

Strategy

2Q25 results reaffirmed the "AI-only" narrative

Key message

1. 2Q25 Taiex earnings are in recession; full-year earnings growth has been revised down from 17% to 10% YoY.
2. The market has revised up 2025F earnings for AI firms, while cutting forecasts for non-AI firms. AI suppliers will ride on a super-peak season in 2H25F, while the outlook for non-AI firms is muted.
3. Our top picks are the thermal, networking PCB, power supplier and CCL sectors, as we believe they will benefit substantially from AI spec upgrades.

Event

The 2Q25 earnings of Taiex AI suppliers were mostly in line with or better than consensus, while the earnings of non-AI firms were disappointing, in general.

Analysis

2Q25 Taiex earnings in recession; full-year earnings growth revised down from 17% to 10% YoY. 2Q25 Taiex earnings were a disappointment, driven by forex losses and tariff uncertainty. The sharp volatility in the NT dollar-US dollar exchange rate led to significant forex losses for many export-oriented companies, and directly eroded profitability. Additionally, a lack of clarity around US tariffs posed additional challenges for cost control and pricing strategies. These adverse factors have prompted analysts to revise down earnings forecasts. The previously upbeat forecast of 17% YoY earnings growth for 2025F has now been cut to 10%, indicating that while growth remains positive, upward momentum has weakened considerably. This underscores a growing trend of market divergence, with only a few select industries performing well.

AI driving sectoral divergence; earnings upgrades for AI stocks versus downgrades for non-AI firms. Despite a lackluster earnings season, the AI sector stood out as a structural growth driver for the Taiex. The most notable feature of the 2Q25 earnings season was the stark divergence between AI and non-AI stocks. AI-related supply chain firms saw their earnings revised up, in contrast to widespread downgrades for non-tech or non-AI tech firms. Consensus now forecasts that AI-related stocks will deliver 32% YoY earnings growth in 2025F, up from a previous estimate of 26% YoY. Conversely, non-AI stocks are expected to see earnings decline by 23% YoY, a deterioration from the prior forecast of an 18% contraction and representing a downward revision by 5 percentage points.

Dual drivers behind upward revisions for AI stocks. The improved outlook for AI stocks is underpinned by two major catalysts that not only support current performance but also lay the foundation for sustained growth. The first catalyst is the upward revisions to capex guidance by major CSPs. Explosive demand for AI applications has prompted US tech giants such as OpenAI, Microsoft, Google, and Amazon to significantly ramp up investments in AI infrastructure. These companies have raised 2025F capex plans, focusing on procurement of AI chips, server equipment, and related infrastructure. This surge in capex has directly benefitted the Taiwan AI supply chain, from TSMC's (2330 TT) advanced process nodes to ODMs like Quanta Computer (2382 TT) and Wistron (3231 TT), and suppliers of critical components such as thermal modules, power systems, and connectors.

The second catalyst is the launch of new GPUs, which drives component spec upgrades. Leading GPU makers like Nvidia (US) continue to roll out progressively more powerful AI chips, which impose higher requirements for thermal management, power delivery, and high-speed connectivity. These spec upgrades not only raise the technological barriers to market entry, but also enhance the intrinsic value of related components.

2H25F outlook: AI-related sectors poised for a strong peak season; non-AI sectors may face a muted peak season. Regarding 2H25F, we expect the Taiex to become increasingly polarized. Despite uncertainties stemming from global tariffs, the AI sector is projected to maintain strong growth, potentially resulting in an exceptionally robust peak season.

Historically, the tech sector enters its peak season in the second half of the year. However, 2H25F is expected to diverge from the seasonal pattern. For AI-related companies, demand will continue to outstrip supply, and with new products entering mass production and shipment, operational performance may surpass typical seasonal expectations. This trend is particularly evident in segments such as AI servers, high-end GPUs, and related components, where supply shortages are anticipated to persist.

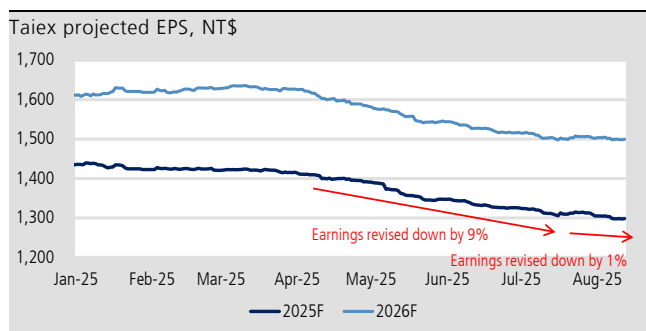
In contrast, non-AI industries may face a muted peak season. Traditional consumer electronics such as smartphones and laptops are experiencing extended replacement cycles and sluggish demand. Even during the peak season, these products are unlikely to return to previously high sales growth rates. Furthermore, tariff-related pressures are affecting cost structures, leaving limited room for profitability improvement for these sectors.

While tariffs may negatively affect the broader economy, their impact on the AI sector will be relatively limited. This is largely because AI-related products tend to carry higher technological sophistication and added value, making customers less sensitive to price fluctuations.

Conclusion & top picks

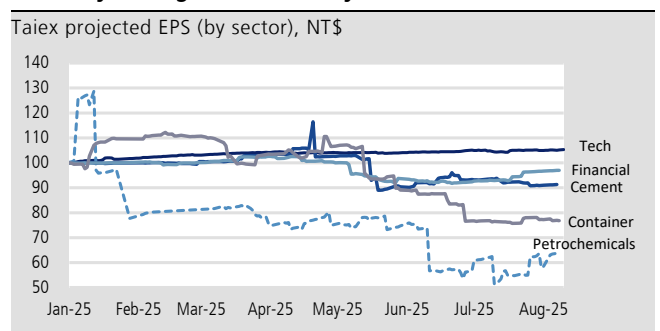
Overall, Taiwan's latest earnings season reveals a clear polarization – the AI sector stands out in terms of demand, profitability, and outlook, while non-AI sectors face headwinds. This trend of divergence is likely to persist until global trade conditions improve and non-AI demand recovers. For investors seeking strong growth within the Taiex, AI is the most compelling theme. We are particularly upbeat about segments benefiting from specification upgrades, including thermal, networking PCBs, power supplies, and copper-clad laminates (CCL).

Figure 1: Taiwan's corporate earnings outlook has been revised downward since April, reflecting the impact of forex losses & growing uncertainty surrounding tariffs



Source: Bloomberg; KGI Research compiled

Figure 2: Earnings forecasts for tech stocks have been resilient this year, while non-tech stocks have seen sharp downward revisions, underscoring the widening industry divergence driven by AI

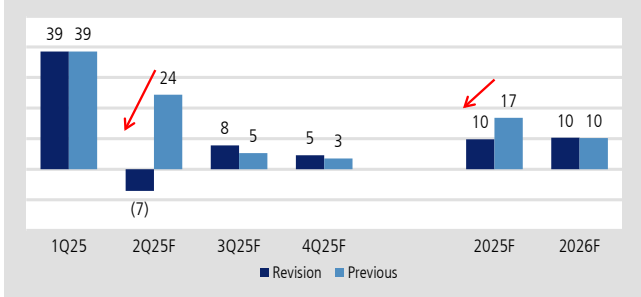


Source: Bloomberg; KGI Research compiled

Note: EPS estimates are based on an index value of 100 as of January 1, 2025.

Figure 3: Taiex 2025 earnings have been revised down from 17% YoY growth to 10% YoY growth, mainly reflecting the impact of forex losses on 2Q25 results

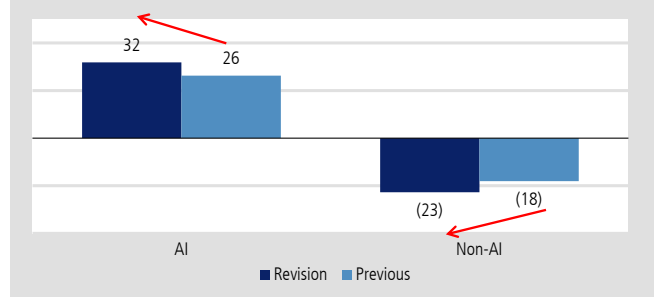
Taiex 2025F and quarterly EPS growth YoY, percent



Source: TEJ; KGI Research estimates

Figure 4: Earnings growth for AI-related stocks this year has been revised upward from 26% YoY to 32% YoY, while non-AI stocks have been downgraded from an 18% YoY decline to a contraction of 23% YoY

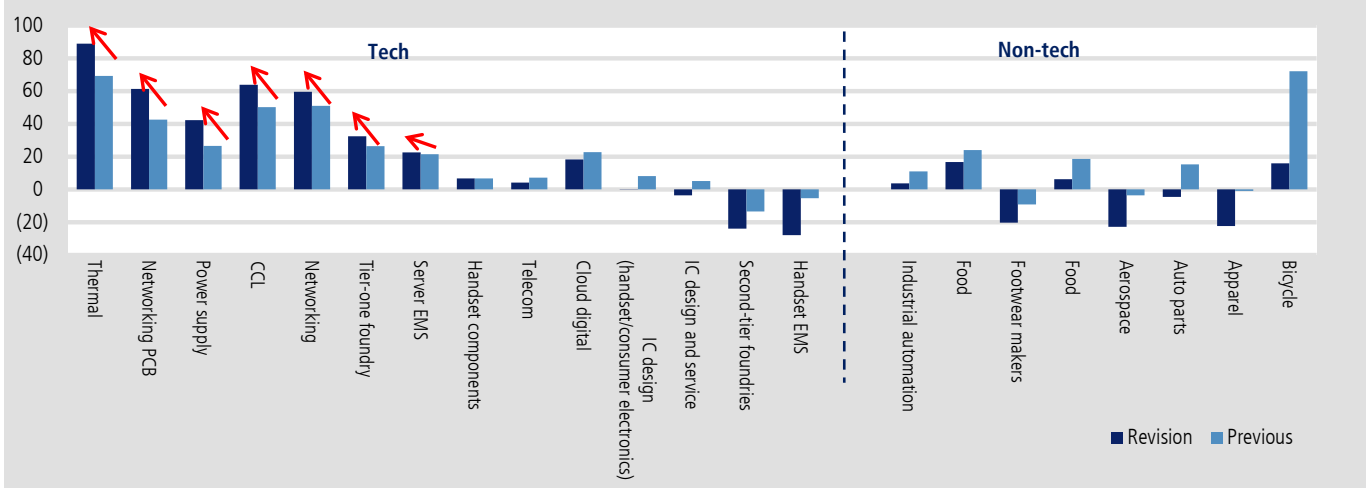
AI and non-AI EPS YoY, 2025F earnings growth, percent



Source: TEJ; KGI Research estimates

Figure 5: Upward revisions to Taiex earnings this year have been concentrated in AI-related sectors, while other industries have seen broad-based downward adjustments

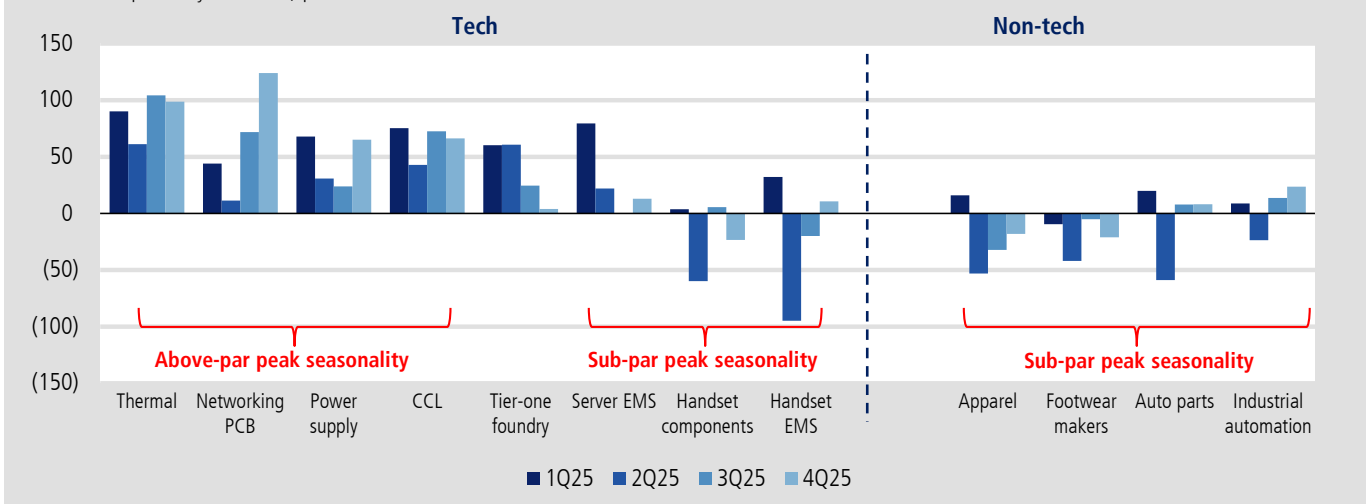
Taiex 2025 EPS YoY (by sector), percent



Source: TEJ; KGI Research estimates

Figure 6: Taiex's AI-related stocks are poised for a strong peak season in 2H25F, whereas non-AI sectors will see a subdued peak season, weighed down by tariff pressures & forex volatility

Taiex sector quarterly EPS YoY, percent



Source: TEJ; KGI Research estimates

Figure 7: Projected earnings & valuations of Taiex constituents

Earning (NT\$bn)	2021	2022	2023	2024	2025F	2026F
Taiaex	3,917	3,771	2,682	3,780	4,151	4,579
Taiaex excl. TSMC	3,320	2,755	1,844	2,607	2,596	2,826
Tech	1,914	2,147	1,698	2,249	2,768	3,247
Tech excl. TSMC	1,317	1,130	860	1,075	1,213	1,494
TSMC	597	1,017	838	1,173	1,555	1,753
EPS growth (%)						
Taiaex	78.1	(3.7)	(28.9)	40.9	9.8	10.3
Taiaex excl. TSMC	97.4	(17.0)	(33.1)	41.4	(0.4)	8.8
Tech	51.7	12.2	(20.9)	32.4	23.1	17.3
Tech excl. TSMC	77.1	(14.2)	(23.9)	25.1	12.8	23.1
TSMC	15.2	70.4	(17.5)	39.9	32.5	12.8
P/E (x)						
Taiaex	19.8	20.6	28.9	20.5	18.7	16.9
Taiaex excl. TSMC	14.1	17.1	25.5	18.0	18.1	16.6
Tech	29.5	26.3	33.2	25.1	20.4	17.4
Tech excl. TSMC	19.6	22.9	30.1	24.0	21.3	17.3
TSMC	51.3	30.1	36.5	26.1	19.7	17.5

Source: KGI Research estimates

Figure 8: Our top picks

Company	Code	Investment rating	Target price (NT\$)	Mkt cap (US\$m)	Share price (NT\$)	Change +/- (%)	EPS (NT\$)		PE (x)		P/B (x)		ROE (%)		Cash yield (%)	
							2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
AVC	3017 TT	Outperform	1,300	13,892	1070.0	21.5	43.64	59.11	24.5	18.1	11.1	8.5	51.2	53.3	2.0	2.8
Fositek	6805 TT	Outperform	1,170	2,417	1060.0	10.4	28.29	45.00	37.5	23.6	11.2	9.0	32.2	42.3	1.3	2.1
GCE	2368 TT	Outperform	475	7,723	465.5	2.0	18.42	26.40	25.3	17.6	9.4	7.3	39.6	46.4	2.0	2.8
Alchip	3661 TT	Outperform	5,280	11,593	4305.0	22.6	72.90	131.98	59.1	32.6	7.9	6.7	14.1	22.2	0.8	1.5
Delta	2308 TT	Restricted	-	59,259	686.0	-	20.43	24.51	33.6	28.0	7.4	6.4	22.5	24.6	1.5	1.8
ASEH	3711 TT	Neutral	155	21,769	148.0	4.7	7.59	11.92	19.5	12.4	2.0	1.8	10.0	14.9	3.6	4.7
Hon Hai	2317 TT	Restricted	-	95,630	207.0	-	12.85	14.46	16.1	14.3	1.7	1.6	10.6	11.3	3.3	3.7
TSMC	2330 TT	Outperform	1,350	1,017,642	1180.0	14.4	59.96	67.61	19.7	17.5	5.7	4.7	32.3	29.4	1.7	1.7
Accton	2345 TT	Outperform	1,180	19,314	1035.0	14.0	44.13	47.17	23.5	21.9	12.3	10.2	59.3	51.0	2.4	2.9

Source: KGI Research estimates

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