Taiwan's "Market cap to GDP ratio" Ranks No.1 Globally

Country	Total Market Cap (US$ trillion, as of May 2024)		Total Market Cap / GDP	
US	53.8	No.1	2.0	No.3
China	9.2	No.2	0.5	No.10
Japan	6.5	No.3	1.5	No.4
India	4.6	No.4	1.2	No.6
France	3.3	No.5	1.1	No.7
UK	3.2	No.6	1.0	No.8
Canada	3.0	No.7	1.4	No.5
Saudi Arabia	2.9	No.8	2.7	No.2
Germany	2.4	No.9	0.6	No.9
Taiwan	2.2	No.10	2.8	No.1

Source: Bloomberg / Capital IQ / QIC Research; As of May 2024

5

Taiwan's Rising Innovation Power — A Capital Market Perspective

Since Nancy Pelosi's visit to Taiwan in 2022, the island has been viewed as one of the world's most geopolitically risky regions. However, the Taiwan Stock Index has rebounded dramatically, surging nearly 70% since its trough and achieving a year-to-date (YTD) increase of almost 20%, making it the top-performing market globally. This strong performance not only reflects the market's optimistic outlook on Taiwanese companies but also indicates that Taiwan offers a more favorable capital market environment for enterprises compared to other regions. In this edition, we will present a fresh perspective on the advantages Taiwan's capital market offers to companies and reveal the emerging innovative power within Taiwan's new economy sectors.

As the 21st largest economy in the world, Taiwan's stock market ranks 10th globally with a total market capitalization of US$2.2 trillion. This figure highlights an interesting statistic: Taiwan boasts the highest market capitalization-over-GDP ratio in the world at 2.8, surpassing even the highly developed capital markets of the United States, which stands at 2. From a corporate perspective, this indicates that Taiwanese companies can generate the highest capital market value per unit of revenue. Furthermore, Taiwan's market is predominantly composed of small-cap companies, with over 90% of listed companies having a market capitalization of less than $2 billion. These statistics demonstrate that Taiwan's capital market is highly conducive to corporate growth and public listings for small-cap companies.

Turning our focus to Taiwan's new economy sectors—companies emerging from digital transformation—we observe a similar phenomenon: Taiwanese listed new economy companies enjoy a valuation premium. According to QIC's long-term tracking of 170+ listed new economy companies globally, Taiwanese new economy companies in the small-cap category have the highest price-to-sales (P/S) ratio worldwide, with the median 2024 P/S trading at 4.6x. This is significantly higher than the global small-cap median of 3.4x and those in the US, Japan, and China.

Taiwan's new economy sector is still in its early stages, with the total market capitalization of related listed companies accounting for less than 1%. In recent years, with the government's ongoing support policies and the trend of companies accelerating digital transformation, QIC firmly believes that Taiwan's new economy sector is poised for significant growth. The next 5 to 10 years are expected to be a golden period for industry development, with the potential for over 10x growth in the sector's total market capitalization. We predict that by 2031, Taiwan will have over 100 listed new economy companies, with more than 20 of these companies having a market capitalization exceeding $1 billion.

In conclusion, Taiwan's capital market environment is exceptionally conducive to small-cap companies. Additionally, Taiwan's new economy sector is poised for substantial growth, with the potential to achieve over 10x market capitalization increase in the next decade. QIC has built a strong network with Taiwanese companies, and our CEO Week Events, the largest investment forum in Taiwan, have connected hundreds of Taiwanese companies with over 3,000 international investors in the past five years. Feel free to contact us for more in-depth insights into the advantages of Taiwanese companies.

The No. 1 Taiwan Small-Cap Capital Market Advisory Firm

Coming Right Up:

Upcoming QIC Events

Selected Small-Cap News & QIC Commentary

Taiwan BioTech Gen 3 by Peter Kurz, CSO of QIC

Previous CEO Conversations Vol.

CEO Conversations 49: Unveiling the Impacts of Taiwan's ETF Surge: Insights from Chairmen of Taiwan's Leading Investment Trusts

CEO Conversations 48: Dr. Lih-Ling Lin, Chief Scientific Officer, PharmaEssentia (6446 TT)

QIC CEO Conversations 47: David Oh, Portfolio Manager, TimesSquare Capital Management

More can be found at
www.qtumic.com/insight/conversations

Taiwan Small-Cap Lookout

Upcoming Events

QIC Healthcare Corporate Day
June 12-13, 2024
@ Virtual

Scan the QR Code for Registration!

2nd QIC Renewable Energy Corporate Day
August 27-28, 2024
@ Virtual

16th QIC Taiwan CEO Week
October 22-23, 2024
@ Hong Kong

Top 10 Stock Gainers			
Company	Ticker	Price	Change
Skardin	3466	86	123%
YHT	4562	38.35	108%
KYE	2365	36.1	89%
TRI	3030	185.5	80%
AEWIN	3564	99.4	79%
Solomon	2359	175	78%
WANHAI	2615	87	76%
FineTek	4549	163.5	74%
Kenturn	4561	56.8	69%
CCTC	2613	38.25	65%

Top 10 Stock Losers			
Company	Ticker	Price	Change
AEC	1514	111	-26%
Hung Ching	2527	46.9	-26%
jpp	5284	126	-22%
L & K	6139	215	-21%
CATHAY RED	2501	33.15	-20%
SEEC	1503	241.5	-19%
EFC	6425	73.7	-19%
Sanlien	5493	90.8	-19%
Tanvex	6541	39	-17%
WT	3036	122	-16%

Top 10 FINI Net Buyers			
Company	Ticker	Holding(%)	Change
ELASER	3450	24.2	15.8
In Win	6117	12.8	11.7
Unitech	2367	17.9	9.9
UMT	3491	21.2	9.7
Insyde	6231	17.2	8.4
CMMT	4960	25.0	8.3
FFG	1815	10.0	7.2
Sigurd	6257	31.8	6.7
SNC	2605	41.4	6.6
CLEVO CO.	2362	11.5	6.4

Top 10 FINI Net Sellers			
Company	Ticker	Holding(%)	Change
JIAWEI	3557	5.4	-15.1
Amulaire	2241	6.8	-11.8
Lotus Pharm	1795	14.0	-11.5
SPG-KY	6768	69.3	-7.5
PSI	8028	4.3	-6.8
Supreme	8112	22.5	-6.0
AEC	1514	19.1	-5.7
AverMedia	2417	1.9	-5.3
Faraday	3035	21.5	-5.2
VPEC	2455	39.1	-4.9

Top Performers of the Month

Here are the top 10 small-cap (US$100mn-10bn) performers of the month.

Skardin (3466 TT) +123%
30D avg. volume increased by 112% vs 90D
Founded in 1982, Skardin has dedicated over 40 years to the development of set-top boxes and bandwidth processing solutions. Recently, the company has ventured into the renewable energy business and invested in solar aquaculture systems and rooftop solar power installations business in southern Taiwan, triggering the share price to soar.

YHT (4562 TT) +108%
30D avg. volume increased by 115% vs 90D
Ying Han Technology specializes in the development of CNC, NC, and conventional types of tube and pipe bending machinery. Recently, the share price of Taiwan's robotics supply chain surged following NVIDIA CEO Jensen Huang's announcement that AI chips will significantly enhance humanoid robots with generative AI capabilities. The excitement was further fueled by the news of Jensen's visit to Taiwan for COMPUTEX.

KYE (2365 TT) +89%
30D avg. volume increased by 58% vs 90D
KYE specializes in the development and manufacture of computer peripherals and consumer electronics. The company's share price surged recently, as the market considers it one of the key beneficiaries of the burgeoning humanoid robot trend.

TRI (3030 TT) +80%
30D avg. volume increased by 77% vs 90D
TRI designs, assembles, manufactures, and sells automated inspection and testing equipment globally. The company expects new products to drive primary growth, boosted by Chinese electronics manufacturers expanding into Southeast Asia and increased installation rates in both the region and China.

AEWIN (3564 TT) +79%
30D avg. volume increased by 64% vs 90D
AEWIN provides network platform products and solutions in Taiwan and internationally. Management highlights that network security remains essential. They anticipate new products and project implementations to benefit operations in the second half of the year, along with increased demand from the new Microsoft platform, potentially leading to a stronger performance than last year.

Solomon (2359 TT) +78%
30D avg. volume increased by 108% vs 90D
Solomon is an electronic components sales agency in Taiwan, recently entering the robotics market with computer vision solutions and partnering with major robotic arm manufacturers. Their selection as a partner in Nvidia's supply chain has raised positive market expectations for their growth in the robotics field.

WANHAI (2615 TT) +76%
30D avg. volume increased by 118% vs 90D
Wan Hai is a fully containerized shipping company. The recent shortage of ships and containers has significantly driven up freight rates, and strong growth is expected to continue through the end of the year.

FineTek (4549 TT) +74%
30D avg. volume increased by 175% vs 90D
FineTek manufactures quality industrial sensors for level measurement of powder & bulk solids, liquid, flow, pressure, and temperature. FineTek has successfully developed sensors for use in liquid cooling servers and has already begun small-scale shipments. The company said it is ready to enter the AI market.

Kenturn (4561 TT) +69%
30D avg. volume increased by 119% vs 90D
Kenturn manufacturers machine tool spindles of all kinds. In April, Kenturn recorded revenue of NT$141 million, up 54.59% MoM and 54.17% YoY. The increase is driven by the industry's recovery, boosting demand from domestic and overseas customers. The company holds a positive outlook for the second half of the year.

CCTC (2613 TT) +65%
30D avg. volume increased by 170% vs 90D
China Container Terminal Corporation (CCTC) provides contracted operations of container freight stations at port and on land. Rising demand for bulk shipping has boosted CCTC's business. The company announced a Q1 EPS of NT$0.15, turning from a loss to a profit compared to the same period last year.

Besremi's sales in US continue to expand, leading PharmaEssentia to achieve its first positive operating profit in 1Q24

https://reurl.cc/MODxjm

On 5/14, PharmaEssentia announced its 1Q24 financial result, delivering a remarkable 86% YoY growth in consolidated revenue to NT$1.65 bn for 1Q24. The company also achieved a quarterly gross margin of 88%, marking a 3.4 percentage point increase compared to the same period last year. Benefiting from the steady increase in market share of Besremi, PharmaEssentia posted its first ever positive operating profit of NT$17.58mn in 1Q24. With positive operating profit and additional non operating income of NT$317mn (including NT$220 mn in interest income), the net profit attributable to parent reached NT$330mn, resulting in an EPS of NT$1, setting a new annual record. In addition, PharmaEssentia announced that its drug Besremi will be licensed to a foreign pharmaceutical company to expand into the Canadian market, thus broadening its footprint in North America. The Board of Directors has approved a Non-Binding Term Sheet for the distribution and licensing of Besremi in Canada. Specific terms and licensing details will be disclosed following the formal signing of the agreement.

QIC Comment: *We believe that PharmaEssentia achieving positive operating profit in the first quarter of 2024 is the most significant milestone since Besremi obtained FDA approval in November 2021. Although this positive operating profit is only NT$ 17.58 million, it symbolizes that PharmaEssentia's new drug sales have entered a profitable phase. With the second indication, essential thrombocythemia, expected to have data readout by the end of 2024, and the third indication, primary myelofibrosis, entering the pivotal trial in the second half of 2024, we anticipate that PharmaEssentia will show impressive profitability in the coming years through continuous penetration in the U.S. market and the addition of new indications. Currently, analysts have positive views on PharmaEssentia's future: Masterlink(5/23) estimates an EPS of NT$ 4.74 for 2024; Yuanta Securities (5/17) forecasts an EPS of NT$ 7.18 for 2024 and NT$ 15.13 for 2025; and KGI Securities (5/17) projects an EPS of NT$ 3.08 for 2024 and NT$ 13.58 for 2025.*

iPhone 16: The upcoming iPhone 16 will drive the momentum of the Taiwanese supply chain

https://reurl.cc/vaXzWA

Apple's new iPhone 16 series will be officially unveiled in September. Recent news indicated that Apple has finalized this year's smartphone panel supply contracts with Samsung and LG. Next, Apple is expected to request its key component suppliers to prepare the inventories for new products, including camera modules, processor chips, and RF components. Assembly will commence in July and August. Apple's supply chain, including TSMC, Largan Precision, Hon Hai, and Pegatron, will benefit from this opportunity.

QIC Comment: *For Zhen Ding (4958 TT), the world's largest PCB manufacturer and a key supplier to Apple, Chairman Charles Shen recently also said at the AGM that the company will soon start to prepare the inventories for customers' new products. This combined with increasing revenue contribution from IC substrates, servers, and automotive products will drive Zhen Ding's revenue to grow quarter by quarter in the second half of the year, with revenue reaching a peak in October.*

That said, Zhen Ding's revenue for the first five months of 2024 has increased by 15.4% YoY, suggesting that the company has resumed growth this year. We believe a stable growth for smartphone applications, together with continued strong momentum for IC substrates, server, and automotive applications, will drive Zhen Ding's revenue to a record high next year.

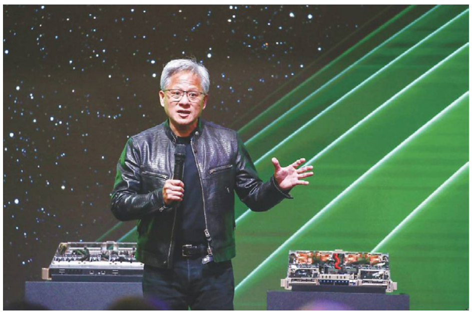
In support of TSMC's' value theory,' NVDIA strongly supports TSMC's price increase.

https://reurl.cc/gGI9nN

Since NVIDIA (NVDA)'s H and B series GPUs adopt TSMC (2330)'s 4nm technology, Mr. Jensen Huang, NVDA CEO, emphasized that TSMC not only produces wafers but also addresses various supply chain issues. He agrees that current pricing is too low and supports TSMC's price increase initiative.

Furthermore, in response to long-term capacity planning, TSMC convened a board meeting on the 5th to approve a capital budget of $17.356 billion to expand advanced process capacity.

Thirdly, TSMC confirmed the robust AI demand, stating that even tripling production capacity from 5nm to 3nm is insufficient, indicating the necessity to further expand production capacity. Market estimates that by the end of this year, TSMC's CoWoS monthly capacity could reach 45,000 to 50,000 wafers and SoIC could reach 5,000 to 6,000 wafers.



***QIC Comment:** The demand for advanced packaging CoWoS is being propelled by AI, which is turning related equipment suppliers into the market focus. As TSMC enlarges its CoWoS capacity, the significance of backend supply chain partners is steadily increasing. With the proliferation of AI applications, HBM packaging, advanced packaging, and substrates supply chain companies are benefiting from TSMC capacity expansion. Among the supply chain companies, we believe C Sun (2467) products and competitive strengths would continue to expand G2C+ Alliance presence in the advanced packaging sector, ensuring continuous growth in both revenue and profitability.*

World Gym: Mergers and Acquisitions Under Discussion Both Domestically and Internationally

https://reurl.cc/9vyMNv

On the 24th, at the shareholders' meeting, John Caraccio, Chairman of World Fitness Services (2762), stated that World Gym will expand by 12 new locations this year, continuing to grow its business scale in Taiwan. Regarding mergers and acquisitions, the company is in discussions with targets both in Taiwan and abroad. They plan to increase the number of fitness clubs from the current 120 to 220 within the next five years. If successful, World Gym's first overseas location will be established.

For 2023, World Gym's EPS (Earnings Per Share) was NT$3.5. The meeting resolved to allocate dividends of NT$5.86 per share. Based on the closing price of NT$95.1 on the 24th, the cash dividend yield is about 6.16%.

John commented that among all fitness clubs in Taiwan, only a few have seen growth in both operations and number of locations. In recent years, over 40 gyms have closed, and some medium-sized gyms have not expanded for five years.

Looking ahead to the second half of this year, John said that with the upcoming Olympic events, the arrival of summer, and the global trend of increased sports enthusiasm, the fitness industry is expected to see significant growth.

World Gym continues to focus on expanding locations, integrating retail, and providing digital technology services for members. This year, they plan to open 12 new locations. Additionally, with the World Gym Shop planning to have 20 locations across Taiwan by the end of this year, the company expects sustained growth in same-store sales (SSS) and profitability, given the relatively fixed control over gym operation costs.

***QIC Comment:** We believe now is a good time to revisit World Gym as the company continues to see recovery in memberships and workouts. We also expect margins to recover as the membership surpasses that fixed costs threshold. More importantly, selling pressure from existing shareholder post its IPO is almost done.*

Taiwan BioTech Gen 3 by Peter Kurz, CSO of QIC

In volleyball, each side is allowed to hit the ball three times before sending it off to the other side. The first hit stabilizes the incoming ball, the second hit tees the ball up for the third player to come and send it into orbit. The progression happens in industries as well (IBM to Microsoft to OpenAI). Taiwan biotechnology industry, too, appears to entering Gen 3 as well. Previously, we could discern two prior generational developments. Gen 1 began 20 years ago with the emergence of generic drug and API companies. These segments entail low entry barriers and profitability but nonetheless helped to create a foundation of professionals, regulations, and a supply chain. Roughly 10 years later the second generation of biotech companies emerged focusing on new drug development, but by in-licensing drugs midway in their development process, usually at the Phase II stage of clinical trials. This approach greatly de-risked the development process and established expertise in clinical trial management and drug approval application. Now it's time to get serious.

Taiwan's Gen 3 Biotech has three main features worth noting. The first is that these companies are now more likely to begin developing new drugs from earlier stage of development, prior to the beginning of clinical trials on human subjects. So whereas Gen 2 was more about efficient clinical trial designs and execution, Gen 3 involves more scientific invention, allowing successful companies to capture a far greater proportion of the ultimate value of the experimental drug. By pushing into earlier stages of drug development, Taiwan can capitalize on other advantages it enjoys. The cost of pure scientific research, pre-clinical trials and especially Phase I clinical trials are far cheaper in Taiwan than in most any other advanced economy. This is in part due to the Taiwan's high quality healthcare system, the high-density patient population making patient recruitment easier – a critical component of drug development costs – and our low cost of medical professionals.

A second key feature of Gen 3 Biotech is that Taiwan companies have displayed an impressive ability to quickly adopt the latest technologies in new drug modalities, or the dynamics by which drugs operate. New drugs are currently being developed in Taiwan using new modalities such as CAR T and stem cell therapies, gene therapies using the latest CRISPR technology, nucleic acid therapies such as mRNA as used in the first-in-class covid vaccines, and ADC's – the combination of protein anti-bodies and chemical drugs which increases drug efficacy while reducing toxicity. Even more important, these new modalities are represented in the aggregate portfolio of all new experimental drugs under development in Taiwan in a greater proportion than the global average. Beyond the application of these advanced modalities, Taiwan is leading the world in its focus on high value indications, namely oncologic and ophthalmic drugs. These are the drug indications [ie disease class] which command higher prices than most other indications showing that Taiwanese biotech founders are good business people as well as good scientists. Game, set, match!

The Chinese version of this article was published in 'Business Today Taiwan.'