QIC

Taiwan Small-Cap Lookout

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Coming Right Up:

Upcoming QIC Events

Selected Small-Cap News & QIC Commentary

Are Interest Rate Cuts a Good Thing by Peter Kurz, CSO of QIC

QIC Predicts Taiwan's Replicating the Formula of the U.S. Great Lakes Automotive Cluster

Since the advent of ChatGPT in late 2022, the world has witnessed an AI revolution. As a pivotal player in the global semiconductor and AI supply chains, Taiw QIC is pleased to announce the successful closing of its Second Taiwan Semiconductor Day – Taiwan Semiconductor Supply Chain and Energy Resilience Day, an online investment forum held from August 20th to 23rd. The event aimed to enhance the global influence of Taiwan's semiconductor supply chain and attracted significant participation. The forum featured 20 companies and drew the attendance of 142 investors, resulting in over 420 meetings. These 20 companies included Zhen Ding Technology (4958), J&V (6869), Acter (5536), C Sun (2467), FineTek (4549), GPM (5443), GMM (6640), Macronix (2337), Microprogram (7721), MPI (6223), PSI (8028), Skytech (6937), SuperAlloy (1563), Wah Lee (3010), Yankey (6691), Billion (3027), Hsin Kuang Steel (2031), INA Energy (6987), Micro Electricity (6883), and YeSiang (private).

QIC's founder and CEO, Alex Lee, noted that since the company's launch of the "Tenfold Growth in Taiwan's Semiconductor Market Value Over the Next Decade" thesis this January (see Figure 1), QIC's research coverage of Taiwanese semiconductor supply chain companies has expanded from 49 to 83 (Note 1), encompassing three major sectors: equipment services, factory services, and material services. Notably, among the 83 companies covered by QIC's research, 12 participated in the first QIC Taiwan Semiconductor Day event this March. These companies have seen an average market value increase of 132% year-to-date, significantly outperforming the remaining 71 companies' 36%, TWSE Electronics Index's 31%, and TWSE Index's 22%.

In this research presentation, QIC draws a parallel between the development of the TSMC-centered semiconductor and renewable energy supply chain and the evolution of the automotive supply chain in the U.S. Great Lakes region in the 1890s. The study highlights the striking similarities in the accelerated development of both supply chains through globalization. Moreover, the research emphasizes that Taiwan, with its travel conveniences and under 50 key decision-makers who share common cultural background, has efficiently established and managed a world-class industrial chain (see Figure 2).
QIC noted that TSMC is expected to develop a more efficient system, working closely with supply chain companies to promote the sustainable growth of its partners. To align with TSMC's advanced process mass production and R&D activities, the new generation of Taiwanese semiconductor supply chain companies will develop with higher sustainability standards compared to the previous generation of ITC companies. The four key directions are:

1. Strengthen capital structures through equity financing and various types of public financing.

2. Traditional ITC companies should spin off their rapidly growing semiconductor businesses for separate listings to enhance corporate value and strengthen competitiveness.

Previous CEO Conversations Vol.

CEO Conversations 52: Taiwan's Crucial Role in the AI Global Supply Chain — An Interview with CSun's General Manager Frank Liang and Captain Global's CIO Jonah Cheng

CEO Conversations 51: Reshaping Taiwan's Telecom and Startup Industry — An Interview with Taiwan Mobile President Jamie Lin

CEO Conversations 50: QIC Teams Up with ITRI to Venture into Overseas Markets: Powerful Collaboration Forges Cross-Domain Biotech Innovation Platform

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

Upcoming Events

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

3. Forming industry alliances through M&A or equity investments to accelerate technological collaboration and business expansion.

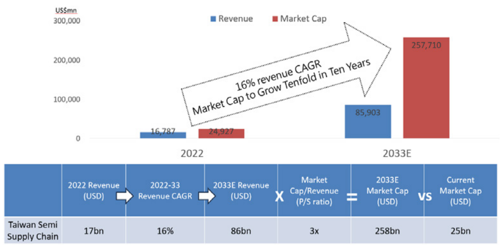
4. Develop ESG practices to meet the standards of customers, the industry, and international investment institutions.

QIC advisor Jason Ho highlighted that QIC has observed new developments in six key trends within Taiwan's semiconductor industry, including import substitution, Taiwan-Japan collaboration, Taiwanese companies expanding abroad, business model innovation, sustainable succession, and foreign investment. QIC will continue to monitor these trends, ensuring Taiwan's semiconductor industry's global leadership position. Through strong connections with international capital markets, QIC provides diverse capital market solutions for semiconductor supply chain companies.

Additionally, QIC advisor Leo Kuo emphasized that Taiwan's energy industry, much like hydroelectric power in the U.S. Great Lakes region, is a critical supply chain link providing sufficient energy for the sustainable development of industrial clusters. The proportion of renewable energy used by TSMC's operations is expected to grow from 11% in 2023 to a target of 60% by 2030 (see Figure 3). QIC anticipates that TSMC's demand for renewable energy in Taiwan will continue to increase, which leads to the firm's tracking of 40 high-quality Taiwanese companies in the solar, wind, heavy electric, charging, and energy storage sectors (Note 2). Through the "QIC Taiwan Semiconductor Day" online conference, QIC targets to provide international institutional investors with insights into Taiwan's high-growth and investment-worthy renewable energy companies.

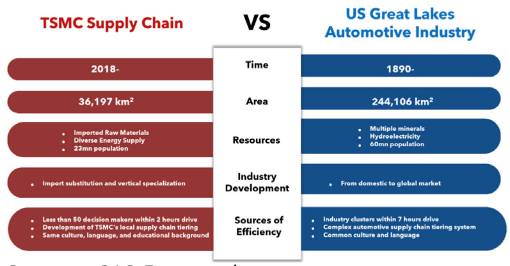
As the leader of the global semiconductor industry, TSMC has nurtured hundreds of Taiwanese semiconductor suppliers over the years. As the premier gateway for international institutional investment in Taiwan's small and mid-cap stocks, QIC has facilitated connections between over 100 Taiwanese listed/private companies and international investors while providing various customized capital market solutions over the past decade. Looking ahead to the next 10 years, QIC will continue to bring resources from international capital markets to support the robust development of Taiwan's semiconductor supply chain on the global stage, thereby enhancing the influence of global industries and capital markets.

Figure 1. Tenfold Growth in Taiwan's Semiconductor Market Value Over the Next Decade:



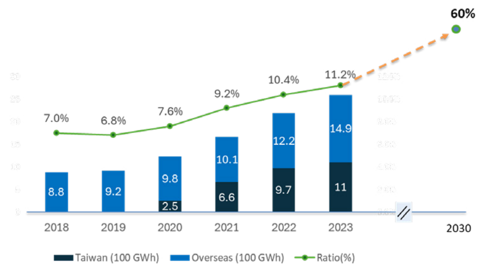
Source: QIC Research

Figure 2. Taiwan Semiconductor Supply Chain vs. U.S. Great Lakes Automotive Industry



Source: QIC Research

Figure 3. The proportion of renewable energy used by TSMC's operations is expected to grow from 11% in 2023 to a target of 60% by 2030



Source: 2023 TSMC Sustainability Report

Note 1. QIC Coverage of 83 Taiwan Semiconductor Supply Chain Companies

Chroma (2360), VisEra (6789), XinTec (3374), Gudeng (3680), Grand Process Technology (3131), Eternal Materials (1717), Scientech (3583), Foxsemicon (3413), Allied Supreme (4770), C Sun (2467), All Ring (6187), GMM (6640), Skytech (6937), Taiwan Mask (2338), SuperAlloy (1563), MAtek (3587), GPM (5443), Mirle (2464), Machvision (3563), E&R (8027), iST (3289), Contrel (8064), Symtek (6438), Spirox (3055), Gudeng Equipment (6953), Tong-Tai (4526), Brillian (6788), FineTek (4549), Utechzone (3455), MSS (6830), Favite (3535), Highlight (6208), Shih Her (3551), Autotek (6215), Value Valves (4580), Gongin (3178), UVAT (3580), Finesse (7704), Yeedex (7556), Calitech (6532), Asia Neo Tech (4542), Zen Voce (3581), UIS (2404), L&K (6139), Yankey (6691), Marketech (6196), Acter (5536), Nova (6613), Taiwan Puritic (6826), Jiu Han (6903), Wholetech (3402), Chen Full (8383), Microprogram (7721), Globalwafers (3488), Zhen Ding Technology (4958), Lien Hwa (1229), Formosa Sumco (3532), MPI (6223), Topco (5434), Echem (4749), Kinik (1560), Shiny (1773), Solar Applied Materials (1785), Eternal (1717), Wah Lee (3010), CWE (8070), Taiwan Speciality Chemicals (4772), Wafer Works (6182), PSI (8028), CHPT (6510), Daxin Materials (5234), San Fu Chemical (4755), Everlight Chemical (1711), Keystone (6683), Ingentec (4768), Trusval (6667), Feedback (8091), Niching (3444), CCP Contact Probes (6217), Ion Electronic Materials (6959), Chung Hwa Chemical (1727), San Lien (5493), Greenfiltec (6823).

Note 2. QIC Coverage of 40 Taiwan Renewable Energy Companies

J&V (6869), Shinfox (6806), HDRE (6873), Teamphon (3073), ATE (6179), Acmepoint (6692), Hsinjing (3713), Powermaster (6839), Foxwell (6994), TYCC (8931), Taiwan Cogeneration (8926), TCC (1101), Tatung (2371), TECO (1504), RITEK (2349), Billion (3027), RiTdisplay (8104), Feii (8171), Mega Union (6944), KTI (8936), Forest Water Environmental (8473), URECO (3576), TSEC (6443), Motech (6244), Tainergy (4934), Fortune (1519), SEEC (1503), CHEM (1513), Allis (1514), Luxe (1529), Century (9958), Century Wind Power (2072), CTCI (9933), Hsin Kuang Steel (2031), Swancor (3708), YGG (1589), AcBel (6282), Phihong (2457), INA Energy (6987), Micro Electricity (6883).

Top 10 Stock Gainers

Company	Ticker	Price	Change
Kenturn	4561	75.5	61%
Brillian	6788	297	54%
APEXDYNA	4583	468.5	53%
OBI	4174	90	51%
NRL	5905	24.85	50%
GPM	5443	151.5	44%
ACE PILLAR	8374	144.5	43%
MPI	6223	774	43%
TMT	3645	58.9	42%
Univacco	3303	65.8	42%

Top 10 Stock Losers

Company	Ticker	Price	Change
Fu Yu Property	4907	85.1	-28%
GLTD	3188	42	-24%
Shiny	6703	204.5	-24%
Hung Ching	2527	38.65	-22%
YeaShin	5213	40.25	-21%
LD	5519	44.4	-20%
KH	4419	51	-20%
Chip Hope	8084	71.4	-19%
UTI	6928	59.7	-19%
RichWave	4968	176	-19%

Top 10 FINI Net Buyers

Company	Ticker	Holding(%)	Change
ASIA	3019	25	10%
ELASER	3450	25	10%
PXI	3227	34	8%
UDE	3689	15	7%
Gudeng	3680	30	7%
All Ring	6187	10	6%
GLI	6104	13	6%
STC	1584	8	5%
M31	6643	17	5%
Jetwell	3147	6	5%

Top 10 FINI Net Sellers

Company	Ticker	Holding(%)	Change
BHI (Bizlink)	3665	38	-5%
CIAS	9958	12	-5%
CHEM	1513	17	-5%
Unimicron	3037	44	-5%
TMI	9927	11	-4%
E&R	8027	4	-4%
CCI YILAN	1342	27	-4%
ACTION	3024	2	-4%
Makalot	1477	33	-3%
Fiti	3413	36	-3%

Top Performers of the Month

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

Kenturn (4561 TT) +61%
30D avg. volume increased by 193% vs 90D
Kenturn, known for designing and manufacturing machine tool spindles, has recently expanded into the semiconductor equipment supply chain with its spindles designed for wafer-cutting equipment. This strategic move has led to a significant increase in its gross margin for 2Q24, which rose by 7.9 percentage points compared to the same period last year. According to Kenturn, the company is currently developing a second-generation product for semiconductor equipment, aiming to further expand the revenue contribution from this sector.

Brillian (6788 TT) +54%
30D avg. volume decreased by 11% vs 90D
Brillian is the leading RFID tracking system and advanced AMC free handling system provider in Taiwan. The company achieved record-high monthly revenue in June, reaching NT$227mn, up 32% MoM and up 99% YoY. The revenue for 2Q24 was NT$535mn, marking a 104% YoY increase. Looking ahead, with a 60% market share in Taiwan and TSMC as its major client, Brillian is well-positioned to continuously benefit from TSMC's capacity expansion plans.

APEXDYNA (4583 TT) +53%
30D avg. volume decreased by 32% vs 90D
APEXDYNA manufactures mechanical transmission components, including gearboxes and smart lubrication systems. Management expects revenue growth in the second half, driven by a recovery in manufacturing and increased demand for its high-end automation products, particularly in the robotics and smart manufacturing sectors

OBI (4174 TT) +51%
30D avg. volume decreased by 73% vs 90D
OBI develops and licenses innovative therapeutic agents targeting unmet medical needs, with a focus on cancer treatment in Taiwan and globally. Management recently announced that Phase I clinical trials for OBI-992, noted for its enhanced stability and broader therapeutic window, commenced in the U.S., with plans to advance to Phase II trials by next year.

NRL (5905 TT) +50%
30D avg. volume increased by 101% vs 90D
NRL, founded in November 1989, provides resort accommodations, leisure facilities, dining, travel information, and highway rest stop services. The company has grown through real estate development, including BOT and OT projects. NRL's revenue for the first half of the year was NT$477 million, with a net loss of NT$26 million and an EPS of -NT$0.17. The performance was weaker compared to the same period last year, but the second quarter showed improvement over the first quarter.

GPM (5443 TT) +44%
30D avg. volume decreased by 46% vs 90D
GPM, founded in July 1978, manufactures

process and inspection automation equipment for the electronics industry. The company has expanded into sectors like display process equipment, semiconductor equipment, smart factories, and logistics. GPM is now benefiting from advanced packaging equipment and is expected to enter packaging, testing, and wafer fab supply chains in 2H24. With a recovery in panel plant investments, second-half performance is projected to surpass the first half, with a revenue split of around 4:6 or better.

ACE PILLAR (8374 TT) +43%
30D avg. volume increased by 42% vs 90D
ACE PILLAR distributes electromechanical automation products like inverters, servo motors, and PLCs. In Q2, the company reported revenue of NT$766 million, up 9.1% from Q1 but down 3.6% YoY. First-half revenue totaled NT$1.469 billion, a 7.93% decline from last year. The company expects growth to resume in the second half as orders have stabilized.

MPI (6223 TT) +43%
30D avg. volume increased by 54% vs 90D
MPI designs and markets probe cards and stations for wafer testing. With a strong order book for AI-related products and increasing production capacity for high-end probe cards, MPI expects quarterly revenue growth in the second half, aiming for a seventh consecutive annual record. Collaborating with over ten chip manufacturers globally, MPI is well-positioned to benefit from the current AI wave.

TMT (3645 TT) +42%
30D avg. volume decreased by 2% vs 90D
Taimide Tech Inc. is mainly involved in the R&D, production, and sales of Polyimide film. With the development of AI smartphones and the increase in computational power, the demand for heat dissipation has significantly risen. Relevant heat dissipation manufacturers are also seeking different solutions, and the application of graphene is one of the potential solutions. TMT's graphene sintering business is also drawing attention.

Univacco (3303 TT) +42%
30D avg. volume increased by 6% vs 90D
Univacco produces various foils and films, with the U.S. market contributing about 30% of its revenue. Strong U.S. performance in April and May pushed monthly revenue above NT$260 million. While June's revenue may dip slightly due to holidays, it is expected to remain strong. Starting June 20, Univacco initiated a buyback of 1 million shares within an NT$29 to NT$64 range to stabilize its stock price.

SEMICON Taiwan 2024 to Spotlight AI Innovations in Semiconductor Industry

https://reurl.cc/Orv21v

SEMICON Taiwan 2024 will emphasize AI's transformative impact on the semiconductor industry. The event will feature new areas like the "AI Semiconductor Technology Concept Zone" and the "AI Interactive Experience Zone," where leading companies such as NVIDIA (NVDA US), TSMC (2330 TT), Samsung (005930 KR), and ZDT (4958 TT) will showcase cutting-edge AI chip technologies and innovations in manufacturing solutions. International forums will explore AI's role in MEMS, silicon photonics, and advanced packaging, highlighting its influence on the future of semiconductor production. The exhibition begins on September 4, 2024.

QIC Comment: *The growing demand for AI servers is driving advancements in integrated fan-out (InFO), CoWoS, and System-on-Integrated-Chips (SoIC) packaging technologies. TSMC, Intel (INTC US), and Samsung are expanding their advanced packaging capacities globally. Taiwan's advanced packaging equipment suppliers, who manufacture electroplating machines, die bonders, molding presses, and thinning machines, are gradually shifting their product development focus toward semiconductor applications. We reconfirm that TSMC will continue to foster local suppliers to build a reliable local supply chain, making advanced packaging a key growth driver for Taiwan's equipment industry.*

Din Tai Fung Withdraws from Northern China, Closes 14 Stores

https://reurl.cc/WNGeDx

Din Tai Fung announced yesterday that it will close 14 branches by the end of October in cities including Beijing, Tianjin, Qingdao, Xi'an, and Xiamen, effectively withdrawing from the Northern China market. This decision will impact approximately 800 employees of Beijing Din Tai Fung.

Din Tai Fung has been operating in the mainland Chinese market for over 20 years through authorized partnerships. Despite the withdrawal from Northern China, other Din Tai Fung stores in Eastern and Southern China, such as those in Shanghai, Suzhou, and Guangzhou, remain unaffected and continue to operate normally.

The company was impacted during the pandemic, breaking even at best, with a slight loss in the first half of this year. However, as the restaurant industry enters its peak season in July and August, coupled with China's visa-free transit policy bringing back foreign customers, the company has seen a return to profitability. Nonetheless, shareholders were still unable to agree on the license renewal.

QIC Comment: *Even the most popular restaurant brand from Taiwan is pulling out of China, which underscores the severity of the consumption downturn in the region. We've already seen Taiwan-listed restaurant companies like Bafang (2753 TT) and TTFB (2729 TT) completely exit the Chinese market. While Wowprime (2727 TT) and Gourmet Master (2723 TT) still maintain sizeable operations in China, we are concerned that the ongoing consumption woes may continue to negatively impact these two players.*

Moreover, it appears that many of these Taiwan-listed restaurant companies are shifting their overseas expansion focus from China to the US. However, execution remains uncertain, as we believe US consumers are also under pressure, grappling with persistently high inflation, depleted pandemic savings, and a growing debt burden. These factors heighten our concerns about the future expansion prospects of these Taiwan-listed companies.

NanPao Resins Chemical (4766 TT) Targets to Outgrow the Industry, Focusing on Innovation and Acquisitions

https://reurl.cc/A20g7K

NanPao (4766) emphasized its growth strategy centered on "innovation" and "acquisitions," aiming to achieve growth surpassing the industry average. Nan Pao indicated that "NextGen" innovation-driven strategy focuses on key industry leaders, actively collaborating to develop innovative adhesive solutions for the next generation of products. Examples include adhesives for high-performance running shoes made from new materials, high-temperature adhesives for semiconductor manufacturing that are silicone-free, and innovative adhesives for new flooring materials that improve production efficiency by up to ten times. NanPao also carefully selects targets related to its core business for acquisition. The board recently approved the acquisition of a 70% stake in Yun Teh Industrial, aimed at enhancing its product line and offering more comprehensive solutions to clients.

QIC Comment: *In the footwear space, markets focus on beneficiaries of the high-growth, emerging brands such as HOKA and On Running. To be leading, innovative players, global brands are developing more shoes with new, innovative materials, which also require innovative bonding solutions and give NanPao more opportunities to grow and structurally improve its margins. The company also has strong cash flows with a>5% cash dividend yield.*

Apple orders over 10% more iPhones than last year on AI bet

https://reurl.cc/QEZeXq

Apple is betting that its first AI-equipped iPhones will be a hit, telling suppliers to prepare components and parts for some 88 million to 90 million smartphones, according to multiple sources familiar with the plan. That is more than last year's initial component orders for around 80 million new iPhones.

QIC Comment: *Zhen Ding (4958 TT), a key PCB supplier to Apple, also said at its 2Q24 earnings call on August 13th that its 2H24 outlook is better than previous expectations, and the orders for new smartphone models in 2H24 will increase by 10%+ YoY. We expect that Zhen Ding will deliver solid financial performance in 2H24 driven by the iPhone upcycle.*

Mars Biotech (7731 TT) Acquired ANB to Strengthen Its Capability in Telemarketing

https://reurl.cc/ZVyObg

On 8/14, Marx Biotech announced that the company will acquire ANB (安橋) with NT$30mn. ANB was established in 2022 as a spin-off from Bridge Drugstore, specializing in telemarketing to middle-aged consumer. This acquisition aims to strengthen Marx's ability in telemarketing and customer relationship management, enabling more precise marketing for its portfolio brands, enhancing customer loyalty and repurchase rate. The acquisition is expected to be completed by 8/31.

QIC Comment: *Telemarketing continues to be regarded as a highly effective marketing strategy, widely utilized across the telecommunications, financial, and insurance sectors. Marx ranks telemarketing as one of its four primary sales channels, alongside physical retail stores, online shopping, and live streaming platforms. The key advantage of telemarketing lies in its exceptionally low cost, and with Marx boasting hundreds of thousands of active members—and growing—the channel allows for real-time tracking of customer purchasing behavior, feedback collection, and cross-selling opportunities. Following the acquisition of ANB, Marx anticipates that telemarketing will account for 5-8% of total revenue by 2025. For the first seven months, Marx reported revenue of NT$ 259 million, with a YoY growth of 232%. The company is currently trading at a 2023 P/S ratio of 16.9, with a market capitalization of US$ 154 million.*

Are Interest Rate Cuts a Good Thing by Peter Kurz, CSO of QIC

There's a persistent belief in financial markets that when the U.S. Federal Reserve cuts interest rates, it's a positive signal for equities. However, historical data suggests otherwise. For instance, during the 2000 cycle, the Fed Funds rate peaked at 6.5% in November, while the stock market had already peaked a month earlier. By the time the Fed had slashed rates to 1.75%, the S&P 500 had plummeted by 47%. Similarly, in July 2007, the Fed Funds rate hit 5.25%, with the S&P 500 peaking three months later at 1,535. As the Fed cut rates to near-zero during the ensuing financial crisis, the S&P 500 nosedived by 55%. The only recent instance where falling rates coincided with rising equity markets was during the 1989-1993 cycle.

The main reason falling interest rates often coincide with falling stock prices is that the Fed is responding to weakening economic data. When economic conditions deteriorate, the cycle of job losses leading to reduced demand and thus further job losses, gains momentum. This negative feedback loop must run its course before stability returns, often after significant market adjustments.

But there is another element at play – the Fed's fixation on credit market stability, especially since the 2008 Global Financial Crisis with only peripheral interest in supporting equity markets.

As we have discussed before, large institutions use US treasury bonds as collateral for loans for making even larger investments or for ensuring commercial transactions. When bond volatility increases, lenders demand more collateral which sharply and instantaneously reduces available liquidity to the economy. This phenomenon almost busted the world economy in 2008. Thus, while the Fed sought to quash inflation since April 2022 with higher interest rates, it lubricated credit markets through what is known as open market operations, buying back treasury bonds it had previously sold, mostly to money market funds. Buying back these securities effectively injects money into the financial markets. This policy 'twist'– seemingly tightening with higher rates while loosening with liquidity injections – has been a boon particularly for cash-rich tech stocks. Amazon, for example, which had a net interest expense of US$1.0 billion in 2020 had a US$1.0 billion in the past 12 months. Thus, the Magnificent Seven stocks benefit from rising interest income on their large cash holdings while the liquidity injected by the Fed fueled buying of their shares on the equity markets.

Since June of last year, the Fed has injected US$2.4 trillion into the financial markets with injections made every month up until March of this year at which point in time it suddenly stopped. Interestingly, the US equity market suddenly suffered a 5% pullback in April. It appears that the Fed is taking the first step toward 'untwisting' monetary policy – lowering interest rates while reducing liquidity injections. This could be as damaging to the big tech stocks as the twist was positive.

In conclusion, the assumption that Fed rate cuts are inherently good for equities is flawed. History has shown that such cuts often signal underlying economic weaknesses, which can lead to significant market downturns. As we move forward, investors should be longer-term cautious and not rely on rate cuts as a panacea for market woes.

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