Taiwan 2H26 strategy

Long-term bull run intact; three grey rhinos warrant caution in 3Q26F

Key message

1. Taiex bull market to extend as AI investment cycle continues.
2. Long-term bull run intact, though three grey rhinos could trigger fluctuations in 3Q26.
3. Our Taiex target is 50,000 points by end-2026F and 55,000 points within the next twelve months.
4. We favor AI and low earth orbit satellite firms, and high-yield stocks for 3Q26F. We recommend 30 stocks.

Top picks

Company	Code	6/18 share price	Target price (NT$)	Change +/- (%)
TSMC	2330 TT	2,410.0	2,600	7.9
MediaTek	2454 TT	4,390.0	6,150	40.1
Alchip	3661 TT	4,380.0	6,185	41.2
GUC	3443 TT	4,860.0	5,245	7.9
Chipbond	6147 TT	252.0	280	11.1
Hon Precision	7769 TT	6,975.0	8,800	26.2
WinWay	6515 TT	9,450.0	13,000	37.6
MPI	6223 TT	6,415.0	8,000	24.7
AVC	3017 TT	2,400.0	3,450	43.8
Jentech	3653 TT	3,965.0	4,840	22.1
Delta	2308 TT	2,150.0	2,940	36.7
Fositek	6805 TT	1,755.0	2,800	59.5
EMC	2383 TT	5,600.0	6,860	22.5
Unimicron	3037 TT	968.0	1,000	3.3
ZDT	4958 TT	642.0	695	8.3
Chenbro	8210 TT	1,365.0	1,905	39.6
King Slide	2059 TT	6,865.0	8,850	28.9
Lotes	3533 TT	2,290.0	3,100	35.4
Wiwynn	6669 TT	5,130.0	6,475	26.2
Wistron	3231 TT	161.5	225	39.3
Nanya Tech	2408 TT	459.5	520	13.2
Macronix	2337 TT	169.0	300	77.5
Hiwin	2049 TT	335.0	478	42.7
Silergy	6415 TT	629.0	600	(4.6)
Compeq	2313 TT	259.5	-	-
Hon Hai	2317 TT	268.5	315	17.3
CTBC FHC	2891 TT	71.9	63	(12.4)
Sinpac Holding	2890 TT	39.8	42	5.5
Quanta	2382 TT	376.0	430	14.4
Hiyes	2348 TT	76.8	100	30.2

Taiex bull market to extend as AI investment cycle continues

AI-related capex is in a sustained expansion phase, with major CSPs stepping up investment, driving upward revisions to the projected earnings of AI component suppliers in Taiwan — the core driver that has been in place since 2023. Meanwhile, position rebuilding by FINIs and sustained capital inflows from ETFs and passive instruments have shifted the Taiex's capital structure from cyclical to structural, providing more solid support. Backed by both fundamentals and capital inflows, the current Taiex rally should be viewed as a continuation of an upcycle driven by AI, rather than a short-term advancement fueled purely by valuation gains. History suggests that a structural Taiex bull market tends to last around 4-5 years, while a cyclical bull market only persists for 1-2 years. If the current AI cycle mirrors past structural bull markets, history suggests one to two more years of upside.

Long-term bull run intact, though three grey rhinos could trigger fluctuations in 3Q26F

Although strength in AI fundamentals may provide solid support for the bull market over the mid- to long-run, volatility risks are looming and warrant particular attention, especially in 3Q26F. Potential risk events include rising oil prices, which add to inflationary pressure, thereby altering the trajectories of the Fed's monetary policy and long-term Treasury yields. Also, shifts in market expectations for high interest rates may lead to valuation de-ratings for tech stocks. At the industry level, it is also important to monitor potential issues regarding production yields and shipment delays during GPU iterations. These events could temporarily disrupt supply chain sales in the near term.

Our Taiex target is 50,000 points by end-2026F & 55,000 points within the next twelve months

Based on our forecast of 25% YoY earnings growth for 2027F, we set a year-end Taiex target of 50,000 points, at approximately 21x PE, by the end of this year, which is within the historic range of bull market valuations. If earnings revisions persist and growth is projected at 35% YoY, the index has the scope to rise to 55,000 points over the next twelve months. On the downside, valuations and capital inflows should provide solid downside support at the level of 40,000 points in the medium term, reflecting the market's conviction in the long-term AI growth story. All considered, near-term pullbacks should be viewed as good entry points for mid- and long-term investors. From a tactical perspective, we recommend engagement on pullbacks to reap the benefits of structural growth driven by AI. Driven by robust AI demand, Taiex earnings forecasts have seen continuous upward revisions over the past three years. Specifically, earnings estimates for 2024 were revised up by 29%, followed by 16% in 2025, while 2026 estimates have already been upgraded by approximately 35% to date, suggesting the revisions are still gaining steam.

Our top picks are as follows

For 2H26F, we recommend focusing on three key themes: (1) beneficiaries of the Vera Rubin platform upgrade; (2) emerging AI applications, including robotics, AI PCs, and AI glasses; and (3) the low-earth orbit (LEO) satellite supply chain. Meanwhile, in the event of a potential pullback in the Taiwan equity market in 3Q26, we suggest tactically rotating into defensive sectors with stable and attractive dividend yields, such as PC/ NB, financials, and construction. Our top picks are below: TSMC (2330), MediaTek (2454), Alchip (3661), GUC (3443), Chipbond (6147), Hon Precision (7769), WinWay (6515), MPI (6223), AVC (3017), Jentech (3653), Delta (2308), Fositek (6805), EMC (2383), ZDT (4958), Chenbro (8210), King Slide (2059), Lotes (3533), Wiwynn (6669), Wistron (3231), Nanya Tech (2408), Macronix (2337), Hiwin (2049), Silergy (6415), Unimicron (3037), Hon Hai (2317), CTBC FHC (2891), Sinpac FHC (2890), Quanta (2382), Hiyes (2348).

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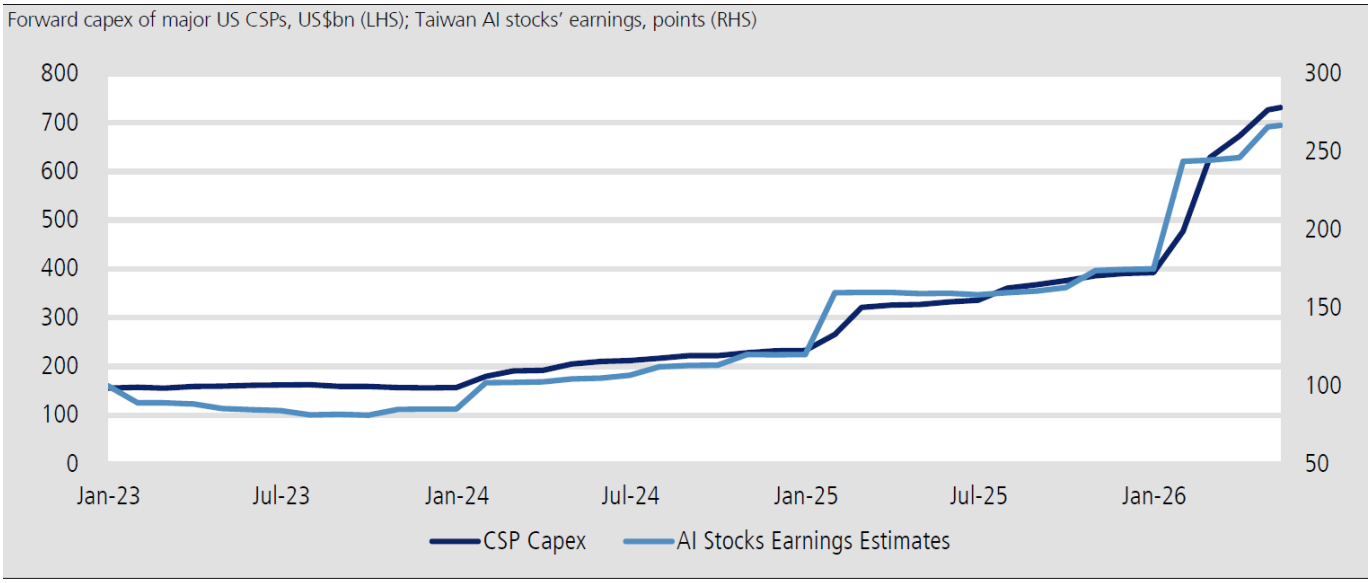
Figure 1: Accelerating US CSP capex is driving AI supply-chain earnings upgrades, the engine behind Taiex strength since 2023



Source: Bloomberg; KGI Research estimates
Note: Earnings estimates indexed to a base value of 100 at end-2022

Figure 2: Our top picks

Sector/ theme	Company	Code	Investment rating	Target price (NT$)	Mkt cap (US$mn)	Share price (NT$)	Change +/- (%)	EPS (NT$) 2026F	EPS (NT$) 2027F	EPS YoY (%) 2026F	EPS YoY (%) 2027F	PE (x) 2026F	PE (x) 2027F	PEG (x) 2026F	PEG (x) 2027F	P/B (x) 2026F	P/B (x) 2027F	ROE (%) 2026F	ROE (%) 2027F	Cash yield (%) 2026F	Cash yield (%) 2027F
Semiconductor	TSMC	2330 TT	Outperform	2,600	1,977,754	2,410.0	7.9	102.74	131.02	55.1	27.5	23.5	18.4	0.4	0.7	8.4	6.2	41.4	38.8	1.0	1.2
	MediaTek	2454 TT	Outperform	6,150	222,820	4,390.0	40.1	67.98	111.95	2.8	64.7	64.6	39.2	24.3	0.6	16.7	14.7	26.3	39.5	1.5	1.6
	Alchip	3661 TT	Outperform	6,185	11,379	4,380.0	41.2	128.95	171.78	87.4	33.2	34.0	25.5	0.4	0.8	7.3	6.2	23.5	26.4	1.5	2.0
	GUC	3443 TT	Outperform	5,245	20,611	4,860.0	7.9	48.02	116.55	70.7	142.7	101.2	41.7	1.4	0.3	39.1	23.5	43.5	70.4	0.7	1.7
	Chipbond	6147 TT	Outperform	280	5,938	252.0	11.1	5.30	7.45	41.6	40.8	47.6	33.8	1.0	0.7	3.5	3.3	8.2	11.2	1.6	2.2
	Hon Precision	7769 TT	Outperform	8,800	76	6,975.0	26.2	122.62	221.68	78.4	80.8	56.9	31.5	0.8	0.4	18.3	13.5	34.9	49.5	1.2	2.2
	WinWay	6515 TT	Outperform	13,000	10,883	9,450.0	37.6	91.71	169.35	95.4	84.7	103.0	55.8	1.1	0.7	42.5	31.3	45.2	63.9	0.7	1.3
	MPI	6223 TT	Outperform	8,000	19,891	6,415.0	24.7	65.35	111.48	95.1	70.6	98.2	57.5	1.0	0.8	37.5	30.9	39.6	57.1	0.6	1.0
AI server	AVC	3017 TT	Outperform	3,450	29,813	2,400.0	43.8	94.49	132.70	92.9	40.6	25.4	18.1	0.3	0.4	14.5	10.0	67.1	64.6	1.7	2.3
	Jentech	3653 TT	Outperform	4,840	18,411	3,965.0	22.1	53.96	112.49	50.0	108.5	73.5	35.2	1.4	0.3	22.4	17.9	32.4	56.4	0.8	1.7
	Delta	2308 TT	Outperform	2,940	176,732	2,150.0	36.7	44.71	73.51	93.2	64.4	48.1	29.2	0.5	0.5	15.3	11.2	36.7	44.3	1.0	1.7
	Fositek	6805 TT	Outperform	2,800	3,807	1,755.0	59.5	66.17	93.30	113.4	41.0	26.5	18.8	0.2	0.5	12.4	9.1	53.7	55.9	1.7	2.4
	EMC	2383 TT	Outperform	6,860	63,500	5,600.0	22.5	92.16	171.51	125.4	86.1	60.8	32.7	0.4	0.3	30.0	18.5	56.3	70.1	1.0	1.8
	Unimicron	3037 TT	Outperform	1,000	48,713	968.0	3.3	14.31	27.77	240.7	94.1	67.7	34.9	0.2	0.4	12.2	9.5	20.4	31.8	0.7	1.3
	ZDT	4958 TT	Outperform	695	21,930	642.0	8.3	16.92	26.71	166.7	57.9	38.0	24.0	0.2	0.4	4.9	4.4	13.8	19.3	1.3	2.1
	Chenbro	8210 TT	Outperform	1,905	5,413	1,365.0	39.6	49.65	68.00	73.7	37.0	27.5	20.1	0.4	0.5	12.2	9.4	49.7	52.6	1.8	2.5
	King Slide	2059 TT	Outperform	8,850	20,703	6,865.0	28.9	206.36	295.01	99.9	43.0	33.3	23.3	0.5	0.9	17.1	12.4	59.3	61.8	1.5	2.2
	Lotes	3533 TT	Outperform	3,100	8,155	2,290.0	35.4	95.08	129.17	35.5	35.9	24.1	17.7	0.7	0.5	5.9	5.1	25.9	30.6	2.1	2.8
	Wiwynn	6669 TT	Outperform	6,475	30,183	5,130.0	26.2	325.58	436.17	18.4	34.0	15.8	11.8	0.8	0.3	6.3	5.1	43.8	47.6	3.5	4.7
	Wistron	3231 TT	Outperform	225	16,254	161.5	39.3	13.96	18.29	59.3	31.7	11.6	8.8	0.2	0.3	2.5	2.1	22.6	25.1	5.1	6.7
Memory	Nanya Tech	2408 TT	Outperform	520	50,170	459.5	13.2	58.41	90.06	2902.3	56.5	7.9	5.1	0.0	0.1	3.9	2.2	74.6	62.4	2.5	3.9
	Macronix	2337 TT	Outperform	300	10,599	169.0	77.5	30.02	101.70	N.A.	238.8	5.6	1.7	N.A.	0.0	3.0	1.1	75.6	99.0	5.3	18.1
AI Applications	Hiwin	2049 TT	Outperform	478	3,751	335.0	42.7	8.75	12.53	102.9	43.2	38.3	26.7	0.4	0.6	3.0	2.9	8.1	11.0	1.2	1.7
	Silergy	6415 TT	Outperform	600	7,736	629.0	(4.6)	10.81	19.79	69.3	83.1	58.2	31.8	0.8	0.4	1.5	1.2	10.6	16.9	0.7	1.3
LEO Satellites	Compeq	2313 TT	Restricted	-	9,787	259.5	-	8.04	12.88	45.9	60.2	32.3	20.1	0.7	0.3	5.6	4.8	18.7	25.8	1.5	2.5
	Hon Hai	2317 TT	Outperform	315	119,199	268.5	17.3	17.94	21.46	32.3	19.6	15.0	12.5	0.5	0.6	2.0	1.8	13.7	15.3	3.6	4.3
High-yield	CTBC FHC	2891 TT	Outperform	63	44,771	71.9	(12.4)	4.38	4.68	7.0	6.7	16.4	15.4	2.3	2.2	2.2	1.9	15.3	13.1	3.8	3.9
	Sinpac FHC	2890 TT	Outperform	42	18,253	39.8	5.5	2.81	2.67	53.2	(5.1)	14.2	14.9	0.5	N.A.	1.9	1.7	14.7	12.2	4.1	4.0
	Quanta	2382 TT	Outperform	430	45,960	376.0	14.4	23.13	27.43	18.9	18.6	16.3	13.7	0.8	0.7	5.6	5.1	35.3	38.9	4.9	5.8
	Hiyes	2348 TT	Outperform	100	369	76.8	30.2	12.50	18.70	79.1	48.4	6.1	4.1	0.1	0.1	1.3	1.2	23.3	30.9	10.8	12.6

Source: KGI Research estimates

AI-driven structural tailwinds are supporting the Taiex bull run, underpinned by earnings growth and favorable liquidity. However, as the cycle enters its mid-to-late stage, investors should be vigilant to risks including valuation pressures, interest rate shifts, and a possible inflection in earnings growth.

AI-driven structural Taiex bull market remains intact

The Taiex has surged strongly this year, repeatedly reaching new highs and fueling growing market debate over whether the rally has become overheated. However, from both a fundamental and industry-structure perspective, this cycle is not merely liquidity-driven. Rather, it is powered by the three key forces — the AI-led industrial revolution, sustained earnings upgrades, and structural capital reallocations. Overall, the Taiex remains in a structural bull phase, though it is entering the mid-to-late stage, warranting greater emphasis on pacing and risk management.

1. AI capex as the core driver of the structural bull market

The foundation of this rally lies in the broad-based expansion of the AI supply chain. Unlike prior PC or smartphone cycles, AI represents a cross-industry infrastructure upgrade, spanning chip design, foundries, advanced packaging, servers, cooling, and power solutions. AI server shipments are projected to grow by 70-80% YoY in 2026F, indicating that major CSPs are in a sustained expansion phase, rather than experiencing a short-term demand spike. More importantly, compute demand is structurally irreversible—as AI models scale up, enterprises must continuously invest in capex, creating a multi-year upgrade cycle. Taiwan's critical position in the global AI hardware ecosystem is transforming the Taiex from a cyclical, demand-sensitive market into a structural market with long-term growth characteristics, the fundamental basis for a continued bull cycle.

2. Sustained earnings upgrades underpin market valuations

Long-term equity performance is ultimately anchored in corporate earnings. A second key pillar of this rally is upward revisions to earnings expectations. At the beginning of the year, the market projected close to 20% earnings growth for 2026F, but driven by strong demand for AI servers and advanced nodes, forecasts have been revised up to nearly 40%. This suggests that the rally is not driven solely by valuation expansion, but by synchronous improvement in earnings and valuations. The market is supported by genuine earnings growth, rather than detached from fundamentals. Under these premises, so long as AI demand persists and earnings continue to be revised up, the broader bull trend is unlikely to reverse despite short-term volatility. For investors, earnings trajectory is the key variable.

3. Structural bull cycle still has time on its side

Historically, Taiex rallies can be classified as cyclical or structural. Cyclical rallies typically last 1-2 years, while structural bull markets driven by paradigm shifts can extend 4-5 years. If AI is viewed as a new industrial revolution, the current cycle clearly falls into the structural category. Roughly three years have passed since AI investment began to accelerate in 2023, and based on historical patterns, there may be another 1-2 years of upside potential. This helps explain why, despite elevated valuations, the market has yet to experience a systematic bearish reversal - the rally is underpinned by long-term industry trends, rather than short-term demand.

4. Structural capital allocation reinforces market momentum

Beyond fundamentals, capital flows have become another key driver. The Taiex is benefiting from dual tailwinds of FINI inflows and domestic capital expansion. FINI previously sold approximately NT$820bn amid geopolitical tensions, but have since bought back roughly NT$500bn, leaving room for further inflows. More importantly, Taiwan has been repositioned as a core AI strategic exposure, given its irreplaceable role in advanced manufacturing and the AI supply chain, making it difficult for global investors to exclude. On the domestic front, strong performance of actively managed ETFs has attracted approximately NT$400bn in inflows, channeling funds into large-cap, high-quality AI names.

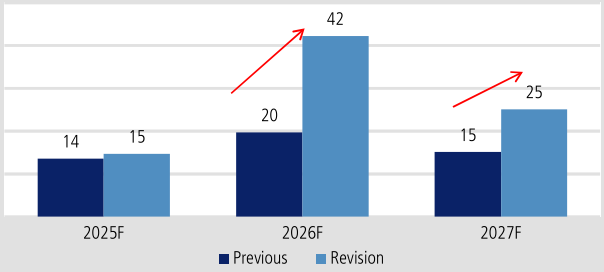
Together, FINI position rebuilding, AI-driven allocation demand, and domestic ETF structural inflows form a threefold support structure, shifting Taiwan's capital structure from cyclical to structural, and providing a durable liquidity foundation for further gains.

5. Three key signals to watch before the peak

While the bull market remains intact, it will not continue indefinitely. Market tops typically emerge after an accumulation of warning signals, rather than sudden reversals. The most critical signal is corporate earnings deterioration. A slowdown in AI demand or downward earnings revisions would trigger valuation adjustments. Another key warning sign is excessive valuations. If price gains significantly outpace earnings growth, it suggests over-optimism. In addition, investors should monitor monetary tightening risk. A resurgence in inflation that leads to renewed rate hikes, particularly if accompanied by slowing economic growth, would create dual pressure from both valuation compression and earnings downgrades.

Figure 3: Accelerating AI investment is fueling major upgrades to Taiex earnings forecasts for 2026-27F

Taiex earnings YoY, percent



Source: TEJ; compiled & forecast by KGI Research

Figure 4: AI stocks drive Taiex earnings upgrades

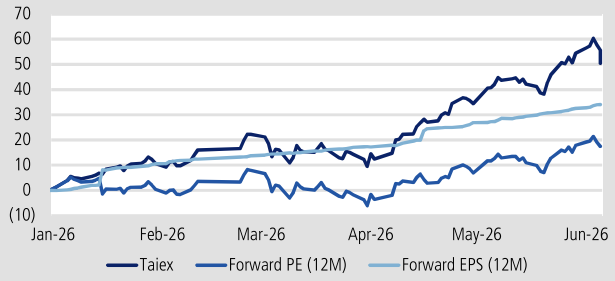
Taiex & subsector earnings YoY, percent

	2022	2023	2024	2025	2026F	2027F
AI	49.4	(12.7)	35.2	45.0	52.9	28.9
Non-AI	(19.0)	(44.9)	64.7	(15.0)	19.0	26.0
Tech	24.2	(16.9)	33.0	36.7	49.3	29.6
Non-Tech	4.7	(78.5)	155.8	(44.0)	8.2	14.3
Taiex	(3.7)	(28.9)	40.9	14.9	42.2	25.1

Source: TEJ; compiled & forecast by KGI Research

Figure 5: This year's strong Taiex rally reflects robust fundamentals & earnings upgrades—not mere valuation expansions—highlighting solid underlying support rather than a bubble

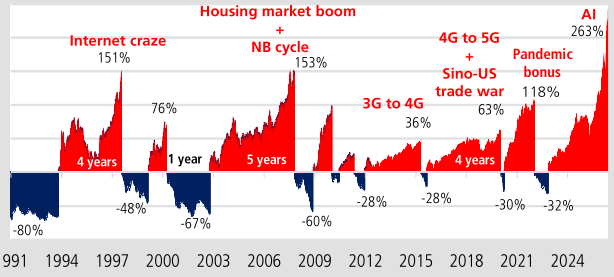
Taiex vs. forward PE vs. forward EPS (normalized to zero, points)



Source: Bloomberg; KGI Research compiled

Figure 6: Historically, Taiex structural bull markets last 4-5 years, versus 1-2 years for cyclical rallies, suggesting 1-2 years of upside if AI-led growth proves to be structural

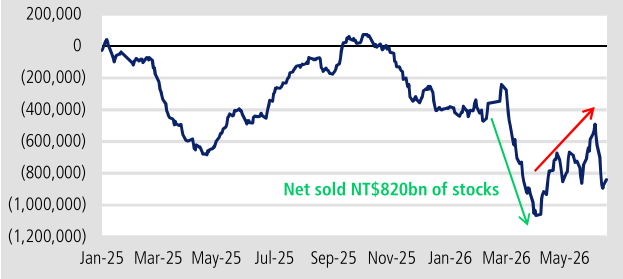
Cumulative gains and losses of the Taiex over previous boom & bust cycles, percent



Source: TEJ; KGI Research compiled

Figure 7: After selling NT$820bn during the US-Iran conflict, FINI has repurchased more than NT$500bn amid easing geopolitical risks & strong AI demand, implying further rebuilding potential

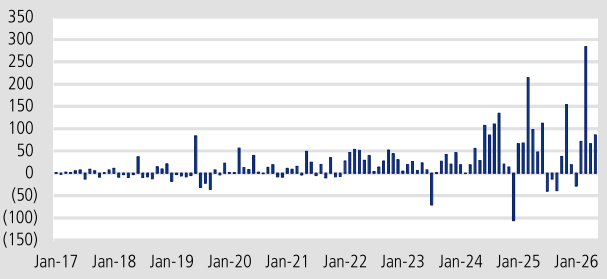
Net buying & selling by FINI since 2025, NT$mn



Source: TEJ; KGI Research compiled

Figure 8: Strong equity market performances & solid ETF returns continue to drive inflows into Taiex ETFs

Monthly net inflows into Taiex ETFs, NT$bn



Source: Bloomberg; KGI Research compiled

AI investment remains in the early-to-mid stage. With capital intensity not yet overheated and investments increasingly translating into tangible returns, alongside explosive growth in compute demand, the AI arms race appears far from its peak, and the overall investment cycle retains solid momentum.

AI Investment cycle remains in the early-to-mid stage; far from peaking

AI investment remains in the early-to-mid stage. With capital intensity not yet overheated and investments increasingly translating into tangible returns, alongside explosive growth in compute demand, the AI arms race appears far from its peak, and the overall investment cycle retains solid momentum.

1. From a historical cycle perspective, AI investment is in the early-to-mid stage

The AI arms race formally began in 2H23 with the rise of generative AI. Although it is entering its fourth year, concerns about a potential bubble have already surfaced. However, historical precedent suggests such concerns may be premature. In past cycles—such as the electrification boom of the 1920s and the internet wave of the 1990s—investment peaks typically did not occur until after the fifth year. This implies that the current AI investment cycle is in its early-to-mid stage. At its core, the AI race is driven by continuous advancements in computing power, data, and models, necessitating multi-layered infrastructure buildouts across data centers, energy systems, and semiconductor supply chains. These investments require years to materialize fully, suggesting that the current cycle still has substantial runway and has yet to reach an overheated phase.

2. From a capital intensity perspective, there is a meaningful gap before the peak of an investment bubble

To assess whether an investment cycle is overheating, capital intensity—defined as capital expenditure as a percentage of operating cash flow—serves as a key indicator. Currently, major US cloud service providers (CSPs), including Amazon, Microsoft, Google, and Meta, have reached capital intensity levels of close to 75% on average, marking a new high since the onset of the AI investment wave. While this has raised some concerns, it is well below the estimated 130% peak observed during the 2000 telecom and fiber bubble. This suggests that there is still a meaningful buffer and no clear sign of irrational expansion.

More importantly, this wave of AI investment is already translating into tangible returns. Based on recent financial results, the aggregate net profit margin of major CSPs has increased markedly from around 20% prior to the AI boom to approximately 35%, reflecting strong investment efficiency and reinforcing a virtuous cycle of "investment → returns → reinvestment." At the same time, the firms' cloud segments are experiencing accelerating sales growth, driving parallel expansions in service usage and capital expenditure. This suggests that the current investment cycle is firmly supported by underlying demand, rather than resembling the debt-driven, speculative bubbles seen in previous cycles.

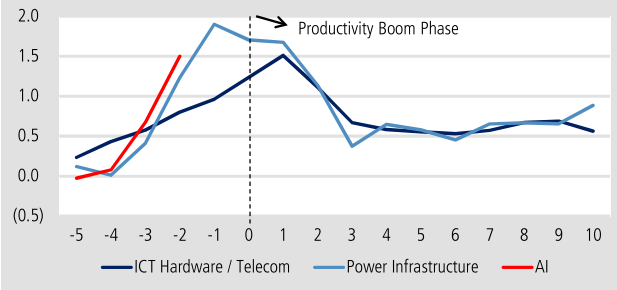
3. From the demand side, computing demand is experiencing near-vertical growth

If there are still doubts about the expansion in capital expenditures, demand-side data provides a compelling answer. Over the past six to twelve months, global AI compute demand has surged at a near-vertical pace, as illustrated by two key indicators: Anthropic's (US) annualized revenue has reached US$45bn, up 15x YoY and 5x since the end of last year, signaling rapidly accelerating AI commercialization. Meanwhile, Google's monthly token processing volume has risen to 3.2 quadrillion, up sevenfold YoY, reflecting a sharp expansion in compute demand.

Notably, this wave of growth is still driven by conversational generative AI. Looking ahead, as agentic AI is deployed more widely, its multi-step decision-making and task execution capabilities are expected to drive token consumption up by 100x to 1,000x, accelerating the surge in computing demand. Based on current trends, global token demand is projected to exceed 24 times its current level by 2030, indicating that AI infrastructure growth is entering a critical phase of acceleration.

Figure 9: The AI arms race has only entered its fourth year; compared with historical ICT and electrification cycles—where investment peaks typically emerged after the fifth year—the AI investment cycle still has significant room to run

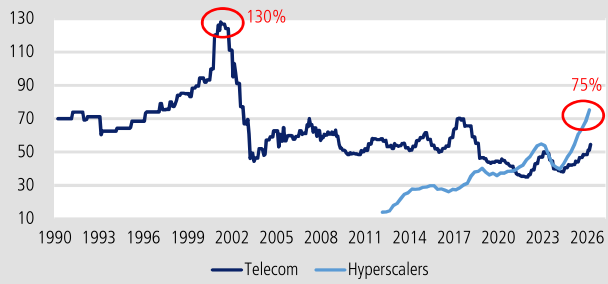
Share of emerging technology investment as a percentage of GDP, percent



Source: Bloomberg; compiled by KGI Research

Figure 10: The current AI arms race has driven CSPs to expand capital expenditures, but the intensity is below the peak of the 2000 telecom bubble, indicating that investment has not yet overheated

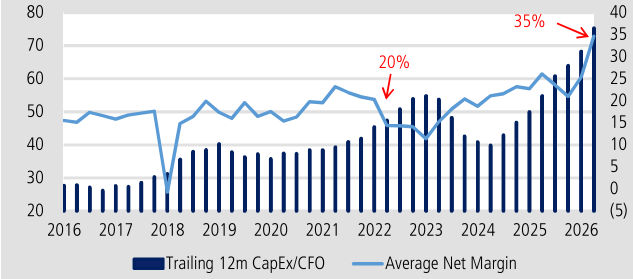
Capex/ operating cash flow of major US technology sectors, percent



Source: Bloomberg; compiled by KGI Research

Figure 11: AI investments by major CSPs are translating into tangible returns, with net margins expanding from 20% to 35%, supporting capex growth & forming a virtuous cycle

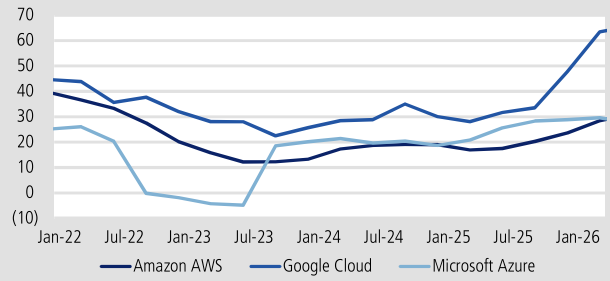
Capex / operating cash flow of major US CSPs, percent (LHS); average net margin, percent (RHS)



Source: Bloomberg; compiled by KGI Research

Figure 12: Generative AI is driving up compute demand, leading to simultaneous growth in cloud revenue and capital expenditure among CSPs, forming a demand-driven virtuous cycle

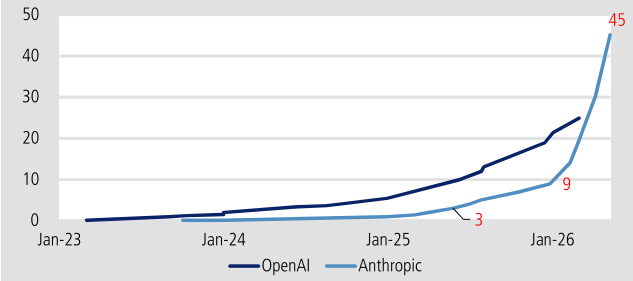
YoY growth of cloud business revenues for the top three global CSPs, percent



Source: Bloomberg; compiled by KGI Research

Figure 13: Anthropic's annualized revenue has grown 15x YoY and 5x since the end of last year

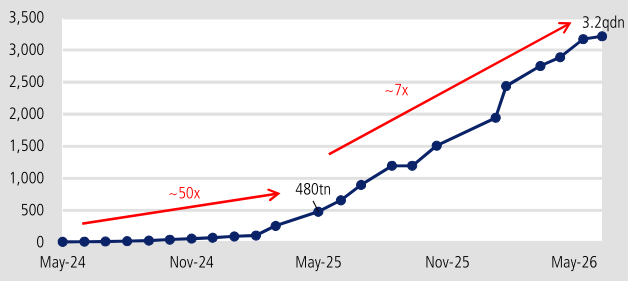
Annualized revenue of Anthropic and OpenAI, US$bn



Source: Compiled by KGI Research

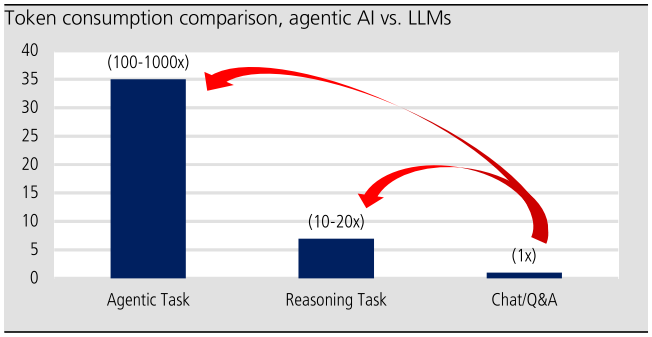
Figure 14: Google's monthly token processing volume has grown sevenfold over the past year to 3.2 quadrillion

Google monthly token processing volume, tn tokens



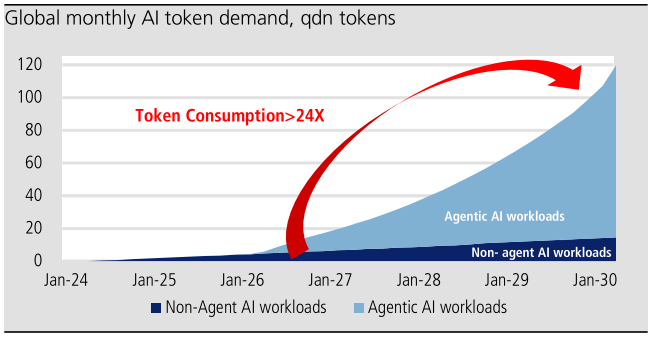
Source: Compiled by KGI Research

Figure 15: Token consumption for agentic AI tasks can be 100x to 1,000x higher than that of conventional Q&A interactions



Source: Compiled by KGI Research

Figure 16: Agentic AI is expected to drive token demand to more than 24x current levels by 2030



Source: Compiled by KGI Research

AI demand spillover is driving a broadening of earnings growth from the technology sector into manufacturing. Strong semiconductor performance and robust exports from Taiwan and South Korea point to a more broad-based economic recovery. At the same time, AI investment is emerging as a key growth engine, supporting a steady economic expansion ahead.

AI demand spillover driving a broad-based manufacturing recovery

Since the beginning of this year, the global economic structure has undergone a notable shift. Unlike the past two to three years—when growth was largely driven by AI alone—its impact is no longer confined to the technology sector. Instead, AI demand is increasingly spilling over into traditional manufacturing, emerging as the key driver of a broad-based economic recovery. Against this backdrop, trends across semiconductor demand, export performance, and macroeconomic indicators all point to a transition from an initially concentrated, AI-led rebound to a more widespread, structurally-driven expansion. This underscores a broadening of economic growth beyond core sectors, with growth deepening and diffusing across a wider range of industries.

1. Strengthening semiconductor cycle signals broader manufacturing expansion

Historically, the semiconductor industry has served as a leading indicator for the manufacturing cycle. A broad-based recovery in chip demand not only reflects improving conditions in the technology sector, but also typically precedes a broader manufacturing demand expansion. This is because semiconductors are a critical foundational input across modern industries. Strength in chip demand tends to cascade through a wide range of applications—including electronics, industrial automation, and automotive—thereby driving a broader pickup in industrial activity.

In the current AI-driven cycle, surging demand for high-end chips and computing power is driving capacity expansions for leading-edge processes, advanced packaging, testing, and related equipment segments. Importantly, this demand reflects not a short-term cyclical upswing, but a structural, medium- to long-term capex commitment as enterprises accelerate AI adoption. At the same time, supply constraints are emerging at mature nodes due to capacity crowding-out effects—where investment has slowed even as demand remains resilient—resulting in increasingly tight supply-demand dynamics. We are already seeing price increases in products such as power management and analog IC, which are primarily used in non-AI applications. This suggests that demand growth is beginning to spill over into broader end-markets.

Overall, these developments suggest that the manufacturing recovery is no longer confined to the AI supply chain, but is expanding into broader industries, and ushering in a new expansion cycle.

2. Strong exports from Taiwan & South Korea reflect spillover into the broader economy

Export data across Asia reinforces the spillover effect narrative of AI-driven demand. Taking South Korea as an example, exports reached US$87.75bn in May, a record high, with YoY growth of 53.2%. Semiconductor exports surged 169%, underscoring strength in AI-related capital expenditures. More importantly, non-semiconductor exports also rose

by 16% YoY, indicating that the recovery is no longer confined to the AI core supply chain, but is spreading across broader manufacturing sectors. Traditional industries—including machinery, chemicals, and automotive components—are beginning to benefit from both a cyclical recovery and inventory restocking.

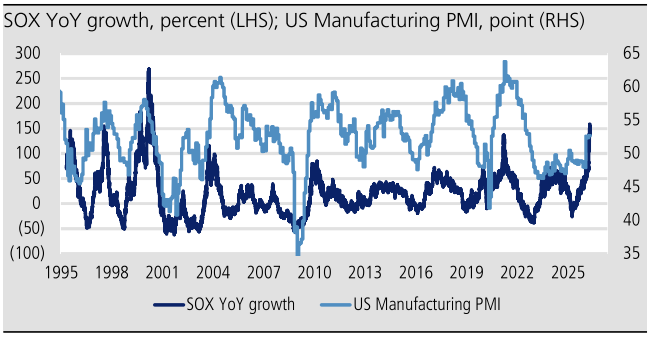
3. AI investment emerging as a core growth engine supporting long-term growth

From a macroeconomic perspective, AI investment has emerged as a key engine of economic growth. In the US, technology-related investment contributed 1.4ppts to GDP growth in 1Q26, accounting for nearly 70% of total growth. This underscores the pivotal role of AI-driven capex in supporting broader economic growth.

Looking back, during the early stages of the 1990s internet revolution, technology investment contributed more than one percentage point to GDP growth and supported a sustained economic expansion, with a CAGR of approximately 3.7%. Such technology-driven investment cycles tend to have lasting impacts, not only enhancing productivity but also stimulating broader investment and employment.

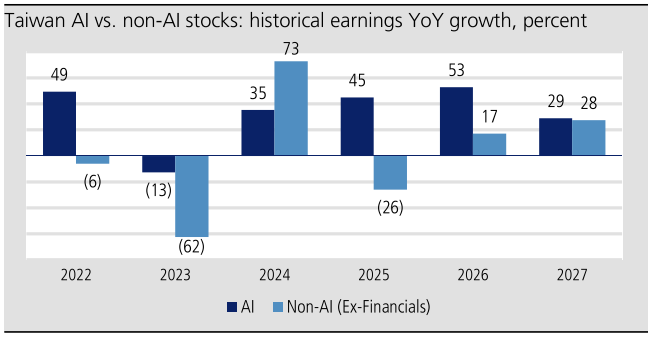
Looking ahead, as AI adoption deepens across enterprise digital transformation, automation upgrades, and emerging applications, AI investment is expected to remain elevated. This is likely to support sustained US economic growth above 2%, marking a structural shift toward a technology-led growth model rather than one driven by consumption or traditional industries.

Figure 17: The semiconductor sector is signaling a potential expansion phase in the broader US manufacturing sector



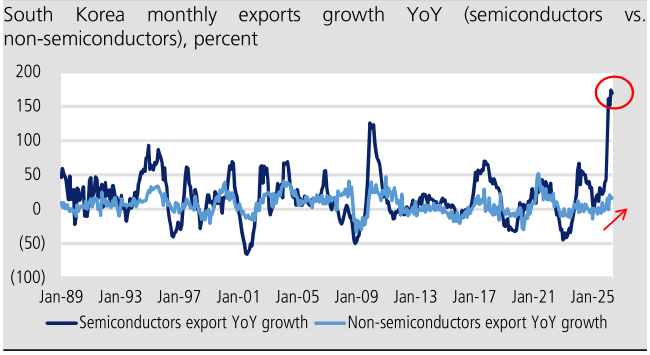
Source: Bloomberg; compiled by KGI Research

Figure 18: AI stocks continue to exhibit strong earnings growth, while non-AI sectors are bottoming out & recovering



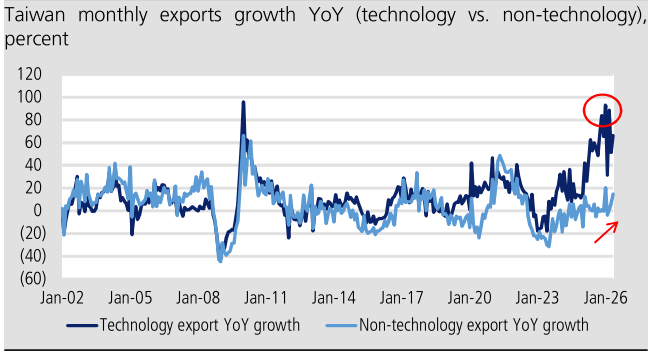
Source: TEJ; compiled and estimated by KGI Research

Figure 19: South Korea's semiconductor exports surged by 169% YoY in May, while non-semiconductor exports also rebounded, posting 16% YoY growth



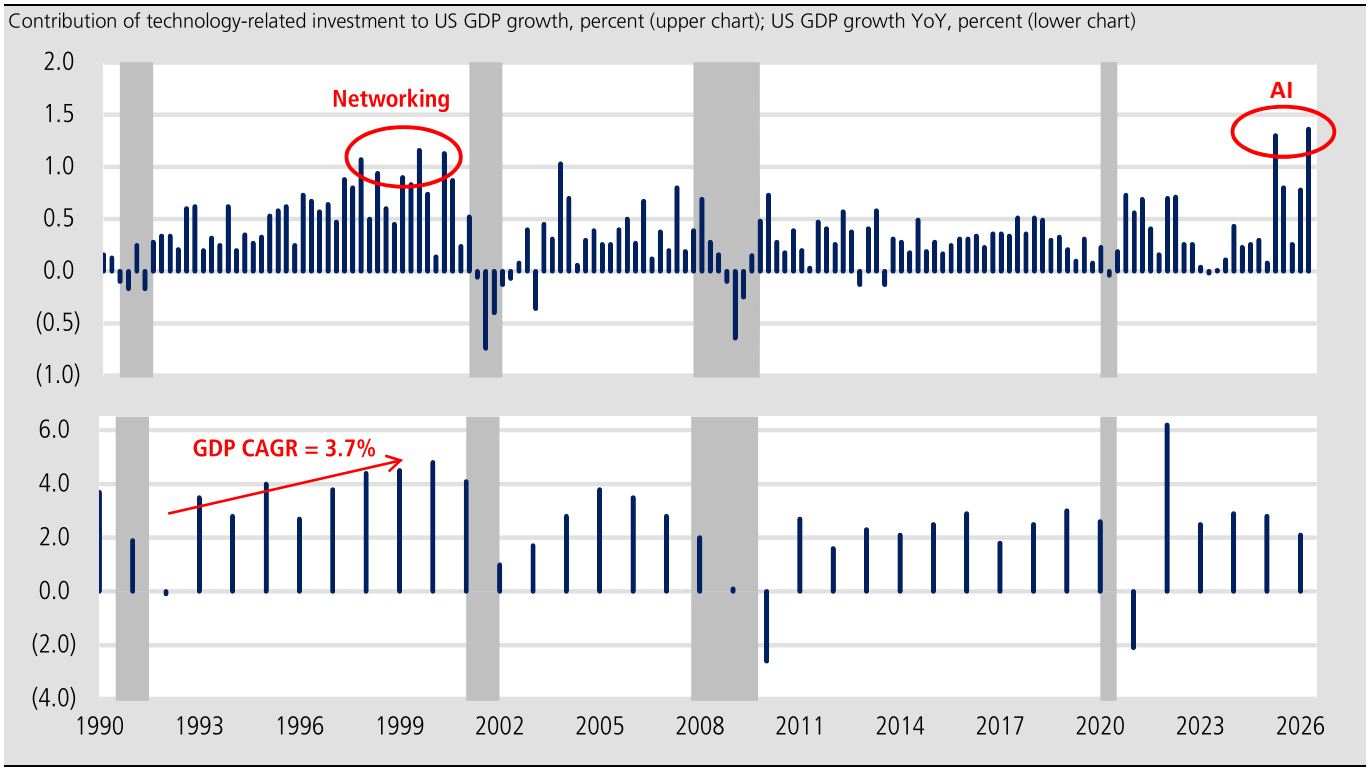
Source: Bloomberg; compiled by KGI Research

Figure 20: Taiwan technology exports grew by 66% YoY in May, while non-technology exports also rebounded to 15% YoY



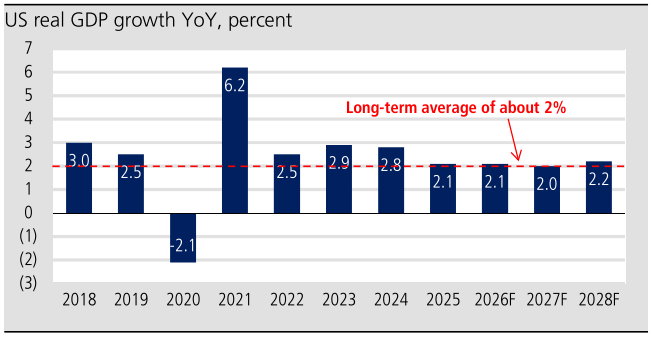
Source: Bloomberg; compiled by KGI Research

Figure 21: In 1Q26, technology investment contributed 1.4ppts to US GDP growth, accounting for nearly 70% of total growth, underscoring AI investment as a core economic driver; during the early stages of the 1990s internet cycle, technology investment played a similar role, supporting sustained economic expansion with a GDP CAGR of approximately 3.7%



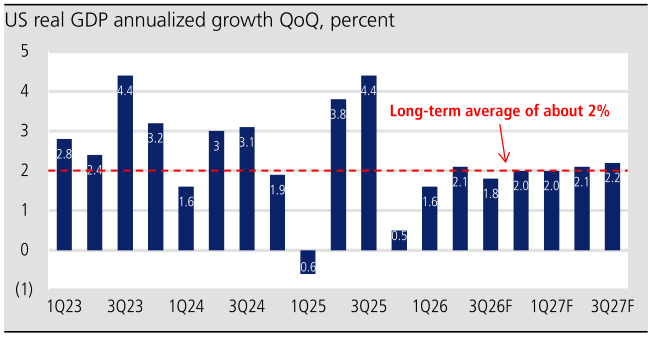
Source: Bloomberg; compiled by KGI Research

Figure 22: AI investment is expected to help sustain US economic growth above 2% over the next few years



Source: Bloomberg; compiled by KGI Research

Figure 23: While the US economy may face a temporary slowdown in 2H26F due to inflation, growth is expected to reaccelerate from 2027F



Source: Bloomberg; compiled by KGI Research

AI is driving a Taiex bull market, supported by strong fundamentals and favorable fund flows. We expect the index to reach 50,000 by end-2026F, with scope to extend toward 55,000 within the next twelve months — though some short-term volatility appears inevitable, particularly in 3Q26F.

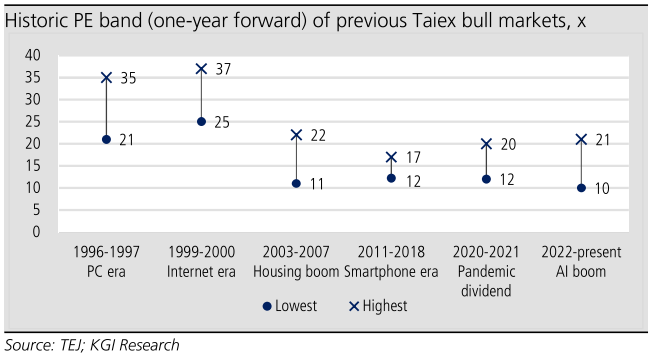
Our Taiex target is 50,000 points by end-2026F & 55,000 points within the next twelve months

For 2H26F, we expect the Taiex to extend a bull run that started in 2023. Supported by capacity expansions across the AI supply chain, robust corporate earnings growth and sustained capital support, we believe the medium- to long-term uptrend of the Taiex index will continue. In terms of index performance, based on our forecast of 25% YoY earnings growth for 2027F, we set a year-end Taiex target of 50,000 points, at about 21x PE. If earnings revisions persist and growth is projected at 35% YoY, the index has the scope to rise to 55,000 points over the next twelve months. That said, short-term volatility will be inevitable. In particular, the market may face increased fluctuations and correction pressure in 3Q26F. Overall, we believe the index should find solid downside support at the 40,000-point level.

Historically, a Taiex bull market tends to peak at two standard deviations above the long-term average, or 21x PE specifically, since 2000. Based on our current 2027F earnings forecasts, this implies a fair-value level between 50,000-55,000 points. In other words, the current valuation is reasonable and does not show signs of bubbling. More importantly, if corporate earnings by AI-related industries continue to beat expectations, leading to further earnings revisions, the potential index peak would also be revised higher, providing room for further upticks.

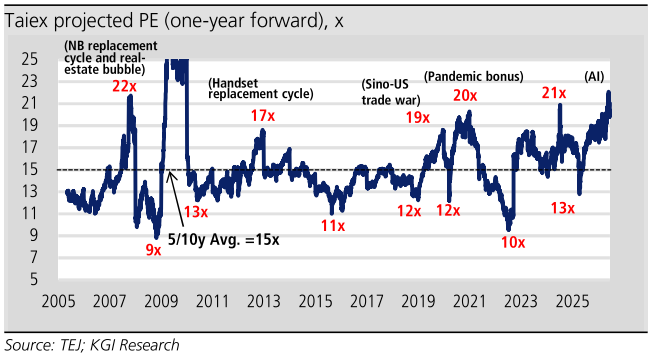
However, despite solid structural support driven by AI over the medium to long term, several potential risks in 2H26F warrant close attention, as they could lead to increased volatility and potential corrections for the Taiex. Among them, the trajectories of interest rates and inflation are the primary focus. Should inflation re-accelerate and prompt a shift toward monetary tightening, it would likely create downside pressure on tech stocks with high valuations. In addition, following a strong rally, positioning and sentiment are naturally more susceptible to corrections, and any unexpected negative events could trigger short-term sell-offs.

Figure 24: The AI boom has pushed up the Taiex to as high as 21x PE, within the normal band for a bull market since 2000



Source: TEJ; KGI Research

Figure 25: A Taiex bull market tends to peak at two standard deviations above the long-term average, or 21x PE specifically



Source: TEJ; KGI Research

Figure 26: At a 2027F PE of 21x, implies a fair value level between 50,000-55,000 points

Taiex scenario matrix, points

Forecasted Taiex matrix (points)		Target PE (x)						
		15	16	17	18	19	20	21
2027 Earning YoY(%)	0	28,410	30,303	32,197	34,091	35,985	37,879	40,531
	10	31,250	33,334	35,417	37,501	39,584	41,667	44,584
	15	32,671	34,849	37,027	39,205	41,383	43,561	46,611
	20	34,091	36,364	38,637	40,910	43,182	45,455	48,637
	25	35,569	37,940	40,311	42,682	45,054	47,425	50,745
	30	36,932	39,395	41,857	44,319	46,781	49,243	52,690
	35	38,353	40,910	43,467	46,023	48,580	51,137	54,717

Source: TEJ; KGI Research

Figure 27: If TSMC (2330 TT, NT$2385, OP) rises to NT$3,000 per share, the Taiex may exceed 50,000 points

2026F scenario analysis for the Taiex (based on the share price of TSMC)

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
TSMC Target Price (point)	1,531	1,627	1,723	1,914	2,400	2,488
Taiex Target (point) (TSMC only)	30,058	30,822	31,585	33,112	36,989	37,691
Taiex Target (point) (Including all)	29,240	30,331	31,423	33,606	39,151	40,155

Source: TEJ; KGI Research

Figure 28: Taiex stocks valuation comparison

Earning (billion)	2021	2022	2023	2024	2025	2026F	2027F
Taiex	3,917	3,771	2,682	3,780	4,344	6,177	7,726
Taiex excl. TSMC	3,320	2,755	1,844	2,607	2,626	3,513	4,329
Tech	1,914	2,147	1,698	2,249	3,101	4,631	6,002
Tech excl. TSMC	1,317	1,130	860	1,075	1,383	1,967	2,605
TSMC	597	1,017	838	1,173	1,718	2,664	3,397
EPS growth (%)	2021	2022	2023	2024	2025	2026F	2027F
Taiex	78.1	(3.7)	(28.9)	40.9	14.9	42.2	25.1
Taiex excl. TSMC	97.4	(17.0)	(33.1)	41.4	0.7	33.8	23.2
Tech	51.7	12.2	(20.9)	32.4	37.9	49.3	29.6
Tech excl. TSMC	77.1	(14.2)	(23.9)	25.1	28.6	42.2	32.4
TSMC	15.2	70.4	(17.5)	39.9	46.4	55.1	27.5
P/E (x)	2021	2022	2023	2024	2025	2026F	2027F
Taiex	38.1	39.6	55.7	39.5	34.4	24.2	19.3
Taiex excl. TSMC	26.3	31.6	47.3	33.4	33.2	24.8	20.1
Tech	64.2	57.2	72.3	54.6	39.6	26.5	20.5
Tech excl. TSMC	46.0	53.6	70.5	56.3	43.8	30.8	23.3
TSMC	104.3	61.2	74.2	53.0	36.2	23.4	18.3

Source: TEJ; KGI Research

AI underpins the Taiex bull market, but at elevated levels three key risks warrant close attention: (1) geopolitical developments that could drive higher oil prices and inflation; (2) potential shifts in interest-rate policy; and (3) the pace of Nvidia's (US) GPU shipments affecting supply-chain performances.

Long-term market outlook remains promising, but Taiex investors should pay attention to near-term fluctuations or corrections

Taiex is supported by both solid fundamentals and capital flows under the ongoing AI frenzy, and its long-term uptrend remains firmly intact. However, as the index approaches historic highs, potential risks are accumulating. We believe three key variables warrant close monitoring in 2H26F, namely energy insecurity and inflationary pressure arising from geopolitical tensions, uncertainty surrounding monetary policy, and the impact of Nvidia's (US) Vera Rubin shipment schedule on the broader supply chain.

1. Rising geopolitical tensions could push up energy prices & add to inflationary pressure

Although the recent agreement between the US and Iran helps ease geopolitical tensions in the near term, deep structural divergences remain between the two sides on core issues such as nuclear weapon development and the lifting of sanctions. As a result, the risk of renewed hostility cannot be overlooked. Should tensions intensify and further disrupt crude oil supply from the Middle East, oil prices will come under tremendous upward pressure and thereby amplify global inflation risks.

Looking back on the major inflation cycles over the past two decades, persistently high energy prices have been a common driver of elevated inflation. Since 2000, the global economy has experienced three notable high-inflation periods, including the pre-financial crisis phase in 2008, the Euro debt crisis in 2011, and the post-pandemic recovery in 2022.

Although the underlying drivers differed across these episodes, Brent crude prices generally remained above US$100 per barrel for several months straight in each case.

This reflects that oil prices are not merely a result of inflation, but often act as a key driver of it. Once energy prices rise sharply again, the impact is likely to be transmitted through the costs of transportation and production, and ultimately to end-consumer prices, creating broad-based inflationary pressure. Even if overall economic fundamentals are resilient, stock markets may still experience short-term corrections driven by adjustments in policy expectations and capital flows.

2. Mounting inflationary pressure could force the Fed to pivot its monetary policy & affect long-term Treasury yields

Rising oil prices and the resulting inflationary pressure will influence the Fed's policy trajectory and the interest-rate environment. The market had expected 2026 to mark the beginning of an easing cycle. However, if inflation re-accelerates, the timing of rate cuts may be delayed, and a shift toward a more hawkish policy stance cannot be ruled out.

Given the lagged effect, changes in oil prices take several months to be reflected in consumer prices, which means inflation could become more visible in late-2Q26 to 3Q26F. In addition, forward-looking indicators such as the New York Fed's Global Supply Chain Pressure Index, as well as the widely referenced 1-year forward 1-year (1Y1Y) inflation swap rate, serve as key gauges for future inflation trends.

If these indicators rise in tandem, it would signal a renewed increase in inflation expectations, likely pushing up long-term government bond yields. In an environment of rising interest rates, high-valuation growth stocks would face valuation pressure, especially the constituents of the Taiex, which is heavily weighted toward tech stocks.

3. Possible delay in Nvidia GPU iterations could weigh on suppliers' sales

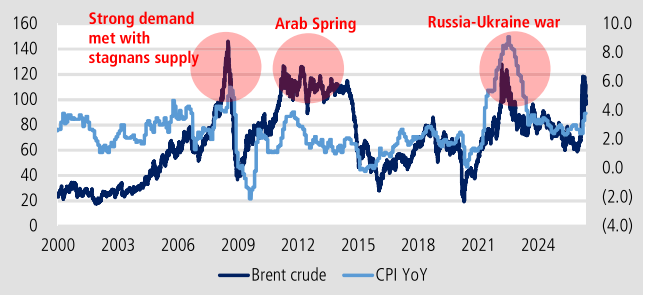
Beyond macro variables, the cadence of the industry's supply chain is another key factor to watch. AI sector is highly dependent on GPU spec upgrades, and as the core supplier, Nvidia's product-cycle transition will directly influence the overall supply chain's operational momentum.

GPU iterations typically come with challenges related to production yield ramp-ups and technical optimization. During the early stage of new product introductions, production capacity tends to be constrained, while demand for previous-generation products starts to taper off. This often creates temporary supply gaps, leading to lags in industry revenue growth.

If mass production of the Vera Rubin platform in 2H26F falls short of expectations, it could disrupt the shipment pace of AI servers and, in turn, weigh on sales performance across the related supply chain. While long-term demand is robust, any short-term mismatch between orders and shipments could act as a trigger for market corrections.

Figure 29: Persistently high oil prices (above US$100 per barrel for several months straight) will push up CPI

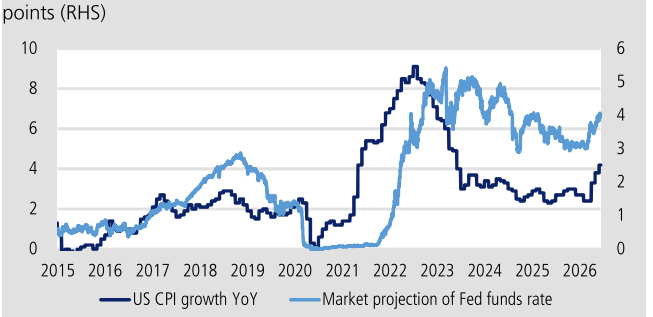
Brent crude price, US$/barrel (LHS); US CPI growth YoY, percent (RHS)



Source: Bloomberg; KGI Research

Figure 30: Rising inflation tends to strengthen market expectations for Fed rate hikes

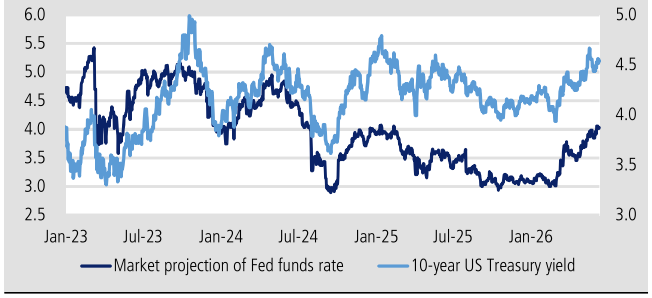
US CPI growth YoY, percent (LHS); market projection of Fed funds rate, points (RHS)



Source: Bloomberg; KGI Research

Figure 31: Expectations for rate hikes can lead to higher US Treasury yields

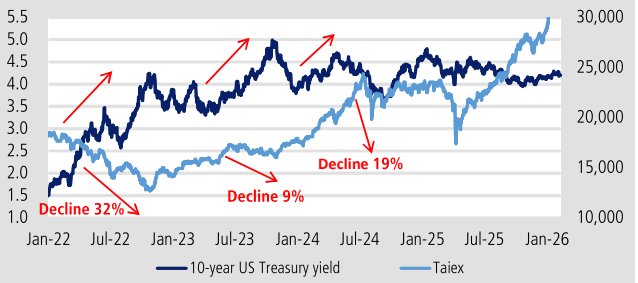
Market projection of Fed funds rate, percent (LHS); 10-year US Treasury yield, percent (RHS)



Source: Bloomberg; KGI Research

Figure 32: Rising US Treasury yields may trigger stock market sell-offs

10-year US Treasury yield, percent (LHS); Taiex, point (RHS)



Source: Bloomberg; KGI Research

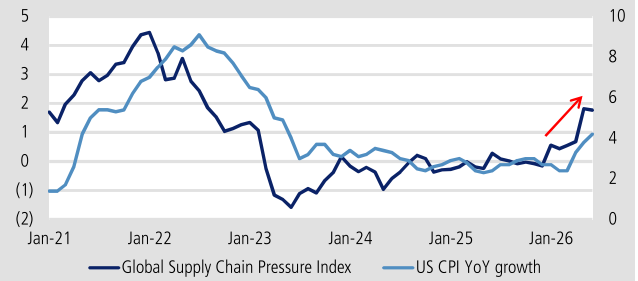
Figure 33: Higher oil prices could push up inflation, which we estimate will be visible in late-2Q26 to 3Q26F

US CPI YoY growth (actual and projected), percent

Source: Bloomberg; KGI Research

Figure 34: The Global Supply Chain Pressure Index compiled by the Federal Reserve Bank of New York suggests inflation could make a comeback

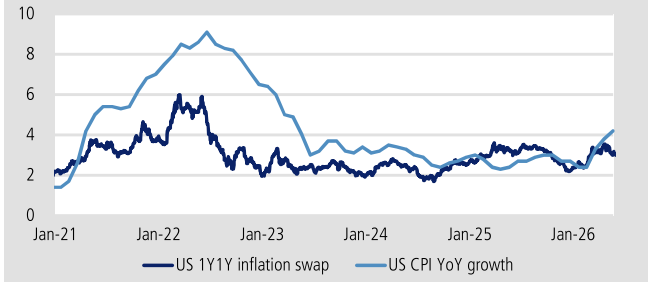
Global Supply Chain Pressure Index, point (LHS); US CPI YoY growth, percent (RHS)



Source: Bloomberg; KGI Research

Figure 35: The 1Y1Y inflation swap is a leading indicator for inflation expectations, making it an effective tool for gauging future CPI trends

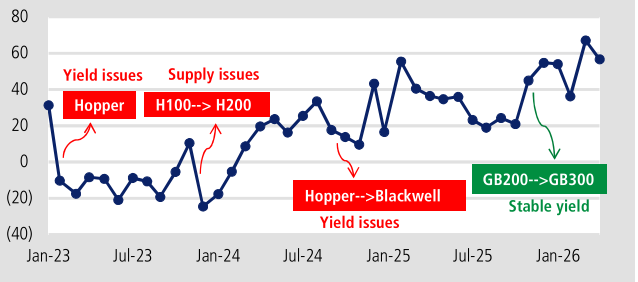
US 1Y1Y inflation swap; US CPI YoY growth, percent



Source: Bloomberg; KGI Research

Figure 36: GPU iterations usually come with production yield issues, and could potentially lead to a delay in supply chain sales growth

Server ODM YoY sales growth, percent



Source: TEJ; KGI Research

Investment portfolio

For 2H26F, we recommend focusing on three key themes: (1) beneficiaries of the Vera Rubin platform upgrade; (2) emerging AI applications, including robotics, AI PCs, and AI glasses; and (3) the low-earth orbit (LEO) satellite supply chain. Meanwhile, in the event of a potential pullback in the Taiwan equity market in 3Q26, we suggest tactically rotating into defensive sectors with stable and attractive dividend yields, such as PC/ NB, financials, and construction. Our top picks are below: TSMC (2330), MediaTek (2454), Alchip (3661), GUC (3443), Chipbond (6147), Hon Precision (7769), WinWay (6515), MPI (6223), AVC (3017), Jentech (3653), Delta (2308), Fositek (6805), EMC (2383), ZDT (4958), Chenbro (8210), King Slide (2059), Lotes (3533), Wiwynn (6669), Wistron (3231), Nanya Tech

(2408), Macronix (2337), Hiwin (2049), Silergy (6415), Unimicron (3037), Hon Hai (2317), CTBC FHC (2891), Sinpac FHC (2890), Quanta (2382), Hiyes (2348)..

Figure 37: Our top picks

Sector/ theme	Company	Code	Investment rating	Target price (NT$)	Mkt cap (US$mn)	Share price (NT$)	Change +/- (%)	EPS (NT$) 2026F	EPS (NT$) 2027F	EPS YoY (%) 2026F	EPS YoY (%) 2027F	PE (x) 2026F	PE (x) 2027F	PEG (x) 2026F	PEG (x) 2027F	P/B (x) 2026F	P/B (x) 2027F	ROE (%) 2026F	ROE (%) 2027F	Cash yield (%) 2026F	Cash yield (%) 2027F
Semiconductor	TSMC	2330 TT	Outperform	2,600	1,977,754	2,410.0	7.9	102.74	131.02	55.1	27.5	23.5	18.4	0.4	0.7	8.4	6.2	41.4	38.8	1.0	1.2
	MediaTek	2454 TT	Outperform	6,150	222,820	4,390.0	40.1	67.98	111.95	2.8	64.7	64.6	39.2	24.3	0.6	16.7	14.7	26.3	39.5	1.5	1.6
	Alchip	3661 TT	Outperform	6,185	11,379	4,380.0	41.2	128.95	171.78	87.4	33.2	34.0	25.5	0.4	0.8	7.3	6.2	23.5	26.4	1.5	2.0
	GUC	3443 TT	Outperform	5,245	20,611	4,860.0	7.9	48.02	116.55	70.7	142.7	101.2	41.7	1.4	0.3	39.1	23.5	43.5	70.4	0.7	1.7
	Chipbond	6147 TT	Outperform	280	5,938	252.0	11.1	5.30	7.45	41.6	40.8	47.6	33.8	1.0	0.7	3.5	3.3	8.2	11.2	1.6	2.2
	Hon Precision	7769 TT	Outperform	8,800	76	6,975.0	26.2	122.62	221.68	78.4	80.8	56.9	31.5	0.8	0.4	18.3	13.5	34.9	49.5	1.2	2.2
	WinWay	6515 TT	Outperform	13,000	10,883	9,450.0	37.6	91.71	169.35	95.4	84.7	103.0	55.8	1.1	0.7	42.5	31.3	45.2	63.9	0.7	1.3
	MPI	6223 TT	Outperform	8,000	19,891	6,415.0	24.7	65.35	111.48	95.1	70.6	98.2	57.5	1.0	0.8	37.5	30.9	39.6	57.1	0.6	1.0
AI server	AVC	3017 TT	Outperform	3,450	29,813	2,400.0	43.8	94.49	132.70	92.9	40.6	25.4	18.1	0.3	0.4	14.5	10.0	67.1	64.6	1.7	2.3
	Jentech	3653 TT	Outperform	4,840	18,411	3,965.0	22.1	53.96	112.49	50.0	108.5	73.5	35.2	1.4	0.3	22.4	17.9	32.4	56.4	0.8	1.7
	Delta	2308 TT	Outperform	2,940	176,732	2,150.0	36.7	44.71	73.51	93.2	64.4	48.1	29.2	0.5	0.5	15.3	11.2	36.7	44.3	1.0	1.7
	Fositek	6805 TT	Outperform	2,800	3,807	1,755.0	59.5	66.17	93.30	113.4	41.0	26.5	18.8	0.2	0.5	12.4	9.1	53.7	55.9	1.7	2.4
	EMC	2383 TT	Outperform	6,860	63,500	5,600.0	22.5	92.16	171.51	125.4	86.1	60.8	32.7	0.4	0.3	30.0	18.5	56.3	70.1	1.0	1.8
	Unimicron	3037 TT	Outperform	1,000	48,713	968.0	3.3	14.31	27.77	240.7	94.1	67.7	34.9	0.2	0.4	12.2	9.5	20.4	31.8	0.7	1.3
	ZDT	4958 TT	Outperform	695	21,930	642.0	8.3	16.92	26.71	166.7	57.9	38.0	24.0	0.2	0.4	4.9	4.4	13.8	19.3	1.3	2.1
	Chenbro	8210 TT	Outperform	1,905	5,413	1,365.0	39.6	49.65	68.00	73.7	37.0	27.5	20.1	0.4	0.5	12.2	9.4	49.7	52.6	1.8	2.5
	King Slide	2059 TT	Outperform	8,850	20,703	6,865.0	28.9	206.36	295.01	99.9	43.0	33.3	23.3	0.5	0.9	17.1	12.4	59.3	61.8	1.5	2.2
	Lotes	3533 TT	Outperform	3,100	8,155	2,290.0	35.4	95.08	129.17	35.5	35.9	24.1	17.7	0.7	0.5	5.9	5.1	25.9	30.6	2.1	2.8
	Wiwynn	6669 TT	Outperform	6,475	30,183	5,130.0	26.2	325.58	436.17	18.4	34.0	15.8	11.8	0.8	0.3	6.3	5.1	43.8	47.6	3.5	4.7
	Wistron	3231 TT	Outperform	225	16,254	161.5	39.3	13.96	18.29	59.3	31.7	11.6	8.8	0.2	0.3	2.5	2.1	22.6	25.1	5.1	6.7
Memory	Nanya Tech	2408 TT	Outperform	520	50,170	459.5	13.2	58.41	90.06	2902.3	56.5	7.9	5.1	0.0	0.1	3.9	2.2	74.6	62.4	2.5	3.9
	Macronix	2337 TT	Outperform	300	10,599	169.0	77.5	30.02	101.70	N.A.	238.8	5.6	1.7	N.A.	0.0	3.0	1.1	75.6	99.0	5.3	18.1
AI Applications	Hiwin	2049 TT	Outperform	478	3,751	335.0	42.7	8.75	12.53	102.9	43.2	38.3	26.7	0.4	0.6	3.0	2.9	8.1	11.0	1.2	1.7
	Silergy	6415 TT	Outperform	600	7,736	629.0	(4.6)	10.81	19.79	69.3	83.1	58.2	31.8	0.8	0.4	1.5	1.2	10.6	16.9	0.7	1.3
LEO Satellites	Compeq	2313 TT	Restricted	-	9,787	259.5	-	8.04	12.88	45.9	60.2	32.3	20.1	0.7	0.3	5.6	4.8	18.7	25.8	1.5	2.5
	Hon Hai	2317 TT	Outperform	315	119,199	268.5	17.3	17.94	21.46	32.3	19.6	15.0	12.5	0.5	0.6	2.0	1.8	13.7	15.3	3.6	4.3
High-yield	CTBC FHC	2891 TT	Outperform	63	44,771	71.9	(12.4)	4.38	4.68	7.0	6.7	16.4	15.4	2.3	2.2	2.2	1.9	15.3	13.1	3.8	3.9
	Sinpac FHC	2890 TT	Outperform	42	18,253	39.8	5.5	2.81	2.67	53.2	(5.1)	14.2	14.9	0.5	N.A.	1.9	1.7	14.7	12.2	4.1	4.0
	Quanta	2382 TT	Outperform	430	45,960	376.0	14.4	23.13	27.43	18.9	18.6	16.3	13.7	0.8	0.7	5.6	5.1	35.3	38.9	4.9	5.8
	Hiyes	2348 TT	Outperform	100	369	76.8	30.2	12.50	18.70	79.1	48.4	6.1	4.1	0.1	0.1	1.3	1.2	23.3	30.9	10.8	12.6

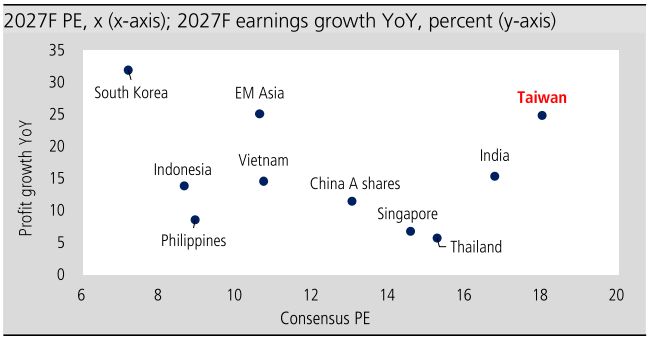
Source: KGI Research

Figure 38: Valuation overview of individual Taiex subsectors

Tech	Earning YoY (%) 2022	2023	2024	2025	2026F	2027F	Forecast PE (x) 2025	2026F	2027F	Non-tech	Earning YoY (%) 2022	2023	2024	2025	2026F	2027F	Forecast PE (x) 2025	2026F	2027F
Server EMS	(1.7)	3.7	24.8	34.9	31.1	21.9	20.2	14.8	12.1	Cement	(50.7)	8.4	27.9	(39.1)	61.5	8.7	44.6	14.5	13.2
Thermal	34.5	20.5	54.0	116.2	95.4	40.3	43.2	21.4	15.4	Food	(13.6)	6.8	12.7	(5.1)	8.4	15.2	21.9	20.2	17.5
Power supply	15.1	2.4	(1.7)	59.5	80.2	61.6	64.1	37.4	23.8	Petrochemicals	(63.1)	(50.5)	(82.6)	(77.7)	1466.7	15.7	44.4	40.0	24.6
ABF	102.5	(68.1)	(70.1)	91.5	252.5	92.0	248.4	71.2	37.1	Apparel	32.1	(11.0)	17.3	(15.1)	17.3	12.0	16.0	13.8	12.4
IC design and service	94.8	5.3	29.9	(7.7)	77.6	74.7	103.3	62.7	32.6	Footwear makers	100.0	(45.2)	18.0	(14.2)	2.1	5.9	15.3	15.0	14.1
Memory	(24.4)	-	-	-	2864.9	74.3	222.7	7.5	4.2	Auto parts	70.1	(2.2)	49.1	(13.3)	28.1	3.9	13.4	10.7	10.5
Networking PCB	22.6	(10.9)	46.0	41.7	63.5	40.1	50.5	29.3	20.8	Industrial automation	5.2	(14.2)	6.6	3.4	42.9	18.0	53.0	30.2	23.5
Networking	75.5	9.4	8.1	61.1	50.3	33.7	33.7	23.0	19.0	Bicycle	(12.7)	(44.8)	(88.9)	(35.2)	30.0	29.5	30.0	18.4	12.2
CCL	(14.1)	(0.4)	93.0	48.2	132.3	81.8	132.5	54.5	31.0	Container shipping	19.7	(94.4)	631.6	(53.3)	(14.9)	(2.4)	8.2	11.5	10.1
Tier-one foundry	70.4	(17.5)	39.9	46.4	55.1	27.5	36.2	23.4	18.3	Steel	(75.4)	(89.0)	(41.0)	-	-	2353.8	(67.5)	887.0	35.7
Second-tier foundries	56.3	(30.1)	(22.6)	(11.6)	60.8	4.9	42.5	26.4	25.2	Food & Beverage	0.3	75.3	(7.7)	(30.0)	92.6	13.1	(6.1)	13.4	11.6
Handset components	28.4	(37.1)	28.2	(20.1)	53.4	38.4	58.1	31.6	22.4	Aerospace	127.3	26.8	(0.3)	(32.4)	86.8	35.8	46.5	25.4	17.8
TFT	-	-	-	108.1	(31.2)	107.4	865.6	131.9	60.9	Airlines	(37.8)	185.5	52.7	(5.9)	(27.8)	28.4	8.5	11.7	9.7
Telecom	2.2	5.7	5.8	4.7	5.4	5.0	30.3	28.6	27.2	Heavy electrical	(1.9)	41.6	33.7	1.8	31.0	32.3	37.6	27.3	19.6
IC design (handset/consumer electronics)	(2.9)	(32.6)	29.8	(3.9)	2.3	52.0	37.2	36.4	26.6										
Handset EMS	(26.5)	4.1	7.4	(14.7)	10.4	13.0	15.5	14.0	12.4										
LEO Satellites	74.6	(28.3)	13.5	6.4	44.0	46.8	43.6	30.5	22.5										
Test Interface	48.8	(41.4)	121.0	46.3	100.8	74.7	176.9	87.8	49.8										
Switches	73.6	9.2	34.5	119.5	31.5	53.0	53.7	40.8	26.7										

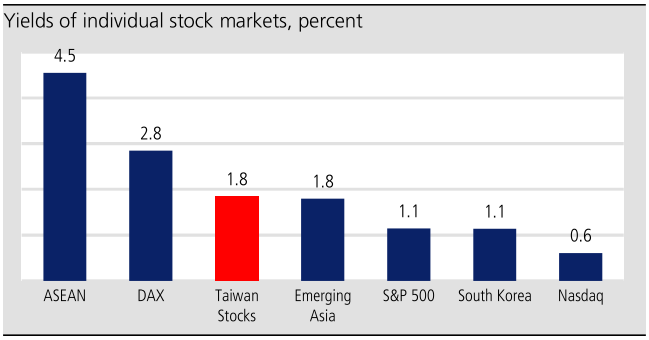
Source: TEJ; KGI Research

Figure 39: Taiex valuations (in relation to earnings) at reasonable levels compared with other emerging Asian peers



Source: Bloomberg; KGI Research

Figure 40: Taiex yields are also in the midrange compared with global peers



Source: Bloomberg; KGI Research

Semiconductor sector

2H26 strategy – Investment opportunities & iteration challenges

Key message

1. Semiconductor, power, optical & thermal (SPOT) components represent the key bottlenecks in AI chip product iterations.
2. Upward revisions to 2027F GPU & TPU demand are gaining momentum; CPUs emerge as another focal point.
3. Rising AI chip design complexity driving up testing demand & ASP.
4. AI spillover effects extend into non-AI sectors; Nvidia (US) production issues remain a short-term overhang.

Impact

Semiconductor, power, optical & thermal components (SPOT) represent the key bottlenecks in AI chip product iterations. Market confidence in the authenticity of AI demand is now well established, and the key debates instead center on: (1) whether AI revenue growth can keep pace with accelerating capex; and (2) whether physical constraints—such as optical integration, thermal management, and power delivery—can be effectively addressed.

Upward revisions to 2027F GPU & TPU demand are gaining momentum; CPUs emerge as another focal point. According to third-party data, Anthropic's (US) annual recurring revenue (ARR) surpassed OpenAI's (US) in April and has reached breakeven. The rapid adoption of Anthropic's Claude and Google's (US) Gemini is being reflected in upward revisions to TPU demand. Among TSMC's (2330 TT, NT$2,410, OP) CoWoS customers for next year, Nvidia (US), Broadcom (US), and MediaTek (2454 TT, NT$4,390, OP) are seeing more pronounced demand growth, underscoring robust GPU and TPU demand. Notably, AMD (US) has recently sharply revised up its CoWoS demand forecasts for next year, doubling it to 210k units. In parallel, the rise of agentic AI is driving upward revisions to server CPU demand, as CPUs account for over 40% of workloads in agentic AI inference. With major CSPs (excluding Meta (US)) expected to double CPU procurement in 2026F, we estimate a CPU supply gap of 15-20%, with shortages potentially extending into 2028F.

Rising AI chip design complexity driving up testing demand & ASP. Accelerating product iterations and increasingly complex chip designs—characterized by higher pin counts and growing chip shipment volumes—are driving strong growth in testing demand, benefiting both testing equipment and interface suppliers. In addition, TSMC's move to outsource chip-probe (CP) testing to OSATs to optimize internal capacity is prompting upward revisions to OSAT capex. Beyond GPUs, AI infrastructure is expanding into data transmission, with co-packaged optics (CPO) emerging as a key solution to raise transmission speeds. That said, optical integration increases process complexity and weighs on yields, making higher test channel counts and electro-optical co-testing critical to reducing defect rates.

AI spillover effects extend into non-AI sectors; Nvidia (US) production issues remain a short-term overhang. Strong AI demand is absorbing industry resources, leading to broad crowding-out effects. The dynamics seen with memory demand are now evident across analog ICs, mature process nodes, and passive components. Given the lack of structural expansion in memory supply, shortages are likely to persist at least through end-2027F. Demand is not the constraint—capacity is. Meanwhile, due to SK Hynix's (KR) HBM4 challenges, CoWoS re-tape-outs, and thermal design changes, we expect Nvidia's Vera Rubin shipments to fall meaningfully below initial early-year expectations. Product mix shifts may also lead to downward revisions to previously optimistic ASP assumptions across Nvidia's supply chain in 2Q26F, or even early 3Q26F.

Stocks for Action (focused on CPUs, TPUs, GPUs, testing & memory)

TSMC remains our top pick, supported by its technology leadership and attractive valuation. The firm's capex is expected to stay elevated over the next several years, and we are also optimistic about the sales growth prospects of equipment vendors. Taking technology iterations and valuations into account, Hon Precision (7769 TT, NT$6,975, OP) and Lam Research (US) are our preferred equipment names. Other recommended stocks include Winway (6515 TT, NT$9,450, OP), MPI (6223 TT, NT$6,415, OP), MediaTek, Alchip Technologies (3661 TT, NT$4,380, OP), Global Unichip (3443 TT, NT$4,860, OP), Chipbond Technology (6147 TT, NT$252, OP), Nanya Technology (2408 TT, NT$459.5, OP), Macronix (2337 TT, NT$169, OP), AMD, ASML (NL), and Texas Instruments (US).

Risks

Over-expansion of AI facilities and demand; global economic recession.

2H26F semiconductor sector outlook

Summary

1. GPUs and TPUs will continue to drive AI chip shipments growth in 2027F, while the rise of agentic AI is catalyzing strong demand for server CPUs.
2. Greater optical integration and increasing AI chip design complexity are expected to raise testing demand and ASPs; electro-optical co-testing will emerge as a key focus in 2027F.
3. The impact of AI demand is extending beyond AI-centric sectors, with memory and analog IC markets undergoing structural shifts, and other spillover effects likely.

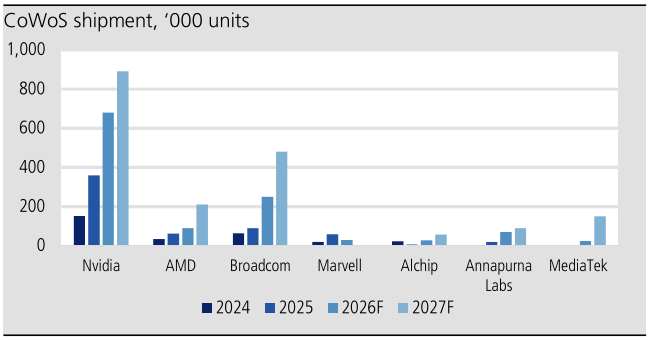
Positive signal #1 – Upward revisions to advanced packaging demand, with CPO, SoIC & CoPoS next in line

We remain optimistic in our outlook on AI semiconductor demand, although growth will no longer be driven solely by Nvidia GPUs. From an end-demand perspective, Anthropic's Claude has a relatively high share in agent-based applications and the enterprise segment, while Google's Gemini has steadily encroached on OpenAI's website traffic share. This trend suggests AI model competition is shifting away from OpenAI-dominated training demand, and toward broader inference and agent deployment. The rapid market share expansion of Claude and Gemini is being directly reflected in robust TPU demand.

This shift is also evident in ongoing upward revisions to CoWoS demand. In the last six months, 2027F CoWoS demand forecasts for Nvidia, AMD, Broadcom, and MediaTek have all been meaningfully revised up. Broadcom's and MediaTek's CoWoS demand forecasts have been raised by 60% and 90% to 480k and 150k units, respectively—well above Nvidia's 10% upward revision to 890k units—driven by greater upside from TPU demand. While Nvidia faces limited competition in the training segment, the firm's share within CSP deployments may gradually erode as adoption of ASICs accelerates. Meanwhile, AMD's 2027F CoWoS demand at TSMC has also been sharply revised up, doubling to 210k units, largely reflecting strong demand for MI450 and MI455 chips.

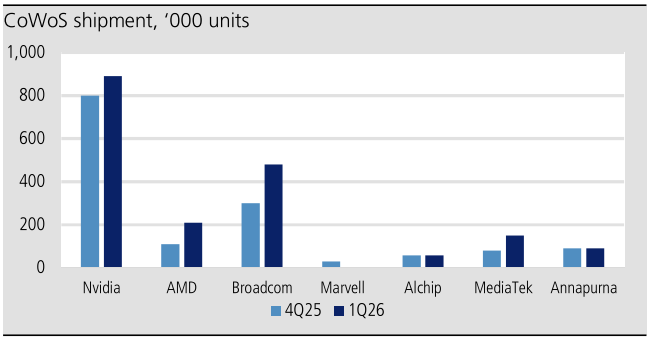
Separately, the rise of agentic AI is driving a notable recovery in general server demand, given that CPUs account for more than 40% of workloads in agentic AI inference. As major CSPs (excluding Meta) are expected to double CPU procurement in 2026F, we estimate a CPU supply gap of 15-20%, with tightness potentially persisting through 2028F. As TSMC's capacity may be insufficient to fully meet AMD's Venice CPU requirements, AMD is likely to rely more heavily on ASE Technology (ASEH; 3711 TT, NT$613, OP) and Spil (TW; unlisted) to secure sufficient packaging capacity.

Figure 1: 2025-27F CoWoS shipment forecasts by client



Source: KGI Research estimates

Figure 2: Changes in 2027F CoWoS shipments, 4Q25 vs. 1Q26



Source: KGI Research estimates

Positive signal #2 – Testing supply chain to outperform other subsectors

King Yuan Electronics (KYEC; 2449 TT, NT$308.5, OP) and ASEH have raised their 2026 capex by 28% and 24% to NT$50bn and US$8.5bn, respectively, representing 35% and 55% YoY growth amid strong AI demand. As TSMC outsources CP testing to OSAT providers to optimize internal capacity allocation, and demand related to US fab buildouts increases, we expect upside to OSAT capex. Overall, the simultaneous expansion of capex by TSMC and OSAT vendors is expected to support demand for back-end equipment, and we believe the testing segment will outgrow packaging, as the rapid iteration of AI chip designs and increasing design complexity are driving both longer test times and higher testing difficulty, boosting testing demand and prices. We believe testing equipment vendors and test-interface manufacturers will stand out as major beneficiaries.

The test interface industry has transitioned from a relatively mature segment that fluctuated with overall semiconductor shipment volumes, and with products often regarded as consumables, into a growing industry driven by rising complexity in AI and HPC chips. Increases in I/O and pin counts, package sizes, and power consumption have contributed to greater testing difficulty and longer testing time. As far as probe cards are concerned, advanced AI and HPC chips require higher pin counts, finer pitch and improved signal integrity & reliability, which in turn have pushed up both the ASP of a probe card and technical entry barriers. For test sockets, larger AI and HPC chips featuring higher power consumption and more stringent test conditions also contribute to rising ASP and consumption volumes. As a result, even though the recovery in the semiconductor sector is uneven, the test-interface industry is benefiting from AI demand and is positioned to pull off stronger sales growth in relation to the traditional cyclical pattern.

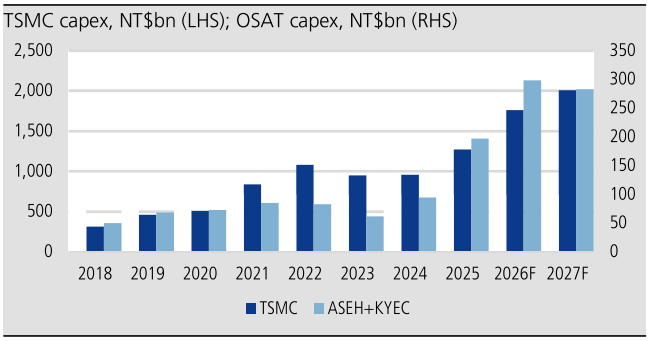
We believe that Taiwanese test interface vendors will be the primary beneficiaries of the higher demand for testing AI chips. While the broader test-interface market is fragmented among suppliers in the US, Japan, South Korea, and Europe, Taiwanese companies have established stronger customer loyalty while acquiring technical certifications within the supply chains of AI ASIC, GPU, CPU and networking firms. We estimate that Taiwanese players have captured approximately 44% of the AI test interface market versus a 16% share in the overall test interface market. As the weighting of AI applications in the test-interface market rises, Taiwanese companies are expected to benefit not only from end-market demand growth, but also from product mix improvements and market share gains, allowing them to outpace the industry average in terms of sales growth.

In the probe card segment, as process nodes advance to 3nm and below, traditional probing technologies face increasing challenges in achieving fine pitch, low contact force and effective pad damage control, thus driving MEMS probe card adoption. In the test socket segment, higher pin counts, larger package sizes and greater power consumption have raised requirements for contact stability, signal integrity, chip durability and thermal performance. As ASPs and gross margins of probe cards and test sockets have risen, optimization of product mix is expected to become the key driver of earnings growth for Taiwanese vendors from 2H26F through 2027F. We expect Taiwanese companies with established certifications among high-end AI and HPC customers, strong MEMS manufacturing capabilities and fast delivery execution, such as MPI and WinWay, to gain market share.

In addition, investment in AI infrastructure has expanded from GPU to data transmission and interconnect technologies. Co-packaged optics (CPO), as a key solution for raising bandwidth and transmission efficiency, will become a major focus in the next phase of industry upgrades. However, the introduction of optical components has increased the complexity of packaging and testing processes, adding to challenges in yield management. Compared with traditional electrical testing, electro-optical co-testing requires simultaneous validation of both optical and electrical signals, resulting in additional testing steps and higher technical barriers. This makes testing a critical factor in reducing defect

and failure rates. We expect that as CPO and optical integration gain traction, demand for related testing equipment and test interface solutions will expand.

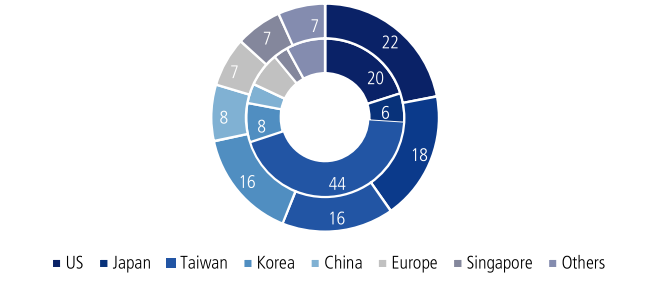
Figure 3: Capex by TSMC & OSAT providers



Source: Bloomberg; KGI Research

Figure 4: The market for AI chip testing is dominated by Taiwanese service providers

Total market share, percent (outer); AI market share, percent (inner)



Source: KGI Research estimates

Figure 5: CPO testing process

Test Insertion	Insertion 1	Insertion 2	Insertion 3	Insertion 4	CPO FT		
				Joint Development	Mass Production		
Test Content	PIC	EIC-PIC	Optical Engine	ASIC + Optical Engine	ASIC + Optical Engine	ASIC	Optical Engine
	Wafer Level (Foundry)	Wafer Level (Foundry)	DIE/Chip Level (OSAT)	Package-Level(OSAT)			
				O/E	E/E	E/E	E/E
HON.PREC Test Equipment	NA			ATE Tester + ATC (3KW) Handler	ATE Tester + ATC (2KW) Handler	ATE Tester + ATC (1KW) Handler	ATE Tester + ATC (1KW) Handler

Source: Company data

Positive signal # 3 – Structural changes in memory & analog IC demand

Memory supply shortage to extend to 2027F

We expect memory demand to grow substantially in 2026-27F, driven by capex expansion by North American CSPs. We believe that general server demand will rise more than 30% YoY in 2026F. However, due to supply constraints for key components such as memory and CPUs, actual shipment growth is likely to be closer to 20% YoY. In addition, the adoption of high-density memory modules, including 96GB and 128GB modules, will pick up, prompting growth in server DRAM content by approximately 30% YoY and total server DRAM bit demand by 46% YoY. Looking ahead to 2027F, we expect general server shipment growth of more than 20% YoY, which will be the most important driver of memory demand.

On the supply side, the memory industry is facing bottlenecks, including limited availability of advanced cleanrooms and tight supply of equipment for advanced processes. We estimate DRAM wafer input will grow by a respective 9% and 10% YoY in 2026-27F, while NAND flash wafer inputs are projected at a 2% decline and 4% growth YoY in the same period. Although new capacity from facilities such as SK Hynix's Yongin fab, Micron's (US) ID1 and Tongluo fabs, Nanya Tech's Fab 5A, CXMT's (CN) Shanghai fab, and YMTC's (CN) Fab 3 will likely come online from 2H26F through 2027F, most of these fabs are still at the early stage of buildout and will contribute only incremental supply gains in the near term. In addition, the advanced DRAM capacities of Samsung (KR) and SK Hynix require a

significant number of EUV equipment, but equipment supply from ASML is constrained. At the same time, memory makers are prioritizing resources for DRAM and HBM products, which limits the pace of NAND flash capacity expansions.

Figure 6: 2021-27F global wafer inputs for DRAM

Kwpm	2021	2022	2023	2024	2025	2026F	2027F
Wafer input	**1,495**	**1,593**	**1,363**	**1,645**	**1,916**	**2,095**	**2,304**
Samsung	584	653	527	614	655	690	783
SK Hynix	356	393	352	416	528	590	639
Micron	355	353	278	314	333	358	376
Nanya Technolo	71	68	54	56	58	65	73
Winbond	26	21	24	24	24	24	31
PSMC	47	43	27	39	42	45	45
CXMT	50	54	90	173	260	298	326
JHICC	6	9	10	10	17	26	30
YMTC							1
YoY (%)		**7**	**(14)**	**21**	**16**	**9**	**10**
Samsung		12	(19)	16	7	5	13
SK Hynix		10	(10)	18	27	12	8
Micron		(0)	(21)	13	6	8	5
Nanya Technology		(4)	(21)	2	4	12	13
Winbond		(19)	14	0	(2)	1	29
PSMC		(9)	(37)	44	8	7	0
CXMT		7	69	91	51	14	10
JHICC		40	14	0	70	54	14
YMTC							

Source: TrendForce; KGI Research estimates

Figure 7: 2021-27F global wafer inputs for NAND flash

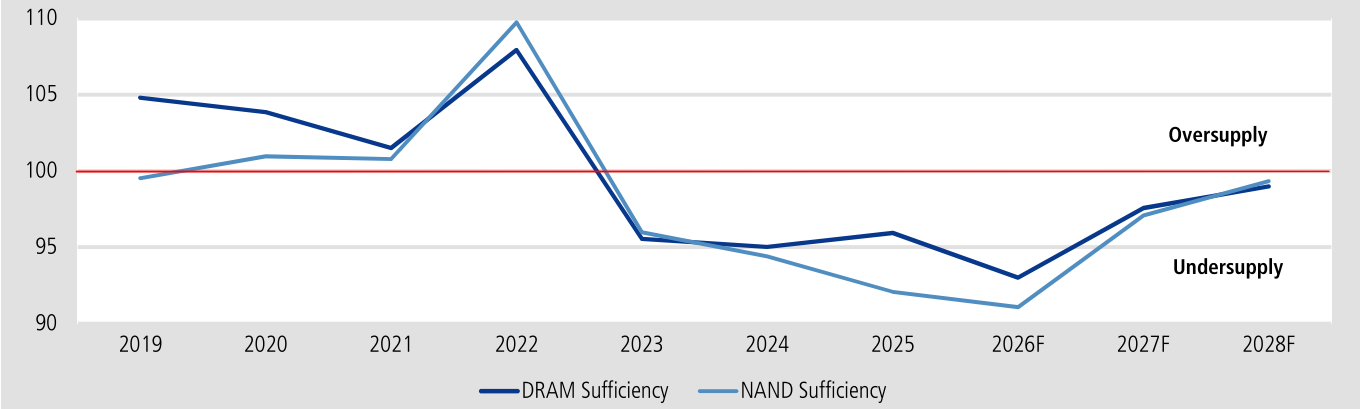
Kwpm	2021	2022	2023	2024	2025	2026F	2027F
Wafer input	**1,527**	**1,698**	**1,397**	**1,428**	**1,354**	**1,333**	**1,381**
Samsung	574	636	489	473	414	348	310
Kioxia/Sandisk	496	475	395	443	400	409	443
SK Hynix	195	293	234	215	233	234	230
Micron	170	169	134	143	130	130	130
YMTC	66	98	120	125	148	180	219
PSMC	3	5	4	4	5	6	8
Winbond	6	7	8	13	13	14	19
Macronix	11	13	12	11	8	9	17
SMIC	5	4	3	3	4	5	5
YoY (%)		**11**	**(18)**	**2**	**(5)**	**(2)**	**4**
Samsung		11	(23)	(3)	(12)	(16)	(11)
Kioxia/Sandisk		(4)	(17)	12	(10)	2	8
SK Hynix		50	(20)	(8)	8	1	(2)
Micron		(1)	(21)	7	(9)	0	0
YMTC		47	23	4	18	22	22
PSMC		50	(22)	14	31	14	33
Winbond		12	7	70	(2)	8	41
Macronix		14	(8)	(4)	(27)	6	100
SMIC		(20)	(25)	0	42	6	11

Source: TrendForce; KGI estimates

We estimate that DRAM and NAND flash will each suffer a supply shortfall of 8-9% in 2026F. In 2027F, with demand continuing to grow strongly and supply expansions constrained, DRAM and NAND flash are expected to see respective supply shortfalls of 2.4% and 2.9%. Overall, the continuation of tight supply conditions into 2027F is becoming the consensus view across the industry.

Figure 8: Memory supply-demand ratio

DRAM and NAND flash supply-demand ratios, percent

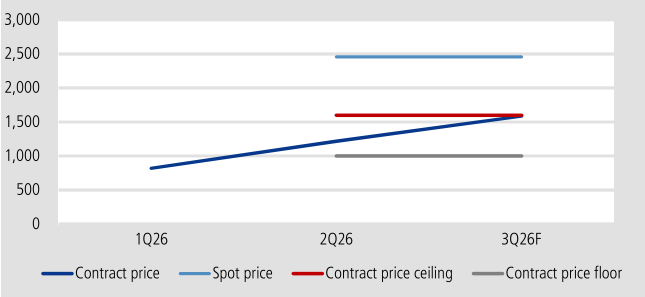


Source: TrendForce; KGI Research estimates

With supply tight, customers have been eager to secure long-term agreements (LTAs) with memory makers, and we note that most major US CSPs have already closed deals with their suppliers and the trend is spreading to OEMs. Based on our understanding, an LTA for RDIMM generally comes with a specific price band, and the floor price is only below the benchmark of a 2Q26 contract by a slim margin, while the ceiling price is higher by approximately 30-40%. As the supply volume through LTAs is still insufficient to meet demand, excess demand must be fulfilled through the spot market. At present, spot prices of 64GB RDIMMs are more than double that of contract prices, indicating upside for prices. Enterprise SSD prices increased by approximately 80% in both 1Q-2Q26, and memory makers are expected to maintain aggressive pricing in 3Q26F, with price hikes above 70% QoQ. In contrast, consumer products such as SODIMM, LPDDR, and client SSDs are less likely to match the price gains seen in server-related products, as producers may struggle to pass through additional costs.

Figure 9: 3Q26F RDIMM official & market price estimates

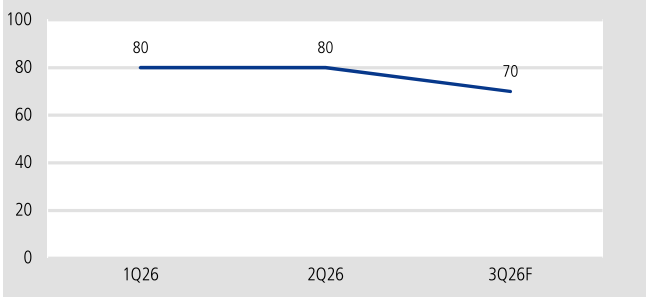
Projected price of 64GB RDIMM, US$



Source: KGI Research estimates

Figure 10: 3Q26F enterprise SSD contract price estimates

Projected QoQ growth in enterprise SSD contract prices, percent



Source: KGI Research estimates

Analog semiconductor data center sales to be the bright spot

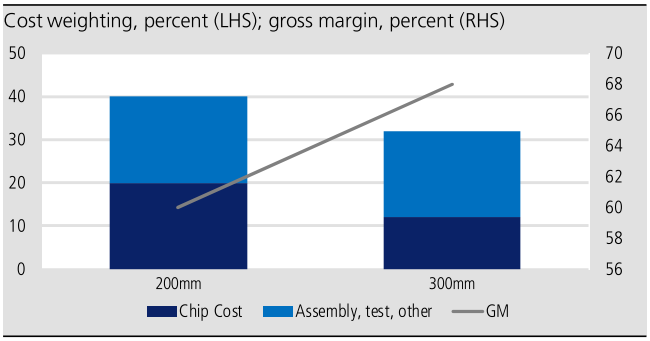
The analog semiconductor industry has undergone a prolonged inventory adjustment period since 2022. Although demand for consumer electronics is susceptible to fluctuations in memory prices, we expect demand for automotive and industrial applications to sustain positive growth in 2H26F. The sales weighting of data center applications is likely to increase from a low base of 5-10%, driven by expanding AI demand. Based on our supply chain checks, data center-related products command price premiums of approximately 20-30% over general industrial and automotive offerings. Meanwhile, due to the cannibalization effect from memory demand, 8-inch wafer capacity is undersupplied, forcing analog semiconductor vendors to either raise prices or accelerate migration to 12-inch wafers. Against this backdrop, we are upbeat about the prospects of Texas Instruments, as the firm has established a first-mover advantage in 12-inch capacity relative to peers, and has maintained a higher weighting of in-house production. This enables the firm to mitigate the price volatility associated with outsourced 8-inch fabs. As the firm's 12-inch fabs enter mass production in 2027F, overall depreciation expenses are expected to decline steadily, reinforcing its cost advantage. We believe Texas Instruments is well positioned within the competitive landscape, with long-term profitability likely to outperform peers.

Figure 11: Data center sales weightings of major analog semiconductor vendors

	2025	2026F	Comment
MPWR	25	32	AI-related revenue reached 32.7% in 1Q26, and the full-year AI revenue growth forecast has been raised from 50% to 85%.
ADI	17	22	ATE and data center businesses are expected to achieve double-digit annual growth.
Infineon	9	14	AI power revenue is projected to reach €1.5bn / €2.5bn in 2026/27, representing approximately 9.3/13.6% of total revenue.
TXN	9	11	Demand for AI-specific power solutions is expected to increase significantly during 2H26-2027.
MCHP	6	8	
ON	4	6	AI data center revenue is expected to double in 2026, while the related TAM is projected to grow at a 40% CAGR.
STM	0	4	AI data center revenue is expected to exceed US$500mn / US$1bn in 2026/27, accounting for approximately 3.5/6.1% of total revenue.
NXPI	2	4	Data center revenue is expected to increase from approximately US$200mn in 2025 (1.6% of revenue) to over US$500mn in 2026 (3.5% of revenue).

Source: Company data; KGI Research

Figure 12: Migration to 12-inch wafers will significantly reduce the unit cost of chips



Source: KGI Research estimates

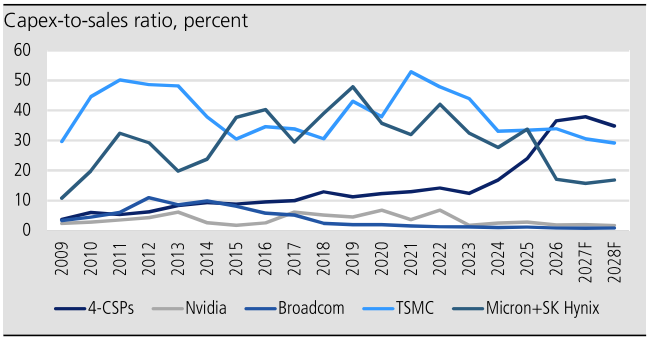
Potential reversal in CSP capital intensity; near-term noise in Nvidia production

Driven by AI investment, CSP capital intensity has risen rapidly and now exceeds that of semiconductor companies. While near-term attention is focused on the strong demand for GPUs, TPUs, networking equipment, and data center buildouts, risks may begin to emerge looking into 2H26–1H27F. If CSP revenue growth fails to accelerate, or if AI-related revenues are insufficient to sustain ongoing capex expansions, concerns around returns on investments, depreciation burdens, and valuation sustainability could intensify. Accordingly, whether CSP capital intensity begins to fall will be a key indicator in assessing the durability of the AI investment cycle beyond 2H27F. Should revenue fall short of expectations, valuations across the broader AI supply chain could come under pressure.

Separately, near-term uncertainties are emerging within the Nvidia supply chain. Factors including SK Hynix's HBM4-related challenges, CoWoS re-tape-outs, and changes in thermal design are expected to weigh on Vera Rubin shipment volumes, which we believe will fall short of market expectations. We now estimate Vera Rubin chip shipments at approximately 2 million units this year. However, after accounting for yield and lead time constraints, effective downstream availability may be limited to between 50–60%, compared with our earlier estimate of 3 million units at the start of the year. In addition, a declining weighting of Vera Rubin within product mixes, alongside a shift toward less favorable configurations, may undercut supply chain expectations. We expect ASP forecasts for certain suppliers to face downward revisions as early as 2Q26F or early 3Q26F.

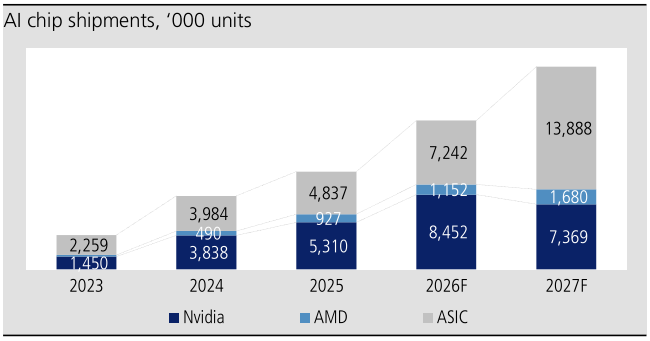
Overall, while Nvidia-related AI demand is fundamentally strong, near-term product mix shifts represent a key risk to supply chain earnings expectations.

Figure 13: Capital intensity of CSPs vs. semiconductor companies



Source: Bloomberg; KGI Research

Figure 14: 2023–27 AI chip shipment forecasts



Source: KGI Research estimates

TSMC & CoWoS

Following several rounds of upward capacity revisions, we expect TSMC's CoWoS monthly capacity to increase from approximately 120k wafers by end-2026F to 170k wafers by the end-2027F. While there are rumors suggesting upside to as much as 200k wafers—driven by factors such as Phase II expansion of AP7 and the possible conversion of certain 6-inch fabs exiting production into CoWoS-related capacity—we have yet to obtain sufficient evidence to verify these developments. As such, we maintain a more conservative capacity outlook.

We expect the strongest growth in CoWoS demand next year to come from Broadcom, MediaTek, and Nvidia, reflecting robust demand for GPUs and TPUs. In addition, since March, we have observed a notable upward revision to AMD's 2027F CoWoS demand outlook. We now estimate AMD's demand will double to approximately 210k wafers next year, driven by strong demand for MI450 and MI455 chips.

Nvidia

We expect Nvidia to secure approximately 60% and 50% of TSMC's CoWoS capacity in 2026-27F, respectively. Compared with six months ago, our 2027 CoWoS demand forecast for Nvidia has been revised up by close to 10% to 890k wafers (albeit slightly lower than our estimate three months ago), reflecting strength in overall AI demand. However, the downside to Vera Rubin shipments is expected to be largely offset by stronger orders for Blackwell.

We estimate Nvidia's Blackwell and Vera Rubin chip shipments at approximately 5.4mn and 2.0mn units, respectively, implying combined YoY growth of 59%. While overall demand for Nvidia's AI chips is robust, lower Vera Rubin shipments may lead to less favorable product mixes than previously expected. During its latest earnings call, Nvidia highlighted surging demand for CPUs, with a total addressable market estimated at approximately US$200bn. The company expects CPU-related revenue to reach US$20bn this year, including Vera, Grace, and CPUs integrated within AI systems. While part of this revenue reflects bundled CPUs within AI racks, the implied scale is already comparable to the annual server CPU revenue of Intel (US) and AMD. Currently, packaging for Vera CPUs is primarily handled by TSMC and Amkor (US).

TPU

Compared with six months ago, we have raised our 2027F CoWoS demand forecasts for Broadcom and MediaTek by 60% and 90%, respectively, to 480k and 150k wafers. This upward revision reflects upside to TPU demand, driven by the strong growth of workloads by Claude and Gemini.

In addition, recent supply chain checks indicate that Broadcom's 2028 v.9 project (Pumafish) has been canceled, with an upgraded version of Sunfish expected to serve as a transitional solution ahead of the v.10 rollout. While it is uncertain whether Humufish will become the primary TPU platform in 2028, its development is likely to support MediaTek's TPU market share. We expect Intel's EMIB-T to ramp from 4Q27F, earlier than our previous estimate, Humufish's shipment timing and product mix are also likely to be better than prior expectations. Assuming ASP growth of 200%—driven by a higher number of I/O dies and adoption of the N2 process—and shipment growth of 50%, alongside the addition of a second ASIC customer, we forecast MediaTek's AI ASIC revenue to grow by 66% YoY to US$50bn in 2028F, accounting for approximately 67% of total revenue.

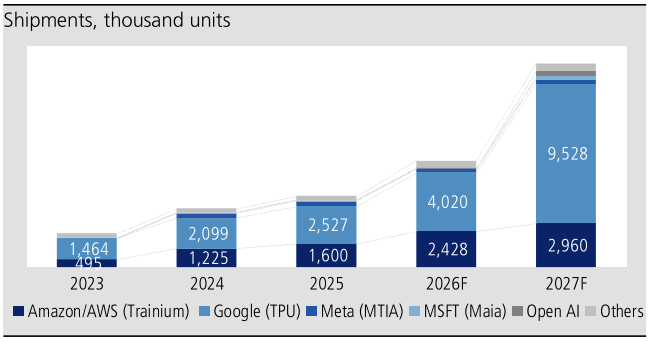
OSAT

KYEC and ASEH raised 2026F capex plans by 28% and 24% in 1Q26, to NT$50bn and US$8.5bn, respectively, implying YoY growth of 35% and 55%, and reflecting sustained strength in AI-driven demand. ASEH's on-substrate sales are expected to benefit from TSMC's expansion of CoWoS capacity, while also serving as a key CoWoS partner for AMD's new Venice CPUs. Meanwhile, KYEC is well positioned to benefit from longer testing times for AI GPUs and increasing demand for ASIC burn-in testing. In addition, as TSMC outsources CP testing to OSAT providers to optimize internal capacity allocation, we believe capex for OSAT players has upside. With foundries facing constraints in bumping capacity—and both CoWoS and EMIB-T requiring mixed-bumping to accommodate different die heights in heterogeneous packages—OSAT companies may also indirectly benefit from the expansion of EMIB-T production.

ASIC industry – Demand shifting toward inference

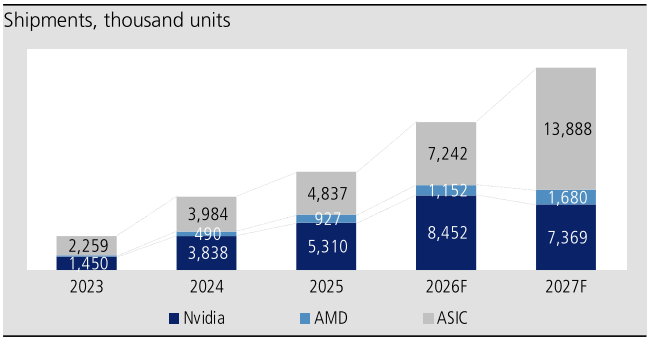
As global AI compute demand shifts from model training toward commercial deployment—driven by inference workloads and the rise of agentic AI—we expect inference to become the dominant segment of AI compute demand. Historically, model training has relied primarily on general-purpose GPUs. However, inference introduces variable costs with each user interaction, increasing the need for low latency, high throughput, and customization. In this context, ASICs—offering superior cost efficiency and the ability to be tailored to specific CSP requirements—are well positioned to capture this demand sweet spot. With hyperscalers such as Google and Amazon (US) accelerating their in-house silicon strategies, we forecast ASIC chip shipments to grow by 50.1% and 35.3% in 2026-27, respectively, compared with moderating growth in general-purpose GPUs at 52.7% and 28.9%. Among key beneficiaries, Alchip is expected to see strong sales growth driven by the ramp-up of AWS' (US) Trainium 3, with revenues likely to increase QoQ in 2H26F. We anticipate a valuation re-rating alongside an acceleration in revenue and earnings growth.

Figure 15: ASIC chip shipment forecast



Source: KGI Research estimates

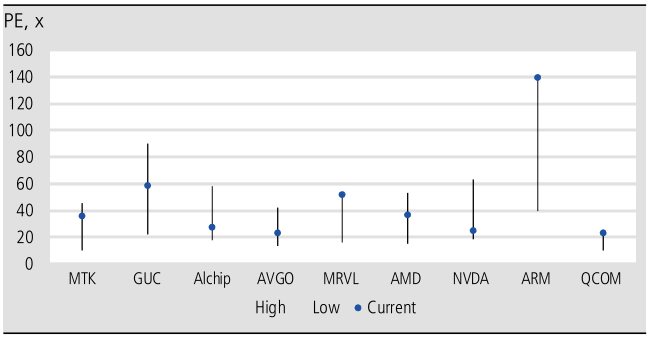
Figure 16: ASIC shipments approaching GPUs, but still lagging in output value



Source: KGI Research estimates

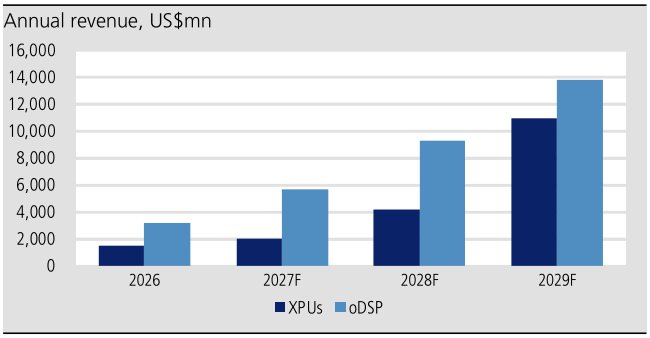
At the same time, as major CSPs have transitioned from early-stage experimentation to scaled, million-unit tape-outs, we view Broadcom as a leading player in the ASIC industry. However, evolving supply chain dynamics—particularly the increasing tendency for CSPs to bring more front-end design in-house or engage additional partners—may introduce valuation uncertainties at the individual company level. Against this backdrop, we see Marvell (US) as well positioned to benefit from its entry into the Google TPU supply chain, which should support both earnings growth and a valuation re-rating for the firm. We project Marvell's custom ASIC business to deliver YoY sales growth of over 20% and 100% (concentrated in 2H27–2028F), with ASIC revenue exceeding US$10bn by FY2029 (fiscal year ends January). In addition, the company is well leveraged to high-speed interconnect trends. As the firm's oDSP products transition from 800G to 1.6T, average prices are expected to rise by approximately 25%, driving interconnect segment sales growth of 51%, 62%, and 77% YoY in 2027–29F, respectively.

Figure 17: 2023–26F PE of AI-related stocks



Source: Bloomberg; KGI Research
Note: Current PE is based on 2027 forecast EPS

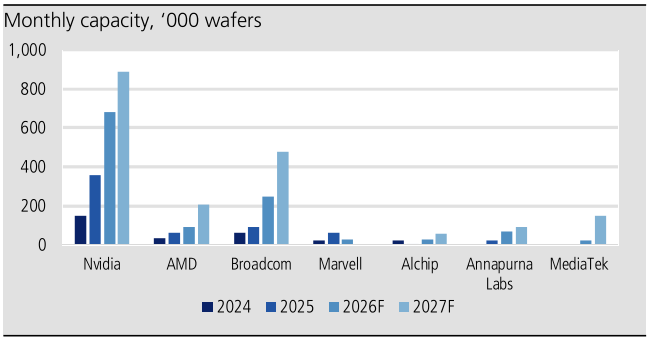
Figure 18: Strong growth in Marvell's oDSP & ASIC segments



Source: KGI Research estimates

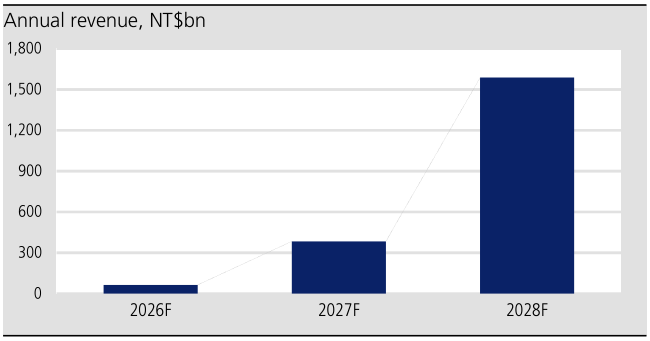
Finally, despite ongoing tightness in CoWoS capacity, the ability of ASIC players to execute shipments is dependent on backend packaging rather than front-end wafer fabrication. We also observe that CSPs are accelerating the validation of alternative advanced packaging solutions beyond TSMC. Companies such as ASEH, Amkor, KYEC, and Intel are well positioned to benefit from the spillover effects of rising advanced packaging demand, which should support upward revisions to ASIC shipment volumes. Among these, MediaTek's collaboration with Intel on EMIB-T for Google's Humufish (v.8e) is expected to generate approximately US$50bn in revenue by 2028F, with upside potential.

Figure 19: 2025–27F TSMC CoWoS client capacity allocations



Source: Bloomberg; KGI Research estimates

Figure 20: Projected revenue from TPU products for MediaTek



Source: KGI Research estimates

IT Hardware

Robust training & agentic AI demand to drive power, thermal, & optical spec upgrades

Key message

1. The AI server industry has moved beyond the pure pursuit of isolated GPU compute power and entered the era of agentic AI, where the focus has pivoted toward full-scale AI infrastructure and multi-rack pod integration.
2. The supply chain has indicated that key upgrades of AI servers should be to power, thermal, and optical components, with significant valuation rerating particularly for vendors capable of delivering comprehensive liquid cooling, 800V HVDC power, and co-packaged optics (CPO) solutions, as hardware requirements escalate to meet the demands of sophisticated AI agents.
3. AI server demand will continue to be robust in 2026-27F, with 2027F capex to be revised up for CSPs. Nvidia (US), AMD's (US) VR and MI455 GPU, and CSPs' ASIC AI chips will boost supply chain sales and earnings growth.
4. Key AI supply chain beneficiaries include rack assembly, liquid cooling, power supply, PCB/CCL/substrate, and chassis/rail kit plays, while general server demand growth will boost CPU-related component makers' momentum. Our top picks are Asia Vital Components (AVC; 3017 TT, NT$2,835, OP), Jentech Precision Industrial (3653 TT, NT$5,380, OP), Kaori (6805 TT, NT$1,590, OP), Kaori (8996 TT, NT$1,590, OP), Delta Electronics (2308 TT, NT$2,165, OP), Fositek (6805 TT, NT$2,070, OP), Elite Material (2383 TT, NT$5,600, OP), Unimicron Technology (3037 TT, NT$968, OP), Zhen Ding Technology (4958 TT, NT$642, OP), Chenbro Micom (8210 TT, NT$1,365, OP), King Slide Works (2059 TT, NT$6,865, OP), Accton Technology (2345 TT, NT$2,280, OP), Lotes (3533 TT, NT$2,290, OP), Quanta Computer (2382 TT, NT$312.5, OP), Wiwynn (6669 TT, NT$4,675, OP), Wistron (3231 TT, NT$137, OP), and Hon Hai Precision (2317 TT, NT$219.5, OP) in Taiwan's supply chain, while our top US picks are Dell and Vertiv.

Event

With a positive CSP capex growth outlook and strong growth of AI training and inference applications, the AI supply chain outlook is bright in 2H26-2027.

Impact

Launch of several AI models to boost 2H26-2027F sales for AI supply chain. Nvidia's (US) product roadmap remains intact and clearly indicates GPU migration in 2026-28. While the Blackwell (GB300) platform will be the leading GPU for AI servers in 2026, Vera Rubin (VR) NVL72 systems will begin mid-volume production in 4Q26, targeting initial shipment of 5-10k racks. We estimate total GB and VR rack shipments will scale massively, reaching 65-70k racks in 2026, a substantial leap from the 25k racks in 2025, and 2027F VR rack shipments will also rise to 60-70k racks. Dell (US), Oracle (US) and Microsoft (US) are major customers, and Hon Hai Precision (2317 TT, NT$268.5, OP), Quanta Computer (2382 TT, NT$376, OP), and Wistron (3231 TT, NT$161.5, OP) are key system assemblers that account for 80-90% of total demand. In addition, AMD (US) is cementing its position as a formidable alternative in the AI GPU market. Its next-generation MI455X-based Helios double-wide racks that utilize liquid cooling will commence shipment in 4Q26F, with more significant volume ramp-up in 2027F. We estimate Helios AI rack deployment could total 6-10k racks in 2027, and Wiwynn (6669 TT, NT$5,130, OP) is the key system assembler, mainly for Meta (US). ASICs, mainly from Google (US) and AWS (US), will also aggressively ramp-up custom AI chip production, optimized for specific internal workloads. Google's TPU v8 and Amazon Web Services' (AWS) Trainium3 (T3) are driving a rising wave of liquid-cooled ASIC rack deployment. We project AWS T3 shipments will total 40-50k racks in 2026, and will grow over 30% YoY in 2027, up from 30-35k in 2025, while TPU v8 shipments will rise to over 70k racks, based on chip supply growth of 70-80% YoY in 2026-27. We expect Wiwynn (AWS ASIC), as well as Hon Hai and Quanta (Google ASIC) to benefit from rising sales contribution and margin expansion. We anticipate AI rack deployment for the various chip platforms will trigger supply chain sales growth on solid AI token demand and strong capex investment from CSPs (Figures 1-4).

Capex growth at top five US CSPs to rise 83% YoY in 2026F & 22% YoY in 2027F, with upside on strong AI demand & rising component costs. During the latest earnings calls from major US hyperscalers, the top five US CSPs said they expect a positive capex trend in 2026. Most CSPs reported better-than-expected 1Q26 capex, lifting the top five CSPs' capex growth to 91% YoY and 14% QoQ to US$148.4bn, above the previous consensus estimate by 12%. After Oracle's (US) recent earnings call, 2026 capex growth guidance from the top five CSPs was revised up to US$753bn, up 83% YoY, versus 77% YoY growth in 2025, on accelerating AI infrastructure demand, and 2027F capex was revised up to US$922bn, up 22% YoY. We believe the upward revision to capex is largely due to rising component costs, particularly for memory. The top US CSPs continue to emphasize aggressive AI infrastructure investment, supported by stronger-than-expected AI demand, cloud backlog growth, and persistent capacity constraints. We expect further upside to 2027F capex on rising AI rack pricing, while the market expects five major hyperscalers' 2027F capex to grow to over US$1.0tn. The capex-to-operating cash flow ratio deteriorated to 75% in 1Q26, but most CSPs continue to see solid operating cash flow to support heavy AI investment over the next 1-2 years (Figures 5-12).

Liquid cooling – Rising demand for AI servers across all rack designs; heat spreaders to undergo size & design upgrades. As rack thermal design power (TDP) breaches new thresholds, liquid cooling is no longer optional, but rather mandatory for most AI server racks. We thus expect liquid-cooling penetration to climb rapidly, driving immense value across both in-rack and out-of-rack infrastructures. Nvidia's upcoming VR NVL72 compute and switch trays embrace a 100% modular, fanless, direct-to-chip liquid-cooling design. This architectural leap drastically increases component value. We estimate that the cold plate and inner manifold value within a VR200 rack will be over 30% higher than in the previous GB300 generation. To support these high-density racks, 2-4MW in-row coolant distribution units (CDU) and 100-350kW sidecars are designed with spec upgrades. With individual chip TDP approaching 2-3kW, traditional thermal interface materials (TIM2) are creating thermal resistance bottlenecks. The industry has considered adopting a better thermal-conductivity metal TIM for TIM2 materials, such as indium–gallium composite materials. Furthermore, the supply chain has continued to develop microchannel lid (MCL) designs to integrate heat spreaders, TIM2, and cold plates, with microscopic water channels designed directly into the chip packaging lid to effectively dissipate 2-3kW of heat. Although MCL remains in the POC stage, we expect rising ASP for GPU heat spreaders due to larger size and more complicated designs for next-generation GPUs, not only for Nvidia's VR200, but also AMD's MI455 and CSPs' ASICs. We expect liquid-cooling content value (i.e. cold plate, QD, and inner manifold) for each AI compute tray, switch tray, and rack to rise, while heat spreader value for next-generation GPUs will expand, benefiting Asia Vital Components (AVC; 3017 TT, NT$2,400, OP), Delta Electronics (2308 TT, NT$2,150, OP), Auras Technology (3324 TT, NT$1,070, OP), Fositek (6805 TT, NT$1,755, OP), Kaori (8996 TT, NT$1,590, OP) , and Jentech Precision Industrial (3653 TT, NT$3,965, OP) (Figure 13-15).

Power supplies – High-voltage direct current (HVDC) power racks to commence shipment by 4Q26F, with penetration to rise in the coming years. The exponential increase in power consumption per rack has rendered legacy AC/DC power distribution highly inefficient. The power upgrade trajectory highlighted at Computex 2026 points definitively toward HVDC solutions, starting in 2H26F. With the TDP of VR200 standing at 220kW, it is widely believed that the adoption of HVDC is not a must, but rather optional, and we believe the industry is expecting a HVDC penetration rate of 10-20% for VR200. Furthermore, the HVDC adoption timeline for ASIC server platforms, specifically AWS Trainium and Google TPU in their respective upcoming generations, remains intact. We expect initial shipments of HVDC power racks to commence in 2H26, starting from ±400V, before 800V gains traction in 2027. We project power supply vendors will see content value increase from US$66k in GB300 to US$103k in VR200, for an incremental 50-60% gain. We think recent rumors regarding potential mass adoption delays for 800V DC power architecture have been overdone. Near-term, power supply vendors generally hold a positive 2H26 outlook, boosted by the ramp-up of server power shipments for VR200 and ASIC server racks, as both Delta Electronics and Lite-On Technology (2301 TT, NT$210.5, OP) expect revenue to grow sequentially in 3Q-4Q26. Delta guides 3Q26 revenue will rise 20% QoQ. We believe Delta will continue its dominance in the server power market as power architecture of AI server racks gradually migrates to HVDC, while Lite-On, Vertiv (US), and Flex (US) will also be key tier-two players. The introduction of power racks will help raise the penetration of BBU, benefitting suppliers, such as Advanced Energy Solution Holding (AES; 6781 TT, NT$1,180, OP), Dynapack International Technology (3211 TT, NT$436, NR), and STL Technology (4931 TT, NT$261.5, NR) (Figure 16).

PCB/CCL/substrate – Next-generation GPU & ASIC AI to drive product price hikes. We expect demand for high-end ABF substrates to be driven by the launch of Nvidia's new VR server platform and AWS T3, as well as an upgrade to PCIe6 for general servers in 2H26. We estimate that substrate ASP growth will accelerate from a quarterly rate of 3-5% in 1H26 to 7-8% in 2H26, prompting the industry into an upcycle. We believe

leading ABF substrate supplier Unimicron Technology (3037 TT, NT$968, OP) will be a major beneficiary, and note that Elite Material (2383 TT, NT$5,600, OP) will also reap the benefits, with ASP to rise 15-20% on CCL material upgrades for T3 and VR. Demand for 800GbE and 1.6TbE optic modules has been growing rapidly since late-2Q26, and we predict that shipment volumes will surge by a respective 146% and 1,200% YoY to 52.8mn and 28.6mn units, fueling operating growth for Unimicron and Zeng Ding Technology (4958 TT, NT$642, OP) (Figure 17).

Mechanical & Rails – To ride rising demand wave for new types of racks. With new CPU rack memory racks, networking racks, LPX racks, and power racks for multi-rack AI pod architecture, in addition to the previous IT rack designs (GB/VR), we expect chassis, rack, and rail kit manufacturers to ride this growing demand wave. Furthermore, chassis designs have become highly complex to route liquid cooling tubes, and the weight of racks has increased from 30-35kg (GB300) to 40-41kg (VR200), which has also caused mechanical constraints to be tightened. Therefore, we expect Chenbro Micom (8210 TT, NT$1,365, OP) and King Slide Works (2059 TT, NT$6,865, OP) to be major beneficiaries due to their superior load-bearing rail solutions and precision mechanical integration abilities (Figure 18).

General servers – Strong demand to be revitalized by agentic AI. The resurgence of the CPU market in 2026 has been driven entirely by the advent of agentic AI. While generative AI historically marginalized CPUs in favor of GPUs, agentic AI requires complex system orchestration, reasoning, tool activation, and memory shuffling, which are tasks where CPUs excel. Nvidia explicitly declared the arrival of the agentic AI era, predicting that this shift will propel the total addressable market (TAM) for CPUs to US$200bn. The newly introduced Vera CPU tray is custom built for these reinforcement learning and agentic workflows, delivering 1.8x higher efficiency and 50% better compute performance compared to traditional x86 CPUs. Furthermore, agentic AI is pushing computational demand to the edge. In addition, Nvidia's introduction of the RTX Spark chip (superchip combining Blackwell RTX GPU and MediaTek-built 20-core Grace CPU) aims to enable localized agentic AI execution on Windows PCs. This holistic requirement for "LLM + harnessing" means general-purpose servers and edge devices will see revitalized demand as they coordinate with GPU clusters to execute sophisticated, multi-step autonomous tasks. We recently learned that average CSP general server demand will grow 40-50% YoY, while average enterprise demand will rise 10-20% YoY, which will result in total general server shipment growth of 20-30% in 2026F. However, recent CPU and memory supply tightness may be a drag on overall shipments in 2H26, although we expect server CPU and memory to be prioritized by vendors. We thus forecast 20% YoY demand growth for general servers in 2026, evidenced by strong 1Q26 YoY sales growth for Lotes (21%; 3533 TT, NT$2,290, OP), Wiwynn (62%), Aspeed Technology (29%; 5274 TT, NT$18,960, OP), and Nan Juen International (74%; 6584 TT, NT$625, OP). Along with expected AI server shipment growth of 61% YoY in 2026F, our total server shipment growth forecast is 24% YoY, and we also expect double-digit general server demand growth to remain intact in 2027, according to supply chain information (Figure 20).

Stocks for Action

A positive capex trend in 2026 will continue in 2027F, with 2027F capex growth to be revised up further to over US$1.0tn. The investment thesis for the AI hardware sector should be focused on product value expansion amid build-out of "power-thermal-optical" infrastructure. The ASP of AI racks is skyrocketing. For context, a GB300 rack is valued at approximately US$4.0mn, while a Vera Rubin NVL72 rack will command ASP exceeding US$7.0mn. This massive value redistribution will highly benefit component suppliers and top-tier ODMs. We recommend investors focus on suppliers that possess strong market share in both Nvidia (GB/VR) and hyperscaler ASIC supply chains, supported by a diverse client base. We are positive on AI focused leading plays in each sector (Figure 19). Our top picks are Asia Vital Components, Jentech Precision Industrial, Kaori, Delta Electronics,

Fositek, Elite Material, Unimicron Technology, Zhen Ding Technology, Chenbro Micom, King Slide Works, Accton Technology (2345 TT, NT$2,435, OP), Lotes, Quanta Computer (2382 TT, NT$376, OP), Wiwynn, Wistron, and Hon Hai Precision in Taiwan's supply chain, while our top US picks are Dell and Vertiv.

Risks

Sluggish demand; tight component supply; higher production or financing costs.

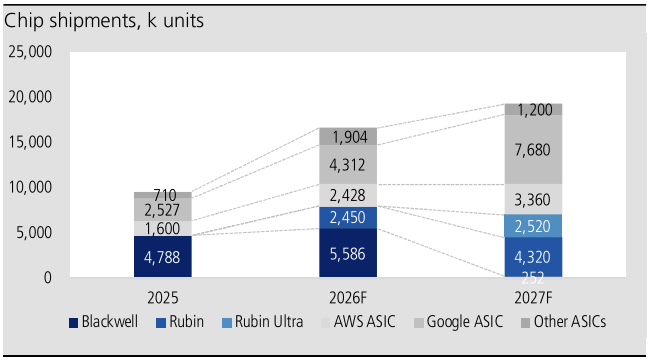
Figure 1: Nvidia's AI chip shipments to ride strong growth wave in 2026F

Chip shipments (k units)		2024	2025F	2026F	2027F
ASIC	Google	2,099	2,527	4,312	7,680
	AWS	1,225	1,600	2,428	3,360
	Meta	300	350	400	650
	Microsoft	60	60	60	200
GPU	NVIDIA	3,838	5,310	8,239	7,092
	AMD	490	927	1,152	1,680

YoY(%)		2024	2025F	2026F	2027F
ASIC	Google		20	71	78
	AWS		31	52	38
	Meta		17	14	63
	Microsoft		0	0	233
GPU	NVIDIA		38	55	(14)
	AMD		89	24	46

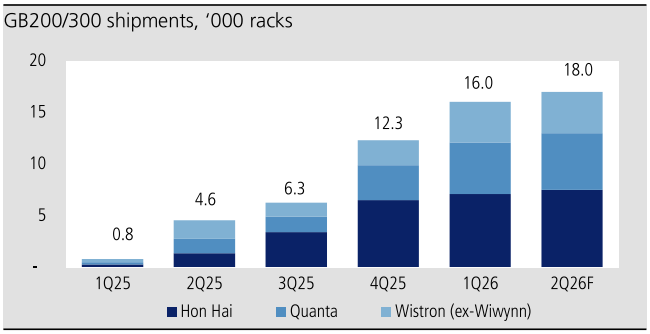
Source: KGI Research estimates

Figure 2: TSMC chip shipments to Nvidia to reach 7-8mn units in 2026-27F; ASIC shipment growth to be even more pronounced



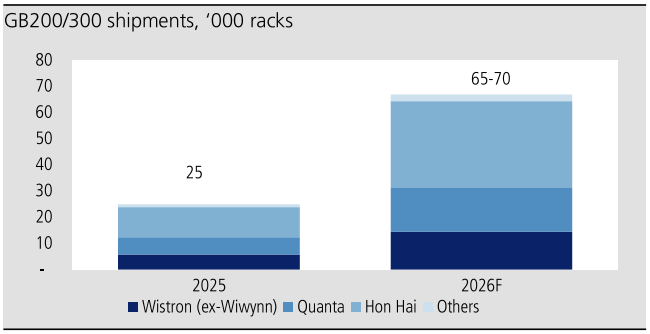
Source: KGI Research estimates

Figure 3: GB300 AI server shipments grew in 1H26F



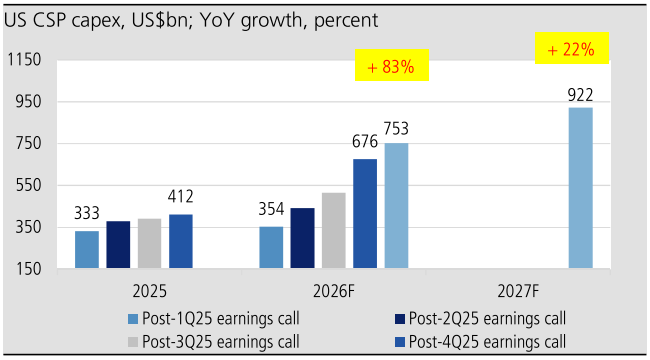
Source: Company data; KGI Research estimates

Figure 4: GB/VR shipments close to 25k racks in 2025; 2026F shipments to rise to 65-70k racks



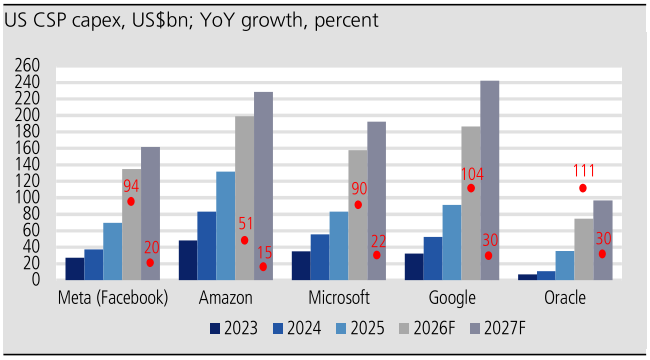
Source: Company data; KGI Research estimates

Figure 5: US CSPs significantly raised 2026 capex growth guidance to 83% YoY



Source: Company data; Bloomberg; KGI Research

Figure 6: Consensus 2026 capex revised up by top five US CSPs; Google & Oracle have particularly strong capex growth



Source: Company data; Bloomberg, KGI Research

Figure 7: US CSPs' 2026 capex guidance growth revised to up 83% YoY

						Actual			Consensus	
Capex (US$mn)	**1Q25**	**2Q25**	**3Q25**	**4Q25**	**1Q26**	**2023**	**2024**	**2025**	**2026F**	**2027F**
Meta (Facebook)	12,941	16,538	18,829	21,383	18,997	27,266	37,256	69,691	134,816	161,709
Amazon	25,019	32,183	35,095	39,522	44,203	48,133	82,999	131,819	199,113	228,460
Microsoft	16,745	17,079	19,394	29,876	30,876	35,202	55,552	83,094	157,860	192,476
Google	17,197	22,446	23,953	27,851	35,674	32,251	52,535	91,447	186,523	241,996
Oracle	5,862	9,080	8,502	12,033	18,635	6,935	10,745	35,477	74,681	96,962
US hyperscale subtotal	**77,764**	**97,326**	**105,773**	**130,665**	**148,385**	**149,787**	**239,087**	**411,528**	**752,993**	**921,604**
YoY (%)	**1Q25**	**2Q25**	**3Q25**	**4Q25**	**1Q26**	**2023**	**2024**	**2025**	**2026F**	**2027F**
Meta (Facebook)	102.2	102.3	128.0	48.2	46.8	(13.3)	36.6	87.1	93.4	19.9
Amazon	67.6	82.7	55.2	42.0	76.7	(17.5)	72.4	58.8	51.1	14.7
Microsoft	52.9	23.1	30.0	89.0	84.4	42.1	57.8	49.6	90.0	21.9
Google	43.2	70.2	83.4	95.1	107.4	2.4	62.9	74.1	104.0	29.7
Oracle	250.2	224.5	269.2	203.1	217.9	3.8	54.9	230.2	110.5	29.8
US Hyperscale subtotal	**69.2**	**74.9**	**72.9**	**71.2**	**90.8**	**2.6**	**59.6**	**72.1**	**83.0**	**22.4**
QoQ (%)	**1Q25**	**2Q25**	**3Q25**	**4Q25**	**1Q26**	**2023**	**2024**	**2025**	**2026F**	**2027F**
Meta (Facebook)	(10.3)	27.8	13.9	13.6	(11.2)					
Amazon	(10.1)	28.6	9.0	12.6	11.8					
Microsoft	6.0	2.0	13.6	54.0	3.3					
Google	20.5	30.5	6.7	16.3	28.1					
Oracle	47.7	54.9	(6.4)	41.5	54.9					
US Hyperscale subtotal	**1.9**	**25.2**	**8.7**	**23.5**	**13.6**					

Note: Capex excluding finance leases

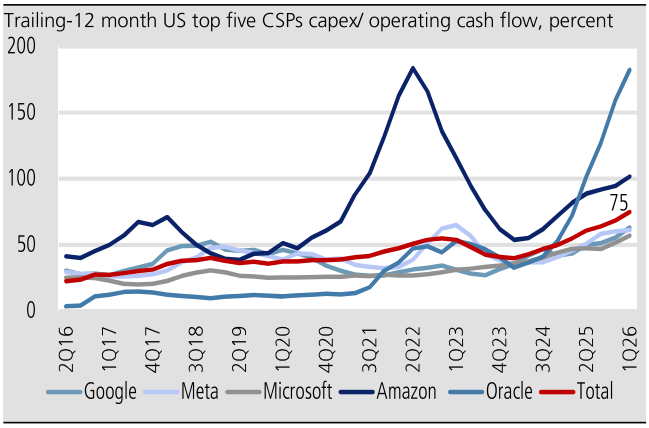
Source: Company data; Bloomberg; KGI Research

Figure 8: Top five US CSP 2026F capex to surpass total net income

Year	Capex(US$mn)	Net income (US$mn)	Capex / Net income (%)
2014	23,704	59,620	39.8
2015	26,018	62,396	41.7
2016	32,686	74,829	43.7
2017	42,605	93,795	45.4
2018	68,172	120,823	56.4
2019	70,648	129,835	54.4
2020	97,009	167,330	58.0
2021	130,717	255,670	51.1
2022	158,007	221,215	71.4
2023	154,383	297,758	51.8
2024	239,087	388,100	61.6
2025	411,528	466,838	88.2
2026F	752,993	541,206	139.1
2027F	921,604	601,838	153.1

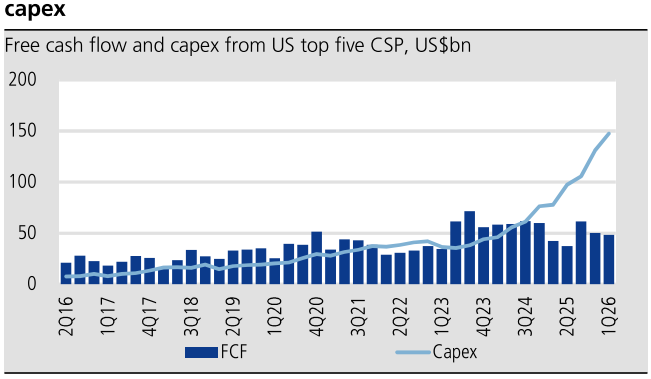
Source: Company data; Bloomberg; KGI Research

Figure 9: Top five US CSPs' capex-to-operating cash flow ratio rose to 75% in 1Q26



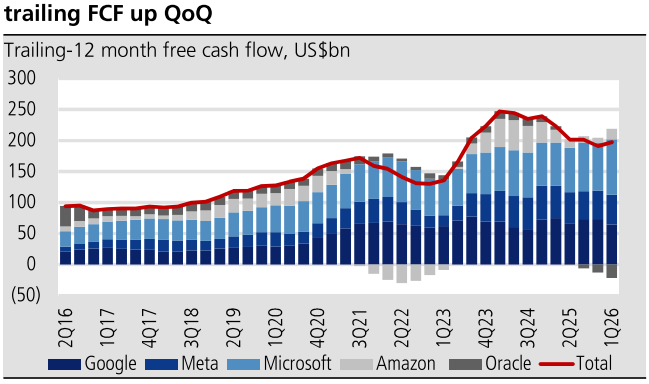
Source: Company data; Bloomberg, KGI Research

Figure 10: Top five CSPs saw 1Q26 FCF fall QoQ on higher capex



Source: Company data; Bloomberg; KGI Research

Figure 11: Top five US CSPs' capex keeps rising, with 1Q26 trailing FCF up QoQ



Source: Company data; Bloomberg, KGI Research

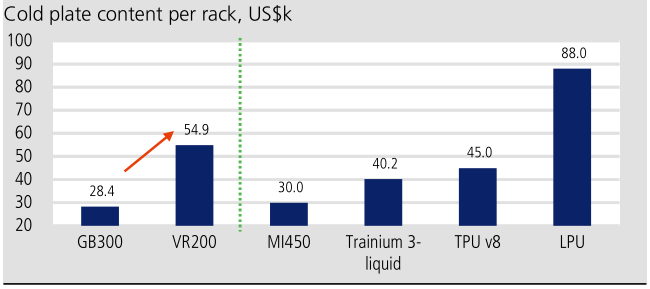
Figure 12: Consensus CSP capex growth is 78% YoY in 2026; Nebius was key capex growth enterprise in 2025

Capex, US$mn	2021	2022	2023	2024	2025	2026F	2027F
Meta	18,567	31,431	27,266	37,256	69,691	134,816	161,709
Amazon	55,396	58,321	48,133	82,999	131,819	199,113	228,460
Microsoft	23,216	24,768	35,202	55,552	83,094	157,860	192,476
Google	24,640	31,485	32,251	52,535	91,447	186,523	241,996
Oracle	3,118	6,678	6,935	10,745	35,477	74,681	96,962
Baidu	1,689	1,586	1,580	1,130	1,858	2,276	2,359
Alibaba	8,311	5,014	4,477	10,542	16,856	19,365	21,703
Tencent	4,808	4,611	3,017	9,675	13,193	16,266	16,618
Hyperscale subtotal	**139,745**	**163,894**	**158,861**	**260,433**	**443,435**	**790,901**	**962,283**
Apple	10,388	11,692	9,564	9,995	12,148	12,488	14,414
IBM	2,062	1,346	1,245	1,048	1,617	1,670	1,712
Coreweave	N.A.	72	2,943	8,702	14,770	34,162	38,930
Nebius	606	750	1,073	808	3,920	23,731	28,165
Dell	2,796	3,003	2,756	2,652	2,704	3,657	3,819
Salesforce	717	798	736	658	695	673	753
Netflix	525	408	349	440	688	712	744
Enterprise subtotal	**17,094**	**18,069**	**18,666**	**24,302**	**36,542**	**77,092**	**88,538**
Total	**156,838**	**181,962**	**177,527**	**284,736**	**479,978**	**867,993**	**1,050,821**

YoY growth, percent	2021	2022	2023	2024	2025	2026F	2027F
Meta	22.8	69.3	(13.3)	36.6	87.1	93.4	19.9
Amazon	58.1	5.3	(17.5)	72.4	58.8	51.1	14.7
Microsoft	32.0	6.7	42.1	57.8	49.6	90.0	21.9
Google	10.6	27.8	2.4	62.9	74.1	104.0	29.7
Oracle	70.1	114.2	3.8	54.9	230.2	110.5	29.8
Baidu	129.1	(6.1)	(0.4)	(28.5)	64.5	22.5	3.6
Alibaba	30.3	(39.7)	(10.7)	135.5	59.9	14.9	12.1
Tencent	(15.9)	(4.1)	(34.6)	220.7	36.4	23.3	2.2
Hyperscale subtotal	**33.5**	**17.3**	**(3.1)**	**63.9**	**70.3**	**78.4**	**21.7**
Apple	19.4	12.6	(18.2)	4.5	21.5	2.8	15.4
IBM	(21.2)	(34.7)	(7.5)	(15.8)	54.3	3.3	2.5
Coreweave	N.M.	N.M.	3,964.9	195.7	69.7	131.3	14.0
Nebius	77.7	23.7	43.2	(24.7)	385.4	505.3	18.7
Dell	34.3	7.4	(8.2)	(3.8)	2.0	35.2	4.5
Salesforce	1.0	11.3	(7.8)	(10.6)	5.6	(3.1)	11.9
Netflix	5.4	(22.3)	(14.5)	26.1	56.6	3.5	4.5
Enterprise subtotal	**14.3**	**5.7**	**3.3**	**30.2**	**50.4**	**111.0**	**14.8**
Total	**31.1**	**16.0**	**(2.4)**	**60.4**	**68.6**	**80.8**	**21.1**

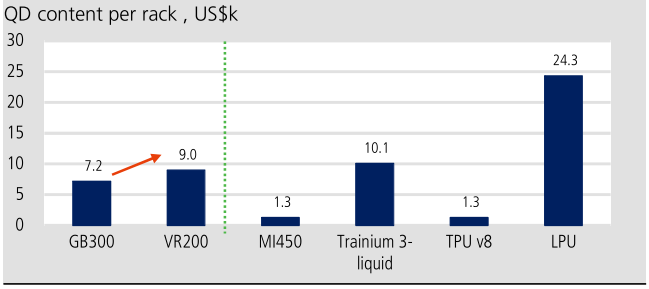
Source: Company data; Bloomberg; KGI Research

Figure 13: Liquid-cooling cold plate content value surged for new AI server generation



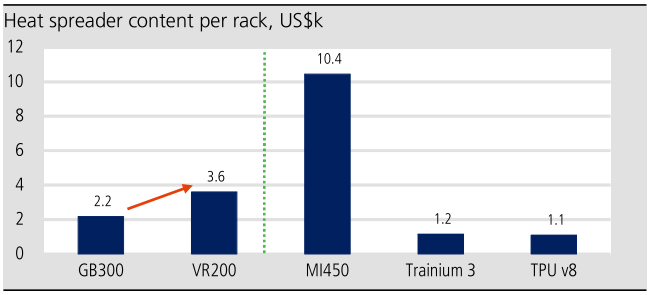
Source: Company data; Bloomberg; KGI Research

Figure 14: Liquid-cooling QD content value surged for new AI server generation



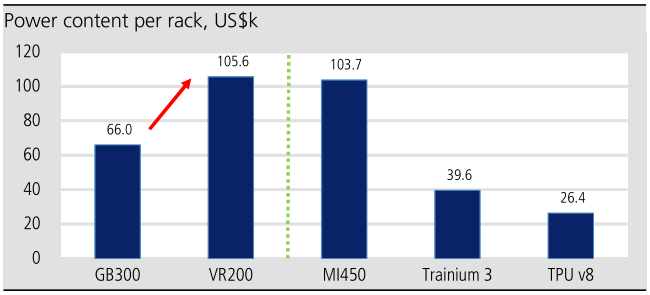
Source: Company data; Bloomberg, KGI Research

Figure 15: Heat spreader content value surged for new AI server generation



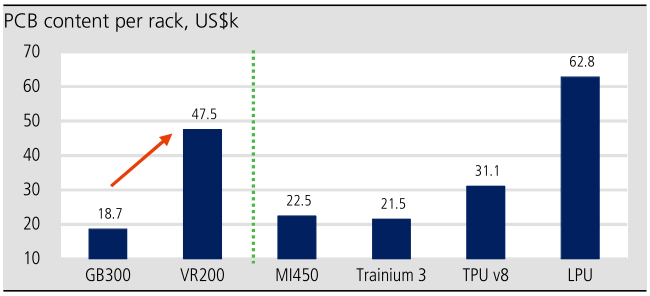
Source: Company data; Bloomberg; KGI Research

Figure 16: Power supply content value surged for new AI server generation



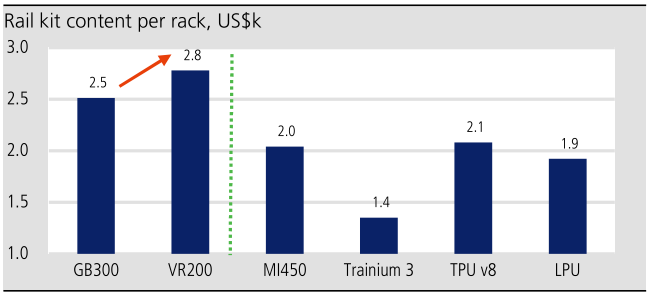
Source: Company data; Bloomberg, KGI Research

Figure 17: PCB content value surged for new AI server generation



Source: Company data; Bloomberg; KGI Research

Figure 18: Rail kit content value surged for new AI server generation



Source: Company data; Bloomberg, KGI Research

Figure 19: Companies offering diverse product portfolios (GB & ASIC) & serving multiple customers are poised to benefit the most, such as Delta, AVC, Fositek, Elite Material, King Slide, Hon Hai, Quanta, Wistron, & Wiwynn

			GPU (GB)	ASIC	
Segment	Company	Ticker	NVIDIA	AWS Trainium / Google TPU	
ODM	Hon Hai	2317 TT	NVIDIA	amazon	
	Quanta	2382 TT	NVIDIA		Google
	Inventec	2356 TT	NVIDIA		Google
	Wistron	3231 TT	NVIDIA		
	Wiwynn	6669 TT	NVIDIA	amazon	
	Celestica	CLS US		amazon	Google
	Flextronics	FLEX US	NVIDIA	amazon	Google
	Jabil	JBL US	NVIDIA	amazon	
Power	Delta	2308 TT	NVIDIA	amazon	Google
	Lite-On	2301 TT	NVIDIA	amazon	
AEC/power whip /busbar	BizLink	3665 TT	NVIDIA	amazon	
	Credo	CRDO US	NVIDIA	amazon	

			GPU (GB)	ASIC	
Segment	Company	Ticker	NVIDIA	AWS Trainium / Google TPU	
Thermal	AVC	3017 TT	NVIDIA	amazon	Google
	Auras	3324 TT	NVIDIA	amazon	
	Fositek	6805 TT	NVIDIA	amazon	Google
PCB/CCL	GCE	2368 TT		amazon	Google
	EMC	2383 TT	NVIDIA	amazon	Google
	TUC	6274 TT		amazon	
Networking	Accton	2345 TT		amazon	
Mechanical	King Slide	2059 TT	NVIDIA	amazon	Google
	Chenbro	8210 TT	NVIDIA	amazon	
	AVC	3017 TT	NVIDIA	amazon	
	JPP	5284 TT		amazon	
BBU	AES	6781 TT	NVIDIA	amazon	
	Dynapack	3211 TT		amazon	

Source: KGI Research estimates

Figure 20: 2026F server shipment growth revised up, but PC & smartphone shipments cut to double-digit YoY decline

Shipments (mn)	2024	2025	2026F	2027F
PC	247.6	270.8	241.3	246.3
Smartphone	1,226.5	1,246.8	1,098.5	1,131.5
iPhone	225.9	236.9	244.9	252.2
Android	1,000.5	1,009.9	853.7	879.3
Server	12.1	12.5	15.5	16.7
General server	11.4	11.3	13.6	14.0
AI server	0.7	1.2	2.0	2.7
YoY (%)	**2024**	**2025**	**2026F**	**2027F**
PC	2.2	9.4	(10.9)	2.1
Smartphone	3.6	1.7	(11.9)	3.0
iPhone	(2.0)	4.9	3.4	3.0
Android	4.9	0.9	(15.5)	3.0
Server	6.5	3.8	23.9	7.6
General server	2.4	(0.4)	20.0	3.0
AI server	186.3	70.3	60.6	40.0

Source: Company data; Bloomberg; KGI Research

Figure 21: Comparison – Cloud peer valuations

Sector	Company	Ticker	Market cap. (US$mn)	Share price (LCY)	Rating	Target Price (LCY)	EPS (LCY)		EPS YoY (%)		PE (x)		PB (x)		ROE (%)		Cash yield (%)	
							2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2025	2026F
ODM	Hon Hai	2317 TT	119,321	268.5	Outperform	315.0	17.94	21.46	31.8	19.6	15.0	12.5	2.0	1.8	13.7	15.3	2.7	3.6
	Inventec	2356 TT	7,708	67.7	Neutral	55.0	3.24	4.05	33.5	25.3	20.9	16.7	3.1	3.0	15.0	18.2	3.0	3.8
	Quanta	2382 TT	46,090	376.0	Outperform	430.0	23.13	27.43	18.9	18.6	16.3	13.7	5.6	5.1	35.3	38.9	4.1	4.9
	Wistron	3231 TT	16,300	161.5	Outperform	225.0	13.96	18.29	54.4	31.0	11.6	8.8	2.5	2.1	22.6	25.1	3.4	5.1
	Wiwynn	6669 TT	30,255	5,130.0	Outperform	6,475.0	325.58	436.17	18.4	34.0	15.8	11.8	6.3	5.1	43.8	47.6	2.8	3.5
	Gigabyte Tech	2376 TT	7,313	344.0	Outperform	495.0	32.00	34.00	75.9	6.3	10.7	10.1	3.5	3.1	34.2	32.4	3.5	6.1
	Asustek Computer	2357 TT	18,598	789.0	Outperform	835.0	53.65	57.64	(10.6)	7.4	14.7	13.7	2.1	2.0	14.6	15.2	5.3	5.4
	Asrock	3515 TT	966	246.5	Outperform	325.0	20.45	26.00	33.8	27.2	12.1	9.5	2.3	2.1	20.2	23.5	4.5	5.0
Socket/ Connector/cable	Lotes	3533 TT	8,178	2,290.0	Outperform	3,100.0	95.08	129.17	35.5	35.9	24.1	17.7	5.9	5.1	25.9	30.6	1.5	2.1
	Bizlink Holding	3665 TT	13,001	2,100.00	Outperform	2,600.00	66.09	106.99	41.9	61.9	31.8	19.6	7.5	5.8	25.5	33.3	0.7	1.0
	Aces	3605 TT	446	80.50	Restricted	N.A.	5.47	N.A.	28.0	N.A.	14.7	N.A.	1.6	N.A.	11.6	N.A.	1.6	2.0
	Argosy*	3217 TT	486	170.0	Not rated	N.A.	13.65	15.70	7.6	15.0	12.5	10.8	3.0	2.6	28.9	31.4	5.9	5.9
	Alltop	3526 TT	683	327.0	Outperform	415.0	23.03	30.35	35.7	31.8	14.2	10.8	5.1	5.1	35.8	47.0	5.1	7.0
Rail kit	King Slide Works	2059 TT	20,761	6,865.0	Outperform	8,850.0	206.36	295.01	99.9	43.0	33.3	23.3	17.1	12.4	59.3	61.8	0.7	1.5
	Nan Juen International	6584 TT	1,401	625.0	Outperform	800.0	17.40	26.65	211.3	53.2	35.9	23.5	11.6	9.3	35.2	44.1	0.4	1.4
Thermal	Sunonwealth	2421 TT	1,320	145.0	Outperform	182.0	11.21	13.10	41.2	16.8	12.9	11.1	4.1	3.7	32.8	34.7	0.0	5.5
	Auras	3324 TT	3,161	1,070.0	Outperform	1,450.0	59.27	81.87	109.7	38.1	18.1	13.1	7.0	5.3	43.5	46.5	1.1	2.4
	AVC	3017 TT	29,898	2,400.0	Outperform	3,450.0	94.49	132.70	92.2	40.4	25.4	18.1	14.5	10.0	67.1	64.6	0.9	1.7
	Fositek	6805 TT	3,818	1,755.0	Outperform	2,800.0	66.17	93.30	113.4	41.0	26.5	18.8	12.4	9.1	53.7	55.9	0.7	1.7
	Kaori	8996 TT	4,712	1,590.0	Outperform	2,270.0	23.08	42.75	154.6	85.2	68.9	37.2	25.6	17.0	43.1	55.1	0.3	0.7
	Microloops*	6831 TT	1,656	773.0	Not rated	N.A.	14.13	22.11	186.0	56.5	54.7	35.0	16.4	13.7	35.7	41.5	0.4	1.1
Heat spreader	Jentech	3653 TT	18,463	3,965.0	Outperform	4,840.0	53.96	112.49	46.8	108.5	73.5	35.2	22.4	17.9	32.4	56.4	0.6	0.8
BBU	Simplo Tech	6121 TT	2,451	417.5	Outperform	450.0	34.30	34.93	12.1	1.8	12.2	12.0	1.9	1.8	16.1	15.7	5.2	5.8
	AES-KY	6781 TT	3,199	1,180.0	Outperform	1,450.0	49.20	66.78	28.8	35.7	24.0	17.7	5.3	4.6	23.5	28.1	1.6	2.1
	Dynapack*	3211 TT	2,135	436.0	Not rated	N.A.	12.84	20.74	41.9	61.5	33.9	21.0	5.7	5.9	18.8	30.1	2.6	2.4
Chassis	Chenbro	8210 TT	5,429	1,365.0	Outperform	1,905.0	49.65	68.00	70.9	37.0	27.5	20.1	12.2	9.4	49.7	52.6	1.0	1.8
BMC	Aspeed Tech	5274 TT	22,746	18,960.0	Outperform	21,130.0	191.62	334.60	84.4	74.6	98.9	56.7	81.8	45.1	88.7	102.5	0.4	0.8
Silcon photonics	Land Mark Opto	3081 TT	7,164	2,440.0	Outperform	1,080.0	13.12	21.43	183.3	63.4	186.0	113.8	63.3	60.3	34.8	54.3	0.1	0.5
CCL	Iteq	6213 TT	3,231	280.0	Outperform	345.0	7.26	11.52	74.4	58.8	38.6	24.3	4.7	4.2	12.3	18.3	1.1	1.7
	Elite Material	2383 TT	63,679	5,600.0	Outperform	6,860.0	92.16	171.51	121.2	86.1	60.8	32.7	30.0	18.5	56.3	70.1	0.4	1.0
ABF	Unimicron Tech	3037 TT	48,809	968.0	Outperform	1,000.0	14.31	27.77	226.6	94.1	67.7	34.9	12.2	9.5	20.4	31.8	0.2	0.7
PCB	Gold Circuit	2368 TT	22,233	1,355.0	Outperform	1,550.0	35.31	55.21	81.2	56.4	38.4	24.5	15.7	11.1	47.1	53.6	0.7	1.4
Power	Delta	2308 TT	177,231	2,150.0	Outperform	2,940.0	44.71	73.51	93.2	64.4	48.1	29.2	15.3	11.2	36.7	44.3	0.5	1.0
	Lite-On Tech	2301 TT	15,472	210.5	Outperform	230.0	8.55	12.37	28.7	44.6	24.6	17.0	4.9	4.7	20.6	28.2	2.4	3.1
	Chicony Power	6412 TT	1,165	91.6	Not rated	N.A.	5.41	6.63	4.0	22.6	16.9	13.8	2.2	2.5	12.7	18.4	4.0	4.8
	AcBel Polytech*	6282 TT	1,578	58.1	Not rated	N.A.	N.M.	N.M.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.M.	N.M.	1.4	N.A.
Foundry	TSMC	2330 TT	1,983,340	2,410.0	Outperform	2,600.0	102.74	131.02	55.1	27.5	23.5	18.4	8.4	6.2	41.4	38.8	0.9	1.0
Design service	Alchip Tech	3661 TT	11,333	4,380.0	Outperform	6,185.0	128.95	171.78	86.4	33.2	34.0	25.5	7.3	6.2	23.5	26.4	0.8	1.5
	Global Unichip	3443 TT	20,669	4,860.0	Outperform	5,245.0	48.02	116.55	70.7	142.7	101.2	41.7	39.1	23.5	43.5	70.4	0.4	0.7
Networking	Luxnet	4979 TT	2,562	567.0	Outperform	250.0	9.94	N.A.	84.2	N.A.	57.0	N.A.	15.0	N.A.	28.8	N.A.	0.4	0.7
	Accton Tech	2345 TT	43,360	2,435.0	Outperform	1,850.0	61.74	N.A.	31.0	N.A.	39.4	N.A.	19.4	N.A.	55.6	N.A.	0.6	1.4

** Bloomberg consensus*
Source: Bloomberg; KGI Research estimates

Industrial automation

Upcycle to extend into 2H26F

Key message

1. Taiwan machine tool firms have seen broad-based order recovery since 2Q26, extending the demand upswing beyond semiconductor applications to machine tools for mold and component manufacturing across both domestic and overseas markets. We believe growing export momentum across major Asian economies implies sustained recovery of manufacturing activities in 2H26.
2. In light of the AI-driven investment boom, we have seen capex across major manufacturing industries consistently revised up. We expect an accelerating capex cycle to drive strong demand for automation components and underpin the current upcycle.
3. On increasing order flow amid the upcycle, we see upside for Airtac International (1590 TT, NT$1,380, OP) and Hiwin Technologies' (2049 TT, NT$335, OP) 2Q26 sales. In 2H26, we expect high utilization and price hikes to drive above-seasonal sales and propel rapid margin expansion.

Event

We expect the current industrial automation upcycle to extend well into 2H26, underpinned by: (1) broad-based recovery of machine tool demand; (2) growing order backlogs; and (3) further capex increases. We expect more favorable supply/demand dynamics for automation components to drive consensus earnings upside.

Impact

Increasing order backlogs. Taiwan machine tool firms have seen broad-based order recovery since 2Q26, extending the demand upswing beyond semiconductor applications to machine tools for mold and component manufacturing across both domestic and overseas markets. With new orders now resuming YoY growth, order backlogs have increased by at least 10-30% compared to end-2025 levels. We believe the enhanced demand visibility bodes well for the order outlook of automation component vendors into 2H26 and points to potential earnings upside. According to the Japan Machine Tool Builders' Association, foreign orders have gathered steam in recent months, accelerating to 46% YoY growth in April, versus a 35% YoY increase in 1Q26. We believe growing export momentum across major Asian economies also implies sustained recovery of manufacturing activities in 2H26.

Accelerating capex upcycle. In addition to export recovery, we expect an accelerating capex upcycle to underpin the automation upturn. In light of the AI-driven investment boom, we have seen capex across major manufacturing industries consistently revised up, reflecting growing confidence in a long-term demand uptrend. We believe rising investment in advanced packaging and precision manufacturing amid the AI era and growing smart production lines will drive stronger demand for automation components and extend the upcycle well into 2H26 or early 2027. Our analysis of capex in key industries shows that PCB manufacturers have made the largest upward revisions to capex since end-2025, up by a respective 41% and 39% in 2026-27F, followed by EMS and ODMs at 23% and 24%, semiconductor makers at 6% and 11%, and electric vehicle firms at 16% and 10%.

Earnings upcycle underway. On increasing order flow and a rising order backlog amid the upcycle, we see upside to consensus and our 2Q26 sales forecasts for Airtac International (1590 TT, NT$1,380, OP) and Hiwin Technologies (2049 TT, NT$335, OP), which we project will accelerate to 27% and 5% YoY growth, versus 24% and 9% growth in 1Q26. In 2H26, we expect high capacity utilization and price hikes to drive above-seasonal sales and propel rapid margin expansion. We forecast Airtac and Hiwin's operating margins will rise a respective 3.1ppts YoY and 5.5ppts YoY in 2026, driving earnings growth of 32% and 103% YoY. We believe consensus is skewed to the upside and expect an imminent upward revision to propel valuations and share prices higher.

Stocks for Action

We believe accelerating capex growth will extend the automation upcycle well into 2H26 and expect more favorable supply/demand dynamics to drive margin upside and consensus earnings upward revisions. We maintain our positive view on the automation sector and Outperform ratings on Airtac International and Hiwin Technologies, with respective target prices of NT$1,845 and NT$478.

Risks

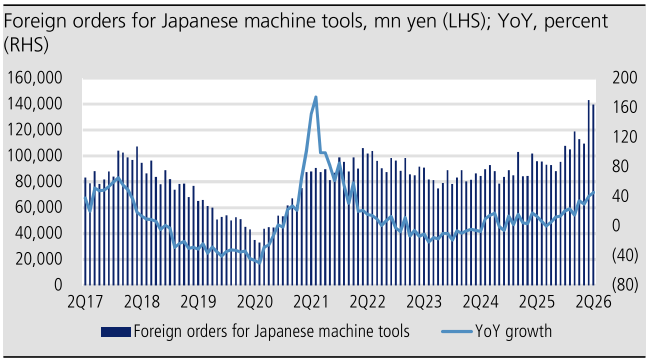
Downside risks include a slower capex recovery and NT-dollar appreciation.

Figure 1: Comparison – Valuations

Company	Ticker	Rating	Share price	Target price	Upside	EPS (NT$)			PE (x)			PB (x)		
			(NT$)	(NT$)	(%)	2026F	2027F	2028F	2026F	2027F	2028F	2026F	2027F	2028F
Airtac	1590 TT	Outperform	1,380	1,845	33.7	55.42	61.49	68.29	24.9	22.4	20.2	4.9	4.5	4.2
Hiwin	2049 TT	Outperform	335	478	42.7	8.75	12.53	14.81	38.3	26.7	22.6	2.7	2.9	2.7

Source: Bloomberg, KGI Research estimates

Figure 2: Machine tool orders seeing solid recovery

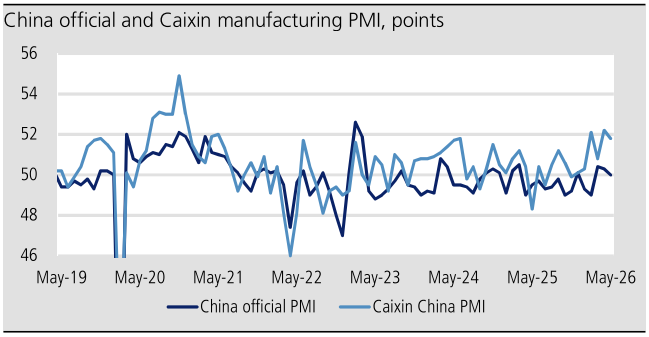


Source: JMTBA; KGI Research

Figure 3: Rising exports signal manufacturing recovery

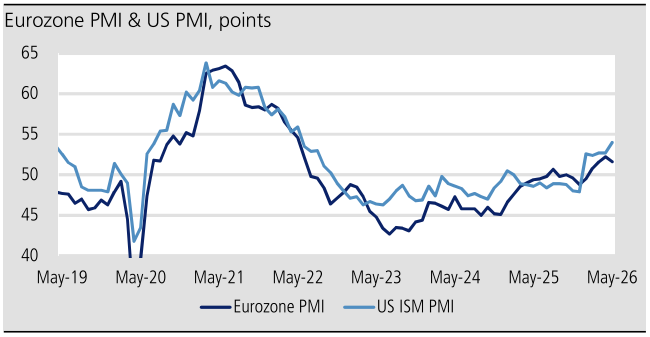
Source: Gartner; KGI Research

Figure 4: China PMI above 50-point threshold



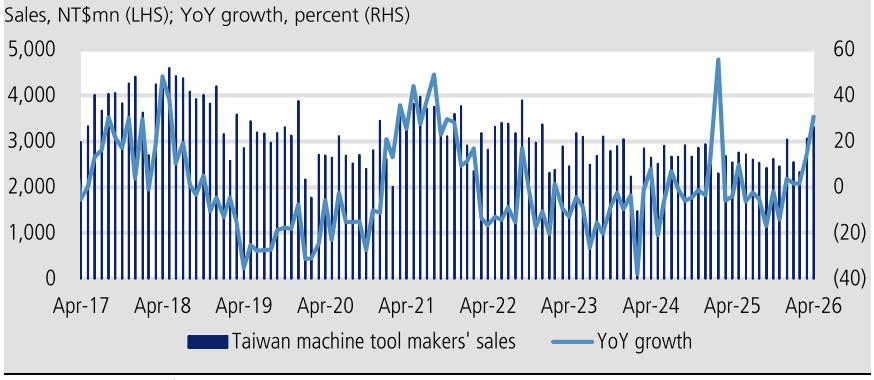
Source: Bloomberg; KGI Research

Figure 5: US PMI accelerating



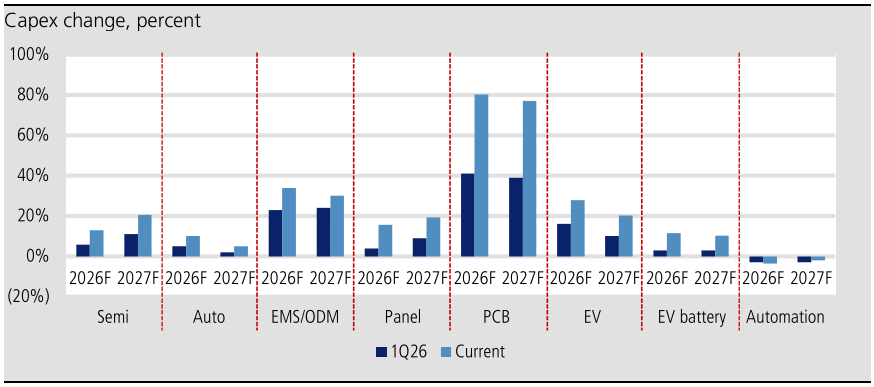
Source: Bloomberg; KGI Research

Figure 6: Taiwan machine tool makers' sales are strengthening



Source: TEJ, KGI Research

Figure 7: Industry capex has been revised up



Source: Bloomberg, KGI Research

Figure 8: Capex growth accelerating

Capex YoY (%)	2023	2024	2025	2026F	2027F
Semiconductor	(2.1)	5.7	11.9	16.5	11.0
Automotive	21.6	4.5	(12.4)	12.5	(0.6)
EV	17.6	1.8	1.8	23.3	(5.4)
EV battery	16.1	(2.5)	17.5	(21.0)	(7.3)
EMS	4.0	19.8	41.8	15.3	0.4
Panel	4.3	(16.4)	(13.7)	43.3	6.0
PCB	(27.0)	(16.3)	32.5	71.0	(8.1)
Automation	21.6	4.5	(12.4)	12.5	(0.6)

Source: Bloomberg, KGI Research

Financial sector

Robust capital markets & improving loan growth to support 2026F earnings & dividends

Key message

1. Following IFRS 17 transition, life insurance earnings have shifted to being driven primarily by contractual service margin (CSM) release and recurring post-hedging positive spreads, with FVOCI capital gains supporting dividend payouts in 2026F.
2. Banks' NIM, fee income, and asset quality are expected to remain resilient in 2H26F
3. We maintain a positive view on financial stocks in 2H26F, and like insurance-centric FHCs such as Fubon FHC (2881 TT, NT$138, OP), Cathay FHC (2882 TT, NT$115.5, OP), and TS FHC (2887 TT, NT$32.45, OP) for adjusted earnings and dividend capacity. Among bank-centric FHCs, we favor CTBC FHC (2891 TT, NT$71.9, OP) and SinoPac FHC (2890 TT, NT$39.8, OP) for earnings growth and dividend potential, as well as SCSB (5876 TT, NT$42.5, OP) and Chailease Holding (5871 TT, NT$114, OP) for the low base effect.

Event

We expect 2026 earnings and dividends to be supported by buoyant capital markets and accelerating loan growth in 2H26.

Analysis

Post-IFRS 17 transition, life insurance earnings are now driven by CSM release & recurring post-hedging positive spreads, with FVOCI capital gains supporting dividend payouts in 2026F. From January 1, 2026, the transition to IFRS 17 shifts life insurers' earnings structure toward contractual service margin (CSM) release and recurring post-hedging positive spreads as the key profitability drivers. In addition, the FSC's new FX reserve mechanism, introduced this year, helps reduce medium- to long-term hedging costs and mitigates the impact of FX volatility on earnings. Among major players, Cathay Life (CL) (2882 TT, NT$115.5, OP) and Fubon Life (FL) (2881 TT, NT$138, OP) reported stronger CSM release and higher CSM balances in 1Q26 relative to peers, while Shin Kong Life (SKL) (2887T, NT$32.45, OP) delivered the highest post-hedging positive spread at 117 bps. Overall, insurance-focused FHCs recorded 75% YoY growth in net profit in 1Q26. On an adjusted basis, including FVOCI equity capital gains, earnings growth would reach 102%, with TS FHC and Fubon FHC posting particularly strong growth of 582% and 62%, respectively. Fubon FHC, Cathay FHC, and CTBC FHC (2891 TT, NT$71.9, OP) have all indicated that 2026 dividend payouts will be based on adjusted earnings (net income plus FVOCI equity capital gains). As a result, we expect 2026 cash dividends to significantly exceed 2025 levels, subject to future ICS-based regulatory requirements set by the FSC. In addition, US 10-year and 30-year Treasury yields have risen to 4.4–4.6% and 4.9–5.1%, respectively, since March, weighing on bond valuations within life insurers' FVTPL portfolios. However, the concurrent increase in long-end Taiwan bond yields has reduced the fair value of NT dollar-denominated policy liabilities, partially offsetting the impact of rising yields on insurers' net worth (Figures 3 & 12). That said, continued quarterly monitoring of other comprehensive income losses relative to end-2025 levels remains important. If insurers are still required to appropriate special reserves at year-end, this could constrain distributable earnings in 2026F.

Banks' NIM, fee income & asset quality resilient in 2H26F. In 1Q26, sector NIM expanded by 3bps QoQ, with Mega Bank (2886 TT, NT$45.5, N), First Bank (2892 TT, NT$32.6, N), and CTBC Bank outperforming peers, driven primarily by lower funding costs and a shift toward foreign currency lending (Figure 15). While Fed rate cuts have been delayed this year, most banks continue to expect modest NIM expansion in 2026F and remain positive on foreign currency loan growth. We expect banks with stronger overseas exposure (CTBC FHC, Mega FHC, First FHC, and E.Sun FHC (2884 TT, NT$35.4, N)) to benefit from supply chain relocation, which should support foreign currency lending and export-related working capital loans. In addition, participation in government-backed financing programs for US investments is likely to provide incremental support. Overall, we forecast net interest income to grow at mid-single-digit to low double-digit rates in 2026F. Taiwan's central bank maintained the rediscount rate at 2% in 2Q26. Future rate moves in 2H26F will largely depend on oil prices and inflation expectations. A 12.5bps rate hike would support NIM expansion, although the magnitude will depend on the pass-through to NT dollar funding costs, including time deposits, demand deposits, and NCD rates, relative to loan yield repricing. Banks with higher exposure to NT dollar lending and securities settlement balances (e.g. Cathay United Bank (CUB) and Yuanta Bank (2885 TT,

NT$68, N)) may benefit more. CTBC Bank estimates that a 25bps rate hike would lift NIM by 1.7bps, similar to CUB (up 1.7bps), followed by Bank SinoPac (up 1.27bps) (2890 TT, NT$39.8, OP), Taipei Fubon Bank (up 1.0bp), and Taishin Bank (up 0.4bps). Asset quality is stable, with sector NPL ratio at 0.15% as of April. However, we continue to monitor risks from potential tariff and inflation pressures that could weaken SME credit quality, as well as execution risks in certain offshore wind projects that may lead to higher credit costs. If the central bank raises rates by 12.5bps, corporate borrowing costs in Taiwan are likely to increase gradually. We expect spreads in the leasing sector to narrow again, while higher margin lending and general-purpose loan rates in the securities sector may indirectly raise investor funding costs.

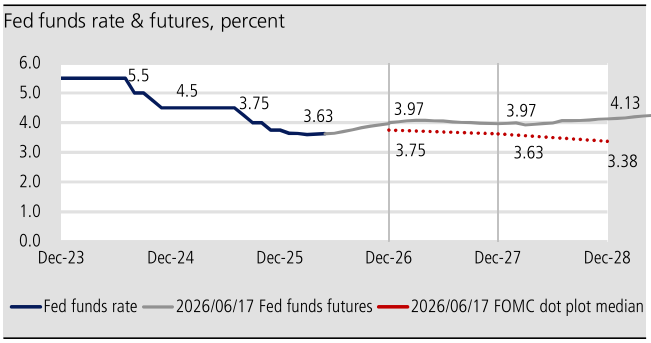
Stocks for Action

We maintain a positive view on financial stocks in 2H26F and recommend positioning after the 2Q26 ex-dividend season. In addition to continued strong momentum in Taiwan's equity market supporting securities-related earnings in 2H26F, we favor insurance-centric FHCs, including Fubon FHC, Cathay FHC, and TS FHC, for adjusted earnings and dividend capacity in 2026F, driven by the ongoing recovery in both realized and unrealized equity gains. We also like CTBC FHC, supported by NIM expansion and an attractive cash dividend yield, and SinoPac FHC, which is expected to benefit from improving NIM, securities operations, and M&A contributions that should drive earnings and dividend growth this year. In addition, we see value in Chailease Holding (5871 TT, NT$114, OP) and Shanghai Commercial & Savings Bank (SCSB; 5876 TT, NT$42.5, OP), which trade at relatively attractive valuations but are positioned to deliver improving operational and earnings momentum in 2026F.

Risks

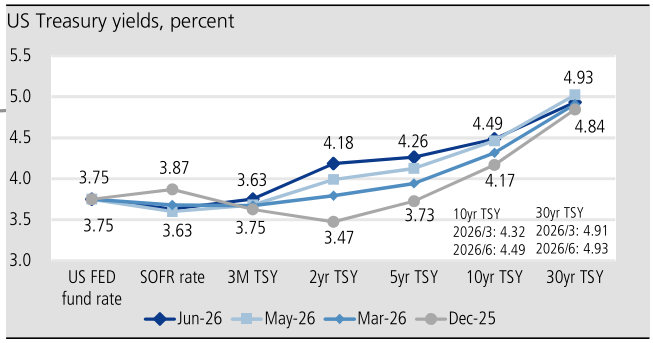
Fed rate cuts fall short of expectations or potential resumption of rate hikes; higher-than-expected bank credit costs.

Figure 1: While the US Fed maintained the policy rate at 3.5-3.75% in June, the median dot plot projection reversed from rate cuts to hikes, with a hawkish message post-meeting from Chairman Warsh; market consensus now expects 1-2 rate hikes by year-end



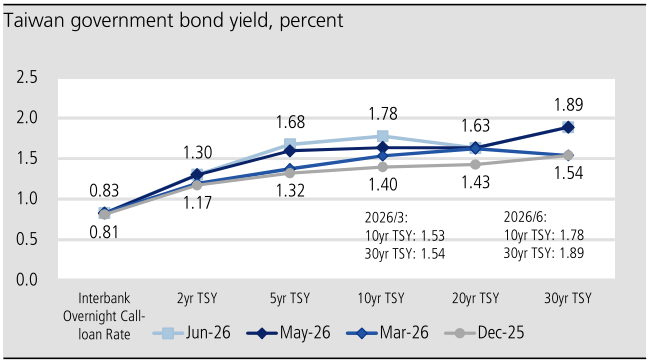
Source: Bloomberg; KGI Research

Figure 2: As inflation rises, US 10-year & 30-year yields are expected to increase to 4.4-4.6% and 4.9-5.1%, respectively, in 2Q26, boding ill for the valuations of bond investments held by financial institutions under the FVTPL category



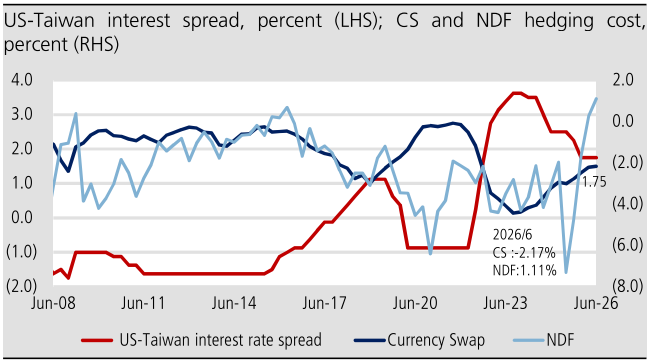
Source: Bloomberg; KGI Research

Figure 3: Geopolitical uncertainty has affected Taiwan's inflation outlook in 2Q26F, prompting a more hawkish central bank stance; at the same time, tighter interbank liquidity has pushed up Taiwan's 30-year government bond yield to 1.89% in June, reducing the fair value of NT dollar-denominated insurance liabilities



Source: Bloomberg; KGI Research

Figure 4: As inflation rises & expectations for US rate cuts are pushed back, CS swap points have declined to 2.0-2.2% since 2Q26; as life insurers have also reduced hedge ratios, we estimate banks' FX swap income will decline 20-30% in 2026



Source: Bloomberg; KGI Research

Figure 5: In 1Q26, Fubon FHC & Cathay FHC saw net profit decline by respective 18% & 1% YoY; earnings were driven by CSM & recurring income; but inclusive of capital gains from equities under FVOCI, net profits rose significantly by 62% & 52% YoY; most insurance-centric FHCs, along with CTBC FHC, said dividend payouts for 2026 will likely be based on adjusted earnings

NT$mn		2025			1Q26				Apr-26	May-26			Jan-May 26		
		Earnings	YoY (%)	EPS	Earnings	YoY (%)	QoQ (%)	EPS	Earnings	Earnings	YoY (%)	MoM (%)	Earnings	YoY (%)	EPS
2881 TT	Fubon FHC	120,944	(19.8)	8.37	33,551	(18.3)	11.7	2.37	38,820	15,770	N.A.	(59.4)	87,850	122.5	6.27
	FVOCI equity captial gain				32,794				16,590	21,960		32.4	71,330		
	Fubon FHC adjusted profit				**66,345**	**61.9**	**120.9**	**4.69**	**55,400**	**37,730**	**N.A.**	**(31.9)**	**159,180**	**303.1**	**11.36**
2882 TT	Cathay FHC	107,142	(2.8)	7.06	31,594	(1.3)	(2.8)	2.15	14,270	14,000	167.2	(1.9)	59,930	55.1	4.07
	FVOCI equity captial gain				16,966					31,000			65,070		
	Cathay FHC adjusted profit				**48,560**	**51.7**		**3.3**		**45,000**	**758.8**		**125,000**	**223**	**8.49**
2883 TT	KGI FHC*	30,058	(10.4)	1.74	11,690	34.3	6.2	0.69	5,898	4,743	N.A.	(19.6)	22,330	1099.9	1.32
	FVOCI equity captial gain				14,515				5,355	10,129		89.2	29,999		
	KGI FHC adjusted profit				**26,205**	**199.2**	**138.1**	**1.55**	**11,252**	**14,872**	**N.A.**	**32.2**	**52,329**	**2,711.9**	**3.09**
2887 TT	TS FHC	37,327	86.0	1.91	21,041	344.6	43.0	0.82	7,790	6,030	976.8	(22.6)	34,880	431.7	1.36
	FVOCI equity captial gain				14,086										
	TS FHC adjusted profit				**35,127**	**582.2**		**1.37**							
2891 TT	CTBC FHC	80,619	11.9	4.08	23,104	16.0	16.3	1.18	5,395	6,291	197.4	16.6	34,790	41.0	1.78
	FVOCI equity captial gain				5,522										
	CTBC FHC adjusted profit				**28,625**	**51.7**		**1.46**							
Life insurance-centered FHCs		295,470	(6.1)		97,875	13.1	10.9		66,778	40,543	N.A.	(39.3)	204,990	136.8	
Life insurance-centered FHCs adjusted profit					**176,236**	**102.4**									
Life insurance-centered FHCs + CTBC adjusted profit					**204,862**	**93.4**									

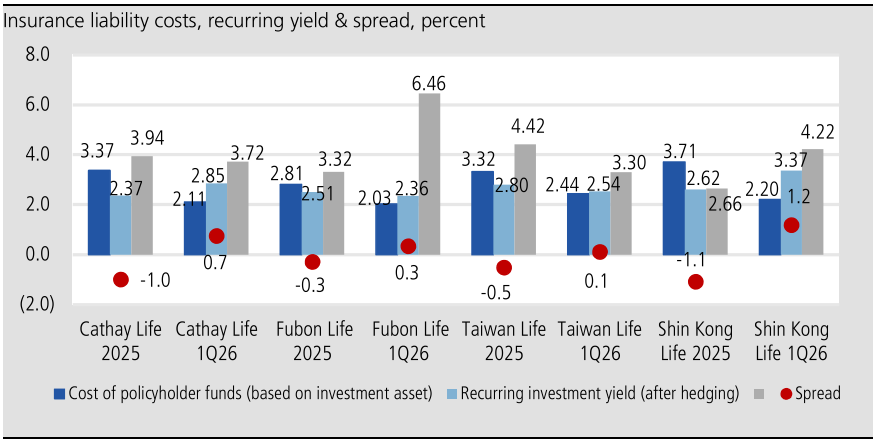
Source: TEJ; company data; KGI Research

Figure 6: Post-IFRS 17, life insurers' earnings are now recognized through amortization of CSM; new business CSM boosts cumulative CSM of life insurers; CL & FL both boast higher amounts of CSM amortization & CSM balance

FHC Ticker	Company	Opening CSM Balance (NT$mn)	2026F CSM Amortization (NT$mn)	Annual Amortization	Amortization Growth	1Q26 CSM Amortization(NT$mn)	1Q26 CSM Amortization Achieved(%)	1Q26 CSM	Target CSM(NT$mn)	1Q26 CSM Target Achieved(%)	1Q26 After-tax CSM (NT$mn)	1Q26 Net worth (NT$mn)	1Q26 Adjusted Net worth (NT$mn)	1Q26 BVPS	Stock price/ 1Q26 BVPS
2882 TT	Cathay Life	511,900	34,000	6%	10%	8,632	25.4	27,100	75,000	36.1	425,900	718,785	1,144,685	78.03	1.18
2881 TT	Fubon Life	403,200	25,000-30,000	6%	10-15%	7,465	24.9	18,300	50,000	36.6	427,503	923,122	1,350,625	96.42	1.17
2891 TT	Taiwan Life	164,379	11,000	7%	more than 10%	3,233	29.4	3,563	16,000	22.3	172,073	534,306	706,379	35.90	1.96
2887 TT	Shin Kong Life	260,700	18,000	7%	10%	4,710	26.2	19,447	70,000	27.8	224,213	537,652	761,866	30.61	0.92

Source: Company data; KGI Research

Figure 7: Post-IFRS 17, the cost of insurance liabilities for life insurers has declined significantly, as it is now measured based on prevailing market interest rates; from an income statement perspective, the spread between hedged recurring investment income & liability costs has turned positive; in 1Q26, SKL reported a positive spread of 117bps, outperforming most peers



Source: Company data; KGI Research

Figure 8: In 1Q26, FL posted a higher investment yield, inclusive of FVOCI capital gains, than peers, reflecting more active realization of equity gains; in contrast, SKL reported higher pre-hedging recurring yield & investment returns vs. peers

Life insurers' investment position	Cathay					Fubon					Taiwan Life					Shin Kong				
Percent	2025	YoY	1Q25	1Q26	YoY	2025	YoY	1Q25	1Q26	YoY	2025	YoY	1Q25	1Q26	YoY	2025	YoY	1Q25	1Q26	YoY
Pre-hedging recurring yield (a)	3.46	0.03	3.40	3.41	0.01	3.32	(0.19)	3.35	3.13	(0.22)	3.60	(0.13)	3.55	3.39	(0.16)	3.37	(0.05)	3.10	4.13	1.03
Hedging cost (b)	(1.57)	(0.01)	(0.80)	(1.26)	(0.46)	(2.76)	(1.35)	(0.87)	(1.26)	(0.39)	(1.46)	(0.55)	(0.43)	(0.85)	(0.42)	(2.17)	(0.70)	(1.54)	(1.25)	0.29
After-hedging recurring yield (c)	2.37	0.03	2.84	2.85	0.01	2.51	0.15	2.59	2.36	(0.23)	2.74	(0.45)	3.29	2.54	(0.75)	1.90	(0.49)	2.01	3.37	1.36
Cost of liability (Investment portfolio base) (d)	3.37	(0.01)	3.41	2.11	(1.30)	2.81	(0.05)	2.72	2.03	(0.69)	3.00	(0.07)	3.11	2.44	(0.67)	3.48	(0.08)	3.28	2.20	(1.08)
Recurring yield (After-hedging) less cost of liability (Investment portfolio base) (c)-(d)	(1.00)	0.04	(0.57)	0.74	1.31	-0.30	0.20	(0.13)	0.33	0.46	(0.26)	(0.37)	0.19	0.10	(0.09)	(1.58)	(0.41)	(1.27)	1.17	2.44
Capital gain(e)	1.57	0.17	1.17	0.87	(0.30)	2.39	(0.73)	2.82	4.10	1.28	1.68	(3.68)	0.98	0.76	(0.22)	0.76	(0.55)	0.37	0.85	0.48
total investment yield (c)+(e) & (f)+(g)	3.94	0.20	4.01	3.72	(0.29)	4.90	(0.58)	5.41	6.46	1.05	4.42	(4.13)	4.27	3.30	(0.97)	2.66	(1.04)	2.38	4.22	1.84
investment yield-FVOCI equity disposal G/L(f)				0.87					2.83					0.22					0.54	
investment yield-P&L based(g)				2.85					3.63					3.08					3.68	

Source: Company data; KGI Research

Figure 9: As forex losses from AC debt instruments are now amortized through the straight line method, life insurers have been reducing CS & NDF hedge ratios this year in a bid to lower overall hedging costs; in 1Q26, hedging costs for FL & SKL remained significantly higher than peers; we estimate life insurers' hedging costs will be 1.0-1.5% in 2026

	Cathay				Fubon				Taiwan Life				Shin Kong			
Percent	2025	YoY	1Q26	QoQ	2025	QoQ	1Q26	QoQ	2025	YoY	1Q26	QoQ	2025	YoY	1Q26	QoQ
FX policy/Currency Swap/NDF	59.3	(16.6)	52.4	(6.9)	49.7	(13.0)	40.9	(8.7)	72.7	2.7	64.7	(8.0)	64.9	(9.3)	68.2	3.3
FX policy	31.0	0.0	26.0	(5.0)	27.2	1.3	22.4	(4.8)	42.0	1.0	37.0	(5.0)	30.2	1.0	30.1	(0.1)
Currency Swap/NDF	28.3	(16.6)	26.4	(1.9)	22.4	(14.3)	18.5	(3.9)	30.7	1.7	27.7	(3.0)	34.7	(10.3)	38.1	3.4
Currency Swap					22.1	(11.7)	18.5	(3.6)								
NDF					0.3	(2.6)	0.0	(0.3)								
AFS/mutual funds	6.2	(0.7)	2.2	(4.0)	13.9	(2.1)	9.7	(4.2)	9.3	(1.7)	5.7	(3.6)	1.1	(0.5)	1.4	0.3
Proxy Open/USD and other currencies	34.5	17.3	45.1	10.6	36.4	15.1	49.4	13.0	17.4	(2.6)	29.6	12.2	34.0	9.8	30.4	(3.6)
Total	100		100		100		100		100		100		100		100	
Hedging cost	(1.57)	(0.01)	(1.26)	0.31	(2.76)	(1.35)	(1.26)	1.50	(1.46)	(0.55)	(1.24)	0.12	(2.17)	(0.70)	(1.25)	0.92

Source: Company data; KGI Research

Figure 10: In 2026, NT-dollar depreciation & the new forex valuation reserve system have significantly boosted insurers' forex reserves; at present, these reserves are a buffer against NT-dollar appreciation under amortization of AC & offer substantial protection under stress scenarios; based on Insurance Bureau's extreme assumption of full repatriation of overseas investments, insurers' forex reserves are sufficient to withstand NT-dollar appreciation of up to 10.6%

Ticker	Company	Proxy & Open				FX reserves (NT$mn)				
		2Q25	3Q25	4Q25	1Q26	2Q25	3Q25	4Q25	1Q26	May-26
2882 TT	Cathay Life	21.4	21.4	34.5	45.1	56,400	55,802	113,807	123,946	128,690
2881 TT	Fubon Life	18.1	32.9	36.5	49.4	51,581	77,005	142,125	147,389	152,330
2891 TT	Taiwan Life	16.0	19.0	17.4	17.4	3,423	17,609	27,933	29,978	31,870
2887 TT	Shin Kong Life	33.2	34.4	34.0	30.4	61,734	74,083	99,600	104,117	107,560
2867 TT	Mercuries Life	N/A	39.2		43.1	17,450	24,148	36,957	35,958	
2885 TT	Yuanta Life	N/A	N/A			3,322	3,608	5,775	11,922	
5874 TT	Nan Shan Life	N/A	N/A			25,119	25,564	68,045	73,855	78,850

Source: Company data; KGI Research ; Commercial Times

Figure 11: Based on Taiex level since 2Q26, we estimate Cathay FHC & Fubon FHC have more than NT$200bn in unrealized gains, while TS FHC & CTBC FHC have over NT$100bn; Cathay FHC said unrealized equity gains exceeded NT$270bn in May, while Fubon FHC & CTBC FHC reported NT$150bn & NT$100bn as of end-April

(NT$mn)	4Q25 (IFRS4)	4Q25 (IFRS17)	2026/1/1(Opening balance)	1Q26	Change of 1Q26	Interest rate increased by 1BP	Stock price increased by 1%	2Q26F unrealized equty gain on FVOCI financial asset*	2Q26F unrealized equty gain on FVOCI financial asset/FHC common shares (NT$per share)
Fubon Life (2881 TT)									
Net Worth	630,402	589,625	530,764	**630,192**	(210)				
Other equity interest	(35,730)	(122,465)	(183,209)	**(130,886)**	(95,156)				
Unrealized gains/losses on FVOCI equities and bonds	(25,500)	(31,519)	(100,549)	**(119,137)**	(93,638)	(1,309)	8,636	**273,329**	**19.51**
Insurance finance income or expenses		(82,108)	(73,876)	**(1,084)**	81,024	4,061			
Cathay Life (2882 TT)									
Net Worth	749,029	688,724	504,506	**625,469**	(123,560)				
Other equity interest	(86,887)	(202,486)	(427,275)	**(340,259)**	(253,372)				
Unrealized gains/losses on FVOCI equities and bonds	(81,330)	1,235	(223,472)	**(245,535)**	(164,205)	(2,674)	6,745	**338,129**	**23.05**
Insurance finance income or expenses		(198,290)	(198,372)	**(89,834)**	108,456	5,397			
Taiwan Life (2891 TT)									
Net Worth	177,428	176,080	163,821	**202,537**	25,109				
Other equity interest	(13,110)	(18,604)	(53,767)	**(25,708)**	(12,598)				
Unrealized gains/losses on FVOCI equities and bonds	(13,156)	20,295	(22,640)	**(20,214)**	(7,058)	(517)	2,787	**134,154**	**6.82**
Insurance finance income or expenses		(38,926)	(31,152)	**(5,735)**	33,191	1,762			
Shin Kong Life (2887 TT)									
Net Worth	178,028	231,313	231,615	**281,786**	103,757				
Other equity interest	(10,095)	(7,321)	(8,384)	**37,521**	47,616				
Unrealized gains/losses on FVOCI equities and bonds		(5)	(1,067)	**19,583**	19,583	(1,281)	4,454	**199,422**	**8.02**
Insurance finance income or expenses		(7,156)	(7,156)	**17,755**	24,911	2,825			

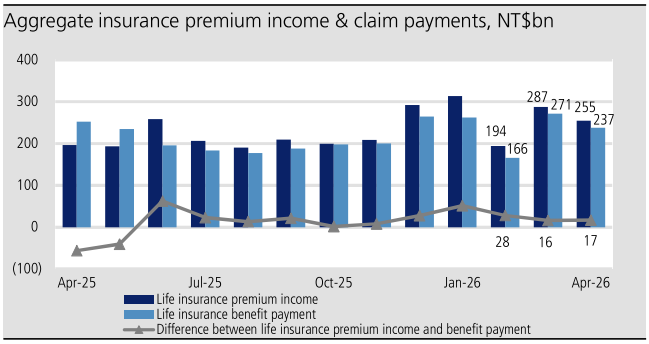
Note: We estimate 2Q26F unrealized gains on Taiwan-listed equity assets based on unchanged equity positions from 1Q26 and stock price on June 18, 2026
Source: Company data; KGI Research

Figure 12: Post-IFRS17, insurance contract liabilities are measured based on current market interest rates; as a result, an uptick in the yield curve translates to a decline in the fair value of insurance contract liabilities

(NT$mn)		Financial Asset		Insurance Contract Liability		Net worth	
Risk factor	Variation(+/-)	Effect on Equity before Tax	Effect on FHC's Equity(%)	Effect on Equity before Tax	Effect on FHC's Equity(%)	Effect on Equity before Tax	Effect on FHC's Equity(%)
Fubon Life (2881 TT)							
Equity risk	Increase 1% in equity price	8,636	0.85	(552)	-0.05	8,084	0.79
Interest rate risk	Upward parallel shift by 1bp	(1,309)	-0.13	4,061	0.40	2,752	0.27
Cathay Life (2882 TT)							
Equity risk	Increase 1% in equity price	6,745	0.83			6,745	0.83
Interest rate risk	Upward parallel shift by 1bp	(2,776)	-0.34	5,397	0.67	2,610	0.32
Taiwan Life (2891 TT)							
Equity risk	Increase 1% in equity price	2,787	0.49			6,745	0.49
Interest rate risk	Upward parallel shift by 1bp	(517)	-0.09	5,397	0.31	2,610	0.22
Shin Kong Life (2887 TT)							
Equity risk	Increase 1% in equity price	4,955	0.83	(508)	-0.08	4,447	0.74
Interest rate risk	Upward parallel shift by 1bp	(1,341)	-0.22	2,825	0.47	1,484	0.25

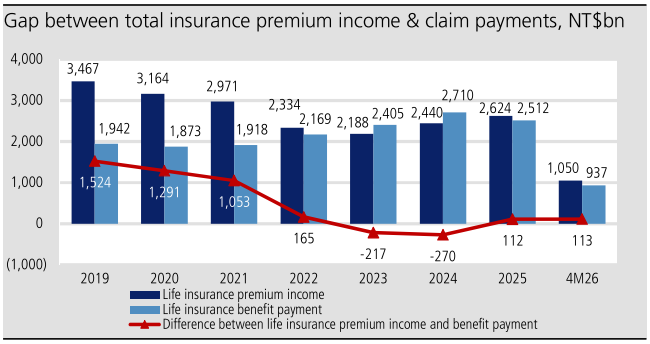
Source: Company data; KGI Research

Figure 13: In January-April, life insurance premium income was robust, suggesting increased demand for US dollar-denominated participating products, dividend-paying policies, investment-linked products & traditional protection insurance products



Source: Insurance Bureau; KGI Research

Figure 14: January-April premium income exceeded claim payments by NT$113bn; although policy surrenders & benefit claims remained at elevated levels, life insurers' overall cash flow is sufficient to meet obligations



Source: Insurance Bureau; KGI Research

Figure 15: In 1Q26, average bank NIM expanded by 4bps QoQ, reflecting lower funding costs and an improved loan-to-deposit ratio; although expectations for US rate cuts have been pushed back this year, most banks maintain previous expectations for a modest improvement in 2026F NIM

(%)		4Q23	2Q24	2Q24 - 4Q23	4Q25	1Q26	1Q26 QoQ	1Q26 YoY	2026F NIM guidance
2891 TT	CTBC	1.47	1.37	(0.10)	1.64	1.68	0.04	0.19	The company maintains its 2026F adjusted net interest margin (NIM) at 1.7–1.73%
2882 TT	Cathay	1.40	1.55	0.15	1.56	1.59	0.03	0.04	The company expects its 2026F NIM to exceed last year's level of 1.55%
5876 TT	SCSB	1.37	1.38	0.01	1.30	1.23	(0.07)	0.01	Management expects Taiwan NIM to reach up to 1.25% in 2026F
2884 TT	E.Sun	1.31	1.28	(0.03)	1.32	1.32	-	0.02	NIM is expected to rise to 1.35% by year-end
2887 TT	Taishin	1.20	1.25	0.05	1.44	1.48	0.04	0.22	The company expects Taishin Bank's 2026F NIM to increase by 4–5 bps YoY.
2881 TT	Fubon	1.17	1.15	(0.02)	1.24	1.27	0.03	0.11	The company expects 2026F NIM to increase by 5–7 bps YoY
2890 TT	Sinopac	1.18	0.94	(0.24)	1.36	1.40	0.04	0.21	The 2026F adjusted NIM (including FX swap gains) is expected to increase by 2–3 bps YoY.
2886 TT	Mega	0.95	0.97	0.02	0.87	0.95	0.08	(0.01)	NIM is targeted to stay at 1% in 2026F.
2885 TT	Yuanta	0.86	0.88	0.02	1.04	1.07	0.03	0.15	The company expects Yuanta Bank's 2026F NIM to reach 1.07%.
2892 TT	First	0.76	0.70	(0.06)	0.72	0.77	0.05	0.10	The 2026F adjusted NIM (including FX swap gains) is expected to reach 1.09%.
2880 TT	Hua Nan	0.71	0.72	0.01	0.81	0.82	0.01	0.05	The 2026F NIM is expected to gradually trend upward.
	Avg.	1.13	1.16	0.03	1.19	1.23	0.04	0.10	

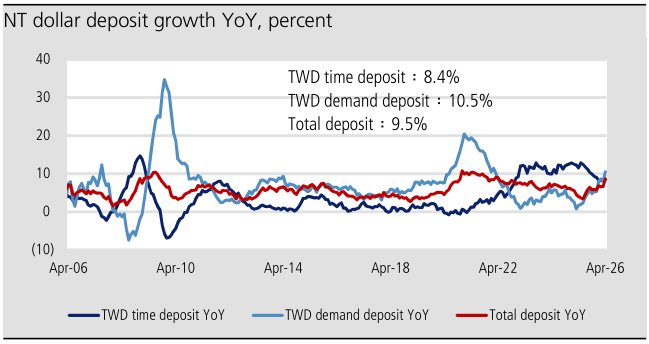
Source: Company data; KGI Research

Figure 16: Taiwan banks' asset quality is stable, with average NPL ratio holding at 0.15% in April

FHC/Bank ticker	Bank	Apr-26 NPL ratio (%)	MoM (ppts)	YTD (ppts)	Apr-26 NPL (NT$mn)	MoM	YTD	Apr-26 Coverage ratio (%)	MoM (ppts)	YTD (ppts)
2834 TT	Taiwan Business Bank	0.17	(0.01)	0.00	2,997	(48)	211	735	13	(69)
2801 TT	Chang Hua Bank	0.16	0.00	0.00	3,477	186	278	825	(40)	13
2886 TT	Mega Bank	0.18	(0.01)	(0.09)	4,463	(313)	(1,726)	908	56	288
5880 TT	Taiwan Cooperative Bank	0.15	0.00	(0.01)	4,835	(19)	(123)	803	3	88
2892 TT	First Bank	0.16	0.00	(0.01)	4,655	15	144	866	1	48
2881 TT	Taipei Fubon Bank	0.12	0.00	(0.01)	3,210	(123)	267	1,082	48	55
2888 TT	Shin Kong Bank	0.13	0.00	0.01	1,173	6	95	1,006	(0)	4
2884 TT	E.Sun Bank	0.15	0.00	0.01	4,011	36	702	793	(3)	(42)
2880 TT	Hua Nan Bank	0.14	(0.01)	(0.01)	3,564	(76)	(74)	855	16	39
5876 TT	SCSB	0.53	0.00	0.17	4,825	(9)	1,647	253	5	(125)
2891 TT	CTBC Bank	0.13	0.00	(0.03)	4,890	292	(486)	944	(24)	189
2885 TT	Yuanta Bank	0.09	0.00	0.04	1,400	21	704	1,278	(7)	(1,048)
2890 TT	Bank Sinopac	0.10	(0.01)	(0.08)	1,846	(47)	(1,037)	1,305	44	519
2887 TT	Taishin Bank	0.13	(0.01)	0.00	2,686	(4)	324	925	18	(32)
2882 TT	Cathay United Bank	0.15	(0.01)	0.02	4,490	(130)	904	1,073	42	(145)
2809 TT	King's Town Bank	0.08	0.02	0.06	186	42	135	1,862	(546)	(3,940)
	Bank industry	0.15	0.00	(0.01)	68,490	(395)	(104)	913	12	66

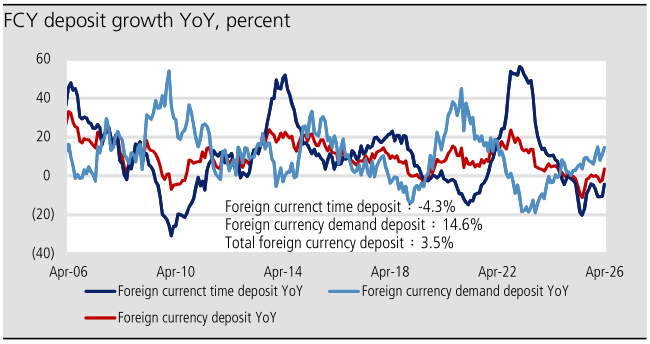
Source: Company data; KGI Research

Figure 17: In April, NT-dollar deposits in Taiwan's banking system were up 9.5% YoY, driven by a rebound in demand deposits, which grew 10.5% YoY, while term deposits continued to grow at a steady pace of 8.4% YoY



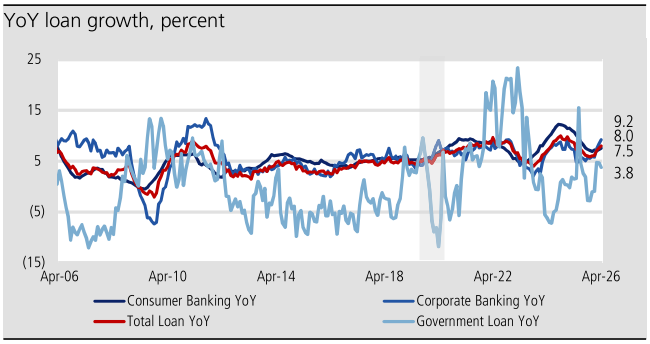
Source: Central Bank; TEJ; KGI Research

Figure 18: In April, FCY deposits rose 3.5% YoY, with demand deposits up notably by 14.6%; term deposits declined, indicating depositors are shifting toward wealth management products in the wake of US interest rate cuts



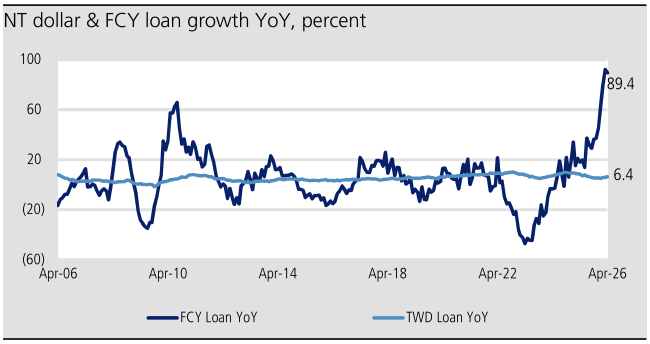
Source: Central Bank; TEJ; KGI Research

Figure 19: In April, total loans grew 8.0% YoY on corporate lending, which accelerated to 9.2% YoY growth, outpacing 7.5% YoY growth in consumer lending; government lending growth also staged a recovery



Source: TEJ; KGI Research

Figure 20: Supported by strong exports, demand for short-term financing (to replenish working capital) has spiked, leading to FCY loan growth of 89.4% YoY in April; outstanding FCY loans reached NT$1.5tn, for a higher weighting of 3.4% in total bank lending of NT$42.9tn



Source: TEJ; KGI Research

Figure 21: In 1Q26, major banks saw NII growth accelerate to 18% YoY on solid loan growth & reallocation of US-dollar funds from forex swaps to foreign currency loans

Bank Interest income, NT$mn

NT$mn FHC Ticker	Banks	2025	YoY (%)	1Q26	YoY (%)
2891 TT	CTBC Bank	94,782	21.6	26,954	23.6
2881 TT	Taipei Fubon Bank	58,498	21.5	17,048	25.2
2882 TT	Cathay Bank	68,241	12.0	18,284	12.9
2884 TT	E.Sun Bank	40,735	21.2	11,837	29.3
2887 TT	Taishin Bank	33,869	15.3	9,816	27.1
2880 TT	Hua Nan Bank	29,408	11.1	7,820	11.8
2892 TT	First Bank	32,545	11.8	9,038	22.0
2890 TT	SinoPac Bank	34,391	43.3	9,854	25.1
5880 TT	TCB	10,749	4.9	3,031	15.4
2885 TT	Yuanta Bank	19,097	22.6	5,490	29.4
2886 TT	Mega Bank	38,796	1.3	10,268	3.9
	Total	539,014	15.2	149,974	18.3

Source: Company data; KGI Research

Figure 22: Major banks' 1Q26 investment income fell 14% YoY on lower gains from bond disposals & decreased forex swap revenue vs. the same period last year

Bank Investment income, NT$mn

NT$mn FHC Ticker	Banks	2025	YoY (%)	1Q26	YoY (%)
2891 TT	CTBC Bank	22,374	(15.6)	3,617	(42.4)
2881 TT	Taipei Fubon Bank	20,526	7.2	4,696	(15.3)
2882 TT	Cathay Bank	13,680	(25.9)	3,436	14.5
2884 TT	E.Sun Bank	18,467	41.8	3,446	(31.9)
2887 TT	Taishin Bank	8,201	(7.1)	1,603	(19.9)
2880 TT	Hua Nan Bank	14,810	(15.5)	2,941	(9.1)
2892 TT	First Bank	21,131	(3.3)	3,963	(17.8)
2890 TT	SinoPac Bank	8,551	(34.1)	2,659	(1.1)
5880 TT	TCB	13,804	(17.3)	2,692	(2.2)
2885 TT	Yuanta Bank	3,665	(37.1)	1,113	25.1
2886 TT	Mega Bank	19,556	(9.5)	3,229	(13.3)
	Total	171,054	(9.1)	35,206	(14.4)

Source: Company data; KGI Research

Figure 23: In 1Q26, major banks reported fee income growth of 15% YoY, with CTBC Bank, Taipei Fubon Bank & Taishin Bank outperforming most peers

Bank fee income, NT$mn

NT$mn FHC Ticker	Banks	2025	YoY (%)	1Q26	YoY (%)
2891 TT	CTBC Bank	55,191	10.9	17,977	19.7
2881 TT	Taipei Fubon Bank	16,159	1.2	7,208	24.8
2882 TT	Cathay Bank	34,090	21.9	10,028	(1.7)
2884 TT	E.Sun Bank	26,768	9.5	7,035	13.0
2887 TT	Taishin Bank	17,095	17.3	5,703	27.3
2880 TT	Hua Nan Bank	14,199	19.7	4,557	16.0
2892 TT	First Bank	13,096	9.2	3,794	14.0
2890 TT	SinoPac Bank	10,638	15.7	4,463	6.2
5880 TT	TCB	10,749	4.9	3,031	15.4
2885 TT	Yuanta Bank	7,340	20.1	2,788	33.3
2886 TT	Mega Bank	8,884	(5.0)	2,554	15.0
	Total	214,208	11.9	69,138	15.0

Source: Company data; KGI Research

Figure 24: In 1Q26, CTBC Bank, Taipei Fubon Bank & Taishin Bank registered wealth management fee income growth of over 20% YoY, outperforming most peers

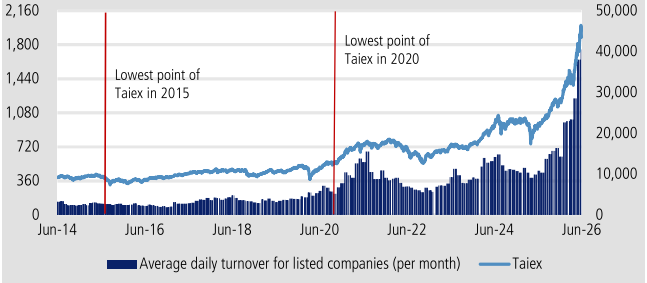
Wealth management fee income, NT$mn

NT$mn Ticker	Bank	2025	YoY (%)	1Q26	YoY (%)
2891 TT	CTBC Bank	27,665	10.4	8,054	27.6
2881 TT	Fubon Bank	18,462	12.3	7,656	29.6
2882 TT	Cathay Bank	20,483	28.1	7,549	12.1
2884 TT	E.Sun Bank	15,443	14.4	4,032	14.4
2887 TT	Taishin Bank	11,418	17.5	3,804	24.6
2880 TT	Hua Nan Bank	10,831	36.3	3,701	19.2
2892 TT	First Bank	8,851	21.5	2,678	17.1
2890 TT	SinoPac Bank	6,825	17.0	2,973	7.8
5880 TT	Taiwan Cooperative Bank	7,031	23.1	2,187	27.1
2885 TT	Yuanta Bank	6,454	19.0	2,580	38.1
2886 TT	Mega Bank	4,257	16.6	1,365	27.0
	Total	137,720	18.2	46,579	30.9

Source: Company data; KGI Research

Figure 25: Taiex hit a new high of 46,000 this year; YTD average daily turnover surged 174% YoY to NT$1.2tn; since 2Q26, average daily turnover has risen to NT$1.48tn, up 245% YoY

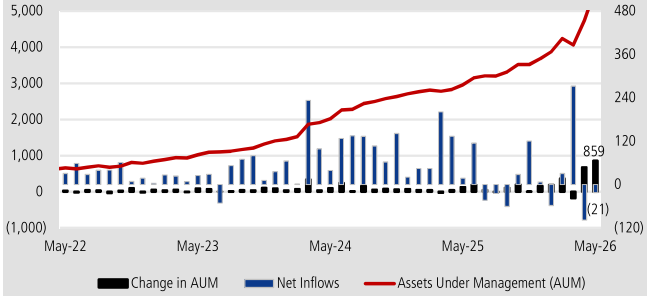
Taiex average daily turnover on a monthly basis, NT$bn (LHS); Taiex weighted index, points (RHS)



Source: TEJ; KGI Research

Figure 26: Taiwan equity ETF AUM hit record high in May on AI rally, which lifted Taiex to new highs, & continuous net inflows

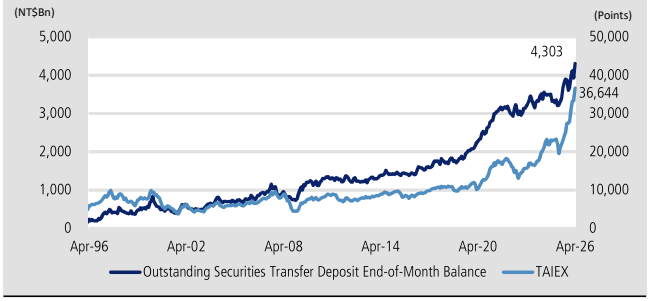
Taiex ETF asset size & change, NT$bn (LHS); net subscription amount, NT$bn (RHS)



Source: Securities and Futures Bureau; Securities Investment Trust and Consulting Association (SITCA); KGI Research

Figure 27: Since the start of 2026, the Taiex has continued to reach new highs, with securities settlement deposits rising in tandem to record levels

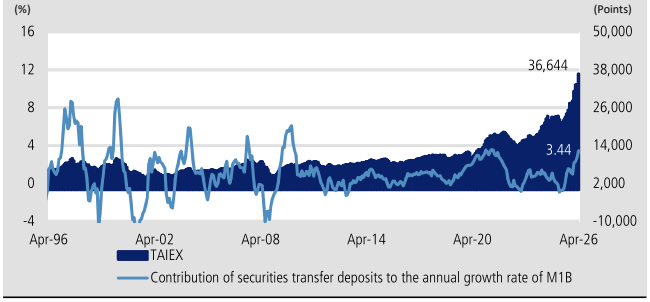
Balance of securities settlement accounts at month-end, NT$bn (LHS); Taiex (monthly average), points (RHS)



Source: Central Bank; KGI Research

Figure 28: In April, securities settlement deposits contributed 3.4% YoY growth to M1B money supply, the highest level since 2010

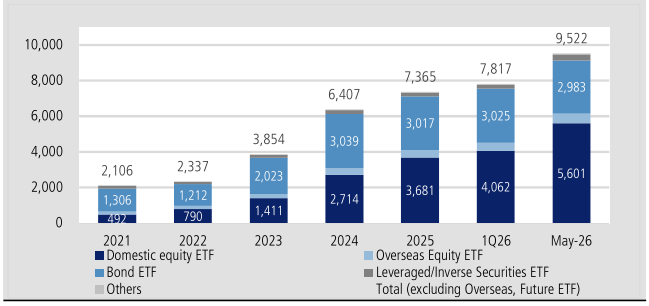
Contribution of securities settlement deposits to M1B YoY growth, NT$bn (LHS); Taiex (monthly average), points (RHS)



Source: Central Bank; KGI Research

Figure 29: In May, as the Taiex continued up, the asset size of domestic equity ETFs maintained steady growth

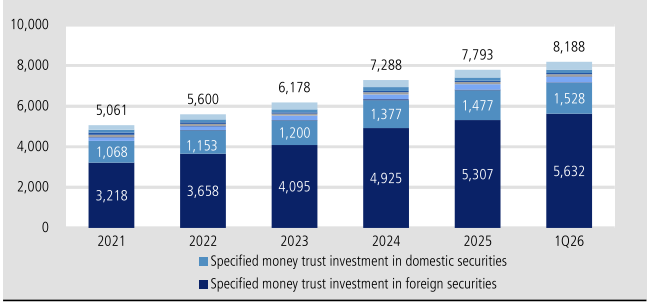
Taiex ETFs launched by local SITCs, NT$bn



Source: SITCA; KGI Research

Figure 30: Investments in domestic & foreign securities by trust fund businesses, excluding securities & investment trust funds, both registered positive growth in 1Q26

AUM of trust funds operated by banks & brokerages, NT$bn



Source: Trust Association; KGI Research

Figure 31: Yuanta Securities' brokerage market share grew to 16.4% in January-May on a rise in its share of FINI trading

Broker's Name	2025 Cumulative Brokerage Trading Value NT$bn	Market Share(%)	Rank	1Q26 Cumulative Brokerage Trading Value NT$ Billion	Market Share(%)	Rank	Jan-May 26 Cumulative Brokerage Trading Value NT$bn	Market Share(%)	Rank
Yuanta Securities	35,797	13.8	1	16,884	15.5	1	36,401	16.4	1
Kgi Securities	28,926	11.2	2	11,866	10.9	2	24,913	11.2	2
Fubon Securities	18,131	7.0	3	7,773	7.2	3	16,054	7.2	3
Goldman Sachs (Asia)	11,741	4.5	8	5,878	5.4	4	11,299	5.1	4
SinoPac Securities	12,733	4.9	6	5,455	5.0	5	11,230	5.1	5
Cathay Securities	11,457	4.4	9	4,944	4.5	7	10,241	4.6	6
Morgan Stanley Taiwan	8,980	3.5	12	4,101	3.8	10	9,198	4.1	7
Ubs A.G.	12,244	4.7	7	4,440	4.1	9	8,611	3.9	8
J. P. Morgan Securities (Taiwan)	9,854	3.8	10	3,879	3.6	11	8,264	3.7	9
Capital Securities	9,508	3.7	11	3,729	3.4	12	7,656	3.4	10
Taishin Securities+Masterlink Secu	5,672	2.2	18	2,338	2.2	17	5,875	1.6	11
President Securities	6,964	2.7	15	2,767	2.5	13	5,703	2.6	12
Hua Nan Securities	6,794	2.6	16	2,701	2.5	15	5,490	2.5	13
Merrill Lynch Securities(Taiwan)	7,224	2.8	14	2,715	2.5	14	5,388	2.4	14
Mega Securities	6,042	2.3	17	2,344	2.2	16	4,816	2.2	15
Total	246,060			104,005			212,880		

Source: TEJ; KGI Research

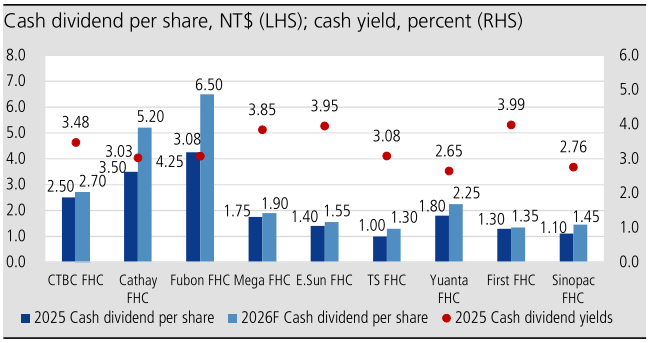
Figure 32: In 2025, total cash dividends across thirteen FHCs grew 17% YoY; average cash yield has declined from 4.1% as of April 30 to 3.3% currently, reflecting positive 1Q26 earnings guidance, a reshuffle of high-dividend ETF portfolios, and capital rotation from tech to financials; as 2026F dividends of insurance-centric FHCs will be based on adjusted earnings, dividend levels look to exceed 2025; but changes in other equity interest are a key factor to watch on a quarterly basis

NT$mn Ticker	Company	2025 undistributed earnings	4Q25 other equity interest	1Q26 net profit	1Q26 FVOCI equity capital gain	1Q26 other equity interest	Reversal (Increase) in special reserve in 1Q26	1Q26 available distributed earnings	2025 Cash dividend per share (NT$)	vs.2025 Cash dividend per share (NT$)	2026F Cash dividend YoY growth	Apr 26 Double Leverage Ratio%	2025 Cash dividend yields	2026F Cash dividend yields
2881 TT	Fubon FHC	369,195	(34,026)	33,270	32,794	(125,473)	(91,447)	337,206	6.50	4.25	53%	113.34	3.08%	4.71%
2891 TT	CTBC FHC	101,725	(31,461)	23,104	5,522	(40,817)	(9,355)	118,133	2.70	2.50	8%	117.70	3.48%	3.76%
2885 TT	Yuanta FHC	83,269	16,644	14,409	831	10,448	-	96,985	2.25	1.80	25%	113.36	2.65%	3.31%
2886 TT	Mega FHC	62,589	17,402	9,397	773	16,967	-	71,742	1.90	1.75	9%	116.09	3.85%	4.18%
2882 TT	Cathay FHC	58,415	(74,667)	31,656	16,966	(327,473)	(252,807)	(150,632)	5.20	3.50	49%	117.65	3.03%	4.50%
2883 TT	KGI FHC	39,776	(16,004)	11,690	14,515	(80,549)	(64,545)	(1,185)	1.15	1.00	15%	114.52	3.25%	3.74%
2890 TT	Sinopac FHC	31,905	33,215	8,244	659	(7,885)	-	40,325	1.45	1.30	4%	118.53	3.99%	3.64%
2892 TT	First FHC	33,096	(6,184)	10,941	1,112	30,775	(1,701)	41,835	1.35	1.10	32%	113.89	2.76%	4.14%
5880 TT	Cooperative FHC	31,148	6,287	5,812	3,730	1,253	-	39,735	0.88	0.80	10%	117.14	3.23%	3.56%
2880 TT	Hua Nan FHC	23,040	(42)	7,660	999	(1,526)	(1,484)	29,349	1.49	1.35	10%	118.42	3.52%	3.87%
2884 TT	E.Sun FHC	17,181	8,680	10,057	133	9,887	-	26,352	1.55	1.40	11%	106.14	3.95%	4.38%
2887 TT	TS FHC	9,501	23,225	21,060	14,086	37,676	-	41,132	1.30	1.00	30%	111.88	3.08%	4.01%
2889 TT	Waterland FHC	0	3,669	897	16	3,163	(506)	316	0.55	0.50	10%	112.18	3.28%	3.61%
	Total FHCs	860,840	(53,261)	188,197	92,135	(473,555)	(421,846)	690,977			20%		3.32%	3.95%

Note: For FHCs outside of our coverage universe, namely Hua Nan FHC, Taiwan Cooperative FHC and IBF FHC, we assume a 10% YoY increase in 2026 cash dividend, while KGI FHC's dividend growth assumption is set at 15% YoY, but it should by no means be interpreted as company guidance

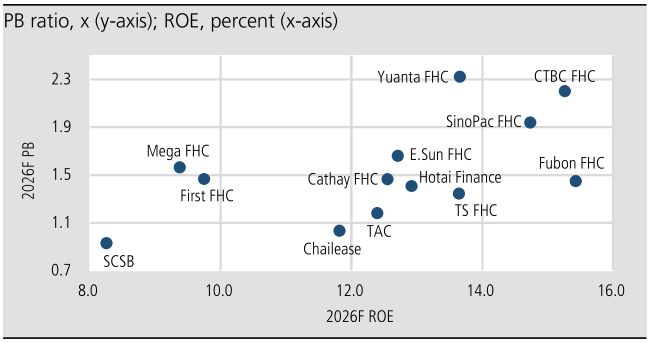
Source: TEJ; company data; KGI Research

Figure 33: As financial stocks have recently rebounded, cash yields of major FHCs based on 2025 dividends have declined to 3.32%; but we expect higher dividend payouts in 2026F to see a rebound in cash yield to over 4%



Source: TEJ; company data; KGI Research

Figure 34: Securities & insurance-centric FHCs to deliver higher ROE in 2026F vs. bank-centric peers thanks to a buoyant Taiex, which continues to drive brokerage fee income growth & capital gains



Source: TEJ; KGI Research

Figure 35: FHC & banking peer comparison – Valuations

Company	Code	Rating	Market cap	Share price	PB (x)		PE (x)		ROE (%)		Net profit (NT$ mn)		Net profit growth (%)		EPS (NT$)		EPS growth (%)		BVPS (NT$)		Cash yield (%)		Cash dividend (NT$)	
			(US$ mn)	(LCY)	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F
CTBC FHC	2891 TT	Outperform	44,973	71.90	2.20	1.86	16.4	15.4	15.3	13.1	86,283	92,085	7.0	6.7	4.38	4.68	7.0	6.7	32.65	38.60	3.76	3.89	2.70	2.80
SinoPac FHC	2890 TT	Outperform	18,335	39.80	1.94	1.71	14.2	14.9	14.7	12.2	40,703	38,642	53.2	(5.1)	2.81	2.67	53.2	(5.1)	20.51	23.31	4.15	4.02	1.65	1.60
E.Sun FHC	2884 TT	Neutral	18,201	35.40	1.66	1.49	14.7	14.2	12.7	11.1	39,434	40,775	14.8	3.4	2.42	2.50	13.7	3.4	21.31	23.81	4.38	4.52	1.55	1.60
First FHC	2892 TT	Neutral	14,901	32.60	1.47	1.34	15.7	15.2	9.7	9.2	29,791	30,764	10.6	3.3	2.07	2.14	10.6	3.3	22.20	24.34	4.14	4.29	1.35	1.40
Mega FHC	2886 TT	Neutral	21,455	45.50	1.57	1.43	17.5	17.0	9.4	8.8	38,588	39,678	10.1	2.8	2.60	2.67	10.1	2.8	29.07	31.74	4.18	4.29	1.90	1.95
Bank FHC peer average					**1.77**	**1.57**	**15.7**	**15.3**	**12.9**	**10.8**			**15.4**	**3.0**			**18.9**	**2.2**			**4.23**	**4.30**		
Fubon FHC	2881 TT	Outperform	61,448	138.00	1.45	1.28	11.3	12.2	15.4	11.2	171,174	158,597	41.5	(7.3)	12.22	11.32	41.5	(7.3)	95.14	107.56	4.71	4.71	6.50	6.50
Cathay FHC	2882 TT	Outperform	53,859	115.50	1.47	1.26	13.6	14.1	12.5	9.6	124,983	120,458	16.7	(3.6)	8.52	8.21	16.7	(3.6)	78.78	91.49	4.50	4.50	5.20	5.20
TS FHC	2887 TT	Outperform	25,651	32.45	1.35	1.18	11.5	11.3	13.6	11.2	69,897	71,604	87.3	2.4	2.81	2.88	47.2	2.4	24.11	27.41	4.01	4.16	1.30	1.35
Insurance FHC peer average					**1.42**	**1.24**	**12.1**	**12.5**	**13.9**	**10.7**			**37.9**	**(4.2)**			**35.1**	**(2.8)**			**4.41**	**4.46**		
Yuanta FHC	2885 TT	Neutral	28,817	68.00	2.32	2.05	18.2	17.4	13.7	12.5	49,885	51,984	36.6	4.2	3.74	3.90	36.6	4.2	29.28	33.18	3.31	3.46	2.25	2.35
Securities FHC peer average					**2.32**	**2.05**	**18.2**	**17.4**	**13.7**	**12.5**			**36.6**	**4.2**			**36.6**	**4.2**			**3.31**	**3.46**		
SCSB	5876 TT	Outperform	6,568	42.50	0.93	0.86	11.7	11.3	8.3	7.9	17,591	18,223	18.6	3.6	3.62	3.75	18.6	3.6	45.57	49.48	4.59	4.82	1.95	2.05
Taiwan financials peer average					**1.67**	**1.48**	**14.8**	**14.6**	**12.4**	**10.6**			**20.6**	**5.6**			**23.1**	**0.9**			**4.19**	**4.28**		
TAC	9941 TT	Neutral	1,490	81.40	1.18	1.07	10.7	10.2	12.4	11.7	4,706	5,029	1.1	6.9	7.62	8.01	(0.8)	5.2	68.87	75.95	5.53	5.77	4.50	4.70
Hotai Finance	6592 TT	Neutral	1,294	65.30	1.41	1.24	12.4	11.3	12.9	13.1	3,705	4,051	9.7	9.3	5.25	5.80	11.2	10.6	46.35	52.85	4.90	5.05	3.20	3.30
Chailease	5871 TT	Outperform	6,202	114.00	1.04	0.93	9.0	8.6	11.8	11.0	21,026	21,978	6.1	4.5	12.72	13.28	6.8	4.4	110.12	122.97	5.44	5.70	6.20	6.50
Taiwan leasing peer average					**1.21**	**1.08**	**10.7**	**10.0**	**12.4**	**11.9**			**5.7**	**5.5**			**5.7**	**6.7**			**5.29**	**5.51**		

Source: Bloomberg; KGI Research (based on June 18 closing prices)

Biotech

2026F to be pivotal transition year globally

Key message

1. PharmaEssentia's (6446 TT, NT$1,060, OP) gross margin is set to surge globally, while Bora Pharmaceuticals (6472 TT, NT$422.5, OP) and Lotus Pharmaceutical's (1795 TT, NT$193, OP) operations will bottom on negative news. Meanwhile, Taiwan factories are transforming into international pharmaceutical firms, mastering overseas sales channels, manufacturing, and revenue.

Event

The AI fund crowding-out effect has led to low biotechnology stock valuations, and we expect two pivotal changes in 2H26. First, PharmaEssentia (6446 TT, NT$1,060, OP) is set to cross a critical profitability point, while Lotus Pharmaceutical (1795 TT, NT$193, OP) and Bora Pharmaceuticals' (6472 TT, NT$422.5, OP) operations will bottom after M&A and restructuring. In addition Medigen Biotechnology (6547 TT, NT$45.2, OP), United Orthopedic (4129 TT, NT$90.9, OP), and Oneness Bitoech (4743 TT, NT$48, OP) will reach breakthroughs in overseas channels and will obtain certifications. Second, the maturation of biosimilar drugs and commercialized mass production of large molecule drugs will prompt capacity release by EirGenix (6589 TT, NT$46.45, OP) and Mycenax Bitoech (4726 TT, NT$25.2, NR). In addition, the biologic CDMO manufacturing chain will mature, which will usher in a structural value reassessment.

Impact

2026 will be a pivotal transformation year globally, with Taiwan firms set to break out of the early-licensing stereotype and gain substantial market share overseas via multichannel international self-operated channels and strategic M&A, becoming international pharmaceutical firms.

PharmaEssentia. The firm's high gross margin, self-operated model will cross the critical point, forming an all-in-one R&D, production, and sales chain. Its new drug Ropeg is sold through self-operated channels in North America, with the US revenue weighting surpassing 75%. 1Q26 EPS arrived at NT$5.79, and monthly revenue stands above NT$2.0bn. With ultra-high gross margin of over 90%, profits are set to surge. In 2H26, global certification progress for essential thrombocythemia (ET) and North American territory integration will further drive growth.

Bora Pharmaceuticals. The cross-border M&A digestion period has ended, and large-molecule CDMO business is taking shape. While 1H26 operations have been suppressed by the USL acquisition restructuring and factory depreciation, we expect synergies to emerge in 2H26. Small molecule drugs are advancing toward high-barrier dosage forms, and the firm has signed a 10-year contract with the option for a two-year extension, with a global top-20 pharmaceuticals company. Bora's large molecule drug business will integrate MacroGenics' business, expanding capacity to four times that of Tanvex. Furthermore, the firm's new Maryland sterile injectable plant will implement one-stop CDMO business in the US. Order backlog totals US$314mn, and the revenue weighting of brand drug sales is increasing, optimizing the profit structure.

Lotus Pharmaceutical. Operations are set to bottom after M&A, with new product sales growth on the horizon. The company's scale doubled after acquiring Alvogen US, but we assume high interest expenses have pressured net profit in 1H26. In 2H26, we expect structural recovery. April revenue surged to NT$3.09bn, up over 20% YoY, with January-May revenue up 67% YoY. In 2H26, non-blood cancer new drugs, such as nintedanib in Europe and enzalutamide in the US and Canada, will dilute interest expenses and drive profit recovery.

Oneness Bitoech. Clinical trials for ON101 in China were recommended by the DMC for early termination due to significant efficacy, which will accelerate commercial volume expansion in 2H26. After gaining full-thickness skin medical device access in the US, the firm continues to search for medical device partners.

Medigen Biotechnology. The firm has been granted access to the Vietnam market for its enterovirus vaccine, providing significant growth opportunities in the Southeast Asia self-pay blue ocean market.

United Orthopedic. The firm is relying on a high performance-to-cost ratio to cultivate the European and US markets. European market penetration is increasing, the overseas revenue weighting has hit a record high, and the company is establishing a medical device defensive barrier.

EirGenix. Biosimilar drugs and CDMO business will be dual growth engines. The firm will apply for US drug certification for EG1206A in 2H26 as there are few competitors and the company has stable cooperation with Sandoz (CH). Going forward, the company plans to launch one biosimilar drug per year, and the Jhubei plant 10,000L mammalian cell capacity will be brought online to fulfill US, Japan, and European contract manufacturing orders.

Mycenax Biotech. The firm already has South Korean and Japanese clients for its traditional biologics drugs. The South Korea client is for an eye drug biosimilar developed by Sam Chun Dang Pharm, while the Japanese client involves transferring the production of a biosimilar originally produced in the US to Mycenax's factory. The company is collaborating closely with the Japanese client and has established a joint venture company.

Stocks for Action

Our top pick in the biotech sector is PharmaEssentia, as it combines R&D, manufacturing, and US sales, progressing from a Taiwanese startup to an international pharmaceutical company. We maintain Outperform, with a target price of NT$1,090, based on 2026-27F average EPS of NT$33 and PE of 33x.

Risks

Sales results miss expectations due to the emergence of competitors, or AOP Orphan Pharmaceuticals (DE) arbitration negatively affects PharmaEssentia operations.

Appendix: KGI universe valuation table

Valuation table

Ticker	Company	Recommendation	Mkt cap	TargetPrice	Price	Up/down	EPS (NT$)			PE (x)		PB (x)		YIELD (%)	
			(US$mn)	(NT$)	(NT$)	(%)	2025	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F
1216	Uni-President	Outperform	13,395.9	86.0	74.50	15.4	3.45	3.74	4.31	19.9	17.3	3.0	2.9	4.0	4.0
1319	TYG	Outperform	1,856.8	135.0	99.20	36.1	6.43	7.64	8.18	13.0	12.1	2.0	1.9	5.5	6.0
1476	ECLAT	Neutral	2,839.2	419.0	327.00	28.1	20.10	24.64	27.90	13.3	11.7	2.9	2.7	5.4	6.1
1477	Makalot	Outperform	1,729.2	286.0	221.50	29.1	14.65	16.00	17.60	13.8	12.6	3.9	3.9	7.2	7.9
1503	SEEC	Outperform	3,981.5	220.0	241.50	(8.9)	6.27	8.91	#N/A	27.1	N.A.	3.6	#N/A	2.9	#N/A
1504	Teco	Neutral	5,264.3	77.0	70.00	10.0	2.42	2.81	3.30	24.9	21.2	1.9	1.9	3.4	3.9
1513	CHEM	Outperform	2,810.1	170.0	176.50	(3.7)	8.07	8.53	10.65	20.7	16.6	4.1	3.7	3.7	4.2
1519	FE	Outperform	8,326.9	1035.0	833.00	24.2	13.99	21.38	29.62	39.0	28.1	17.4	12.7	1.6	2.1
1560	Kinik	Outperform	3,324.4	520.0	700.00	(25.7)	9.28	13.47	17.34	52.0	40.4	11.0	9.2	1.0	1.3
1563	SAI	Outperform	483.4	104.0	67.70	53.6	1.42	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
1590	Airtac	Outperform	8,734.2	1845.0	1,380.00	33.7	42.00	55.42	61.49	24.9	22.4	4.9	4.5	2.6	2.9
1736	JHT	Outperform	1,147.3	195.0	119.50	63.2	9.06	12.97	14.69	9.2	8.1	2.3	2.0	5.4	5.9
1795	Lotus Pharm	Outperform	1,630.0	500.0	193.00	159.1	18.14	14.72	19.04	13.1	10.1	1.9	1.6	0.0	0.0
2002	CSC	Neutral	9,510.6	20.3	19.10	6.3	(0.29)	0.02	0.41	906.8	46.4	1.0	1.0	0.8	1.6
2014	Chung Hung	Neutral	804.1	18.6	17.70	5.1	(1.29)	0.02	0.35	1117.4	50.5	2.1	2.0	0.0	0.0
2049	Hiwin	Outperform	3,750.6	478.0	335.00	42.7	4.31	8.75	12.53	38.3	26.7	3.0	2.9	1.2	1.7
2059	King Slide	Outperform	20,703.0	8850.0	6,865.00	28.9	103.23	206.36	295.01	33.3	23.3	17.1	12.4	1.5	2.2
2301	LTC	Outperform	15,428.5	230.0	210.50	9.3	6.64	8.55	12.37	24.6	17.0	4.9	4.7	3.1	4.3
2303	UMC	Neutral	57,909.8	84.0	145.50	(42.3)	3.34	5.36	5.63	27.1	25.8	4.5	4.1	2.0	2.0
2308	DELTA	Outperform	176,731.6	2940.0	2,150.00	36.7	23.14	44.71	73.51	48.1	29.2	15.3	11.2	1.0	1.7
2313	COMPEQ	Restricted	9,787.2	-	259.50	-	5.51	8.04	12.88	32.3	20.1	5.6	4.8	1.5	2.5
2317	Hon Hai	Outperform	119,199.1	315.0	268.50	17.3	13.61	17.94	21.46	15.0	12.5	2.0	1.8	3.6	4.3
2330	TSMC	Outperform	1,977,753.5	2600.0	2,410.00	7.9	66.26	102.74	131.02	23.5	18.4	8.4	6.2	1.0	1.2
2337	Macronix	Outperform	10,598.8	300.0	169.00	77.5	(1.77)	30.02	101.70	5.6	1.7	3.0	1.1	5.3	18.1
2344	WEC	Outperform	31,115.5	200.0	218.50	(8.5)	0.88	25.54	52.40	8.6	4.2	4.7	2.4	3.5	7.2
2345	Accton	Outperform	43,238.0	1850.0	2,435.00	(24.0)	47.13	61.74	#N/A	39.4	N.A.	19.4	#N/A	1.4	#N/A
2348	Hiyes	Outperform	369.2	100.0	76.80	30.2	6.85	12.50	18.70	6.1	4.1	1.3	1.2	10.8	12.6
2356	Inventec	Neutral	7,685.8	55.0	67.70	(18.8)	2.42	3.24	4.05	20.9	16.7	3.1	3.0	3.8	4.8
2357	Asustek	Outperform	18,545.5	835.0	789.00	5.8	59.99	53.65	57.64	14.7	13.7	2.1	2.0	5.4	5.8
2368	GCE	Outperform	22,344.0	1550.0	1,355.00	14.4	19.48	35.31	55.21	38.4	24.5	15.7	11.1	1.4	2.2
2376	Gigabyte	Outperform	7,292.5	495.0	344.00	43.9	18.20	32.00	34.00	10.7	10.1	3.5	3.1	6.1	6.5
2377	MSI	Neutral	3,702.9	120.0	138.50	(13.4)	6.80	10.00	10.50	13.9	13.2	2.0	1.9	4.5	4.7
2379	RT	Neutral	13,360.9	610.0	819.00	(25.5)	28.77	32.10	35.86	25.5	22.8	7.5	7.0	3.4	3.8
2382	QCI	Outperform	45,960.4	430.0	376.00	14.4	19.45	23.13	27.43	16.3	13.7	5.6	5.1	4.9	5.8
2383	EMC	Outperform	63,499.9	6860.0	5,600.00	22.5	41.67	92.16	171.51	60.8	32.7	30.0	18.5	1.0	1.8
2385	Chicony	Neutral	2,762.4	133.0	114.00	16.7	9.05	9.07	11.46	12.6	9.9	1.8	1.8	6.3	8.0
2395	Advantech	Outperform	13,573.4	545.0	494.00	10.3	12.25	17.81	24.11	27.7	20.5	8.1	7.1	3.2	4.3
2408	NTC	Outperform	50,169.9	520.0	459.50	13.2	2.13	58.41	90.06	7.9	5.1	3.9	2.2	2.5	3.9
2409	AUO	Neutral	6,723.1	15.0	28.15	(46.7)	0.90	0.36	0.70	77.9	40.4	1.4	1.4	0.7	1.2
2412	CHT	Neutral	35,350.4	129.0	144.00	(10.4)	4.99	5.18	5.44	27.8	26.5	2.9	2.9	3.7	3.9
2421	SUNON	Outperform	1,316.7	182.0	145.00	25.5	7.94	11.21	13.10	12.9	11.1	4.1	3.7	5.5	6.4
2449	KYEC	Outperform	11,937.2	380.0	308.50	23.2	9.01	9.23	14.37	33.4	21.5	6.8	5.7	1.8	2.8
2454	MediaTek	Outperform	222,819.7	6150.0	4,390.00	40.1	66.16	67.98	111.95	64.6	39.2	16.7	14.7	1.5	1.6
2455	VPEC	Outperform	2,457.0	160.0	416.00	(61.5)	2.97	5.15	#N/A	80.8	N.A.	20.3	#N/A	1.1	#N/A
2467	C Sun	Outperform	3,078.0	580.0	599.00	(3.2)	5.50	13.69	19.22	43.8	31.2	11.9	9.7	1.2	1.5
2474	Catcher	Neutral	3,452.9	197.0	202.50	(2.7)	11.33	10.60	11.57	19.1	17.5	0.8	0.7	4.7	5.1
2542	Highwealth	Neutral	3,077.4	40.0	44.75	(10.6)	2.10	6.90	6.33	6.5	7.1	1.8	1.7	13.1	12.0
2603	EMC	Neutral	13,223.2	246.0	193.00	27.5	31.68	25.21	27.79	7.7	6.9	0.7	0.7	6.7	7.3
2606	U-MING	Neutral	1,644.7	73.0	61.50	18.7	4.31	6.59	5.41	9.3	11.4	1.3	1.2	6.5	5.4
2609	YMTC	Outperform	5,669.1	69.0	51.30	34.5	4.90	6.77	3.96	7.6	12.9	0.5	0.5	5.3	3.1
2610	CAL	Neutral	4,278.2	21.0	22.00	(4.5)	2.42	1.49	#N/A	14.8	N.A.	1.2	#N/A	2.4	#N/A
2612	CMT	Outperform	335.6	75.0	53.70	39.7	5.46	5.47	#N/A	9.8	N.A.	0.7	#N/A	5.0	#N/A
2615	WANHAI	Outperform	7,139.7	97.0	80.40	20.6	11.21	11.58	9.58	6.9	8.4	0.8	0.7	3.6	3.0
2618	EVAAIR	Outperform	7,271.8	48.0	42.55	12.8	4.84	4.48	5.42	9.5	7.8	1.5	1.4	4.7	5.7
2634	AIDC	Neutral	1,406.8	48.0	47.20	1.7	0.78	1.91	2.94	24.8	16.0	2.3	2.2	2.4	3.7
2637	Wisdom	Neutral	1,828.2	85.0	77.40	9.8	5.27	9.26	7.80	8.4	9.9	1.1	1.1	7.2	7.1
2645	EGAT	Outperform	2,015.1	200.0	170.00	17.6	5.46	9.17	10.00	18.5	17.0	4.6	4.5	4.9	5.3
2707	GFRT	Outperform	721.7	274.0	179.00	53.1	11.42	13.07	#N/A	13.7	N.A.	4.3	#N/A	6.2	#N/A
2723	Gourmet	Outperform	381.1	84.0	66.90	25.6	(2.47)	5.09	6.12	13.1	10.9	1.2	1.1	4.9	5.9
2727	Wowprime	Outperform	647.0	275.0	246.50	11.6	16.02	17.32	19.35	14.2	12.7	4.2	4.0	6.0	6.7
2739	My Humble House	Outperform	103.7	84.0	35.80	134.6	2.36	5.52	#N/A	6.5	N.A.	1.4	#N/A	6.2	#N/A
2748	FDC	Outperform	135.2	70.0	40.40	73.3	2.17	4.32	#N/A	9.4	N.A.	1.3	#N/A	7.5	#N/A
2753	BAFANG	Outperform	394.4	234.0	187.00	25.1	12.84	14.06	15.20	13.3	12.3	3.0	2.7	4.4	4.7
2762	World Gym	Outperform	303.7	110.0	85.30	29.0	3.75	5.49	7.24	15.5	11.8	3.8	4.7	7.2	7.3
2881	Fubon Financial	Outperform	61,171.4	147.0	138.00	6.5	8.37	12.22	11.32	11.3	12.2	1.5	1.3	4.7	4.7
2882	CATHAY FHC	Outperform	53,616.9	125.0	115.50	8.2	7.06	8.52	8.21	13.6	14.1	1.5	1.3	4.5	4.5
2884	E.S.F.H	Neutral	18,139.1	36.0	35.40	1.7	2.12	2.42	2.50	14.7	14.2	1.7	1.5	4.4	4.5
2885	Yuanta Group	Neutral	28,687.3	52.0	68.00	(23.5)	2.74	3.74	3.90	18.2	17.4	2.3	2.0	3.3	3.5
2886	Mega FHC	Neutral	21,358.2	43.0	45.50	(5.5)	2.36	2.60	2.67	17.5	17.0	1.6	1.4	4.2	4.3
2887	TS Holdings	Outperform	25,535.3	32.0	32.45	(1.4)	1.91	2.81	2.88	11.5	11.3	1.3	1.2	4.0	4.2

Source: KGI Research

Valuation table

Ticker	Company	Recommendation	Mkt cap (US$mn)	TargetPrice (NT$)	Price (NT$)	Up/down (%)	EPS (NT$) 2025	EPS (NT$) 2026F	EPS (NT$) 2027F	PE (x) 2026F	PE (x) 2027F	PB (x) 2026F	PB (x) 2027F	YIELD (%) 2026F	YIELD (%) 2027F
2890	SINOPACHOLDINGS	Outperform	18,253.0	42.0	39.80	5.5	1.97	2.81	2.67	14.2	14.9	1.9	1.7	4.1	4.0
2891	CTBC Holding	Outperform	44,771.2	63.0	71.90	(12.4)	4.08	4.38	4.68	16.4	15.4	2.2	1.9	3.8	3.9
2892	FFHC	Neutral	14,834.5	32.0	32.60	(1.8)	1.87	2.07	2.14	15.7	15.2	1.5	1.3	4.1	4.3
2912	PCSC	Outperform	7,353.0	275.0	223.50	23.0	10.78	11.76	13.27	19.0	16.8	5.1	4.7	4.0	4.0
3008	Largan	Outperform	21,503.1	3250.0	5,195.00	(37.4)	159.41	180.43	#N/A	28.8	N.A.	3.2	#N/A	1.7	#N/A
3017	AVC	Outperform	29,813.4	3450.0	2,400.00	43.8	49.17	94.49	132.70	25.4	18.1	14.5	10.0	1.7	2.3
3023	Sinbon	Outperform	2,488.1	396.0	327.50	20.9	13.02	14.85	17.99	22.1	18.2	4.4	4.0	3.2	3.8
3026	Holy Stone	Outperform	4,735.2	650.0	902.00	(27.9)	6.58	12.52	26.15	72.0	34.5	14.5	11.7	1.2	2.2
3034	Novatek	Neutral	9,936.5	370.0	516.00	(28.3)	26.87	24.36	25.35	21.2	20.4	4.6	4.4	4.0	4.1
3035	Faraday	Neutral	1,723.3	200.0	209.00	(4.3)	2.81	3.88	6.66	53.9	31.4	4.0	3.7	1.4	2.4
3036	WT	Outperform	8,942.1	285.0	222.50	28.1	11.61	23.86	28.14	9.3	7.9	1.9	1.5	5.4	6.3
3037	Unimicron	Outperform	48,713.1	1000.0	968.00	3.3	4.38	14.31	27.77	67.7	34.9	12.2	9.5	0.7	1.3
3044	Tripod	Outperform	9,530.8	580.0	573.00	1.2	19.45	26.96	32.13	21.3	17.8	4.8	4.3	3.0	3.5
3045	TWM	Neutral	14,021.8	112.0	119.00	(5.9)	4.77	4.89	#N/A	24.3	N.A.	5.2	#N/A	4.1	#N/A
3081	LandMark	Outperform	7,143.7	1080.0	2,440.00	(55.7)	4.66	13.12	21.43	186.0	113.8	63.3	60.3	0.5	0.8
3105	Win	Neutral	7,083.6	90.0	528.00	(83.0)	4.00	2.12	#N/A	248.5	N.A.	6.5	#N/A	0.2	#N/A
3131	GPTC	Outperform	3,312.6	2090.0	3,520.00	(40.6)	45.48	59.64	#N/A	59.0	N.A.	17.0	#N/A	1.3	#N/A
3189	Kinsus	Outperform	12,072.4	650.0	724.00	(10.2)	3.51	9.16	18.04	79.0	40.1	9.1	7.8	0.6	1.2
3231	Wistron	Outperform	16,254.3	225.0	161.50	39.3	9.04	13.96	18.29	11.6	8.8	2.5	2.1	5.1	6.7
3293	IGS	Outperform	7,071.8	950.0	793.00	19.8	38.51	47.32	54.44	16.8	14.6	11.2	10.1	5.5	5.8
3324	AURAS	Outperform	3,151.6	1450.0	1,070.00	35.5	28.26	59.27	81.87	18.1	13.1	7.0	5.3	2.4	3.3
3376	SZS	Outperform	1,270.0	272.0	205.00	32.7	1.63	6.42	13.58	31.9	15.1	2.3	2.2	2.5	5.3
3380	Alpha	Neutral	599.1	34.0	34.95	(2.7)	(0.36)	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
3443	GUC	Outperform	20,610.7	5245.0	4,860.00	7.9	28.13	48.02	116.55	101.2	41.7	39.1	23.5	0.7	1.7
3450	ELASER	Outperform	2,604.7	360.0	565.00	(36.3)	5.01	11.97	#N/A	47.2	N.A.	15.4	#N/A	1.4	#N/A
3481	INX	Neutral	16,281.8	12.5	64.40	(80.6)	0.03	0.27	#N/A	238.9	N.A.	2.3	#N/A	0.0	#N/A
3491	UMT	Outperform	3,396.7	1100.0	1,560.00	(29.5)	7.83	19.23	24.83	81.1	62.8	29.0	22.8	1.1	1.3
3515	ASRock	Outperform	963.7	325.0	246.50	31.8	15.28	20.45	26.00	12.1	9.5	2.3	2.1	5.0	6.3
3526	Alltop	Outperform	686.5	415.0	327.00	26.9	16.97	23.03	30.35	14.2	10.8	5.1	5.1	7.0	9.2
3533	Lotes	Outperform	8,155.2	3100.0	2,290.00	35.4	70.17	95.08	129.17	24.1	17.7	5.9	5.1	2.1	2.8
3583	Scientech	Outperform	2,260.4	480.0	889.00	(46.0)	13.82	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
3592	Raydium	Neutral	660.1	300.0	275.00	9.1	18.24	21.89	#N/A	12.6	N.A.	2.0	#N/A	6.4	#N/A
3596	Arcadyan	Outperform	1,335.4	220.0	191.50	14.9	12.60	14.65	#N/A	13.1	N.A.	2.4	#N/A	5.3	#N/A
3605	Aces	Restricted	446.2	-	80.50	-	4.35	5.47	#N/A	14.7	N.A.	1.6	#N/A	2.0	#N/A
3653	Jentech	Outperform	18,411.3	4840.0	3,965.00	22.1	36.75	53.96	112.49	73.5	35.2	22.4	17.9	0.8	1.7
3661	Alchip	Outperform	11,379.2	6185.0	4,380.00	41.2	69.18	128.95	171.78	34.0	25.5	7.3	6.2	1.5	2.0
3665	BHI (Bizlink)	Outperform	12,964.1	2600.0	2,100.00	23.8	46.57	66.09	106.99	31.8	19.6	7.5	5.8	1.0	1.7
3702	WPG	Outperform	6,001.6	87.0	112.00	(22.3)	5.77	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
3704	Zyxel Group	Outperform	634.3	43.0	48.25	(10.9)	1.56	2.81	#N/A	17.2	N.A.	1.6	#N/A	1.7	#N/A
3711	ASEH	Outperform	86,723.4	588.0	613.00	(4.1)	9.37	17.00	25.34	36.1	24.2	6.9	6.0	0.9	1.9
4129	UOC	Outperform	277.4	132.0	90.90	45.2	5.83	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
4147	TMB	Outperform	494.5	192.0	57.20	235.7	(0.61)	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
4169	TCM	Outperform	353.2	194.0	168.00	15.5	0.32	0.90	1.77	186.6	94.9	9.0	8.2	0.6	1.2
4438	QVE	Outperform	219.3	94.0	61.10	53.8	3.04	9.41	11.92	6.5	5.1	0.8	0.7	12.3	15.5
4572	DPI	Neutral	182.9	140.0	144.50	(3.1)	3.00	4.37	#N/A	33.1	N.A.	2.6	#N/A	2.5	#N/A
4743	Oneness Biotech	Outperform	729.7	308.0	48.00	541.7	(2.18)	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
4749	AEMC	Outperform	2,970.9	1260.0	991.00	27.1	11.33	16.62	25.20	59.6	39.3	7.1	5.5	1.5	2.3
4755	San Fu	Outperform	463.7	217.0	145.50	49.1	3.70	7.24	9.90	20.1	14.7	2.6	2.4	2.8	3.8
4771	VF	Outperform	355.9	242.0	191.50	26.4	12.71	16.26	18.27	11.8	10.5	2.5	2.3	4.7	5.3
4772	TSC	Outperform	1,313.3	420.0	281.00	49.5	4.20	7.02	9.93	40.0	28.3	9.3	7.4	1.8	2.5
4904	Far EasTone	Neutral	12,387.2	91.0	108.50	(16.1)	3.81	3.96	#N/A	27.4	N.A.	4.3	#N/A	3.7	#N/A
4906	GEMTEK	Outperform	626.3	27.0	43.80	(38.4)	(0.25)	1.80	#N/A	24.3	N.A.	1.5	#N/A	3.4	#N/A
4915	Primax	Neutral	1,133.4	78.0	75.90	2.8	5.71	5.39	6.56	14.1	11.6	1.7	1.7	5.7	6.9
4938	Pegatron	Outperform	7,036.1	95.0	82.90	14.6	5.39	5.95	6.72	13.9	12.3	1.0	1.0	4.6	5.3
4958	ZDT	Outperform	21,930.0	695.0	642.00	8.3	6.91	16.92	26.71	38.0	24.0	4.9	4.4	1.3	2.1
4966	Parade	Neutral	1,731.6	580.0	693.00	(16.3)	34.51	34.96	37.58	19.8	18.4	2.5	2.2	2.5	2.4
4968	RichWave	Outperform	331.2	160.0	113.50	41.0	2.66	4.58	#N/A	24.8	N.A.	3.4	#N/A	2.4	#N/A
4977	PCL	Neutral	471.7	132.0	184.50	(28.5)	4.48	4.41	#N/A	41.8	N.A.	3.8	#N/A	2.2	#N/A
4979	LuxNet	Outperform	2,559.7	250.0	567.00	(55.9)	5.43	9.94	#N/A	57.0	N.A.	15.0	#N/A	0.7	#N/A
5263	Brogent	Neutral	237.5	113.0	101.50	11.3	(2.87)	3.76	#N/A	27.0	N.A.	1.8	#N/A	3.0	#N/A
5274	Aspeed	Outperform	22,681.6	21130.0	18,960.00	11.4	103.92	191.62	334.60	98.9	56.7	81.8	45.1	0.8	1.3
5289	InnoDisk	Restricted	5,883.9	-	1,930.00	-	21.72	52.38	#N/A	36.8	N.A.	14.2	#N/A	1.4	#N/A
5347	VIS	Neutral	10,379.3	157.0	174.50	(10.0)	4.30	5.78	6.56	30.2	26.6	4.2	3.9	2.6	2.6
5388	SerComm	Outperform	810.9	107.0	84.20	27.1	4.04	7.12	#N/A	11.8	N.A.	1.4	#N/A	3.0	#N/A
5607	FARGLORY FTZ	Outperform	607.4	64.0	51.80	23.6	2.77	4.21	4.94	12.3	10.5	1.6	1.5	4.5	5.2
5871	Chailease	Outperform	6,174.1	130.0	114.00	14.0	11.24	12.72	13.28	9.0	8.6	1.0	0.9	5.4	5.7
5876	SCSB	Outperform	6,538.5	48.0	42.50	12.9	3.06	3.62	3.75	11.7	11.3	0.9	0.9	4.6	4.8
5904	Poya	Neutral	2,105.3	505.0	625.00	(19.2)	29.54	33.64	37.36	18.6	16.7	8.0	7.5	4.6	5.2
6121	SMP	Outperform	2,443.8	450.0	417.50	7.8	30.61	34.30	34.93	12.2	12.0	1.9	1.8	5.8	5.9
6147	Chipbond	Outperform	5,937.9	280.0	252.00	11.1	3.74	5.30	7.45	47.6	33.8	3.5	3.3	1.6	2.2

Source: KGI Research

Valuation table

Ticker	Company	Recommendation	Mkt cap	TargetPrice	Price	Up/down	EPS (NT$)			PE (x)		PB (x)		YIELD (%)	
			(US$mn)	(NT$)	(NT$)	(%)	2025	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F
6177	DA-LI CO.,LTD.	Outperform	752.6	60.0	50.40	19.0	3.84	8.15	9.49	6.2	5.3	2.0	1.8	11.3	13.2
6187	All Ring	Outperform	3,840.3	540.0	1,235.00	(56.3)	15.46	37.33	#N/A	33.1	N.A.	9.8	#N/A	2.0	#N/A
6206	Flytech	Outperform	595.3	154.0	131.50	17.1	6.90	10.50	11.46	12.5	11.5	3.1	2.8	6.4	7.0
6213	ITEQ	Outperform	3,221.4	345.0	280.00	23.2	4.16	7.26	11.52	38.6	24.3	4.7	4.2	1.7	2.7
6223	MPI	Outperform	19,890.8	8000.0	6,415.00	24.7	33.49	65.35	111.48	98.2	57.5	37.5	30.9	0.6	1.0
6274	TUC	Outperform	17,195.0	1650.0	1,835.00	(10.1)	12.13	30.91	51.35	59.4	35.7	22.6	16.0	1.0	1.7
6279	Hu Lane	Outperform	453.8	180.0	120.50	49.4	10.74	14.99	#N/A	8.0	N.A.	1.4	#N/A	7.1	#N/A
6285	WNC	Outperform	4,193.8	180.0	274.00	(34.3)	6.41	8.97	#N/A	30.5	N.A.	3.8	#N/A	2.1	#N/A
6415	Silergy	Outperform	7,735.9	600.0	629.00	(4.6)	6.40	10.81	19.79	58.2	31.8	1.5	1.2	0.7	1.3
6423	YMC	Outperform	81.2	110.0	82.70	33.0	0.58	1.83	2.55	45.1	32.4	5.3	4.5	2.0	2.8
6446	PEC	Outperform	12,800.5	1090.0	1,060.00	2.8	13.64	22.32	43.78	47.5	24.2	9.6	6.9	0.3	0.6
6472	Bora	Outperform	1,711.8	633.0	422.50	49.8	23.90	20.55	#N/A	20.6	N.A.	3.1	#N/A	2.1	#N/A
6499	Medeon	Outperform	226.1	200.0	73.70	171.4	(7.24)	(7.33)	2.95	N.M.	25.0	2.9	1.6	0.0	0.0
6510	CHPT	Outperform	3,761.8	4750.0	3,610.00	31.6	30.41	69.26	118.70	52.1	30.4	11.9	8.6	1.0	1.6
6515	WinWay	Outperform	10,883.1	13000.0	9,450.00	37.6	46.93	91.71	169.35	103.0	55.8	42.5	31.3	0.7	1.3
6526	Airoha	Outperform	3,689.4	690.0	696.00	(0.9)	17.32	20.60	25.32	33.8	27.5	5.7	5.3	1.3	1.6
6533	Andes	Outperform	323.0	375.0	201.50	86.1	(8.20)	4.49	#N/A	44.9	N.A.	2.0	#N/A	0.9	#N/A
6535	Lumosa	Outperform	547.1	228.0	103.00	121.4	(2.05)	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
6546	AMPAK	Restricted	158.7	-	75.00	-	2.73	5.00	9.90	15.0	7.6	2.4	2.3	6.7	12.0
6547	MVC	Outperform	470.2	102.0	45.20	125.7	(0.86)	0.38	1.46	120.4	31.0	4.1	3.6	0.0	0.0
6561	Chief	Outperform	833.9	522.0	338.00	54.4	15.75	17.39	#N/A	19.4	N.A.	6.4	#N/A	4.6	#N/A
6576	Foresee	Outperform	390.9	153.0	78.40	95.2	(5.70)	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
6584	Nan Juen	Restricted	1,406.0	-	625.00	-	5.59	17.40	26.65	35.9	23.5	11.6	9.3	1.4	2.1
6589	EirGenix	Outperform	453.0	138.0	46.45	197.1	(2.51)	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
6592	Hotai Finance	Neutral	1,287.7	67.0	65.30	2.6	4.72	5.25	5.80	12.4	11.3	1.4	1.2	4.9	5.1
6643	M31	Neutral	658.0	440.0	494.00	(10.9)	1.69	11.50	#N/A	43.0	N.A.	9.1	#N/A	1.8	#N/A
6669	Wiwynn	Outperform	30,182.9	6475.0	5,130.00	26.2	275.06	325.58	436.17	15.8	11.8	6.3	5.1	3.5	4.7
6679	Zilltek	Outperform	496.7	400.0	285.50	40.1	6.81	12.22	14.40	23.4	19.8	2.8	2.7	3.4	4.0
6689	ECV	Neutral	144.2	73.0	67.00	9.0	2.31	3.65	#N/A	18.4	N.A.	1.5	#N/A	4.4	#N/A
6719	UPI	Neutral	869.6	190.0	260.50	(27.1)	6.58	7.69	#N/A	33.9	N.A.	1.9	#N/A	2.0	#N/A
6741	91APP	Outperform	236.6	126.0	62.00	103.2	4.40	5.43	#N/A	11.4	N.A.	0.9	#N/A	3.5	#N/A
6781	AES-KY	Outperform	3,189.7	1450.0	1,180.00	22.9	38.20	49.20	66.78	24.0	17.7	5.3	4.6	2.1	2.8
6782	Visco	Outperform	387.8	260.0	194.50	33.7	14.08	16.76	18.85	11.6	10.3	2.5	2.3	5.1	5.8
6799	M3TEK	Neutral	138.0	100.0	99.90	0.1	3.70	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
6805	Fositek	Outperform	3,807.3	2800.0	1,755.00	59.5	31.00	66.17	93.30	26.5	18.8	12.4	9.1	1.7	2.4
6811	AEB	Outperform	301.7	314.0	230.00	36.5	14.36	16.79	#N/A	13.7	N.A.	3.8	#N/A	5.1	#N/A
6841	EFAI	Outperform	182.9	108.0	60.70	77.9	0.89	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
6863	Arizon RFID	Outperform	229.2	135.0	96.70	39.6	3.00	5.57	9.23	17.4	10.5	1.2	1.1	2.9	4.8
6869	J&V Energy	Restricted	337.2	-	77.30	-	(4.20)	14.55	#N/A	5.3	N.A.	1.4	#N/A	11.0	#N/A
6873	HDRE	Outperform	355.7	292.0	78.80	270.6	3.59	18.90	#N/A	4.2	N.A.	0.8	#N/A	12.1	#N/A
6887	BORETECH-KY	Outperform	80.3	117.0	34.20	242.1	4.58	10.26	#N/A	3.3	N.A.	0.9	#N/A	18.0	#N/A
6962	ITH-KY	Outperform	606.1	66.0	38.90	69.7	2.87	5.51	#N/A	7.1	N.A.	0.8	#N/A	6.1	#N/A
6965	CJ	Neutral	405.7	71.5	82.00	(12.8)	3.50	2.28	5.66	35.9	14.5	1.1	1.1	4.9	6.1
7769	HON	Outperform	39,715.6	8800.0	6,975.00	26.2	75.71	122.62	221.68	56.9	31.5	18.3	13.5	1.2	2.2
7799	HNMC	Outperform	1,812.8	1100.0	362.00	203.9	(3.31)	(0.89)	#N/A	N.M.	N.A.	46.4	#N/A	0.0	#N/A
7822	V5 Technologies	Outperform	1,679.7	2100.0	1,165.00	80.3	14.04	25.05	42.15	46.5	27.6	7.3	6.2	1.1	1.8
7828	Innostar Service	Outperform	2,562.9	3000.0	2,000.00	50.0	6.33	17.88	39.61	111.9	50.5	49.5	29.3	0.3	0.6
8044	PChome Online	Neutral	201.9	32.0	31.15	2.7	(4.62)	(1.76)	#N/A	N.M.	N.A.	1.0	#N/A	0.0	#N/A
8046	N.P.C	Outperform	17,871.8	600.0	874.00	(31.4)	3.01	14.06	25.94	62.2	33.7	10.4	8.7	1.0	1.8
8069	EIH	Outperform	7,451.3	255.0	204.00	25.0	9.14	11.76	13.71	17.3	14.9	3.1	2.8	3.7	4.4
8081	GMT	Neutral	869.9	245.0	319.00	(23.2)	17.76	19.00	#N/A	16.8	N.A.	3.3	#N/A	5.3	#N/A
8086	AWSC	Outperform	1,032.3	125.0	166.00	(24.7)	3.36	3.79	#N/A	43.8	N.A.	3.8	#N/A	1.1	#N/A
8114	Posiflex	Outperform	513.1	301.0	212.00	42.0	18.50	15.03	#N/A	14.1	N.A.	2.8	#N/A	4.6	#N/A
8210	Chenbro	Outperform	5,413.3	1905.0	1,365.00	39.6	29.06	49.65	68.00	27.5	20.1	12.2	9.4	1.8	2.5
8299	Phison	Outperform	17,700.9	2750.0	2,530.00	8.7	41.98	324.55	133.84	7.8	18.9	4.2	3.4	6.4	2.6
8454	momo	Neutral	2,859.4	243.0	341.00	(28.7)	11.29	11.03	#N/A	30.9	N.A.	8.1	#N/A	2.9	#N/A
8464	Nien Made	Outperform	3,319.7	481.0	358.00	34.4	22.53	25.31	27.58	14.1	13.0	3.2	3.0	4.6	5.0
8478	OceanAlexander	Outperform	449.1	442.0	151.00	192.7	13.25	#N/A	#N/A	N.A.	N.A.	#N/A	#N/A	#N/A	#N/A
8936	KTI	Outperform	456.1	67.8	58.10	16.7	4.08	4.52	5.24	12.8	11.1	2.0	1.9	5.7	6.6
8996	Kaori	Outperform	4,704.5	2270.0	1,590.00	42.8	9.07	23.08	42.75	68.9	37.2	25.6	17.0	0.7	1.3
9904	PCC	Neutral	2,438.5	29.1	26.15	11.3	4.10	3.41	3.74	7.7	7.0	0.5	0.5	0.0	0.0
9910	FT	Neutral	2,268.7	91.1	72.60	25.5	5.10	5.21	5.51	13.9	13.2	2.8	2.8	5.8	6.3
9914	MIC	Outperform	682.2	88.0	72.10	22.1	4.01	4.90	7.65	14.7	9.4	1.1	1.0	4.7	5.9
9921	Giant	Outperform	919.4	88.0	74.10	18.8	1.84	3.54	6.17	20.9	12.0	0.8	0.8	2.9	5.0
9933	CTCI	Neutral	1,274.7	35.6	42.65	(16.5)	1.91	3.56	#N/A	12.0	N.A.	1.6	#N/A	4.2	#N/A
9935	CF	Restricted	108.6	-	19.30	-	1.64	2.19	#N/A	8.8	N.A.	1.1	#N/A	8.5	#N/A
9938	Taiwan Paiho	Neutral	414.9	48.2	44.00	9.5	4.10	3.17	3.72	13.9	11.8	1.0	0.9	5.2	6.1
9939	Hon Chuan	Neutral	1,254.3	141.0	134.00	5.2	9.10	9.84	#N/A	13.6	N.A.	1.8	#N/A	4.6	#N/A
9941	YFC	Neutral	1,482.8	82.0	81.40	0.7	7.68	7.62	8.01	10.7	10.2	1.2	1.1	5.5	5.8

Source: KGI Research

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