Strategy

From buildout to adoption – The AI boom continues to drive Taiex earnings upgrades

Key message

1. Explosive AI demand propelled Taiex's 2Q26 earnings growth of more than 110% YoY, significantly exceeding our original forecast of 47%.
2. AI-related investments are driving upward earnings revisions, while valuation expansions are extending from AI beneficiaries to non-AI sectors, enhancing earnings visibility for 2027F.
3. Focus on beneficiaries of the Rubin Ultra upgrade cycle and the AI ASIC supply chain.

Event

Explosive AI demand propelled Taiex earnings growth more than 110% YoY in 2Q26, significantly exceeding expectations, and prompted upward revisions to our earnings growth forecasts for 2026-27F to 50% (from 42%) and 26% (from 24%), respectively.

Analysis

Explosive AI demand propelled Taiex earnings growth of more than 110% YoY in 2Q26, significantly exceeding our original forecast of 47%. The 2Q26 earnings season delivered results well above expectations, with aggregate earnings of listed companies rising by approximately 110% YoY, underscoring stronger-than-expected AI demand. Beyond shipment growth of AI-related products, supply chain participants also benefited from a richer product mix and price increases, driving meaningful improvements to ASPs and gross margins. These factors propelled corporate earnings to new record highs.

Supported by robust AI demand and the ongoing global semiconductor capacity expansion cycle, Taiwanese companies delivered another stellar quarter of earnings growth in 2Q26. Aggregate net income of listed companies reached NT$1.8tn, up 27% QoQ and 110% YoY. This not only marked a new record high, but also represented the strongest YoY earnings growth since 2Q21 and the second-highest level recorded since the post-pandemic recovery. From advanced semiconductor manufacturing and AI servers to key AI server components and memory products, the entire AI supply chain benefited from surging demand, driving corporate earnings into a phase of accelerated growth.

AI-related investments are driving upward earnings revisions, while valuation expansions are extending from AI beneficiaries to non-AI sectors, enhancing earnings visibility for 2027F. Beyond the exceptionally strong earnings results, companies also provided better-than-expected guidance for 2H26F, supported by increased capital expenditure by major CSPs. As a result, we are raising our earnings forecasts for both 2026F and 2027F. We now expect Taiex earnings growth of 50% in 2026F, up from our previous forecast of 42%, while our 2027F earnings growth forecast is revised to 26% from 24%. Notably, AI-related sectors are the primary engine of earnings growth, with 2026F growth revised up to 60% from 53%, and non-AI sectors seeing an even larger upgrade, rising to 30% from 17%. For 2027F, we raise our AI earnings growth forecast to 31% from 29% and our non-AI forecast to 12% from 11%. Importantly, this round of earnings upgrades is no longer confined to the AI supply chain. As inventory restocking, cyclical recovery, and corporate capex improve, earnings growth across non-AI industries has also strengthened markedly. This suggests that profit growth is becoming increasingly broad-based, expanding from a narrow group of AI beneficiaries to a much wider range of sectors, resulting in a healthier and more sustainable earnings profile for the overall market. Notably, our upward revision to 2027F earnings in absolute terms exceeds that of 2026F, indicating growing confidence in long-term order visibility and AI adoption across industries.

Ongoing earnings upcycle supported by increasing CSP spending & record backlogs. Since the AI investment boom began in 2H23, the Taiex has been in a sustained earnings upcycle, driven by capex growth among major cloud service providers (CSPs). Over the past several quarters, leading CSPs have raised capex budgets in almost every quarter, fueling persistent order growth across Taiwan's AI supply chain. As a result, Taiwanese companies have consistently delivered earnings and guidance ahead of market expectations during each reporting season. Meanwhile, CSPs' remaining performance obligation (RPO) backlogs have continued to reach new highs. Total RPO backlogs have surged from roughly US$700bn in 2H25 to approximately US$1.7tn at present, while RPO backlog growth has accelerated from 40% in 2H25 to around 150% today, underscoring that AI demand is significantly outpacing available supply. In other words, CSPs' ongoing data center buildouts are being driven not by overly optimistic assumptions, but by rapidly accumulating orders and persistent capacity constraints. Such unprecedented order visibility not only enhances revenue visibility over the next two to three years, but also provides strong support for upward revisions to Taiex earnings forecasts.

Conclusion & top picks

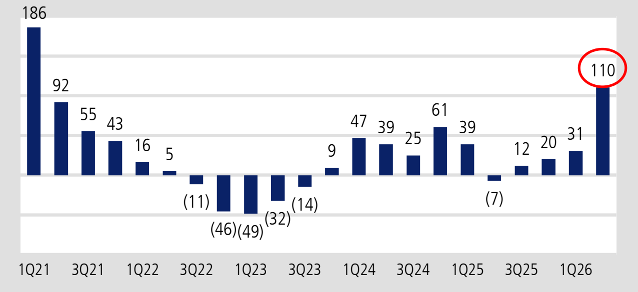
The key takeaway from this earnings season is not only that 2Q26 earnings reached new highs, but also that earnings forecasts for both 2026F and 2027F have been revised up. This suggests investors are increasingly pricing in the long-term growth potential from AI inference demand, enterprise AI adoption, and next-generation GPU platforms, rather than focusing solely on near-term data center buildouts. Moreover, earnings upgrades have broadened beyond the AI supply chain into non-AI sectors, indicating that an economic recovery and a rebound in corporate investment are occurring simultaneously. Supported by sustained AI demand, rising CSP capex, and rapidly expanding backlogs, we believe the Taiex earnings upcycle remains firmly intact. Importantly, the AI-driven earnings cycle is also steadily evolving from the infrastructure buildout phase toward broader application deployment and monetization.

Underpinned by strengthening fundamentals, Taiwan equities are currently trading at roughly 18x 2027F PE, which is within a reasonable valuation range. We therefore maintain a positive medium- to long-term outlook on the Taiex, and reiterate our targets of 50,000 points by year-end and 55,000 points over the next 12 months.

That said, from a near-term perspective, the market has rebounded by more than 7,000 points since July, after an 8,800-point correction, and is now entering an area of heavy overhead supply, implying stronger resistance and elevated risks of rally chasing. We therefore recommend accumulating positions on pullbacks. Our preferred themes include beneficiaries of Nvidia's (US) Rubin Ultra platform, and the next wave of hardware upgrades, including thermal solutions, power supplies, copper-clad laminates (CCLs), ABF substrates, high-speed switches, and optical communications. In addition, as major CSPs accelerate the development of proprietary AI ASIC, the strategic importance of the custom AI chip supply chain should increase. Related areas, including IC design services, advanced packaging, and high-speed transmission technologies, present attractive long-term growth opportunities.

Figure 1: Taiex 2Q26 earnings grew by more than 110% YoY, marking the strongest growth rate since 2Q21 and the second-highest level since the post-pandemic recovery

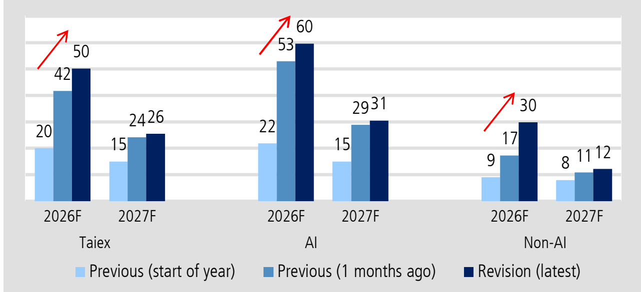
Quarterly YoY earnings growth of Taiex listed companies, percent



Source: TEJ; compiled & estimated by KGI Research

Figure 2: Taiex earnings forecasts for 2026F & 2027F continue to be revised upward, with earnings growth expanding from AI-related sectors to non-AI industries; notably, the upward revisions to 2027F earnings exceeds that of 2026F in absolute terms

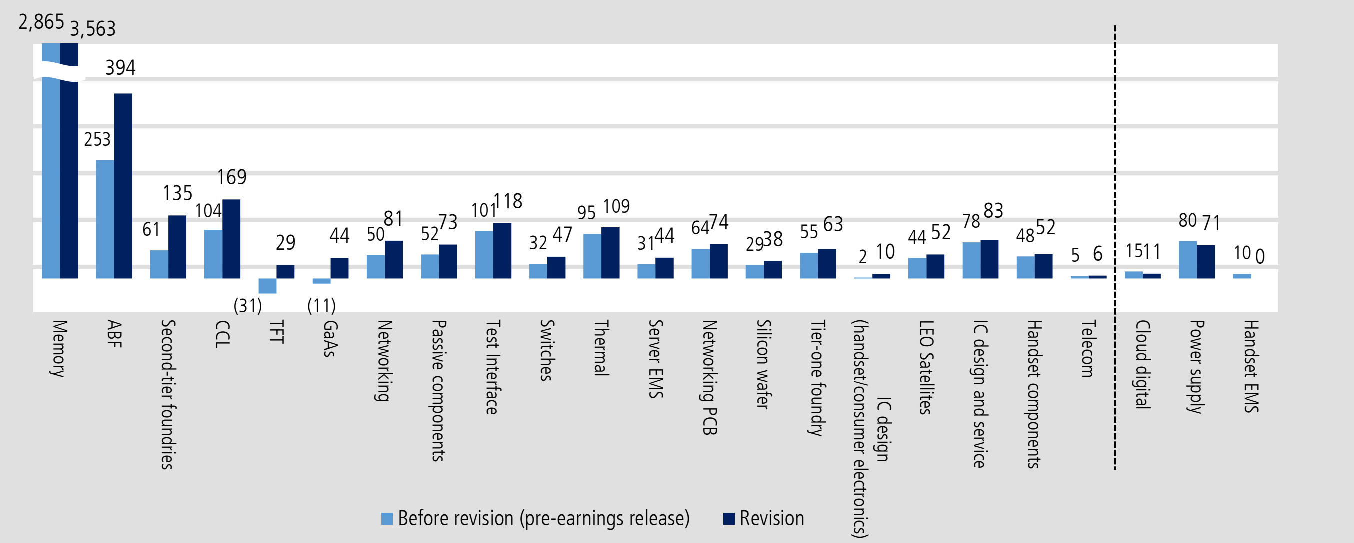
Taiex & sub-sectors YoY earnings growth, percent



Source: TEJ; compiled & estimated by KGI Research

Figure 3: Among technology sub-sectors, the largest upward revisions to 2026F earnings forecasts were seen for memory, ABF substrates, second-tier foundries, and copper-clad laminates (CCL), in that order

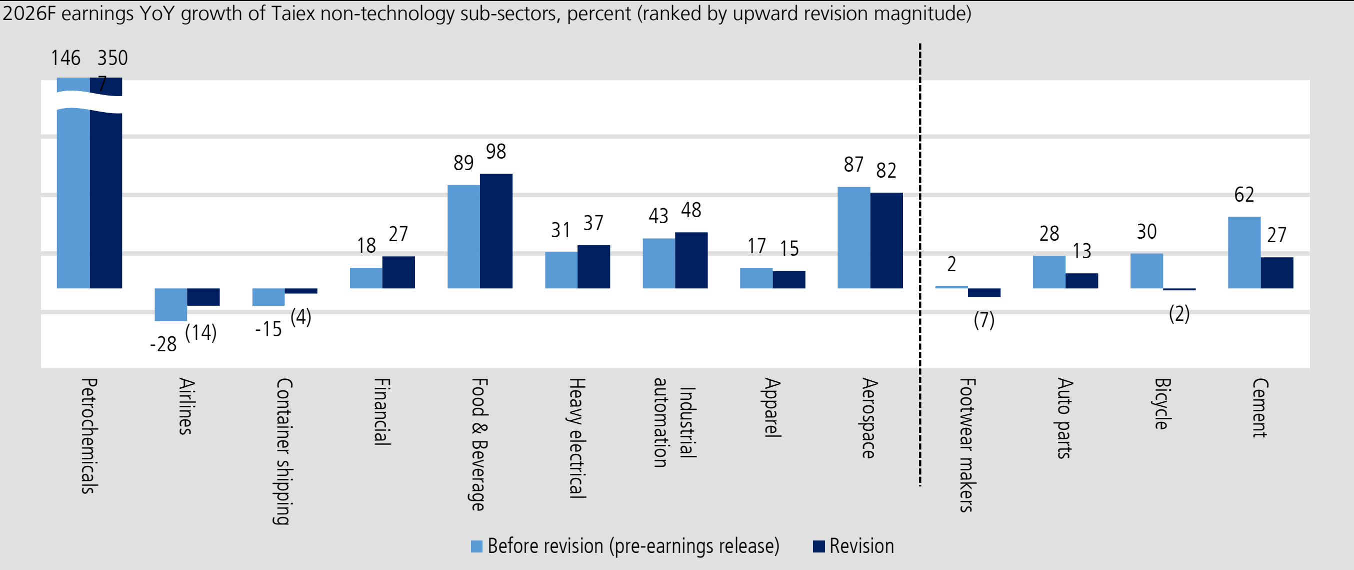
2026F earnings YoY growth of Taiex technology sub-sectors, percent (ranked by upward revision magnitude)



Source: TEJ; compiled & estimated by KGI Research

Figure 4: Among non-technology sub-sectors, the largest upward revisions to 2026F earnings forecasts were seen for petrochemicals, airlines, container shipping, and financials, in that order

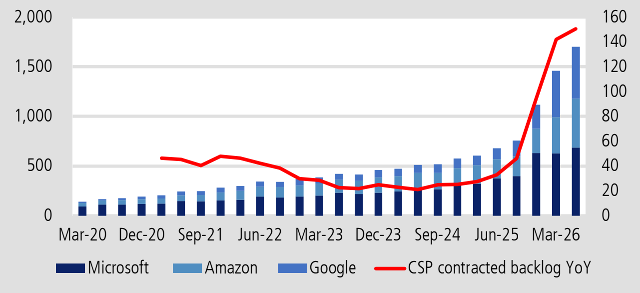
2026F earnings YoY growth of Taiex non-technology sub-sectors, percent (ranked by upward revision magnitude)



Source: TEJ; compiled & estimated by KGI Research

Figure 5: RPO backlogs of the top three US CSPs are accumulating rapidly, with backlog growth accelerating from 40% in 2H25 to 150%, highlighting strong AI demand

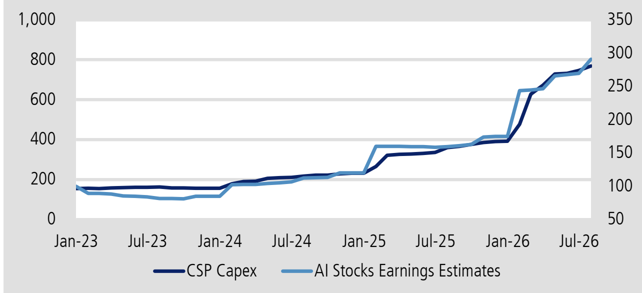
Top 3 US CSPs' RPO backlogs, US$bn (LHS); RPO backlog growth YoY, percent (RHS)



Source: Bloomberg; KGI Research

Figure 6: Rising CSP capex is driving earnings upgrades across the AI supply chain, supporting ongoing Taiex earnings revisions

Capex of top-five US CSPs, US$bn (LHS); Taiex AI suppliers' sales growth YoY, percent (RHS)



Source: TEJ; Bloomberg; KGI Research

Note: earnings projections are indexed to end-2022 = 100.

Figure 7: Taiex constituent earnings forecasts & valuations

Earning (NT$bn)	2021	2022	2023	2024	2025	2026F	2027F
Taiex	3,917	3,771	2,682	3,780	4,344	6,526	8,193
Taiex excl. TSMC	3,320	2,755	1,844	2,607	2,626	3,719	4,583
Tech	1,914	2,147	1,698	2,249	3,101	4,881	6,399
Tech excl. TSMC	1,317	1,130	860	1,075	1,383	2,074	2,789
TSMC	597	1,017	838	1,173	1,718	2,807	3,610
EPS growth (%)							
Taiex	78.1	(3.7)	(28.9)	40.9	14.9	50.2	25.5
Taiex excl. TSMC	97.4	(17.0)	(33.1)	41.4	0.7	41.6	23.2
Tech	51.7	12.2	(20.9)	32.4	37.9	57.4	31.1
Tech excl. TSMC	77.1	(14.2)	(23.9)	25.1	28.6	49.9	34.5
TSMC	15.2	70.4	(17.5)	39.9	46.4	63.4	28.6
P/E (x)							
Taiex	38.2	39.7	55.8	39.6	34.5	22.9	18.3
Taiex excl. TSMC	26.4	31.8	47.5	33.6	33.4	23.6	19.1
Tech	63.6	56.7	71.7	54.1	39.3	24.9	19.0
Tech excl. TSMC	45.3	52.8	69.4	55.5	43.1	28.8	21.4
TSMC	104.1	61.1	74.1	52.9	36.2	22.1	17.2

Source: KGI Research

Figure 8: Taiex subsector earnings forecasts & valuations (ranked by 2027F PE)

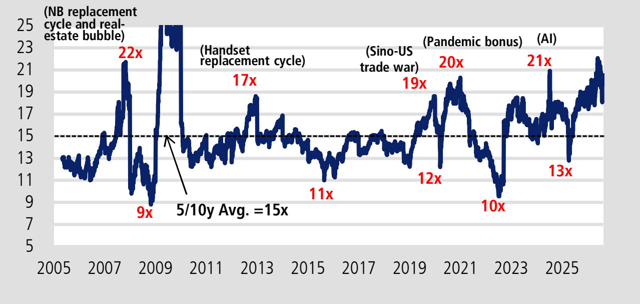
Tech	Earning YoY (%)						Forecast PE (x)		
	2022	2023	2024	2025	2026F	2027F	2025	2026F	2027F
Memory	(24.4)	-	-	-	3563.4	97.7	238.0	6.6	3.3
Server EMS	(1.7)	3.7	24.8	34.9	44.4	26.7	22.3	14.6	11.5
Handset EMS	(26.5)	4.1	7.4	(14.7)	0.2	37.6	17.6	17.6	12.8
Networking	75.5	9.4	8.1	61.1	80.8	31.3	30.9	17.8	14.0
LEO Satellites	74.6	(28.3)	13.5	6.4	51.6	74.0	39.6	25.4	15.3
Thermal	34.5	20.5	54.0	116.2	109.1	54.6	51.5	24.9	16.4
Second-tier foundries	56.3	(30.1)	(22.6)	(11.6)	134.7	(6.6)	36.5	15.5	16.6
Networking PCB	22.6	(10.9)	46.0	41.7	73.8	31.7	40.4	22.2	17.0
Tier-one foundry	70.4	(17.5)	39.9	46.4	63.4	28.6	36.2	22.1	17.2
Handset components	28.4	(37.1)	28.2	(20.1)	52.4	48.4	49.8	28.3	18.6
Passive components	(0.8)	(23.3)	11.1	22.1	72.7	62.1	54.9	31.8	19.6
Switches	73.6	9.2	34.5	119.5	46.9	67.8	49.0	33.4	19.9
IC design (handset/consumer	(2.9)	(32.6)	29.8	(3.9)	10.1	55.6	36.1	32.7	23.7
Power supply	15.1	2.4	(1.7)	59.5	71.4	58.3	61.2	36.4	23.9
Telecom	2.2	5.7	5.8	4.7	6.4	4.6	27.3	25.4	24.3
Server rails	-	(35.2)	134.0	60.8	224.4	49.1	118.9	40.1	25.1
Silicon wafer	29.5	28.7	(50.2)	(25.7)	37.7	74.6	63.7	46.3	26.5
Semiconductor equipment	-	-	-	119.7	96.8	71.0	100.4	42.2	26.6
CCL	(14.1)	(0.4)	93.0	48.2	169.0	77.2	149.0	54.5	30.3
IC design and service	94.8	5.3	29.9	(7.7)	82.7	79.7	107.0	62.4	31.4
GaAs	(67.0)	(80.8)	332.4	48.0	44.0	71.8	86.1	57.5	32.7
ABF	102.5	(68.1)	(70.1)	91.5	394.1	79.8	323.0	67.5	33.0
Test Interface	48.8	(41.4)	121.0	46.3	118.1	86.3	148.1	69.4	36.9
TFT	-	-	-	108.1	29.0	16.4	815.5	43.3	65.3

Non-tech	Earning YoY (%)						Forecast PE (x)		
	2022	2023	2024	2025	2026F	2027F	2025	2026F	2027F
Airlines	(37.8)	185.5	52.7	(5.9)	(14.5)	12.1	8.3	9.3	8.0
Auto parts	70.1	(2.2)	49.1	(13.3)	13.1	21.1	12.6	12.2	10.4
Container shipping	19.7	(94.4)	631.6	(53.3)	(4.4)	(13.7)	8.5	7.9	10.5
Food & Beverage	0.3	75.3	(7.7)	(30.0)	98.0	10.0	14.4	12.1	10.7
Apparel	32.1	(11.0)	17.3	(15.1)	15.1	14.2	15.4	13.6	12.0
Footwear makers	100.0	(45.2)	18.0	(14.2)	(7.2)	16.5	13.6	14.7	12.6
Bicycle	(12.7)	(44.8)	(88.9)	(35.2)	(1.6)	48.8	37.7	24.3	14.1
Cement	(50.7)	8.4	27.9	(39.1)	26.6	22.7	43.8	19.0	14.6
Food	(13.6)	6.8	12.7	(5.1)	17.7	5.8	21.9	18.6	17.6
Petrochemicals	(63.1)	(50.5)	(82.6)	(77.7)	3507.4	4.3	265.7	17.3	18.2
Heavy electrical	(1.9)	41.6	33.7	1.8	37.0	27.8	36.3	26.4	19.0
Aerospace	-	26.8	(0.3)	(32.4)	81.9	20.9	58.0	28.6	22.2
Industrial automation	5.2	(14.2)	6.6	3.4	48.0	15.7	60.7	33.4	26.5
Steel	(75.4)	(89.0)	(41.0)	-	-	208.2	#N/A	118.9	47.3

Source: KGI Research

Figure 9: The Taiex is currently trading at 18x 2027F PE, roughly one standard deviation above the long-term average, placing valuations within a reasonable range for a bull market

Taiex PE valuation (one-year forward), x



Source: TEJ; KGI Research

Figure 10: 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	29,943	15	37,592	15	33,768
16	31,940	16	40,098	16	36,019
18	35,932	18	45,111	18	40,521
20	39,925	20	50,123	20	45,024
21	41,921	21	52,629	21	47,275
22	43,917	22	55,135	22	49,526
23	45,913	23	57,641	23	51,777

Source: TEJ; KGI Research

Figure 11: Our top picks

Sector/ theme	Company	Code	Investment rating	Target price (NT$)	Mkt cap (US$mn)	Share price (NT$)	Change +/- (%)	EPS (NT$)		EPS YoY (%)		PE (x)		PEG (x)		P/B (x)		ROE (%)		Cash yield (%)	
								2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F	2026F	2027F
Semiconductor	TSMC	2330 TT	Outperform	3,200	1,958,392	2,400.0	33.3	108.25	139.22	63.4	28.6	22.2	17.2	0.3	0.6	8.2	5.9	43.0	39.9	1.2	1.4
	MediaTek	2454 TT	Outperform	6,600	204,398	4,050.0	63.0	71.34	123.26	7.9	72.8	56.8	32.9	7.2	0.5	16.6	14.2	28.7	46.3	1.7	1.8
	Alchip	3661 TT	Outperform	6,180	11,021	4,060.0	52.2	130.60	171.62	89.8	31.4	31.1	23.7	0.3	0.8	6.7	5.7	23.5	25.9	1.6	2.1
	GUC	3443 TT	Outperform	5,870	24,669	5,850.0	0.3	50.99	130.40	81.3	155.7	114.7	44.9	1.4	0.3	39.7	24.2	41.8	67.0	0.6	1.6
	Chipbond	6147 TT	Outperform	280	3,948	168.5	66.2	5.30	7.45	41.6	40.8	31.8	22.6	0.8	0.6	2.3	2.2	8.2	11.2	2.4	3.3
	HON	7769 TT	Outperform	9,000	69	6,750.0	33.3	129.97	226.71	89.2	74.4	51.9	29.8	0.6	0.4	17.4	12.9	36.6	49.7	1.3	2.4
	WinWay	6515 TT	Outperform	12,000	7,580	6,610.0	81.5	92.10	184.01	96.3	99.8	71.8	35.9	0.7	0.4	32.4	22.8	47.6	73.8	1.0	2.0
	MPI	6223 TT	Outperform	10,000	17,882	5,800.0	72.4	76.08	137.53	134.7	80.8	76.2	42.2	0.6	0.5	33.5	26.6	47.3	70.3	0.8	1.4
AI server	AVC	3017 TT	Outperform	4,000	39,093	3,150.0	27.0	103.17	160.03	110.7	55.3	30.5	19.7	0.3	0.4	18.5	12.1	72.0	73.3	1.4	2.1
	Jentech	3653 TT	Outperform	4,880	24,735	5,340.0	(8.6)	59.08	121.99	64.3	106.5	90.4	43.8	1.4	0.4	29.8	23.5	35.3	60.0	0.7	1.4
	DELTA	2308 TT	Outperform	2,505	154,071	1,885.0	32.9	40.57	66.29	75.3	63.4	46.5	28.4	0.6	0.4	13.9	10.4	33.9	41.7	1.1	1.8
	Fositek	6805 TT	Outperform	2,385	4,152	1,925.0	23.9	59.69	91.75	92.5	53.7	32.2	21.0	0.3	0.4	14.0	10.2	49.2	56.3	1.4	2.1
	EMC	2383 TT	Outperform	7,625	71,597	6,350.0	20.1	108.84	190.64	166.2	75.2	58.3	33.3	0.4	0.4	31.1	19.3	63.1	71.4	1.0	1.8
	Unimicron	3037 TT	Outperform	1,175	57,904	1,120.0	4.9	16.10	32.71	283.4	103.1	69.6	34.2	0.2	0.3	13.6	10.4	22.6	35.8	0.6	1.3
	ZDT	4958 TT	Outperform	685	17,684	503.0	36.2	15.61	26.33	155.0	68.6	32.2	19.1	0.2	0.3	3.3	3.0	12.1	17.0	1.6	2.6
	Chenbro	8210 TT	Outperform	1,440	3,992	1,010.0	42.6	48.10	67.10	68.4	39.5	21.0	15.1	0.3	0.4	9.1	7.0	48.4	52.3	2.4	3.3
	King Slide	2059 TT	Outperform	15,000	41,231	13,750.0	9.1	336.97	500.02	226.4	48.4	40.8	27.5	0.2	0.6	29.6	19.2	88.8	84.7	1.3	1.9
	Wiwynn	6669 TT	Outperform	7,750	39,020	6,620.0	17.1	370.69	566.42	34.8	52.8	17.9	11.7	0.5	0.2	7.9	6.1	49.2	58.7	3.1	4.7
	Wistron	3231 TT	Outperform	300	18,712	187.0	60.4	17.65	26.40	101.4	50.3	10.6	7.1	0.1	0.1	2.8	2.3	28.2	34.8	5.6	8.4
Memory	NTC	2408 TT	Outperform	720	56,888	524.0	37.4	75.16	130.67	3775.8	75.9	7.0	4.0	0.0	0.1	3.9	2.0	86.9	74.3	4.3	7.5
	WEC	2344 TT	Outperform	200	25,762	181.5	10.2	29.03	69.97	3197.6	141.0	6.3	2.6	0.0	0.0	3.6	1.6	78.6	86.8	4.8	11.6
AI Applications	Hiwin	2049 TT	Outperform	478	4,247	381.5	25.3	9.06	12.52	110.0	38.3	42.1	30.5	0.4	0.8	3.5	3.3	8.4	11.0	1.1	1.5
	Silergy	6415 TT	Outperform	600	5,563	453.5	32.3	10.81	19.79	69.3	83.1	42.0	22.9	0.6	0.3	1.1	0.9	10.6	16.9	1.0	1.8
High-yield	CTBC Holding	2891 TT	Outperform	63	40,615	65.6	(4.0)	4.38	4.68	7.0	6.7	15.0	14.0	2.1	2.1	2.0	1.7	15.3	13.1	4.1	4.3
	SINOPAC Holdings	2890 TT	Outperform	42	18,420	39.6	6.1	2.81	2.67	53.2	(5.1)	14.1	14.9	0.3	(2.9)	1.9	1.7	14.7	12.2	4.2	4.0
	QCI	2382 TT	Outperform	500	43,106	333.5	49.9	27.06	31.75	39.1	17.3	12.3	10.5	0.3	0.6	4.9	4.5	41.1	44.2	6.5	7.6
	Hiyes	2348 TT	Outperform	100	353	70.4	42.0	11.48	10.73	64.9	(6.4)	6.1	6.6	0.1	(1.0)	1.2	1.2	21.5	19.3	10.9	13.7

Source: KGI Research

KGI Locations

	China Shanghai	Room 1507, Park Place, 1601 Nanjing West Road, Jingan District, Shanghai, PRC 200040
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KGI's Ratings

Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Under perform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return* of the KGI coverage universe in the related market over a 12-month investment horizon.
Not Rated (NR)	The stock is not rated by KGI.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

Total return = (12M target price - current price) / current price