

Strategy

Fading geopolitical noise & earnings revisions to drive Taiex rally

Key message

1. US and Iran have so far failed to reach a peace deal, however the negative impact of the conflict has clearly diminished. We do not believe high short-term oil prices will cause substantive damage to the economy.
2. Valuations may fluctuate due to the war, but upward earnings revisions will continue. We estimate the Taiex index will reach 39000 by end-2026F.
3. Our top picks are AI and LEO satellite suppliers.

Event

With investors becoming less sensitive to ongoing geopolitical negatives, meaning economic fundamentals are back as the primary driving force for the Taiex, we expect the index to be shored up by earnings upgrades before reaching 39,000 by end-2026F. Any corrections triggered by the US-Iran war will make a good entry point for investors.

Analysis

US & Iran have so far failed to reach a peace deal, but investors are clearly less sensitive to the war. Despite the fact that the US and Iran have not been able to reach a substantive agreement on a ceasefire or de-escalation, global financial markets are clearly not as sensitive to the war as they had been previously. From early March, we saw a highly negative correlation between crude oil prices and global stock markets. That is, every sharp uptick in crude prices was followed by stock market pullbacks across the board, and vice versa. However, we have noticed a subtle but critical change in that dynamic since late March. Specifically, global stock markets have been rising in tandem with crude prices of late. Our interpretation of the phenomenon is that stock markets are digesting uncertainties stemming from the war.

High short-term oil prices won't result in a substantive economic calamity. Since the outbreak of the US-Iran war, transportation through the Strait of Hormuz has plunged markedly, prompting the price of Brent crude to skyrocket to as high as US\$120 per barrel, and causing broad-based concerns over the global economy. However, nominal prices can sometimes be misleading. We compare the two most recent surges in crude prices to the current one to see their impact on consumer affordability after adjusting for inflation. In July 2008, crude prices peaked at US\$146 per barrel, and the impact on real purchasing power would be on parity with today if current prices were above US\$220 per barrel. For today's consumers to feel the same pain as when crude prices soared to US\$128 per barrel in March 2022, crude must trade over US\$149 per barrel. Right now, global crude prices are fluctuating between US\$100-120 per barrel, and so it should be safe to argue that the present impact on real purchasing power is well below those of the last two historic peaks.

We have seen the media predicting that the US-Iran war could turn into a long-term event, but from the standpoint of the futures market, while short-term oil prices have spiked considerably, the increase in long-term (over one year) prices has been moderate, suggesting that the majority of market participants still expect the disruption on crude supply as a result of the war as a short-term event rather than a structural energy crisis.

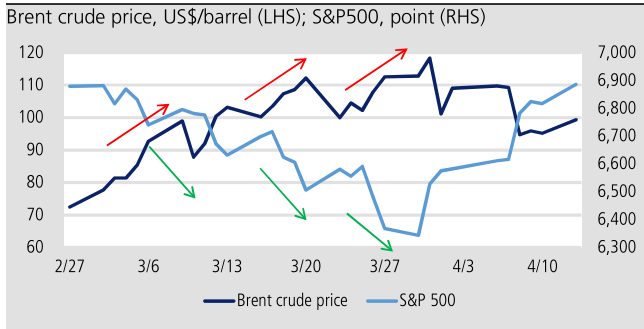
Valuations may fluctuate due to the war, but upward earnings revisions will continue. Over the six weeks since the war began, global financial markets have seen some ups and downs, which we attribute mainly to short-term valuation fluctuations instead of changes in corporate fundamentals. The Taiex index has also suffered a 10% correction amid rising geopolitical risks, but at the same time, consensus has revised up earnings forecasts, with 2026F Taiex earnings growth being raised from 20% to 32% YoY. This means the war has not caused any substantive damage to corporate earnings, and we believe such resilience is strengthened by exponential growth in AI demand. For reference, TSMC (2330 TT, NT\$2,055, OP) has raised CoWoS capacity guidance for end-2027F from 155 thousand wafers per month (kwpm) to 170kwpm in a bid to fulfill mounting orders from clients. Overall, it is true that stock prices have retreated recently due to valuation

de-ratings, but what really determines long-term stock prices is whether corporate earnings are being revised up. As far as the Taiex market is concerned, with TSMC still adding capex and with the entire AI supply chain thriving on extended order visibility, we expect consensus to continue to revise up forecasts for the upcoming 1Q26F earnings season. We stand by our view that the Taiex index will peak at 39,000 in 2026F, implying a 2026-27F average PE of 21x.

Conclusion & top picks

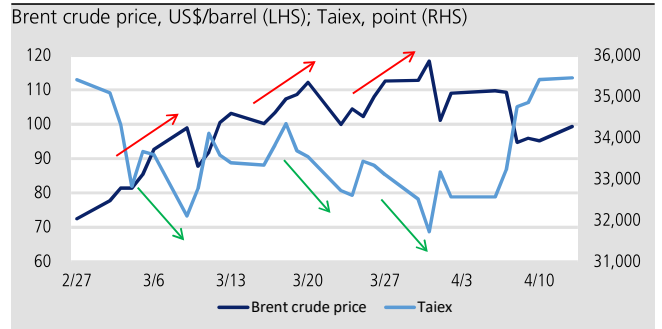
With investors becoming less sensitive to ongoing geopolitical negatives, economic fundamentals are back as the primary driving force for the Taiex, and we expect the index to be shored up by earnings upgrades before reaching 39,000 by end-2026F. Any corrections triggered by the US-Iran war will make a good entry point for investors. As the arms race for AI and low Earth-orbit satellite pick up steam, investors are advised to focus on the related supply chains. Our top picks are thermal, power supply, optical communication, CCL, connector and switch plays, which are set to benefit from GPU upgrades to the Vera Rubin platform. We also recommend ABF, PCB and memory suppliers, on tight supply in the market.

Figure 1: The negative correlation between crude prices & global stock markets since the outbreak of the US-Iran war has reversed into a positive correlation...



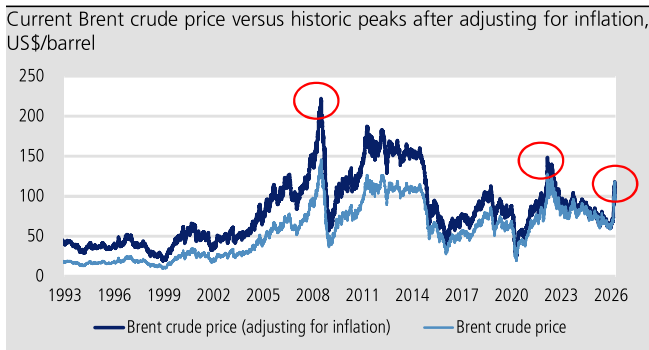
Source: Bloomberg; KGI Research compiled

Figure 2: ...indicating that investors are now less sensitive to the negatives brought by the war



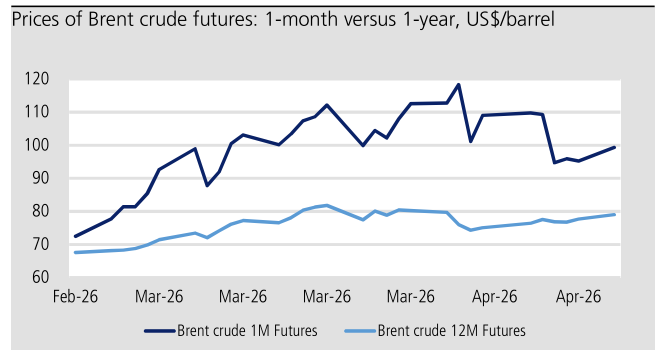
Source: Bloomberg; KGI Research compiled

Figure 3: After adjusting for inflation, the pressure facing consumers with today's crude prices standing above US\$100 per barrel is far less intense than 2008's US\$220 per barrel & 2022's US\$149 per barrel



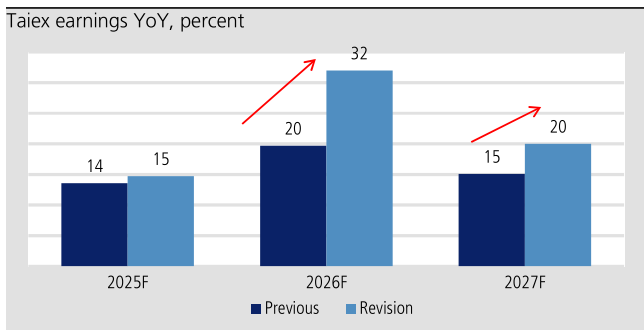
Source: Bloomberg; KGI Research compiled

Figure 4: Soaring near-term oil prices & moderate long-term futures price upticks suggest most market participants see the disruption on crude supply as a short-term event rather than a structural energy crisis



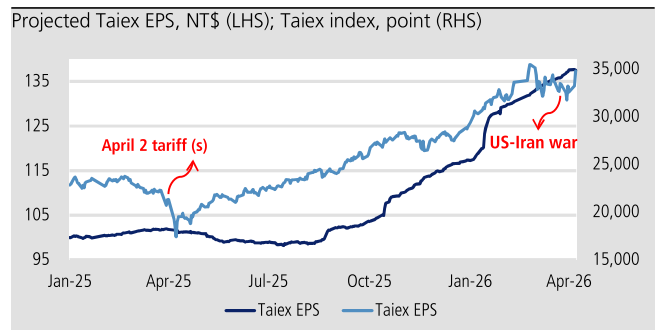
Source: Bloomberg; KGI Research compiled

Figure 5: AI demand has remained uncashed despite the US-Iran war, prompting consensus to revise up 2026F Taiex earnings growth from 20% to 32% YoY



Source: TEJ; KGI Research estimates

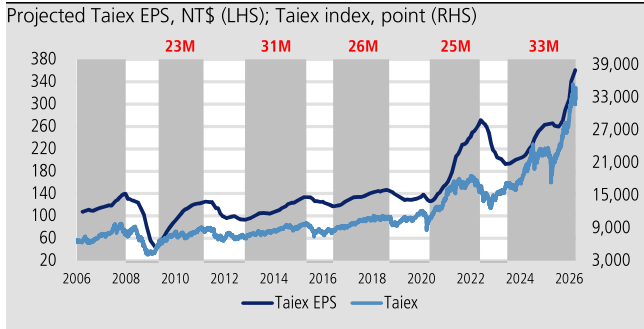
Figure 6: The Taiex has also suffered a 10% correction due to the US-Iran war, even as consensus has revised up earnings forecasts



Source: Bloomberg; KGI Research compiled

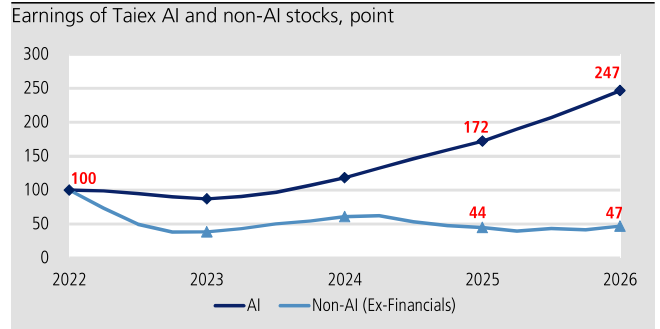
Note: We use EPS forecast in January 2025 as the base of 100

Figure 7: The current Taix earnings upgrade cycle has lasted for 33 months, the longest ever, thanks to an AI arms race



Source: Bloomberg; KGI Research compiled
 Note: We use EPS forecast in January 2026 as the base of 100

Figure 8: AI suppliers to see 2026F EPS grow to 2.47x of 2022's



Source: TEJ; KGI Research estimates
 Note: We use 2022 earnings as the base of 100

Figure 9: Earnings and valuations of Taix constituents by sector

Earning (NT\$bn)	2021	2022	2023	2024	2025	2026F	2027F
Taix	3,917	3,771	2,682	3,780	4,344	5,738	6,857
Taix excl. TSMC	3,320	2,755	1,844	2,607	2,626	3,256	3,832
Tech	1,914	2,147	1,698	2,249	3,101	4,335	5,406
Tech excl. TSMC	1,317	1,130	860	1,075	1,383	1,854	2,382
TSMC	597	1,017	838	1,173	1,718	2,482	3,025
EPS growth (%)							
Taix	78.1	(3.7)	(28.9)	40.9	14.9	32.1	19.5
Taix excl. TSMC	97.4	(17.0)	(33.1)	41.4	0.7	24.0	17.7
Tech	51.7	12.2	(20.9)	32.4	37.9	39.8	24.7
Tech excl. TSMC	77.1	(14.2)	(23.9)	25.1	28.6	34.0	28.5
TSMC	15.2	70.4	(17.5)	39.9	46.4	44.5	21.9
P/E (x)							
Taix	30.2	31.3	44.1	31.3	27.2	20.6	17.2
Taix excl. TSMC	19.5	23.6	35.2	24.9	24.7	19.9	16.9
Tech	49.6	44.2	55.9	42.2	30.6	21.9	17.6
Tech excl. TSMC	31.6	36.8	48.4	38.7	30.1	22.5	17.5
TSMC	89.3	52.4	63.6	45.4	31.0	21.5	17.6

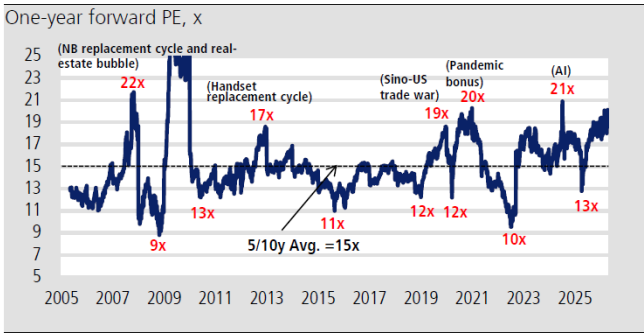
Source: KGI Research compiled

Figure 10: Earnings and valuations of Taix constituents by sector

Tech	Earning YoY (%)						Forecast PE (x)			Non-tech	Earning YoY (%)						Forecast PE (x)		
	2022	2023	2024	2025	2026F	2027F	2025	2026F	2027F		2022	2023	2024	2025	2026F	2027F	2025	2026F	2027F
Server EMS	(1.7)	3.7	24.8	34.9	25.5	22.9	15.7	12.6	10.0	Cement	(50.7)	8.4	27.9	(39.1)	62.2	8.3	45.8	14.7	13.5
Thermal	34.5	20.5	54.0	116.2	85.2	41.8	41.1	21.1	15.2	Food	(13.6)	6.8	12.7	(5.1)	32.5	15.3	20.9	15.8	13.7
Power supply	15.1	2.4	(1.7)	59.5	50.7	49.4	49.9	33.8	22.9	Petrochemicals	(63.1)	(50.5)	(82.6)	(77.7)	1073.6	46.5	26.5	60.8	27.9
ABF	102.5	(68.1)	(70.1)	91.5	225.9	74.7	159.7	49.2	30.0	Apparel	32.1	(11.0)	17.3	(15.1)	16.7	13.3	15.9	13.7	12.2
IC design and service	94.8	5.3	29.9	(7.7)	76.7	46.8	69.8	43.4	26.9	Footwear makers	100.0	(45.2)	18.0	(14.2)	6.5	14.9	14.9	14.0	12.2
Memory	(24.4)	-	-	-	1965.3	27.5	110.5	5.3	4.2	Auto parts	70.1	(2.2)	49.1	(13.3)	27.4	5.3	10.9	8.7	8.6
Networking PCB	22.6	(10.9)	46.0	41.7	48.9	31.2	40.8	25.7	19.3	Industrial automation	5.2	(14.2)	6.6	3.4	26.3	17.7	45.2	29.4	23.2
Networking	75.5	9.4	8.1	61.1	46.6	29.2	28.0	19.8	16.4	Bicycle	(12.7)	(44.8)	(88.9)	(35.2)	32.6	26.9	22.4	14.0	11.8
CCL	(14.1)	(0.4)	93.0	48.2	65.0	53.9	80.5	47.6	30.3	Container shipping	19.7	(94.4)	631.6	(53.3)	(26.7)	29.3	7.8	12.2	8.4
Tier-one foundry	70.4	(17.5)	39.9	46.4	45.7	22.6	31.0	21.3	17.4	Steel	(75.4)	(89.0)	(41.0)	-	-	(17.6)	(74.2)	32.7	38.3
Second-tier foundries	56.3	(30.1)	(22.6)	(11.6)	19.9	17.0	18.0	15.0	12.8	Tourism	(46.5)	176.4	2.7	(12.5)	42.7	-	17.2	10.0	-
Handset components	28.4	(37.1)	28.2	(20.1)	36.1	20.8	34.4	23.0	18.3	Food	0.3	75.3	(7.7)	(42.8)	132.0	13.8	(1.0)	12.8	11.0
TFT	-	-	-	108.1	(31.2)	107.4	446.7	77.9	36.6	Aerospace	127.3	26.8	(0.3)	(44.7)	100.5	45.5	97.2	26.0	17.3
Telecom	2.2	5.7	5.8	4.7	5.2	5.0	27.0	25.6	24.4	Airlines	(37.8)	185.5	52.7	(5.9)	(45.0)	59.2	7.4	13.3	8.5
IC design (handset/consumer electronics)	(2.9)	(32.6)	29.8	(3.9)	(1.3)	40.3	19.8	20.2	16.2	Heavy electrical	(1.9)	41.6	33.7	1.8	31.6	30.3	36.4	26.0	19.0
Handset EMS	(26.5)	4.1	7.4	(14.7)	7.4	7.4	14.6	13.6	12.7										
LEO Satellites	74.6	(28.3)	13.5	6.4	42.1	27.3	41.1	29.0	23.2										
Test Interface	48.8	(41.4)	121.0	46.3	100.7	61.3	144.5	71.6	42.9										
Switches	73.6	9.2	34.5	119.5	31.5	42.0	40.3	30.6	21.6										

Source: KGI Research compiled

Figure 11: The Taixi is now valued at 20x one-year forward PE versus a long-term average of 15x PE



Source: TEJ; KGI Research estimates

Figure 12: Taixi & corresponding valuations

2026F PE (x)	Equivalent index level (points)	2027F PE (x)	Equivalent index level (points)	26-27F Avg. PE (x)	Equivalent index level (points)
15	26,430	15	31,584	15	29,007
16	28,192	16	33,690	16	30,941
20	31,716	20	37,901	20	34,809
21	35,240	21	42,112	21	38,676
22	37,002	22	44,218	22	40,610
23	38,764	23	46,323	23	42,544
24	40,526	24	48,429	24	44,478

Source: TEJ; KGI Research estimates

Figure 13: Our top picks

Sector/ theme	Company	Code	Investment rating	Target price (NT\$)	Mkt cap (US\$m)	Share price (NT\$)	Change +/- (%)	EPS (NT\$)		P/B (x)		PE (x)		P/B (x)		ROE (%)		Cash yield (%)			
								2025	2026F	2025	2026F	2025	2026F	2025	2026F	2025	2026F	2025	2026F	2025	2026F
AI supply chain & Semiconductor	TSMC	2330 TT	Outperform	2,420	1,685,368	2,055.0	17.8	66.26	96.53	46.4	45.7	31.0	21.3	0.7	0.5	9.8	7.2	35.4	39.0	1.1	1.0
	Alchip	3661 TT	Outperform	4,590	8,251	3,200.0	43.4	66.39	127.76	(16.7)	92.6	48.2	25.0	(2.9)	0.3	6.6	5.5	13.7	24.1	1.0	2.0
	KYEC	2449 TT	Outperform	350	11,640	301.0	16.3	9.06	9.81	42.4	8.3	33.2	30.7	0.8	3.7	7.5	6.7	23.9	23.0	1.8	2.0
	MPI	6223 TT	Outperform	4,800	14,130	4,560.0	5.3	33.49	66.16	38.0	97.6	136.2	68.9	3.6	0.7	30.6	26.6	26.6	40.0	0.5	0.9
	Kinik	1560 TT	Outperform	520	2,369	503.0	3.4	9.28	13.47	31.4	45.4	54.2	37.3	1.7	0.8	9.1	7.9	17.9	22.8	1.0	1.4
	Aspeed	5274 TT	Outperform	10,500	15,548	13,005.0	(19.3)	100.98	157.46	48.4	55.9	128.8	82.6	2.7	1.5	66.0	46.8	58.3	66.3	0.6	0.9
	AVC	3017 TT	Outperform	2,600	28,677	2,310.0	12.6	49.17	89.08	134.8	81.1	47.0	25.9	0.3	0.3	20.6	14.3	52.2	63.7	0.9	1.6
	Fositek	6805 TT	Outperform	2,305	3,751	1,730.0	33.2	31.00	65.40	73.2	111.0	55.8	26.5	0.8	0.2	17.4	12.8	34.4	55.7	0.7	1.7
	DELTA	2308 TT	Outperform	1,770	143,760	1,750.0	1.1	23.14	36.42	70.6	57.4	75.6	48.1	1.1	0.8	17.0	13.7	24.1	31.5	0.7	1.1
	BHI (Bizlink)	3665 TT	Outperform	2,600	14,159	2,295.0	13.3	46.57	73.68	104.8	59.9	49.3	31.1	0.5	0.5	9.6	7.7	21.7	27.5	0.7	1.0
	EMC	2383 TT	Outperform	2,985	40,852	3,605.0	(17.2)	40.97	66.11	52.9	61.7	88.0	54.5	1.7	0.9	25.6	19.9	34.9	42.4	0.7	1.1
	Accton	2345 TT	Outperform	1,850	33,539	1,890.0	(2.1)	47.13	61.74	119.5	31.5	40.1	30.6	0.3	1.0	19.5	15.1	58.1	55.6	0.8	1.7
Jentech	3653 TT	Outperform	4,200	18,562	4,000.0	5.0	36.75	59.05	54.0	60.7	108.8	67.7	2.0	1.1	25.7	22.4	28.3	34.6	0.6	0.9	
ELASER	3450 TT	Outperform	360	1,449	314.5	14.5	6.72	11.97	75.8	78.2	46.8	26.3	0.6	0.3	9.6	8.6	21.3	34.6	1.4	2.5	
HON	7769 TT	Outperform	6,600	84	4,185.0	57.7	75.71	107.99	133.9	57.2	55.3	38.8	0.4	0.7	31.1	24.3	68.2	72.6	1.6	1.8	
AEMC	4749 TT	Outperform	1,260	2,695	919.0	37.1	11.23	16.62	49.2	48.1	81.9	55.3	1.7	1.1	8.3	6.6	17.2	15.0	1.1	1.6	
Plays facing supply shortages or experiencing	WEC	2344 TT	Outperform	200	13,306	93.5	113.9	0.87	20.63	559.2	2257.6	106.9	4.5	0.2	0.0	4.4	2.3	4.2	66.5	0.5	6.6
	Macronix	2337 TT	Outperform	300	9,744	155.5	92.9	(1.77)	30.04	2.9	N.M.	(87.9)	5.2	(30.0)	N.A.	6.6	2.9	(7.4)	75.6	0.0	5.8
	Unimicron	3037 TT	Outperform	560	30,004	597.0	(6.2)	4.36	13.54	31.3	210.4	136.9	44.1	4.4	0.2	9.2	7.8	6.9	19.1	0.3	1.0
LEO-satellite plays	COMPEQ	2313 TT	Outperform	240	9,706	257.5	(6.8)	5.51	7.88	17.3	43.0	46.7	32.7	2.7	0.8	6.6	5.7	14.4	18.8	1.1	1.5
	WNC	6285 TT	Outperform	180	3,426	224.0	(19.6)	6.41	8.97	(11.3)	40.0	35.0	25.0	(3.1)	0.6	3.3	3.1	9.4	12.7	1.8	2.5

Source: KGI Research compiled

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