

Strategy

Taiex may reach 39,000 amid aggressive earnings upgrades

Key message

1. Sales guidance from the AI supply chain has broadly exceeded expectations, with price hikes spreading from AI to non-AI sectors. We revise our 2026 earnings growth forecast from 20% to over 30% YoY.
2. Reflecting upward earnings revisions, we revise our 2026 Taiex peak estimate from 33,000 to 39,000 points. In the near term, caution is advised regarding technical volatility following an overextended rally.
3. We recommend focusing on AI-related and LEO-satellite firms, as well as sub-sectors with pricing power.

Event

The Taiex index has advanced by 12% year to date, surpassing market expectations. That said, we believe this uptrend will be sustained on robust AI fundamentals and healthy capital rotation across sectors.

Analysis

AI supply chain guidance generally beat expectations, driving upward revisions to corporate earnings forecasts. Recently, TSMC (2330 TT, NT\$1780, OP) and major AI supply-chain players have issued guidance that surpasses previous market forecasts, which in turn provided a strong boost to market confidence. Based on the latest adjustments to our forecast model, we markedly raise our 2026 projected earnings growth for the Taiex from 20% to greater-than 30% YoY. The reasons for this include: (1) AI demand is structural and most likely sustainable as it has expanded beyond HPC and cloud servers into a broader range of applications; (2) large CSPs appear to be accelerating capex growth, and should they keep raising capex guidance in coming quarters, we believe the investment cycle will expand further; and (3) supply chain earnings will be buoyed by a greatly tightened supply of advanced semiconductor, HBM, and OSAT capacity.

Although the present AI-driven earnings upcycle has been in place for more than 2.5 years, we do not see any signs of a significant deceleration amid growing end-market applications and an undersupply of compute power. In other words, we expect more corporate earnings upgrades in the future.

Price increases spreading from AI to non-AI tech & non-tech sectors. Notably, supply tightness and pricing upticks, initially driven by AI, have begun to spill over into other industries. This includes price hikes by foundries, memory & advanced OSAT (CoWoS/ HBM) suppliers, even followed by order recovery and price increases by some non-tech suppliers. These developments indicate that earnings growth within the Taiex market is expanding beyond AI-related sales and into multiple industries simultaneously. We view this as a typical indicator of a structural bull market entering its second stage, which features a more solid foundation for further market gains.

Capital rotation broadening in a healthy manner, creating solid foundations for a bull market. Before December 2025, market liquidity was heavily concentrated in AI stocks, presenting a pattern where market gains were driven almost entirely by a single group of stocks. However, the market structure has improved dramatically recently, with market funds shifting toward non-AI tech and non-tech stocks which staged catch-up rallies, along with renewed interest from sectors boasting price increases, inventory normalization or demand recovery. Such capital rotation indicates healthy market behavior that would help to sustain the ongoing uptrend. As the bull market transitions from being driven by a single catalyst to blossoming across multiple sectors, the underlying structure becomes more resilient and the odds of the broader market reaching new highs also increase.

Given the Taiex's overstretched rally, we caution that short-term pullbacks may occur before the Lunar New Year. Although the medium- to long-term bullish structure remains firmly intact, investors should stay alert to potential near-term technical pullbacks, reasons being: (1) the index has rallied significantly in a short period, making the market more sensitive to negative headlines; (2) profit-taking pressure typically emerges before the Lunar New Year; and (3) the Taiex's deviation from its 1-year moving average has widened to roughly 30%, approaching historical extremes. In the past three occasions when the deviation exceeded 30%, the market corrected by between 7%–19.5% following unexpected negative events. That said, any pullback this time is likely to be relatively limited, as positive catalysts during the earnings season should outweigh negatives, and solid fundamentals provide meaningful downside support.

We revise our 2026 Taiex peak estimate upward to 39,000 points from 33,000.

With full-year earnings growth expectations for the Taiwan market revised up from 20% to greater-than 30%, and assuming the market maintains a bull-market valuation of 21x forward PE (approximately two standard deviations above the long-term average), we revise our Taiex target from 33,000 to 39,000 points. Furthermore, the implied index level based on our revised TSMC target price of NT\$2,400 suggests that the Taiex could potentially break 39,000 points.

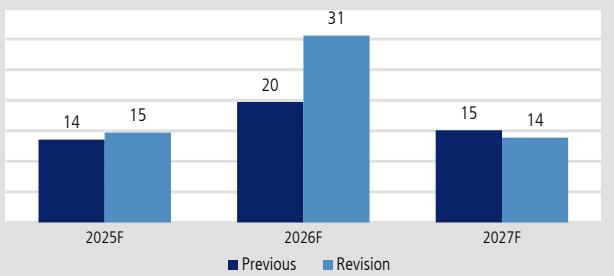
Conclusion & top picks

Reflecting stronger-than-expected AI demand, as well as a spillover of shortages and price hikes from AI-related sectors into non-AI industries, earnings forecasts for the Taiwan equity market have been revised up meaningfully. The full-year earnings growth forecast for the market has been revised up from 20% to greater-than 30%, and upward revisions are still to be expected. Given the substantial improvement in earnings growth and valuation support within a bullish range, we revise up our 2026 Taiex peak estimate to 39,000 points from 33,000 points.

In terms of investment allocation, we recommend focusing on the full AI supply chain, LEO-satellite plays, and sub-sectors with pricing power and improving supply-demand dynamics, as core holdings. However, as the index has already posted substantial gains, market sentiment has become more sensitive to short-term noise. Investors should be mindful of potential volatility or technical corrections which may occur at any time.

Figure 1: Strong guidance from TSMC & the AI supply chain drives Taiwan's 2026F earnings growth from 20% to 31%

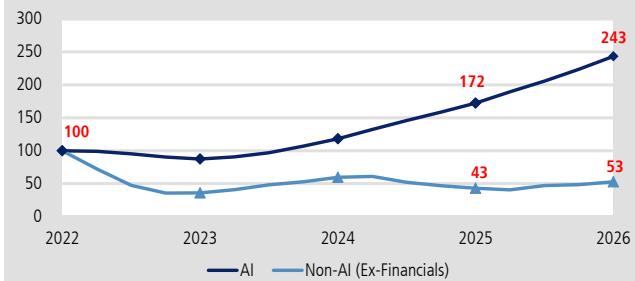
Taiex earnings YoY growth, percent



Source: TEJ; compiled and estimated by KGI Research

Figure 3: Earnings strength from AI supply chain persists, while non-AI sectors appear to have bottomed & stabilized

AI & non-AI corporate earnings, points

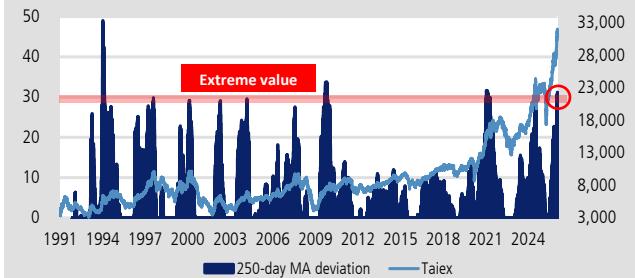


Source: TEJ; compiled and estimated by KGI Research

Note: Earnings indexed to 2022 = 100

Figure 5: The Taiex is now roughly 30% above its 250-day moving average—near historical extremes—leaving the market noticeably more sensitive to negative surprises, with even minor adverse news or noise potentially triggering a correction

Taiex deviation from 250-day MA, percent (LHS); Taiex, point (RHS)



Source: TEJ; compiled by KGI Research

Figure 2: AI-driven earnings upgrade cycle that began in 2H23 continues with no signs of reversal

Taiex estimated EPS, point

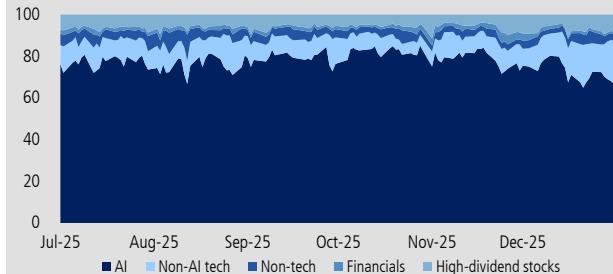


Source: Bloomberg; compiled by KGI Research

Note: EPS indexed to 100 beginning January 2020

Figure 4: Since mid-December, cooling AI sentiment has driven fund rotation into non-AI sectors, supporting laggards and extending the market's bullishness

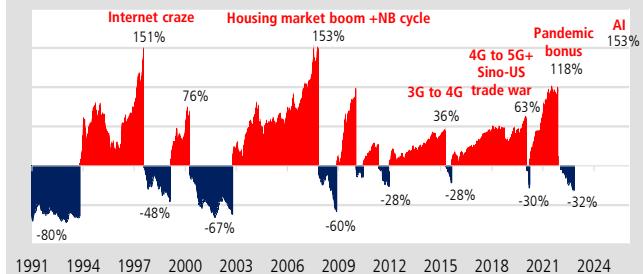
Daily trading turnover share (by sector), percent



Source: TEJ; compiled by KGI Research

Figure 6: AI has driven a cumulative 1.53x rally in the TAIEX, characteristic of a “super bull” cycle comparable to the expansion phases seen during past dot-com & housing booms

Historical cumulative bull - market gains and bear - market drawdowns, percent

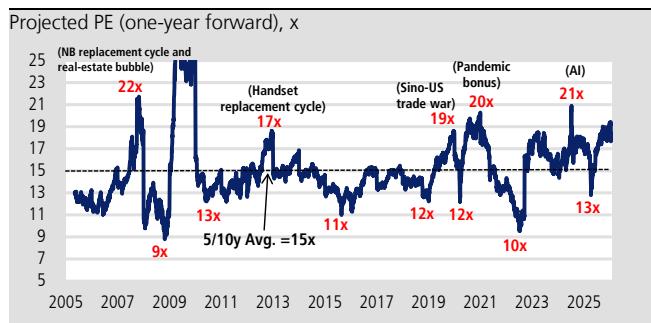


Source: TEJ; compiled by KGI Research

Figure 7: Earnings & valuations of Taiex constituents

Earning (NT\$bn)	2021	2022	2023	2024	2025F	2026F	2027F
Taiex	3,917	3,771	2,682	3,780	4,344	5,672	6,461
Taiex excl. TSMC	3,320	2,755	1,844	2,607	2,626	3,191	3,436
Tech	1,914	2,147	1,698	2,249	3,101	4,319	5,144
Tech excl. TSMC	1,317	1,130	860	1,075	1,383	1,837	2,119
TSMC	597	1,017	838	1,173	1,718	2,482	3,025
EPS growth (%)							
Taiex	78.1	(3.7)	(28.9)	40.9	14.9	30.6	13.9
Taiex excl. TSMC	97.4	(17.0)	(33.1)	41.4	0.7	21.5	7.7
Tech	51.7	12.2	(20.9)	32.4	37.9	39.3	19.1
Tech excl. TSMC	77.1	(14.2)	(23.9)	25.1	28.6	32.8	15.4
TSMC	15.2	70.4	(17.5)	39.9	46.4	44.5	21.9
P/E (x)							
Taiex	26.8	27.9	39.2	27.8	24.2	18.5	16.3
Taiex excl. TSMC	17.8	21.4	32.0	22.6	22.4	18.5	17.2
Tech	42.7	38.1	48.2	36.4	26.4	18.9	15.9
Tech excl. TSMC	27.0	31.5	41.4	33.1	25.8	19.4	16.8
TSMC	77.4	45.4	55.1	39.3	26.9	18.6	15.3

Source: Compiled & estimated by KGI Research

Figure 8: The Taiex index is now valued at 18x one-year forward PE, well above the long-term average of 15x PE

Figure 9: Taiex index & corresponding valuations

2026F PE	Equivalent index level (points)	2027F PE	Equivalent index level (points)	26-27F Avg.PE	Equivalent index level (points)
15x	26,167	15x	29,804	15x	27,986
16X	27,911	16X	31,791	16X	29,851
20x	34,889	20x	39,739	20x	37,314
21X	36,634	21X	41,726	21X	39,180
22X	38,378	22X	43,713	22X	41,045
23X	40,123	23X	45,700	23X	42,911
24X	41,867	24X	47,687	24X	44,777

Source: TEI; compiled & estimated by KGI Research

Figure 10: Scenario analysis for 2026 Taiex target prices based on TSMC's performance

	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: Compiled & estimated by KGI Research

Figure 11: Our top picks

Sector/ theme	Company	Code	Investment rating	Target price (NT\$)	Mkt cap (USSmn)	Share price (NT\$)	Change +/- (%)	EPS (NT\$)		P/B (x)		PE (x)		P/B (x)		P/B (x)		ROE (%)	Cash yield (%)		
								2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F		
AI supply chain	TSMC	2330 TT	Outperform	2,400.0	1,467,723	1,780.0	34.8	66.25	95.71	46.4	44.5	26.9	18.6	0.6	0.4	8.7	6.3	35.7	39.4	1.1	1.1
	Alchip	3661 TT	Outperform	5,380.0	8,865	3,430.0	56.9	66.40	134.46	(16.7)	102.7	51.7	25.5	(3.1)	0.2	7.7	6.3	14.3	27.3	1.0	2.0
	MediaTek	2454 TT	Outperform	1,850.0	90,523	1,775.0	4.2	67.44	65.27	0.9	(3.2)	26.3	27.2	29.3	(8.4)	7.3	7.2	27.4	26.5	3.8	3.9
	MPI	6223 TT	Outperform	2,430.0	8,514	2,735.0	(11.2)	33.29	62.08	36.3	86.5	82.2	44.1	2.3	0.5	28.3	23.1	34.0	57.7	0.7	1.4
	Kinik	1560 TT	Outperform	390.0	2,021	431.5	(9.6)	8.64	13.02	22.2	50.7	49.9	33.1	2.3	0.7	8.0	6.8	16.9	22.3	0.8	1.1
	Aspeed	5274 TT	Outperform	10,500.0	10,529	8,760.0	19.9	100.98	157.46	48.4	55.9	86.8	55.6	1.8	1.0	44.4	31.5	58.3	66.3	0.9	1.4
	AVC	3017 TT	Outperform	1,800.0	17,707	1,420.0	26.8	50.01	75.00	138.3	50.3	28.4	18.9	0.2	0.4	14.3	10.4	57.7	63.7	1.8	2.7
	Fositek	6805 TT	Outperform	1,905.0	3,095	1,420.0	34.2	31.74	63.47	77.3	100.0	44.7	22.4	0.6	0.2	14.7	11.0	35.7	56.3	1.1	2.2
	DELTa	2308 TT	Outperform	1,770.0	103,241	1,250.0	41.6	23.79	36.42	75.4	53.1	52.6	34.3	0.7	0.6	12.5	10.0	25.2	32.5	1.0	1.5
	BHI (Bizlink)	3665 TT	Outperform	1,830.0	8,803	1,420.0	28.9	46.66	65.97	105.2	42.5	30.4	21.5	0.3	0.5	6.6	5.5	23.0	27.7	1.6	2.3
LEO-satellite plays	EMC	2383 TT	Outperform	1,950.0	20,736	1,820.0	7.1	42.09	64.99	57.1	54.4	43.2	28.0	0.8	0.5	13.5	10.4	36.7	43.1	1.4	2.1
	Accton	2345 TT	Outperform	1,400.0	20,607	1,155.0	21.2	46.08	55.83	114.9	21.5	25.1	20.7	0.2	1.0	13.8	10.8	61.9	58.7	2.3	2.9
Plays facing supply shortages or experiencing price hikes	COMPEQ	2313 TT	Outperform	125.0	6,404	169.0	(26.0)	5.47	7.49	16.5	36.8	30.9	22.6	1.9	0.6	4.4	3.9	14.5	18.4	1.6	2.2
	WNC	6285 TT	Outperform	180.0	2,462	160.0	12.5	6.41	8.97	(11.3)	40.0	25.0	17.8	(2.2)	0.4	2.3	2.2	9.4	12.7	2.6	3.6
	WEC	2344 TT	Outperform	170.0	16,526	115.5	47.2	0.88	16.00	560.2	1726.1	131.8	7.2	0.2	0.0	5.5	3.1	4.2	55.3	0.0	4.2
	NTC	2408 TT	Outperform	350.0	27,292	277.0	26.4	2.13	39.04	N/A	1732.1	130.0	7.1	N/A	0.0	5.0	3.0	3.9	53.3	0.4	2.8
	Unimicron	3037 TT	Outperform	405.0	17,735	354.0	14.4	4.12	12.44	24.0	202.0	86.0	28.5	3.6	0.1	5.6	4.9	6.6	18.2	0.5	1.6
	FE	1519 TT	Outperform	1,020.0	10,195	1,015.0	0.5	13.80	21.80	(0.6)	61.7	73.6	46.6	(120.5)	0.8	28.4	20.0	44.9	55.5	0.8	1.3

Source: Compiled & estimated by KGI Research

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