

## Strategy

### Engage high-yield stocks beyond AI plays

#### Key message

1. AI shares have posted tremendous earnings growth. We recommend investors keep AI holdings & not be swayed by bubble concerns.
2. Investors should consider high-yield stocks before mid-March, as, historically, they have easily beaten the Taiex during April-August.
3. Only growth & blue-chip stocks with successful ex-dividend rebounds are better high-yield investment targets.

#### Hold on to AI holdings

The three major US stock market indices have been hitting fresh highs recently, further boosting the Taiex and the Nikkei. Since surges in stocks have been excessive over the short run, bubble worries have been rampant. We do not think the current AI frenzy is based on speculation. Rather, we have seen tremendous earnings growth in AI stocks. We therefore recommend investors hold on to AI stocks, and not be swayed by bubble concerns.

#### Engage high-yield stocks by mid-March

We recommend investors consider high-yield stocks before mid-March, as they traditionally beat the Taiex during April-August, as listed companies confirm cash dividend payouts around this time of the year, attracting investors to buy stocks with comparatively high dividends in advance. In addition, the Taiex often consolidates during 2Q-3Q, and investors should eye high-yield stocks for defensiveness. Finally, after trading ex-dividend in July-August, both growth and blue-chip stocks often see prices rebound to the level before the ex-date. For these reasons, we recommend investors start to engage high-yield stocks before mid-March, until a successful rebound, to enjoy a full rally.

Relative to the Taiex, high-yield stocks have delivered an average return of 3.8%, and a median return of 4.6%, during April-August over the past ten years. In absolute terms, their average return has been 5.4% and median return has been 6.3%.

#### Growth & blue chip stocks with ex-dividend rebounds are better bets

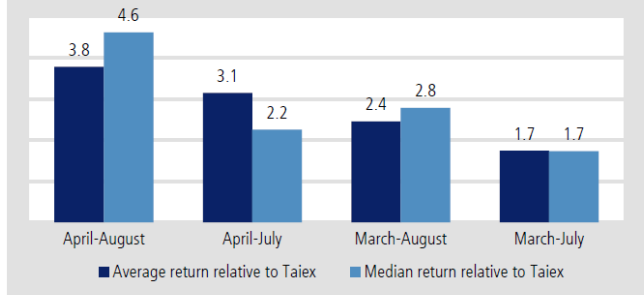
It is untrue that the higher the dividend yield, the better a pick a high-yield stock becomes, because some high-yield stocks are in downtrending sectors. While investing in such stocks can earn dividends, investors could suffer capital losses, absent an ex-dividend rebound. Therefore, only those with ex-dividend rebounds are better high-yield investment vehicles. Since high-dividend investing has become popular in recent years, there are 18 high-dividend ETFs in Taiwan with a total value of nearly NT\$1.0tn. This market is increasing in size, with the top five ETFs rising to account for 90% of the market, at present. The core screening criteria of stocks for such ETFs are high yields, fundamentals and liquidity, as they are key to ex-dividend rebounds. We have checked the components of the largest five high-dividend ETFs at present and found that MediaTek (2454 TT, NT\$1150, N), UMC (2303 TT, NT\$48.85, OP) and ASE (3711 TT, NT\$141.5, N) are the three stocks held by all five. In addition, the following eight stocks are held by at least four such ETFs: xxxx. Two high-dividend ETFs featuring monthly dividend payments are to be launched in March which have three stocks in common: (1) MediaTek; (2) Chicony Electronics (2385 TT, NT\$200.5, OP); and (3) Evergreen Marine (2603 TT, NT\$172, N). With the top five high-dividend ETFs growing, and two highly anticipated high-dividend ETFs debuting in March, the massive inflow to passive funds will support the share prices of the abovementioned counters.

#### Valuation & Action

The current AI frenzy has been underpinned by huge earnings gains. We recommend investors hold on to AI holdings, and not dance to the market's tune. We also recommend investors start to engage high-yield stocks before mid-March, as, historically, they have easily beaten the Taiex during April-August. That said, only growth and blue-chip stocks with ex-dividend rebounds are good investment vehicles.

**Figure 1: High-dividend stocks outperform in April-August, with +4-5% returns relative to Taieax**

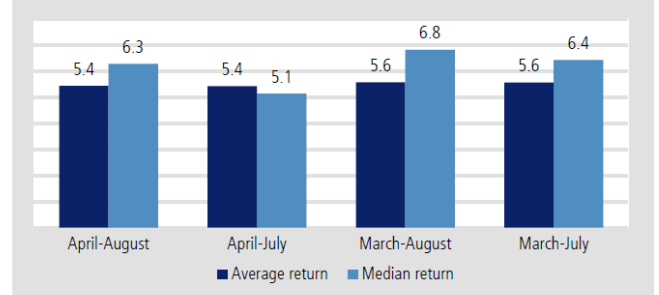
Taiwan high-dividend stock return relative to Taieax over past 10 years, percent



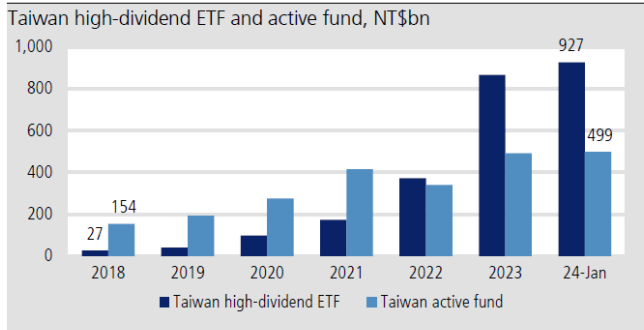
Source: TEJ; KGI Research

**Figure 2: High-dividend stocks' absolute return of 5-6% in April-August**

Absolute return of Taiwan high-dividend stocks by period over past 10 years, percent



Source: TEJ; KGI Research

**Figure 3: Taiwan's high-dividend ETF market nears NT\$1.0tn**


Source: Bloomberg; KGI Research

**Figure 4: Top five high-dividend ETFs account for 90% of the total**

High-dividend ETF	Current size (NT\$bn)
0056 Yuanta/P-shares Taiwan Dividend Plus ETF	260
00878 Cathay MSCI Taiwan ESG Sustainability High Dividend Yield ETF	248
00929 Fuh Hwa Taiwan Technology Dividend Highlight ETF	143
00919 CAPITAL TIP CUSTOMIZED TAIWAN SELECT HIGH DIVIDEND EXCHANGE TRADED FUND.	117
00713 Yuanta Taiwan High Dividend Low Volatility ETF	53
Overall high-dividend ETF	927
Top-five high-dividend ETF weighting	89%

Note: As of January 2024

Source: Bloomberg; KGI Research

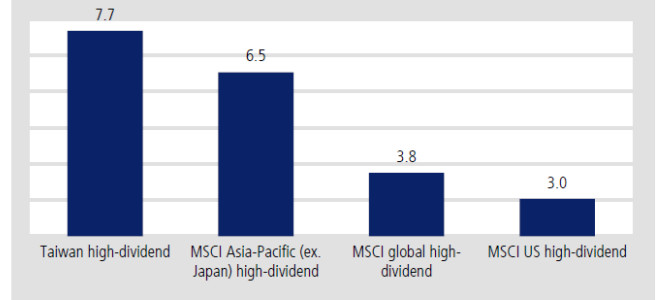
**Figure 5: Taiwan top five high-dividend ETF components**

No. of repetition	Component
Five	MTK (2454) 、 UMC (2303) 、 ASEH(3711)
Four	PTI (6239) 、 ROEC (6176) 、 Tripod (3044) 、 Catcher (2474) 、 KYEC (2449) 、 Chicony (2385) 、 RT (2379) 、 LTC (2301)
Three	WNC (6285) 、 ZDT(4958) 、 Pegatron (4938) 、 Primax (4915) 、 WPG (3702) 、 Wstron (3231) 、 Novatek (3034) 、 CTBC Holding (2891) 、 Mega FHC (2886) 、 Yuanta Group (2885) 、 ACER (2353) 、 Synnex (2347) 、 Compal (2324)

Source: ITC data; KGI Research

**Figure 6: Yield of Taiwan's high-yield stocks beat global peers**

Yield of high-dividend stocks over past 4 quarters by region, percent



Source: Bloomberg; KGI Research

**Figure 7: Our top picks**

Dividend announcement	Company	Code	Investment rating	Target price (NT\$)	Mkt cap (US\$m)	Share price (NT\$)	Change +/- (%)	EPS (NT\$)		PE (x)		P/B (x)		ROE (%)		DPS (NT\$)		Cash yield (%)	
								2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
Yes	UMC	2303 TT	Outperform	56.0	19,387	48.9	14.6	4.93	4.39	9.9	11.1	1.7	1.6	17.5	14.6	3.00	2.46	6.1	5.0
	MTK	2454 TT	Neutral	986.0	58,269	1150.0	(14.3)	48.51	57.98	23.7	19.8	4.4	4.4	17.9	21.9	55.00	62.84	4.8	5.5
	KYEC	2449 TT	N.A.	N.A.	3,718	96.0	N.A.	4.70	6.01	20.4	16.0	3.1	2.8	15.5	17.9	3.20	3.90	3.3	4.1
No	ROEC	6176 TT	N.A.	N.A.	2,187	148.5	N.A.	12.27	11.66	12.1	12.7	2.0	1.9	15.9	14.7	8.95	6.38	6.0	4.3
	PTI	6239 TT	N.A.	N.A.	3,992	166.0	N.A.	10.45	10.15	15.9	16.3	2.3	2.2	14.0	13.1	7.15	6.59	4.3	4.0
	Chicony	2385 TT	Outperform	152.0	4,827	200.5	(24.2)	10.35	11.69	19.4	17.2	3.8	3.5	20.1	21.1	7.27	8.24	3.6	4.1
	Tripod	3044 TT	N.A.	N.A.	3,521	211.5	N.A.	11.32	14.81	18.7	14.3	2.4	2.2	13.7	16.8	7.31	9.02	3.5	4.3
	ASEH	3711 TT	Neutral	130.0	19,669	141.5	(8.1)	7.39	9.74	19.2	14.5	2.1	2.0	10.6	13.7	4.35	5.75	3.1	4.1

Source: KGI Research and KGI estimates

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