

Strategy

40,000 points is not the peak of this bull market, but the beginning of the next upcycle

Key message

1. Fueled by the AI arms race, consensus has revised up 2026-27F Taix earnings growth from a respective 33% and 21% to 40% and 25% YoY.
2. Favorable fund flows and government policies will keep the Taix bull run afloat.
3. We raise 2026F Taix target peak to 50,000 points from 39,000 points. Investors should focus on AI and LEO satellite related stocks.

Event

Given the continued AI arms race and upward revisions to supply-chain earnings, we raise our projected 2026F target peak for the Taix from 39,000 to 50,000 points. Consensus 2026F Taix earnings growth has been revised up from 33% to 40% YoY, while 2027F growth is revised up from 21% to 25% YoY, underscoring strong fundamental support behind the market rally.

Analysis

Rally to 40,000 points driven by structural catalysts rather than speculative sentiment.

The Taix reached 40,000 points on May 4, posting a YTD gain of 40.5% and marking one of the strongest performances seen in recent years. Whereas many investors are worried that such a strong rally will be inevitably followed by a correction, our view differs fundamentally. We believe this advance is not driven by speculative sentiment, but rather by three structural catalysts, namely the AI super cycle, continued earnings upgrades, and sustained capital inflows. In this context, the 40,000-point milestone should not be viewed as the peak of the bull market, but rather as the starting point of the next upcycle.

Upward earnings revisions continue as AI arms race is far from over. The most fundamental force driving the Taix rally is the continued acceleration of global AI investment. We estimate that total capex by major global CSPs will reach US\$720bn in 2026F, up 70% YoY and marking the third consecutive year of growth at this exceptionally high pace. Even more noteworthy, market consensus continues to project that 2027F capex will maintain 20% YoY growth, indicating that investment in AI infrastructure has not shown signs of cooling despite valuation concerns or geopolitical disruptions.

Behind the continued capex expansion by leading CSPs lies a direct uplift to order visibility and earnings outlook across the entire AI supply chain. This trend is clearly reflected in Taix earnings, where profit forecasts for both 2026F and 2027F continue to be revised upward, with no clear signs of an inflection point. Taix earnings growth for this year has been revised up from 33% before earnings season to approximately 40% YoY, while expectations for 2027F earnings growth are also raised from 21% before earnings season to 25% YoY despite an already high base. This clearly indicates that the current rally is not a valuation-driven expansion detached from fundamentals, but rather one firmly anchored in solid and continuously growing earnings. Moreover, the benefits of AI-related investment are broadening beyond the initial advanced-node manufacturing to cover the entire AI server supply chain. As AI applications migrate from the cloud toward edge and agentic AI, the beneficiary base is also expanding from a narrow set of core AI players to a much wider AI-related ecosystem. As a result, mid- to large-cap stocks beyond TSMC (2330 TT, NT\$2250, OP) have increasingly taken on a greater role in driving index performance, contributing to a healthier bull-market rotation and a more resilient market structure. Whereas TSMC has accounted for 60-70% of Taix gains over the past two years, its contribution has gradually declined to 50-60% YTD, confirming that market driving forces are diversifying in an orderly manner.

Favorable fund flows & gov't policies to keep index afloat. The sustainability of the current rally requires both solid earnings and capital inflows. At the moment, the Taiex is benefiting from dual tailwinds of FINI rebuilding positions and expansion of domestic ETFs. On the FINI side, during the previous escalation of the US-Iran war, FINI net sold approximately NT\$820bn worth of Taiex stocks. As geopolitical risks ease off, FINI have since rebuilt positions totaling NT\$300-400bn. This suggests there is still substantial room for stock buying by FINI as their Taiex holdings have yet to return to normal levels.

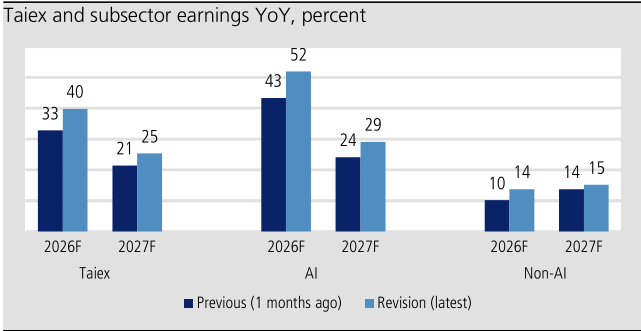
On the domestic front, actively managed ETFs have significantly outperformed the broader market this year, attracting a steady influx of new capital. We estimate that cumulative net inflows YTD have reached approximately NT\$220bn. More importantly, regulators have recently raised the single-stock investment cap for actively managed ETFs and mutual funds from 10% to 25%, effectively granting institutional capital greater flexibility to concentrate holdings. Under the new rules, institutional investors are able to more aggressively increase exposure to TSMC and large-cap AI stocks, directly lifting marginal demand for index heavyweights and acting as a key catalyst behind the index's breakthrough. The combination of FINI position rebuilding and structural tailwinds from domestic ETFs has formed a solid liquidity foundation for the ongoing Taiex upcycle.

Conclusion & top picks

Based on the latest earnings outlook and current valuations, the Taiex is trading at approximately 17x 2027F earnings. Compared with previous bull-market peaks where valuations reached around 21x, the market still offers substantial upside. As such, we raise our projected peak for the Taiex to 50,000 from 39,000 points for 2026F. In other words, 40,000 points should not be viewed as the end of this bull cycle, but rather the starting point toward the next bull-market milestone.

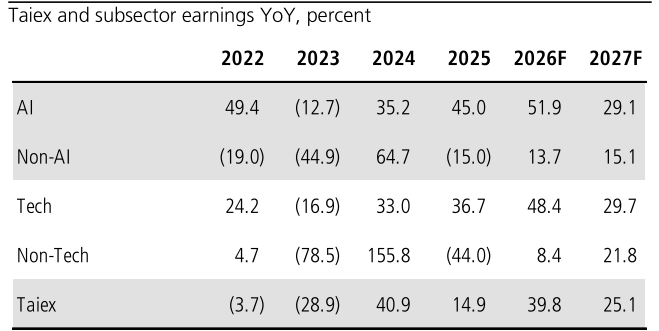
For stock trading, we suggest that investors engage upon pullbacks, and focus on AI-related supply chains, including advanced packaging, CoWoS, high-performance computing and AI server, as well as the low-Earth orbit satellite supply chain for asset allocation. With no signs of reversal in industry trends, earnings outlook or capital flows, current index upticks should remain intact. The risk, as we see it, is not for those who chase the market, but for those that remain on the sidelines during one of the most structurally compelling bull markets in recent years.

Figure 1: Consensus has been revising up 2026-27F Taiex earnings growth amid accelerating AI investment



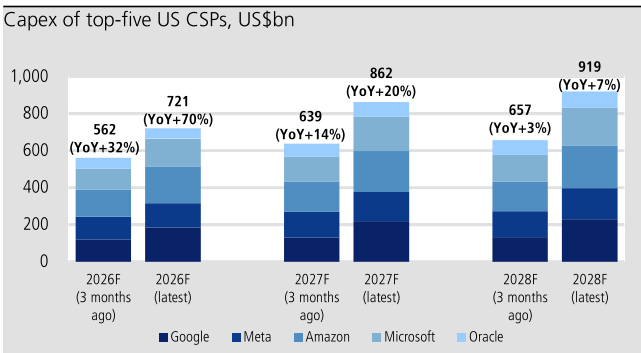
Source: TEJ; KGI Research

Figure 2: Consensus 2026-27F Taiex earnings growth has been revised up to 40% and 25% YoY, respectively



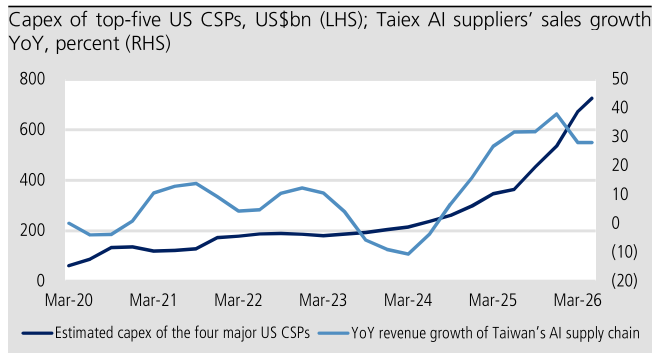
Source: TEJ; KGI Research

Figure 3: Global leading CSPs have revised up 2026F capex growth to 70% from 32% YoY, and 2027F growth to 20% from 14% YoY



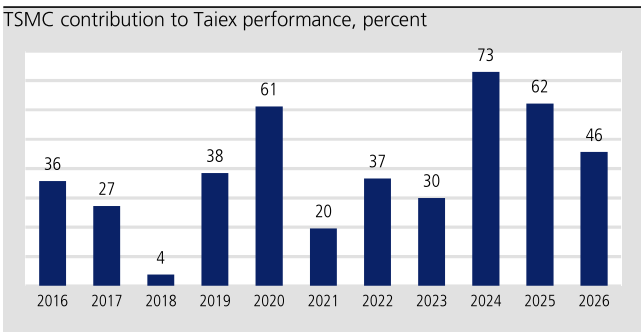
Source: Bloomberg; KGI Research

Figure 4: AI suppliers enjoy better order visibility and earnings growth as global CSPs step up investment



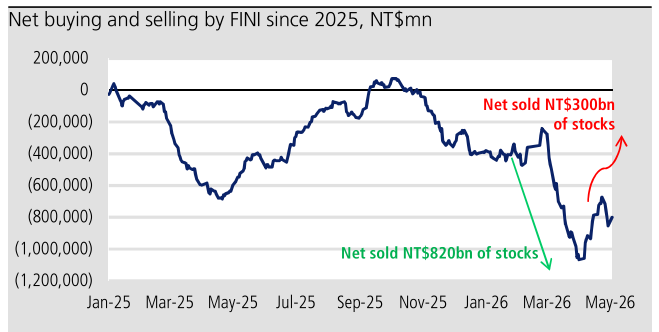
Source: Bloomberg; KGI Research

Figure 5: TSMC's weighting in Taiex performance has declined from 60-70% over the past two years to the current 50-60%, suggesting a healthy diversification



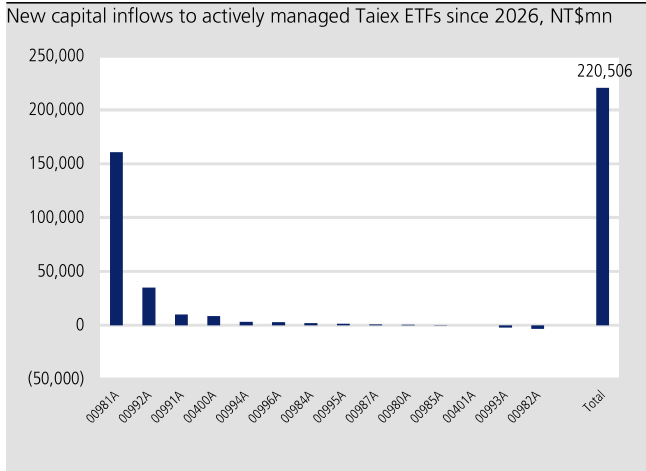
Source: TEJ; KGI Research

Figure 6: FINI unloaded Taiex stocks when geopolitical tensions were on the rise, and they have rebuilt only a portion of positions, implying room for more net buying



Source: TEJ; KGI Research

Figure 7: Actively managed ETFs have offered decent returns, thus attracting a consistent influx of new capital, which we estimate to have amounted to NT\$220bn YTD



Source: TEJ; KGI Research
Note: Data as of May 4, 2026

Figure 8: Actively managed ETFs have outperformed the broader market by significant margins, with top three ETFs boasting returns of over 70% YTD vs. Taix gains of 40%

Taix and ETF returns (%)	YTD	Over the past quarter	Over the past month	Over the past week	Share price (NT\$)	Mkt cap (NT\$m)
Active ETFs						
00981A	78.8	62.7	46.5	6.2	29.6	250,898
00994A	76.9	60.7	45.4	6.8	17.7	4,479
00992A	73.1	55.5	39.4	7.2	18.1	51,821
00987A	71.5	65.6	43.0	8.8	17.3	3,124
00995A	69.2	59.0	44.4	7.0	16.9	5,440
00991A	67.4	47.4	42.5	5.2	17.5	39,739
00985A	54.7	37.4	30.4	2.8	20.7	10,791
00982A	54.3	44.8	36.7	6.8	22.1	40,934
00980A	51.8	39.3	32.4	4.8	22.7	15,139
00996A	36.1	36.1	40.0	7.1	13.6	4,156
00400A	35.7	35.7	35.7	6.4	13.6	19,746
00984A	35.3	23.1	19.4	4.2	14.5	6,710
00993A	31.4	31.4	27.3	5.0	13.1	12,491
00401A	24.8	24.8	24.8	5.7	12.5	3,412
Market-Cap ETFs						
00631L	87.9	51.9	55.0	4.7	31.0	125,189
0050	46.2	29.8	27.9	1.7	94.6	1,749,627
006208	46.0	29.8	27.7	1.7	219.2	406,515
009816	36.0	32.2	29.6	3.3	13.6	109,308
TWSE index	40.5	26.1	25.0	2.7	40,705	132,631,130
TPEX index	44.2	32.1	25.3	5.6	398	10,831,846

Source: TEJ; KGI Research
Note: Data as of May 4, 2026

Figure 9: Taix constituent earnings forecasts & valuations

Earning (NT\$b)	2021	2022	2023	2024	2025	2026F	2027F
Taix	3,917	3,771	2,682	3,780	4,344	6,085	7,612
Taix excl. TSMC	3,320	2,755	1,844	2,607	2,626	3,420	4,215
Tech	1,914	2,147	1,698	2,249	3,101	4,593	5,975
Tech excl. TSMC	1,317	1,130	860	1,075	1,383	1,929	2,578
TSMC	597	1,017	838	1,173	1,718	2,664	3,397
EPS growth (%)							
Taix	78.1	(3.7)	(28.9)	40.9	14.9	40.1	25.1
Taix excl. TSMC	97.4	(17.0)	(33.1)	41.4	0.7	30.3	23.2
Tech	51.7	12.2	(20.9)	32.4	37.9	48.1	30.1
Tech excl. TSMC	77.1	(14.2)	(23.9)	25.1	28.6	39.4	33.7
TSMC	15.2	70.4	(17.5)	39.9	46.4	55.1	27.5
P/E (x)							
Taix	33.9	35.2	49.5	35.1	30.6	21.8	17.5
Taix excl. TSMC	22.4	27.0	40.4	28.6	28.4	21.8	17.7
Tech	57.2	51.0	64.4	48.6	35.3	23.8	18.3
Tech excl. TSMC	38.8	45.2	59.4	47.5	36.9	26.5	19.8
TSMC	97.8	57.4	69.6	49.7	34.0	21.9	17.2

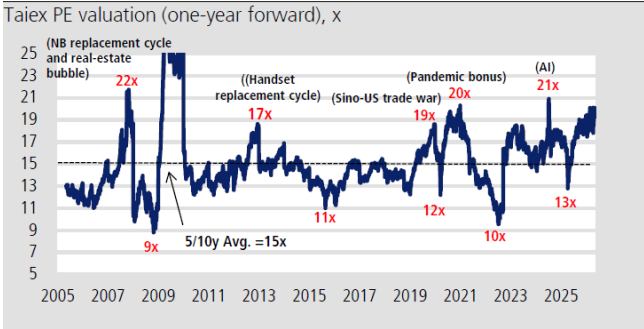
Source: KGI Research

Figure 10: Taix subsector earnings forecasts & valuations

Tech	Eaming YoY (%)						Forecast PE (x)			Non-tech	Eaming 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	26.1	23.8	17.1	13.6	10.7	Cement	(50.7)	8.4	27.9	(39.1)	61.5	8.7	43.8	14.3	13.0
Thermal	34.5	20.5	54.0	116.2	103.6	44.9	48.8	23.5	16.7	Food	(13.6)	6.8	12.7	(5.1)	32.5	15.3	20.0	15.1	13.1
Power supply	15.1	2.4	(1.7)	59.5	80.2	61.6	59.9	34.4	21.8	Petrochemicals	(63.1)	(50.5)	(82.6)	(77.7)	1466.7	15.7	31.1	41.2	24.7
ABF	102.5	(68.1)	(70.1)	91.5	252.5	92.0	240.0	66.8	34.9	Apparel	32.1	(11.0)	17.3	(15.1)	16.7	13.3	15.6	13.4	11.9
IC design and service	94.8	5.3	29.9	(7.7)	76.2	74.1	98.5	59.7	31.0	Footwear makers	100.0	(45.2)	18.0	(14.2)	6.5	14.9	13.6	12.8	11.1
Memory	(24.4)	-	-	-	1965.3	27.5	123.0	5.9	4.7	Auto parts	70.1	(2.2)	49.1	(13.3)	28.1	3.9	11.1	8.8	8.7
Networking PCB	22.6	(10.9)	46.0	41.7	48.9	31.2	52.3	32.9	24.7	Industrial automation	5.2	(14.2)	6.6	3.4	39.2	17.0	54.4	33.8	26.4
Networking	75.5	9.4	8.1	61.1	50.3	33.7	31.5	21.5	17.6	Bicycle	(12.7)	(44.8)	(88.9)	(35.2)	30.0	29.5	26.0	13.8	11.6
CCL	(14.1)	(0.4)	93.0	48.2	88.2	74.6	109.5	59.3	34.5	Container shipping	19.7	(94.4)	631.6	(53.3)	(26.7)	29.3	7.9	12.3	8.5
Tier-one foundry	70.4	(17.5)	39.9	46.4	55.1	27.5	34.0	21.9	17.2	Steel	(75.4)	(89.0)	(41.0)	-	-	(19.7)	(67.3)	29.7	35.6
Second-tier foundries	56.3	(30.1)	(22.6)	(11.6)	60.8	4.9	25.1	15.6	14.9	Tourism	-	41.9	16.9	(30.8)	24.0	-	16.2	9.3	-
Handset components	28.4	(37.1)	28.2	(20.1)	41.1	27.6	44.2	27.2	20.6	Food & Beverage	0.3	75.3	(7.7)	(30.0)	89.6	13.8	(6.4)	12.7	11.0
TFT	-	-	-	108.1	(31.2)	107.4	445.7	75.2	35.2	Aerospace	127.3	26.8	(0.3)	(32.4)	86.8	35.8	47.8	27.3	18.1
Silicon wafer	29.5	28.7	(50.2)	(25.7)	28.9	32.6	42.0	32.6	24.6	Airlines	(37.8)	185.5	52.7	(5.9)	(27.8)	28.4	7.3	13.0	8.3
Passive components	(0.8)	(23.3)	11.1	22.1	51.5	23.2	31.0	20.5	16.6	Heavy electrical	(1.9)	41.6	33.7	1.8	30.8	31.4	38.3	27.5	19.8
Telecom	2.2	5.7	5.8	4.7	5.4	5.0	27.3	25.8	24.5	Financials	(49.8)	33.2	54.3	0.5	10.7	-	13.9	12.3	-
IC design (handset/consumer electronics)	(2.9)	(32.6)	29.8	(3.9)	2.3	52.0	27.4	26.9	20.0										
Handset EMS	(26.5)	4.1	7.4	(14.7)	7.4	7.4	15.2	14.1	13.2										
LEO Satellites	74.6	(28.3)	13.5	6.4	42.1	27.3	43.3	30.6	24.4										
Test Interface	48.8	(41.4)	121.0	46.3	102.5	61.0	163.8	80.3	48.2										
Switches	73.6	9.2	34.5	119.5	31.5	53.0	53.1	40.4	26.4										
GaAs	(67.0)	(80.8)	332.4	48.0	(10.5)	157.6	105.1	125.7	44.6										

Source: KGI Research

Figure 11: Taiex now trading at 17x (2027F) forward PE versus long-term average of 15x PE



Source: TEJ; KGI Research

Figure 12: Taiex & 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	28,008	15	35,039	15	31,523
16	29,875	16	37,375	16	33,625
18	33,609	18	42,047	18	37,828
20	37,344	20	46,719	20	42,031
21	39,211	21	49,055	21	44,133
22	41,078	22	51,391	22	46,234
23	42,945	23	53,727	23	48,336

Source: TEJ; KGI Research

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 (%)			
								2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F		
AI supply chain & Semiconductor	TSMC	2330 TT	Outperform	2,600	1,846,461	2,250.0	15.6	102.74	131.02	55.1	27.5	21.9	17.2	0.4	0.6	7.8	5.8	41.4	38.8	1.1	1.3
	MediaTek	2454 TT	Outperform	4,200	160,136	3,155.0	33.1	67.98	111.95	2.8	64.7	46.4	28.2	16.8	0.4	12.0	10.5	26.3	39.5	2.1	2.2
	KYEC	2449 TT	Outperform	350	13,698	354.0	(1.1)	9.81	13.46	8.3	37.2	36.1	26.3	4.4	0.7	7.9	6.8	23.0	27.7	1.7	2.3
	MPI	6223 TT	Outperform	4,800	15,503	5,000.0	(4.0)	66.16	96.23	97.6	45.5	75.6	52.0	0.8	1.1	29.2	18.8	40.0	42.6	0.8	1.2
	Klinik	1560 TT	Outperform	520	2,696	572.0	(9.1)	13.47	17.34	45.4	28.7	42.5	33.0	0.9	1.1	9.0	7.5	22.8	25.0	1.2	1.6
	Aspeed	5274 TT	Outperform	10,500	21,282	17,790.0	(41.0)	157.46	209.98	55.9	33.4	113.0	84.7	2.0	2.5	64.0	48.3	66.3	65.0	0.7	0.9
	AURAS	3324 TT	Outperform	1,340	3,446	1,170.0	14.5	61.11	81.75	116.2	33.8	19.1	14.3	0.2	0.4	7.6	5.9	43.9	45.5	2.2	3.0
	DELTA	2308 TT	Outperform	2,940	177,965	2,165.0	35.8	44.71	73.51	93.2	64.4	48.4	29.5	0.5	0.5	15.4	11.3	36.7	44.3	1.0	1.7
	BHI (Bizlink)	3665 TT	Outperform	2,600	17,748	2,875.0	(9.6)	73.68	106.93	59.9	45.1	39.0	26.9	0.7	0.6	9.7	7.6	27.5	31.6	0.8	1.2
	EMC	2383 TT	Outperform	5,485	53,635	4,730.0	16.0	77.79	137.13	90.3	76.3	60.8	34.5	0.7	0.5	27.7	18.5	49.9	64.2	1.0	1.7
	Accton	2345 TT	Outperform	1,850	44,303	2,495.0	(25.9)	61.74	-	31.5	-	40.4	-	1.3	-	19.9	-	55.6	-	1.3	-
	Jentech	3653 TT	Outperform	6,500	22,196	4,780.0	36.0	67.15	144.46	82.7	115.1	71.2	33.1	0.9	0.3	26.3	20.1	39.0	67.4	0.8	1.8
	ELASER	3450 TT	Outperform	360	1,683	365.0	(1.4)	11.97	-	78.2	-	30.5	-	0.4	-	10.0	-	34.6	-	2.2	-
	HON	7769 TT	Outperform	6,600	80	5,600.0	17.9	114.56	175.85	66.7	53.5	48.9	31.8	0.7	0.6	15.0	12.0	33.0	41.9	1.4	2.2
Kaori	8996 TT	Outperform	1,140	2,033	1,190.0	(4.2)	21.04	29.67	134.3	41.0	56.6	40.1	0.4	1.0	18.8	14.4	39.1	41.0	0.9	1.3	
AEMC	4749 TT	Outperform	1,260	2,879	981.0	28.4	16.62	25.20	48.1	51.6	59.0	38.9	1.2	0.8	7.1	5.5	15.0	17.8	1.5	2.3	
Plays facing supply shortages or experiencing price hikes	Macronix	2337 TT	Outperform	300	10,063	160.5	86.9	30.02	101.70	N.A.	238.8	5.3	1.6	N.A.	N.A.	2.8	1.1	75.6	99.0	5.6	19.0
	Unimicron	3037 TT	Outperform	1,000	45,404	903.0	10.7	14.31	27.77	240.7	94.1	63.1	32.5	0.3	0.3	11.3	8.8	20.4	31.8	0.7	1.4
LEO-satellite plays	COMPEQ	2313 TT	Outperform	240	10,353	274.5	(12.6)	7.88	10.41	43.0	32.0	34.8	26.4	0.8	0.8	6.1	5.4	18.8	21.7	1.4	1.9
	WNC	6285 TT	Outperform	180	3,566	233.0	(22.7)	8.97	-	40.0	-	26.0	-	0.6	-	3.3	-	12.7	-	2.4	-

Source: KGI Research

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