Research @ Citi Podcast Episode 80: Korea, Taiwan Tech Hubs Drive AI Future

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Transcript:

Erica Poon Werkun (00:00)

Welcome to the Research @ Citi podcast. I'm your host, Erica Poon Werkun, Head of Research for JANA and Asia South here at Citi.

The evolving AI trade remains the most powerful thematic in global markets. While the initial broad enthusiasm has given way to more selective performance, the AI thematic is resilient and resurgent. AI continues to be a powerful driver of truly exceptional earnings growth, particularly for the enabler cohort in the semiconductor space. This is why we see the year-to-date outperformance in the Taiwan and Korea stock markets, which are central to this ecosystem.

Today, I'm delighted to have Laura Chen, Head of Taiwan Research, and Peter Lee, our Head of Korea Research, to join this discussion. Laura and Peter, welcome to the show.

Peter Lee (01:02)

Hi, thank you.

Laura Chen (01:03)

Thank you, Erica, for having us.

Erica Poon Werkun (01:05)

Let me turn to Laura with my first few questions. So Laura, the Taiwan market and the tech sector have been big beneficiaries of AI spend. Do you think this is sustainable? And other than the semiconductor space, are there other companies in Taiwan that have critical roles to play in the AI infrastructure build-out?

Laura Chen (1:28)

Yes, I think that's true. What we see is that year to date, Taiwan's stock market has rallied more than 50% and is becoming the fifth-largest stock market globally. It's all thanks to the AI infrastructure build-up, and not just the semiconductor space.

If you look at the upcoming Computex next week, which will be the biggest event in the technology sector in Taiwan, we will see — actually, aside from GPUs and CPUs — various different types of technology demonstrated during the trade show. Because we now see that AI is not just about the semiconductors — it will be more structured to relate to the network and also the power systems.

So in Taiwan, other than TSMC, which investors are probably more familiar with, actually we see that broader than the semiconductor space, including the rack assemblies, and also the power delivery, thermal management, and the networking space, as well as PCB substrates — all are very important to build up the full infrastructure for these hyperscalers like Microsoft, Google, Amazon, Meta etc.

And we do think this is a structural trend. We see that for hyperscalers: They continue to see very strong demand on their capex build-up. For our Citi view, we expect growth will be around 46% CAGR and overall capex will continue to grow. So we think even though we have been talking about AI trends for maybe three or four years, a lot of demand has not yet been fully fulfilled. And for the semiconductors and the various components in the supply chain, their capacity build-up takes time. So we believe that we still see quite decent earnings growth and a decent industry outlook for the following two to three years.

Erica Poon Werkun (03:33)

Great, Laura. So it looks like this boom market could be a multi-year phenomenon and could be a quite broad-based scenario, which is very exciting for Taiwan. What can drive further earnings upside to the Taiwan technology sector? You mentioned capex build-out, but what about ASP hikes? What about utilization? And also, within the advanced nodes, where do you expect the highest demand? Is it going to the highest technology or the newest technology? And where is that demand coming from?

Laura Chen (04:08)

That's actually a very great question, and we also get a lot of similar questions from investors quite often. I think there are several layers here, and some may still be underappreciated at some point.

On the ASP-trend perspective, we see that the chips continue to migrate to more advanced nodes. For example, in the previous generation — like Hopper from NVIDIA or Blackwell, which is still ongoing — it's all based on 4 nanometers. And for the AI accelerator, it is the first year we have seen a move to N3, the 3-nanometer node, as well. So, from the technology-migration perspective, we see that the ASP migration has more upside.

And also, the supply is limited from the most advanced node technology at TSMC, and also the iteration rate is now quite high. This is not just for TSMC. We also see similar scenarios happening across other supply chains — like substrates for example, like raw materials in T-glass, and packaging as well. So I think the ASP upward trend is happening.

And plus, we see that it’s not just for chip migration — for every generation of AI development, we see that the power consumption is also increasing. Thermal requirements are more advanced. So this all drives higher ASP upgrades. Like we just discussed, companies are trying very hard to build out capacity, but the demand is much stronger than expected. So aside from technology migration, we also see like-for-like ASP increases. That will drive earnings upside for supply-chain companies.

Erica Poon Werkun (05:59)

Thanks Laura. It does sound like there are some bottlenecks for the capacity and also in terms of the power consumption. I also wanted to talk to you about Taiwan vs. global peers. So we

think about the competitive landscape, we also understand that some Taiwanese companies do have overseas expansion plans. So how does that affect longer-term profitability?

Laura Chen (06:25)

Yes, of course. Given the strong demand, I think everyone is expanding capacity and also considering diversification on geopolitical potential risks. I think every supply-chain maker wants to have more diversification for their production base.

That is why we see that for TSMC, for example, they are trying to build up more capacity in Arizona in the United States, and also in Kumamoto, Japan. At the same time, we are seeing that the downstream makers like Hon Hai/Foxconn and also Quanta are also moving production closer to the United States or Mexico, for example. So we believe that diversification is ongoing — and that will likely also leave some execution risk, that's for sure, and also the potential dilution to profitability.

But I think what is very different from the previous cycle is when we look at the AI supply chain, because the real buyers are hyperscalers. They are less cost- or pricing-sensitive and they have a much longer product cycle and order visibility. So they are more willing to pay a premium, even if overseas capacity may to lead to higher costs.  That is very different from consumer electronics, which is much more pricing-sensitive.

But for the AI infrastructure build-up, it is actually more like enterprise spending — more like capex. So the real buyers, which is those leading CSP, they are less pricing-sensitive. Of course, I think they may also try to diversify to non-Taiwanese companies. For example, in the foundry space, we see that many of TSMC's customers may try to work with Intel or Samsung, for example. But I think TSMC's CEO has previously mentioned that there is no shortcut, and capacity build-up takes at least two to three years. And once you have the capacity built up, it takes probably another one year to really ramp up your yield rate at big scale.

So I think because of the AI product cycle, you need to lock down two, three years ahead and to work with the supply chains on a very complex system design — not just a single chip design, but the full system design. So for at least for a two- to three-year perspective, we do not really see that much of a landscape change.

Erica Poon Werkun (09:04)

I understand. Thanks, Laura. We have talked a lot about the AI supply chain. Other than the AI supply chain, what are Taiwanese companies' progress in other technologies, such as robotics or space-exploration supply chain?

Laura Chen (09:20)

For robotics, we do see a lot of humanoids in China, but here in Taiwan, I think it's probably more tied to industrial applications. For example, like robotics, Hon Hai has been very vocal about their ambitions here— they are investing in AI across various different applications in different industries. So, the robotics opportunities here in Taiwan probably will be more tied with the manufacturing process, which is also what Taiwanese companies are good at. Not necessarily to be like humanoid type of robot, but rather robotic arms to enhance your overall manufacturing efficiency.

NVIDIA is pushing very hard on that. So we see a lot of supply-chain makers in the tech space working very closely with NVIDIA to push into so-called physical AI and robotics — Hon

Hai/Foxconn is one example. And actually for TSMC, they have also built up a so-called digital twin system for their manufacturing process.

So I think there are a lot of different applications to use AI in various perspectives. But for Taiwanese companies where we see the robotics or the new technologies, they are more tied to their expertise in the manufacturing process.

Erica Poon Werkun (10:51)

Laura, thank you so much — very insightful. Let me now turn to Peter. The South Korean market has been performing quite well recently. Can you talk about some of the key factors behind this very strong momentum?

Peter Lee (11:05)

Sure, Erica. Actually there are, I think, two main drivers. The most significant is the dramatic turnaround in earnings for Korea's major memory makers, as the memory market enters a new boom cycle thanks to AI. So their improved performance is lifting the entire market. Additionally, the Korean government's Corporate Value-Up Program — a program which encourages companies to improve shareholder returns and corporate governance — is also having a positive impact on investment sentiment. So, there are really two drivers: earnings improvement and also the government-delivered Corporate Value-Up Program.

Erica Poon Werkun (11:20)

You mentioned the memory market is certainly booming, and this is largely tied to AI development. Can you give us some sort of technical explanation of the core driver — the KV cache — and why that is so crucial?

Peter Lee (11:57)

Yes, sure. Actually this boom is fueled by the massive demand from AI — specifically for AI inference. The key driver is the key-value cache, as you mentioned. Think of it as an AI model's short-term memory. When a large language model is generating a response, it stores the computational results of the text it has already processed in this cache. This prevents it from having to recalculate everything from scratch for each new word, making the process much more efficient.

But the more you use AI, it generates more KV cache. So the size of this KV cache needs to increase, which directly drives up demand of high-capacity, high-speed memory like DRAM and NAND. That is the main driver for the current memory up to now.

Erica Poon Werkun (12:46)

Sounds to me like a virtuous cycle where demand for memory will continue to go up. And given this AI-driven demand, Peter, where are we in the current memory cycle, and what is the basis for predicting how long it may last?

Peter Lee (13:03)

This is a very important question, and there are key debates now in the market. Maybe if we use a baseball analogy, we are only in the second inning of a nine-inning game. We believe this cycle has the potential to last for another seven years.

And the reasoning comes from historical precedent. We saw a similar supercycle in the NAND market between 2001 and 2007, driven by technology shifts such as MP3 players replacing Walkmans and digital cameras replacing film cameras. That created a massive new wave of demand.

Today, AI is an even more transformative force, because it is being adopted across both B2C and B2B applications. So it's creating deep and sustained demand for both DRAM and NAND, and suggesting a similarly long and powerful cycle ahead.

Erica Poon Werkun (13:58)

Got it, Peter. I can tell you have a pretty optimistic view, considering this is early innings of this cycle. Perhaps we can talk about some of the potential downside risks that you think investors should be aware of?

Peter Lee (14:11)

Yes, sure. I think there are three things we need to be cautious about.

First, a slowdown in traditional IT demand. I think that PC and smartphone demand actually could see some downside risk, because as overall memory prices go up, there could be some risk to the PC and smartphone demand weakness. We think that strong AI investment demand will offset weaker PC and smartphone demand, but there could be some downside risk.

Secondly, geopolitical instability. The semiconductor industry's supply chain is globally interconnected and concentrated in specific regions. So any trade disputes or tariffs, political tension, could impact production and demand too — that could be another downside risk.

And lastly, the slower-than-expected AI adoption curve. The entire supercycle thesis depends on the continued exponential growth of AI. So if enterprise adoption slows due to high costs, like unclear ROI, or implementation challenges, then the projected demand for memory might not fully materialize. So there is a downside risk to watch on that.

Erica Poon Werkun (15:23)

Thanks for reminding us that there could be not just ups, but ups and downs during these strong cycles. And anyway, it is a very exciting time for both the Korea and Taiwan markets. So today, thank you so much Laura and Peter for joining me.

Laura Chen (15:39)

Thank you, Erica.

Peter Lee (15:40)

Thank you.

Erica Poon Werkun (15:41)

This episode of Research @ Citi was recorded on Tuesday, May 26, 2026. I'm your host, Erica Poon Werkun. If you appreciate this content please feel free to share and explore our library of previous podcast episodes all of which are available on this channel and other channels.

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