

Strategy

No rush to buy the dip as Taiex correction has just started

Key message

1. Taiex correction at initial stage, as bull-market sell-off pressure has just kicked in.
2. In addition, all positive news about AI shares has been priced in.
3. We recommend a shift to defensive trading, with a focus on plays with low valuations, a low comparison base and a high cash dividend yield.

Taiex correction at initial stage, as bull-market sell-off has just kicked in

The Taiex has plunged more than 700 points over the past two days, seemingly reflecting US presidential candidate Trump's aggressive rhetoric and as Biden weighs trade rules to block chipmaking exports to China. Nonetheless, we believe the key factor is the overbought status of the index and that share valuations are too high, sparking significant reaction to bad news. We believe the correction is at the initial stages as investors have loaded up on stocks, lured by an average return of 31% over the past year (the Taiex has exceeded the yearly line by 31%). Historically, the index has seen significant bull-market selloffs on the back of negative news when this key number exceeds 30%. The minimum correction range is 5-10% and the worst case scenario is a decline of over 20%. We believe the best strategy at this time is to wait for the bottom.

All AI positives have been priced in

Before the current correction started, forward PE had peaked at 21x, nearing the record high of 22x and over two standard deviations higher than the long-term average, close to previous extreme values. While we agree that the AI frenzy supports a significant re-rating of related supply chains, many AI supply chains have been experiencing unusual conditions, where share prices have stagnated despite positive factors. This suggests that even the best fundamental conditions cannot always buoy investment sentiment when shares are over-priced and all the positive news is priced in. To the contrary, this often triggers big profit-taking sell-offs.

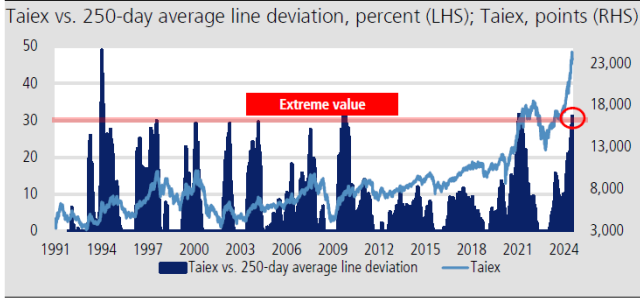
We recommend defensive trading

We cannot predict when the Taiex will stop correcting. This is because the index has long been dominated by the performance of a single company, TSMC (2330 TT, NT\$1,005, OP), and a handful of other big tech companies. That said, we believe the drop in many high-valuation shares will significantly surpass that of the overall index during this correction. We therefore recommend investors focus on defensive trading for the time being, especially shares with low valuations, a low comparison base and a high cash dividend yield, namely foods, cement, petrochemicals, financials, construction, telcos, Apple (US)-related companies and ABF makers. Aggressive investors should engage these above-mentioned plays.

Valuation & Action

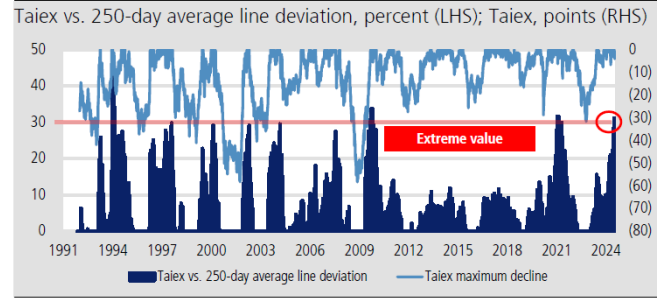
We believe the Taiex bull-market sell-off is at the initial stage as many AI supply chains have unusually seen share prices stagnate despite positive factors, reflecting the fact that all bullish news has been priced in. Other factors weakening risk appetite are seasonal softness for the Taiex and a potential Trump victory in the US presidential election. We recommend defensive trading for now. The focus should be on shares with low valuations, a low comparison base and a high cash yield, namely foods, cement, petrochemicals, financial, construction, telcos, Apple-related companies and ABF makers.

Figure 1: Taiex sell-offs often due to overbought status & bearishness



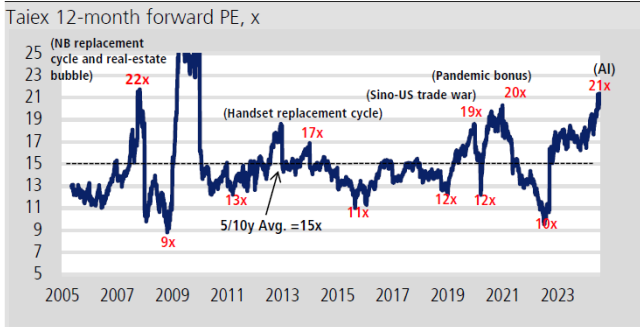
Source: TEJ; KGI Research

Figure 2: Taiex sell-offs often due to overbought status & bearishness



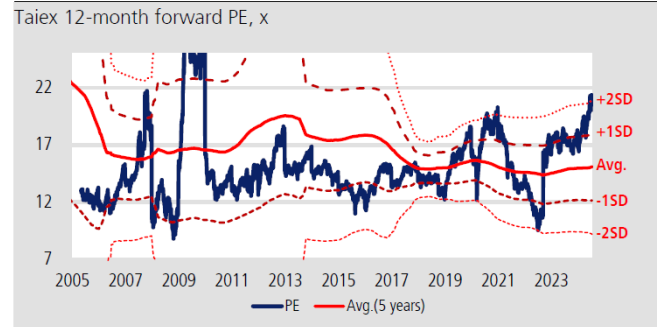
Source: TEJ; KGI Research

Figure 3: Taiex valuation has peaked at 21x of late, nearing record high of 22x



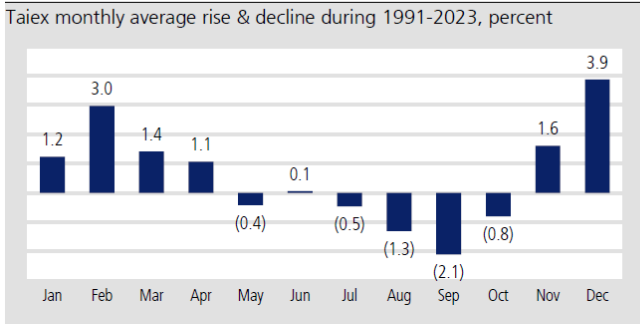
Source: TEJ; KGI Research

Figure 4: Latest Taiex valuation peak is two standard deviations over long-term average, an extreme value



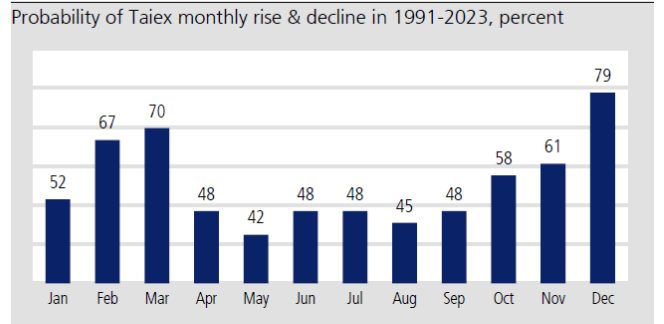
Source: TEJ; KGI Research

Figure 5: Taiex slow season is 3Q



Source: TEJ; KGI Research

Figure 6: Taiex slow season is 3Q



Source: TEJ; KGI Research

Figure 7: Projected earnings growth YoY – Taiex & subsectors

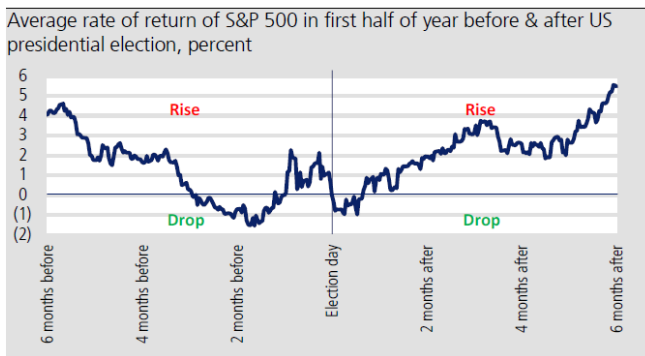
	Earning YoY (%)				Forecast PE (x)			Earning YoY (%)				Forecast PE (x)	
	2022	2023	2024F	2025F	2024F	2025F		2022	2023	2024F	2025F	2024F	2025F
Tech							Non-tech						
Server EMS	(9.3)	10.2	56.3	29.9	19.5	15.2	Cement	(50.7)	31.4	(9.3)	11.9	19.7	17.5
Thermal	34.5	20.5	38.7	43.8	36.7	24.9	Food	(13.6)	6.8	19.4	11.7	22.7	20.3
Power supply	15.1	4.3	12.6	23.3	21.2	17.3	Petrochemicals	(63.1)	(50.6)	12.2	46.2	38.9	21.9
ABF	102.5	(68.1)	17.1	81.3	25.2	13.4	Apparel	32.1	(11.0)	13.4	13.0	24.9	22.0
Optical communication	-	63.4	34.7	30.1	30.3	23.2	Footwear makers	100.0	(45.2)	19.8	12.2	23.8	21.2
IC design and service	94.8	5.3	41.1	27.0	46.6	34.3	Industrial automation	5.2	(14.2)	21.2	22.8	26.5	20.2
Networking PCB	56.1	(22.8)	78.3	34.5	16.8	12.5	Bicycle	(12.7)	(44.8)	13.2	42.3	26.8	18.8
Networking	77.3	15.2	18.2	-	18.6	-	Container shipping	19.7	(94.4)	317.1	(60.1)	5.8	15.4
CCL	(7.7)	8.2	78.9	15.3	15.7	13.6	Steel	(75.4)	(89.0)	368.2	169.4	37.6	15.6
Tier-one foundry	70.4	(17.5)	24.1	25.9	25.0	19.9	Tourism	(46.5)	176.4	9.4	11.0	16.6	14.7
Second-tier foundries	51.6	(33.3)	(11.6)	9.6	22.8	21.7	Food	(2.7)	92.7	8.2	17.0	15.6	13.5
Handset components	28.4	(36.7)	36.1	15.7	14.0	13.9	Aerospace	135.4	21.3	24.5	16.4	21.4	15.8
Silicon wafer	29.5	25.1	(19.3)	18.2	17.4	14.7	Airlines	(37.8)	185.5	26.1	(31.5)	10.2	17.5
Passive components	(0.8)	(24.7)	18.4	18.4	16.6	14.0	Heavy electrical	(1.9)	42.9	48.3	30.5	36.9	28.1
Telecom	2.6	13.7	(2.4)	9.4	28.3	26.3	Green energy	56.9	80.8	(19.5)	37.1	27.1	21.5
IC design (handset/consumer electronics)	(2.9)	(32.6)	18.2	12.1	18.8	17.1							
Handset EMS	(2.1)	0.8	15.3	25.8	17.0	14.0							
Cloud digital	16.3	17.1	13.5	19.7	28.8	24.0							

Note: KGI forecasts and consensus
Source: KGI Research

Figure 8: Political views - Trump vs. Biden



	Trump	Biden
Global trade	Imposing a 10% across-the-board levies on all products imported from overseas and a 60% tariff on all Chinese goods and products	Launch tariff and technology wars against China
Green energy	Green energy sector to be affected; traditional energy industries to benefit from relaxed regulations	Aggressively supporting clean energy projects
Tax	Cutting taxes for businesses and top earners	Raise taxes on corporations and the wealthy.
Abortion	Abortion rights should be left to the states	A doctor should be making the decisions
Immigration	"Zero tolerance" policy toward illegal border crossing	Taking a more 'humane' approach to US immigration policy
Russo-Ukrainian War	Disagrees to give financial support, confident to settle the war	Continue to send Ukraine fresh military aid

Source: Bloomberg; TEJ; KGI Research and KGI estimates

Figure 9: Historically, US stocks consolidate two to three months before a presidential election


Source: Bloomberg; KGI Research

Figure 10: Scenario analysis - 2024 US presidential election

Possible scenarios	Possible influence	Taiex trend
Scenario 1: Donald Trump wins	Promoting tariff war may impact global trade	Slight slump 
Scenario 2: Donald Trump loses but doesn't concede defeat	May cause political unrest or civil war	Excessive plummet 
Scenario 3: Joe Biden wins presidency for a second term	Continue existing trade and military policies	Rally 

Source: Bloomberg; KGI Research

Figure 11: Taiex – 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
Taiex	2.20	2.31	2.14	1.72	1.62	1.62	2.28	0.95	20.51	22.55	18.89	15.25	15.03	17.15	21.73	8.80
Taiex excl. TSMC	1.62	1.70	1.57	1.40	1.38	1.46	2.22	0.89	19.48	21.25	18.34	14.96	15.02	16.07	22.71	8.06

Source: KGI Research

Figure 12: 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	86.0	15,252	87.4	(1.6)	3.85	4.31	22.7	20.3	3.9	3.8	17.3	18.8	3.4	3.7	4.2
ACC	1102 TT	Neutral	40.0	4,548	41.8	(4.2)	3.06	3.40	13.6	12.3	0.9	0.9	6.1	6.7	5.8	4.8	5.3
FPC	1301 TT	Neutral	78.0	11,887	60.8	28.3	2.08	4.21	29.2	14.4	1.1	1.0	3.8	7.4	1.5	2.6	5.3
CTBC Holding	2891 TT	Outperform	39.0	22,297	37.0	5.4	3.29	3.39	11.2	10.9	1.5	1.3	14.3	12.6	4.9	5.1	5.4
TWM	3045 TT	Neutral	103.0	11,892	104.0	(1.0)	3.80	4.23	27.3	24.6	6.1	6.2	18.0	20.3	4.1	4.1	4.1
Chicony	2385 TT	Outperform	258.0	3,875	166.0	55.4	13.70	14.93	12.1	11.1	2.9	2.6	24.4	24.3	4.7	5.8	6.4
SMP	6121 TT	Neutral	490.0	2,187	385.0	27.3	30.53	34.76	12.6	11.1	2.0	1.9	16.2	17.5	5.6	5.6	6.4
COMPEQ MANUFACT	2313 TT	Outperform	97.0	3,034	82.9	17.0	5.95	7.85	13.9	10.6	2.3	2.0	17.2	20.2	1.8	2.9	3.6
Asustek	2357 TT	Outperform	540.0	11,281	494.5	9.2	31.53	35.91	15.7	13.8	1.5	1.4	9.6	10.6	3.4	4.8	5.4
EMC	2383 TT	Outperform	615.0	4,736	447.5	37.4	28.51	32.87	15.7	13.6	5.0	4.4	34.3	34.7	3.9	3.9	4.6
Largan	3008 TT	Outperform	3880.0	12,338	3010.0	28.9	185.77	194.02	16.2	15.5	2.2	2.0	14.2	13.5	3.1	3.1	3.2
Unimicron	3037 TT	Outperform	235.0	9,602	205.0	14.6	9.45	16.48	21.7	12.4	3.1	2.7	15.1	23.4	1.8	1.8	3.2
ZDT	4958 TT	Neutral	160.0	4,231	145.0	10.3	9.07	11.43	16.0	12.7	1.4	1.3	8.8	10.5	3.1	3.1	3.9
GCE	2368 TT	Outperform	270.0	3,248	215.0	25.6	12.79	17.21	16.8	12.5	5.8	4.5	37.5	40.6	2.8	2.8	3.7

Source: KGI Research

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