

Heavy electrical sector

Transformers remain in short supply in the US

Key message

1. US keeps anti-dumping measures against South Korean transformers.
2. Transformers will remain in short supply in US.
3. US market will drive sales growth for Taiwanese transformer manufacturers.

Event

On January 3, the US Department of Commerce announced the results of a second anti-dumping sunset review regarding the import of power transformers from South Korea, extending the anti-dumping measures imposed in 2012. We believe the US will continue to experience transformer shortages, which will drive transformer sales for Taiwanese manufacturers.

Impact

US keeps anti-dumping measures against South Korean transformers. After review, the US Department of commerce determined that the US should continue to levy a respective 14.95% and 29.04% anti-dumping duty on HD Hyundai Electric (KR) and Hyosung Heavy Industries (KR). In response to anti-dumping duties, Hyundai and Hyosung built and acquired plants in the US in 2011 and 2019, respectively, to satisfy orders from customers. We believe they will continue with the same strategy, of supplying the US market through capacity in the US, and to other markets, such as Europe and the Middle East, via capacity in South Korea.

Transformers will remain in short supply in US. We noted in our December 27 report "US power grid construction to pick up pace from 1Q25F" that US power transmission capacity needs to expand by 114% by 2035, with transformer import demand estimated at US\$80-100bn. With a transformer shortage, the transformer lead time of global manufacturers has lengthened to over two years, compared with 18 months for Taiwanese manufacturers. This has boosted the willingness of US power companies to negotiate orders with Taiwanese firms. We believe the US will continue to experience transformer shortages, given the unchanged anti-dumping duties against the South Korean firms, and that Taiwanese manufacturers will have a competitive edge in transformer exports over their South Korean counterparts.

US market to drive sales growth for Taiwanese power transformer manufacturers. In dollar terms, US imports of power transformers in January-November 2023 reached 136% of the full-year 2022 level. In addition, Taiwan's transformer exports to the US in 2023 grew 124% YoY. We believe the US market will continue to drive transformer sales growth for Taiwanese manufacturers, and we estimate Shihlin Electric (1503 TT, NT\$115.0, OP) and Fortune Electric (1519 TT, NT\$371.0, OP) will see US sales grow at 89% and 41% CAGR respectively in 2023-25F, with the US market contributing 5% and 41% of 2025F sales.

Stocks for Action

We believe Shihlin Electric and Fortune Electric will secure transformer orders from US clients, and we forecast earnings will grow a respective 27% YoY and 34% YoY in 2025. We maintain Outperform on both Shihlin Electric and Fortune Electric, and respective target prices of NT\$163 and NT\$500, on 25x 2024F EPS of NT\$6.52 and 35x 2024F EPS of NT\$14.25.

Risks

Slow US power infrastructure investment.

Peer comparison - Valuation

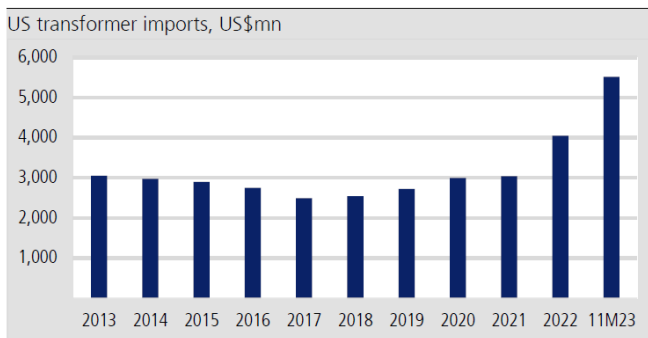
Ticker	Company	Revenue contribution of related products(%)	Market cap (US\$mn)	Price (NT\$)	Rating	Target price (NT\$)	Upside/downside(%)	EPS (NT\$)			
								2022	2023F	2024F	2024F
1503 TT	Shihlin Electric	Heavy electrical equipment(52)	1,911	115.0	OP	163	42	3.86	4.60	6.52	8.29
1519 TT	Fortune Electric	Heavy electrical equipment(84)	3,090	371.0	OP	500	35	3.21	8.40	14.25	19.13

Source: Bloomberg; KGI Research

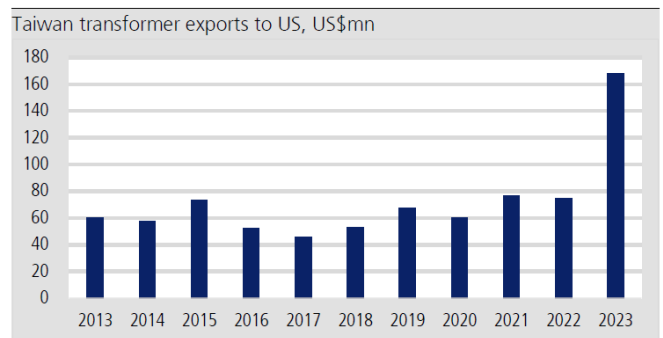
Figure 1: US anti-dumping investigations into South Korean transformers

Date	Anti-dumping reviews and result
2011.08.03	Initiation of the first anti-dumping review
2012.07.11	Result of the first anti-dumping review
2012.08.31	Officially levy anti-dumping duties on Hyundai (14.95%), Hyosung (29.04%), all others (22%)
2017.07.03	First anti-dumping sunset review
2017.11.07	Result of the first anti-dumping sunset review – retained
2023.09.01	Second anti-dumping sunset review
2024.01.03	Result of the second anti-dumping sunset review – retained

Source: US Department of Commerce; KGI Research

Figure 2: US transformer imports at 136% of 2022 level


Source: US Census Bureau; KGI Research

Figure 3: 2023 Taiwan transformer exports to US grew 124% YoY


Source: ROC Customs Administration; KGI Research

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