



## Strategy

### Easing economic woes driving laggard stock rallies

#### Key message

Handset, PC and consumer electronics names have been favored by Taix investors over the past two weeks, likely thanks to economic improvements in the US and China, the launch of Huawei's (CN) new flagship smartphone, and capital outflows from AI supply chains. The aforesaid subsectors boast low valuations and bottoming fundamentals, which should provide solid downside support and substantial upside. We recommend the following stocks for short-term trading, including xx, as they fulfill our criteria of low valuations and bottoming fundamentals.

#### Event

Investors switched to supply chains of handset, PC & consumer electronics in past two weeks

Smartphone, PC and consumer electronics suppliers have been favored by Taix investors over the past two weeks, with GaAs, MOSFET and passive components being the outperforming sub-sectors in the past week amid rising probability of a soft landing for the US economy, the introduction of multiple stimulus policies by the Chinese government, successful avoidance of a debt default by Country Garden (CN), and the launch of Huawei's (CN) flagship smartphone Mate60 Pro, which has been well-received by Chinese consumers. FINI and local SITC have also joined the crowd in buying handset and consumer electronics stocks. In addition to the aforementioned macro- and microeconomic factors, we also note that capital outflows from AI supply chains in the absence of sustainable catalysts of late bode well for smartphone, PC and consumer electronics names that boast low valuations and bottoming fundamentals, which provide solid downside support and substantial potential upside.

#### Handset, PC & consumer electronics supply chains to benefit from restocking, though actual demand remains to be seen

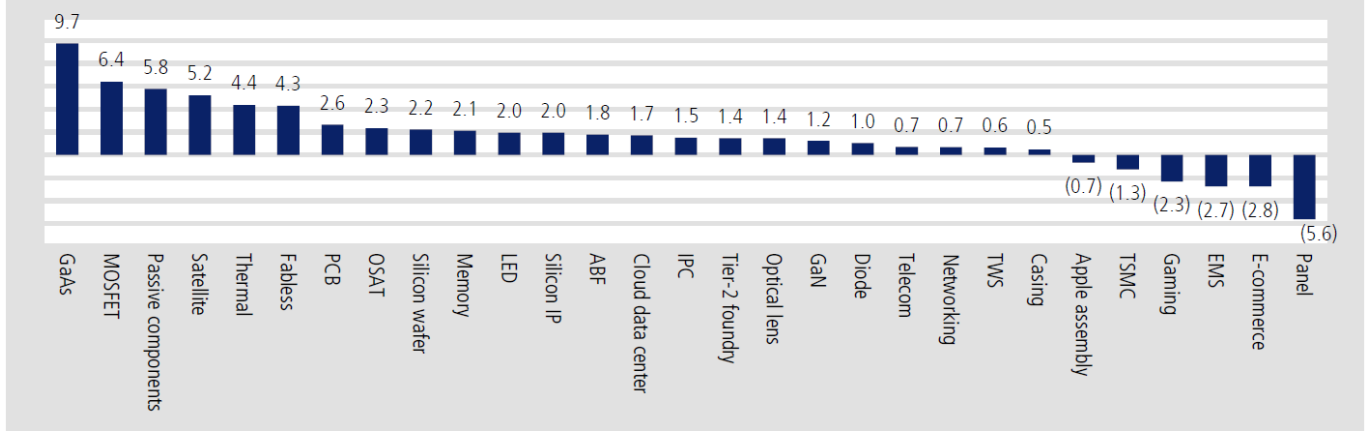
With ongoing inventory digestion in the manufacturing and semiconductor sectors extending over a year and a half, we expect handset, PC and consumer electronics suppliers to turn the table by benefitting from restocking by the end of this year. That said, the actual strength of end-market demand recovery remains to be seen. As of the end of August, the new orders to inventory ratio under manufacturing PMI has remained above 1.0x for three consecutive months, suggesting that destocking has been successful, while end-demand has also been improving. As such, we think it is very likely that the manufacturing sector will switch to a restocking cycle by end-2023. As of the end of 2Q23, inventories of handset IC had declined for the second straight quarter, with inventories of driver IC returning to normal levels. This is why we believe sub-sectors like smartphone, PC and consumer electronics will ride a restocking trend in 2H23F. However, the actual strength and sustainability of restocking demand will be a key factor to watch going forward.

#### Valuation & Action

Handset, PC and consumer electronics names have been favored by Taix investors over the past two weeks, likely thanks to economic improvements in the US and China, the launch of Huawei's new flagship smartphone, and capital outflows from AI supply chains. The aforesaid subsectors boast low valuations and bottoming fundamentals, which should provide solid downside support and substantial upside. We recommend the following stocks for short-term trading: Largan (3008 TT), Yageo (2327 TT), Win Semi (3105 TT), Novatek (3034 TT), Unimicron (3037 TT), Lotes (3533 TT), Sercomm (5388 TT), Bizlink (3665 TT), Global PMX (4551 TT), and Hu Lane (6279 TT) as they fulfill our criteria of low valuations (currently below the 5-year historic average) and bottoming fundamentals (2024F earnings to grow YoY)..

**Figure 1: Laggard stock rallies a recent Taiech highlight**

Accumulated returns of Taiech tech sub-sectors in the past week, percent



Source: TEJ; KGI Research

**Figure 2: SITC investors have overweighted handset & consumer electronics stocks recently**

Top 15 buying and selling by SITC over the past week (by sector)

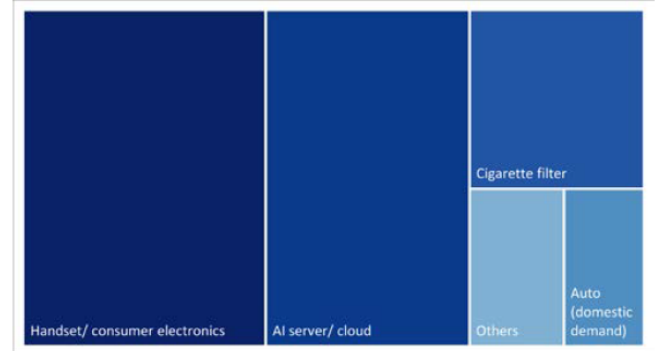


Note: Excluding trading of ETF; the areas of individual sub-sectors are based on their weightings in SITC net-buying/selling.

Source: TEJ; XQ; KGI Research

**Figure 3: FINI also overweighting handset & consumer electronics stocks in their portfolios**

Top 15 buying and selling by FINI over the past week (by sector)

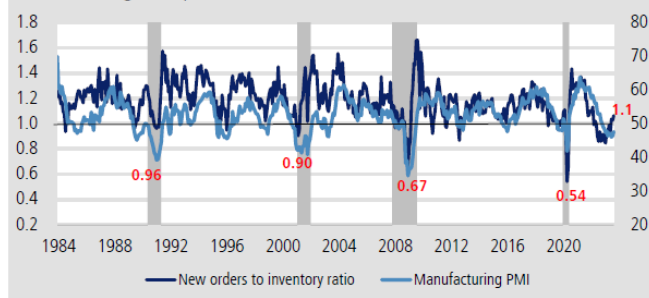


Note: Excluding trading of ETF; the areas of individual sub-sectors are based on their weightings in FINI net-buying/selling.

Source: TEJ; XQ; KGI Research

**Figure 4: A US rebounding ratio of new orders to inventory suggests restocking is around the corner**

US manufacturing new orders to inventory ratio, x (LHS); US manufacturing PMI, points (RHS)



Note: Shaded areas indicate periods of US economic recession

Source: Bloomberg; KGI Research

**Figure 5: Upticks in US new orders to inventory ratio will eventually drive Taiwan corporate earnings upgrades**

US manufacturing PMI, points (LHS); Taiech projected EPS, points (RHS)



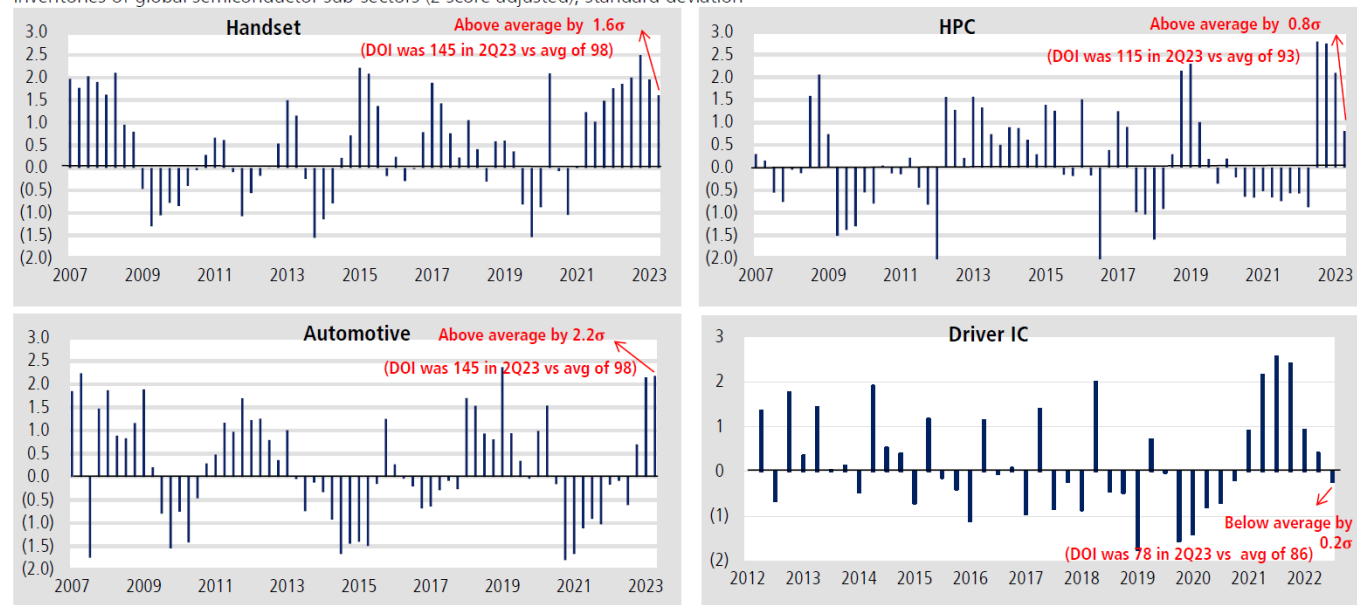
Note: Shaded areas indicate periods of US economic recession

Note: We use Taiech EPS forecast as of January 2, 2006 as the base of 100

Source: Bloomberg; KGI Research

**Figure 6: Inventories of handset IC have declined for second consecutive quarter, with driver IC inventories returning to normal levels**

Inventories of global semiconductor sub-sectors (z-score adjusted), standard deviation



Note: Z-score= (Inventory as of a given quarter minus long-term average)/ standard deviation  
Source: Bloomberg; KGI Research

**Figure 7: 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 (%)		Selection criteria	
							2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	Current valuation vs 5-year historic average (%)	Projected 2024 earnings growth YoY (%)
Unimicron	3037 TT	Outperform	225.0	8,802	184.50	22.0	9.48	14.72	19.5	12.5	3.0	2.6	16.1	22.2	2.1	3.3	(53.9)	55.2
BHI (Bizlink)	3665 TT	Outperform	355.0	1,287	252.00	40.9	17.37	27.23	14.5	9.3	1.7	1.5	12.1	17.7	3.4	5.4	(45.8)	56.7
Global PMX	4551 TT	Outperform	165.0	499	138.50	19.1	6.91	11.76	20.0	11.8	1.8	1.7	9.5	15.1	2.2	4.3	(42.0)	70.1
Win	3105 TT	Outperform	190.0	1,896	143.00	32.9	0.39	7.62	364.1	18.8	1.8	1.7	0.5	9.5	0.3	3.1	(37.4)	1840.1
Yageo	2327 TT	Outperform	640.0	6,644	502.00	27.5	39.63	53.31	12.7	9.4	1.6	1.4	13.0	15.8	2.4	3.0	(34.5)	34.5
SerComm	5388 TT	Outperform	155.0	1,031	126.00	23.0	9.05	10.34	13.9	12.2	3.1	2.8	22.8	23.9	4.8	5.0	(30.8)	14.3
Lotes	3533 TT	Outperform	1075.0	3,054	877.00	22.6	47.94	66.10	18.3	13.3	3.7	3.2	21.4	26.2	2.8	3.8	(23.9)	37.9
Novatek	3034 TT	Outperform	510.0	8,127	427.00	19.4	37.45	39.26	11.4	10.9	3.9	3.6	34.5	34.5	7.1	7.4	(22.3)	4.8
Largan	3008 TT	Outperform	2700.0	8,642	2070.00	30.4	127.25	149.61	16.3	13.8	1.6	1.5	10.5	11.4	3.1	3.6	(20.8)	17.6
Hu Lane	6279 TT	Outperform	175.0	466	149.50	17.1	8.42	11.34	17.8	13.2	2.5	2.4	14.7	18.5	3.3	4.7	(19.9)	34.6

Source: KGI Research

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