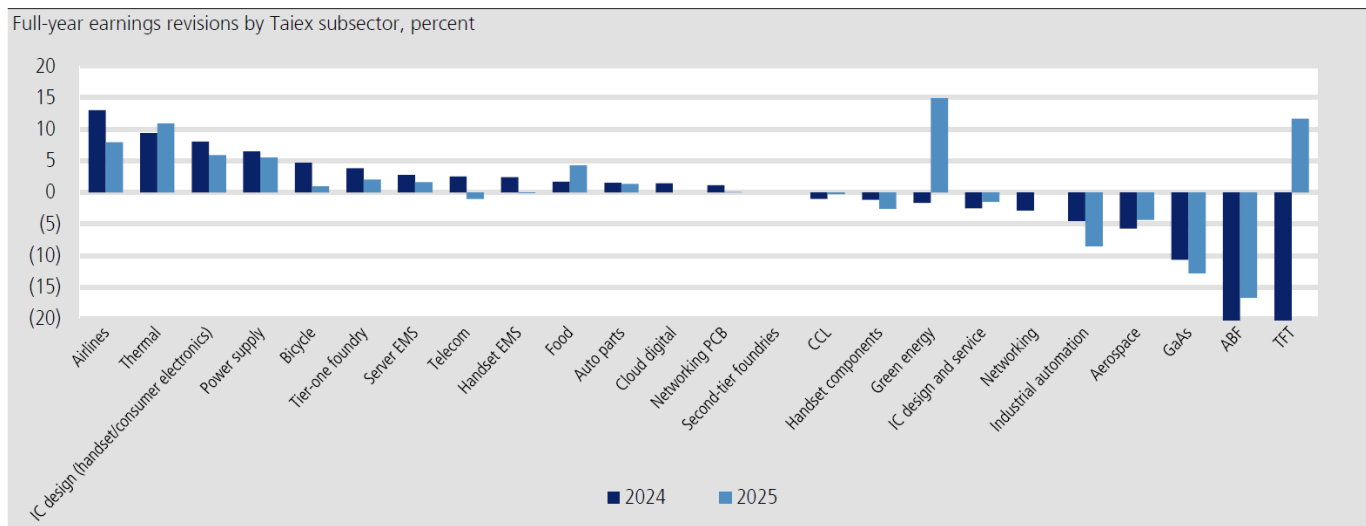
Although 2Q24 earnings were mostly decent, besides the AI sector, most TaieX firms' 2H24F earnings guidance seems to be lackluster. Forex gains and realized capital gains for life insurance firms were the main drivers behind better-than-expected 2Q24 results. Generally speaking, we estimate the earnings growth of overall TaieX-listed companies in 2024-25F will be a respective 26.8% and 17.4% YoY, versus previous forecasts of 20.5% and 19.4% YoY growth. Although a strong rebound in the TaieX occurred recently, after a sharp slump, we believe the stock market will return to a medium-term consolidation after the rebound. We recommend investors with sizable stock positions offload shares on any rebound, while those with small positions are advised to await signs of bottoming in the medium term.

**Figure 1: Taiwan 2Q24 corporate earnings decent, but many firms have revised down earnings guidance for 3Q-4Q24F**



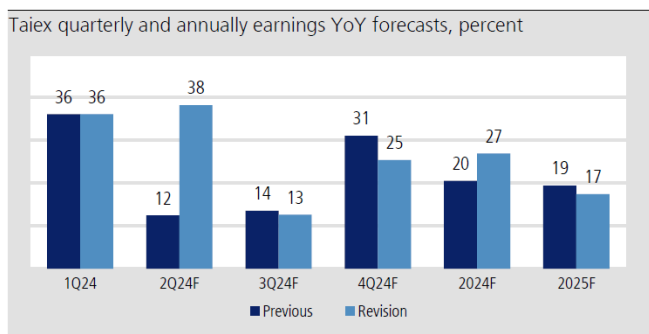
Source: TEJ; KGI Research compilations & estimates

**Figure 2: 2024-25F earnings for individual TaieX subsectors are a mixed bag**



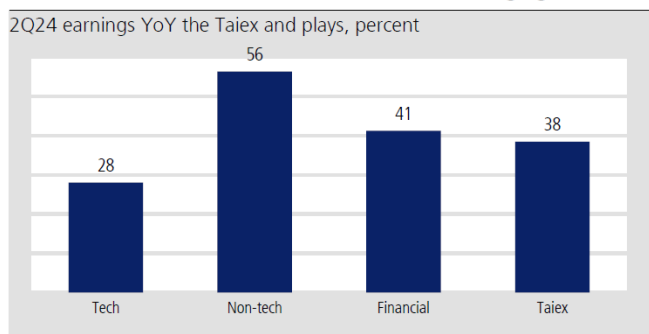
Source: TEJ; KGI Research compilations & estimates

**Figure 3: 2024-25F earnings to grow a respective 26.8% and 17.4% YoY**



Source: TEJ; KGI Research compilations & estimates

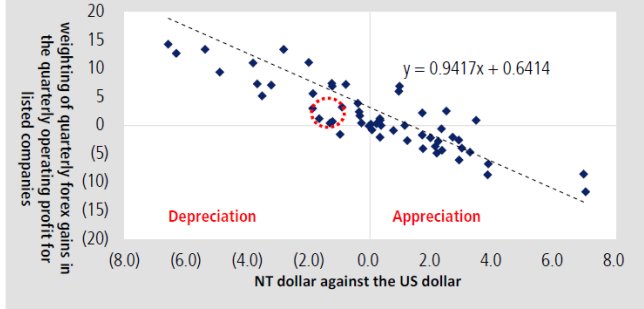
**Figure 4: Forex gains, and higher volume & pricing in the stock market the main factors for 2Q24 earnings growth**



Source: TEJ; KGI Research compilations & estimates

**Figure 5: The NT dollar depreciated by 1.7% against the US dollar in 2Q24, boosting quarterly earnings by 2.2%**

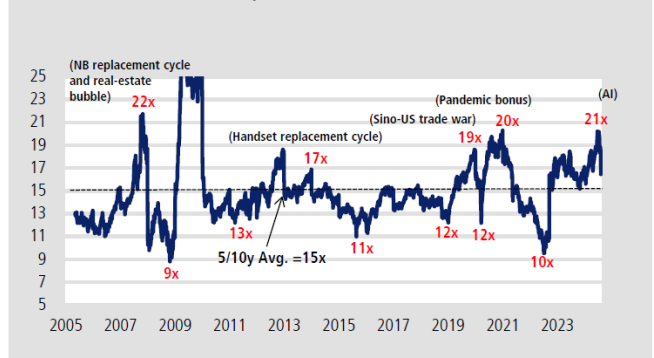
Quarterly appreciation and depreciation of NTD against USD, percent (X-axis); weighting of quarterly forex gains in operating profit for listed companies, percent (Y-axis)



Source: TEJ; KGI Research compilations & estimates

**Figure 6: Latest forward PE of the Taix is 18.3x**

Taix forward PE (forward 1 year), x



Source: TEJ; KGI Research compilations & estimates

**Figure 7: Taix – 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
Taix	2.05	2.16	2.00	1.73	1.62	1.62	2.28	0.95	18.27	20.19	17.20	15.11	14.96	17.10	21.73	8.80
Taix excl. TSMC	1.51	1.60	1.48	1.40	1.38	1.46	2.22	0.89	17.19	19.03	16.62	14.79	14.93	16.01	22.71	8.06

Source: KGI Research

**Figure 8: Overview of Taix & subsector earnings growth**

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	(9.3)	10.2	60.6	28.5	16.9	13.0	Cement	(50.7)	31.4	(9.3)	11.9	19.9	17.8
Thermal	34.5	20.5	51.8	45.8	27.4	18.6	Food	(13.6)	6.8	21.5	14.6	21.1	18.4
Power supply	15.1	2.4	9.8	26.3	22.8	18.3	Petrochemicals	(63.1)	(50.6)	12.3	47.9	10.8	19.5
ABF	102.5	(68.1)	(30.9)	156.1	39.6	13.0	Apparel	32.1	(11.0)	13.4	13.0	21.4	18.9
Optical communication	-	63.4	34.7	30.1	22.9	17.6	Footwear makers	100.0	(45.2)	19.8	12.2	22.5	20.1
IC design and service	94.8	5.3	37.6	28.3	39.8	27.8	Auto parts	52.8	(24.7)	53.1	4.4	13.4	-
Networking PCB	56.1	(22.8)	80.4	33.1	16.0	12.0	Industrial automation	5.2	(14.2)	15.7	17.7	24.4	19.1
CCL	(7.7)	8.2	77.0	16.2	15.2	13.1	Bicycle	(12.7)	(44.8)	18.5	37.2	26.7	19.4
Tier-one foundry	70.4	(17.5)	28.9	23.7	22.6	18.3	Container shipping	19.7	(94.4)	334.3	(59.9)	5.8	15.4
Second-tier foundries	51.6	(33.3)	(11.6)	9.6	22.9	21.8	Steel	(75.4)	(89.0)	368.2	169.4	34.1	14.0
Handset components	28.4	(36.7)	34.5	16.0	12.8	12.3	Tourism	(46.5)	176.4	9.4	11.0	15.3	13.6
TFT	Turned unprofitable	Remained unprofitable	Remained unprofitable	Turned profitable	-	-	Food	(2.7)	92.7	8.2	17.0	14.7	12.7
Silicon wafer	29.5	25.1	(25.0)	20.2	15.3	12.7	Aerospace	135.4	21.3	17.4	18.1	20.1	15.3
Passive components	(0.8)	(24.7)	22.7	18.4	15.3	12.9	Airlines	(37.8)	185.5	42.5	(34.6)	7.8	13.4
Telecom	2.6	13.7	0.0	5.6	28.9	27.5	Heavy electrical	(1.9)	42.9	48.0	30.3	30.4	23.2
IC design (handset/consumer electronics)	(2.9)	(32.6)	27.7	9.9	16.8	15.6	Green energy	56.9	90.1	30.5	59.4	22.4	15.8
Handset EMS	(2.1)	0.8	18.1	22.7	14.0	13.0							
Cloud digital	16.3	17.1	15.2	18.0	27.4	23.1							

Note: Based on KGI forecasts & consensus

Source: KGI Research

**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	2023	2024F	2025F
Uni-President	1216 TT	Outperform	90.0	14,526	82.7	8.8	3.92	4.49	21.1	18.4	3.6	3.5	17.6	19.5	3.6	3.9	4.5
ACC	1102 TT	Neutral	40.0	4,846	44.2	(9.5)	3.06	3.40	14.4	13.0	0.9	0.9	6.1	6.7	5.4	4.5	5.0
CTBC Holding	2891 TT	Outperform	39.0	21,077	34.8	12.2	3.29	3.39	10.5	10.3	1.4	1.2	14.3	12.6	5.2	5.5	5.8
E.S.F.H	2884 TT	Outperform	30.0	13,474	27.3	10.1	1.55	1.66	17.6	16.4	1.7	1.6	10.1	10.0	4.4	4.0	4.4
TWM	3045 TT	Neutral	103.0	12,545	109.0	(5.5)	3.78	3.96	28.9	27.5	4.9	4.9	13.6	14.5	3.9	3.9	3.9
CHT	2412 TT	Neutral	119.0	29,375	122.5	(2.9)	4.81	5.04	25.5	24.3	2.5	2.5	9.8	10.2	3.9	3.9	4.0
PCSC	2912 TT	Outperform	319.0	9,111	283.5	12.5	11.49	12.77	24.7	22.2	7.5	7.2	31.0	33.1	3.2	3.6	4.0
TSMC	2330 TT	Outperform	1290.0	759,972	948.0	36.1	41.67	51.56	22.7	18.4	5.8	4.8	28.1	28.5	1.4	1.7	1.9
Hon Hai	2317 TT	Outperform	270.0	79,504	185.5	45.6	11.92	15.10	15.6	12.3	1.6	1.5	10.8	12.9	2.9	3.4	4.3
Largan	3008 TT	Outperform	3880.0	11,717	2840.0	36.6	185.77	194.02	15.3	14.6	2.1	1.9	14.2	13.5	3.3	3.3	3.4
MIC	9914 TT	Outperform	280.0	2,167	234.5	19.4	8.50	12.72	27.6	18.4	3.3	3.0	12.1	17.1	2.2	2.2	3.3

Source: KGI Research

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