

Networking sector

What would happen if TP-Link sales are banned in US?

Key message

1. TP-Link is a leading global vendor of consumer networking equipment.
2. Taiwan networking brands and contract manufacturers will be primary beneficiaries if TP-Link sales are banned in the US.
3. The impact on Taiwan firms will be limited if Chinese consumers prefer to purchase from local suppliers.

Event

The media has reported that the US government is considering banning sales of TP-Link, a Chinese router brand servicing millions of US households.

Impact

TP-Link is a leading global vendor of consumer networking equipment. TP-Link was established in 1996 and spun off from its Chinese parent company Netgear in 2022. The firm is currently based in the US and sells affordable wireless networking equipment with peer-comparable performance in over 170 countries. According to the media, TP-Link has market share of 65% in the US (household and enterprise combined) due to high value of its products. On its official website, the firm claims to have captured global market share of 17.8% in 2021, citing IDC statistics, and that in 1Q22, its access point (AP) devices for small businesses accounted for 37.5% of global shipments.

Taiwan networking brands & contract manufacturers would be primary beneficiaries of the US ban. If sales of TP-Link are banned in the US, we believe networking equipment vendors that sell products directly to consumers, as well as small and medium enterprises (SME) would benefit the most by taking over TP-Link's market share. In Taiwan, we think the top beneficiaries would be brand names like Zyxel Group (3704 TT, NT\$38.4, OP), D-Link (2332 TT, NT\$20.9, NR), and Asustek Computer (2357 TT, NT\$609, OP). Lesser beneficiaries would be contract manufacturers for brands or distributors, including Sercomm (5388 TT, NT\$111, OP), Gemtek Technology (4906 TT, NT\$32.85, OP), Arcadyan Technology (3596 TT, NT\$173, OP), Accton Technology (2345 TT, NT\$735, OP), Wistron NeWeb (6285 TT, NT\$122.5, N), Alpha Networks (3380 TT, NT\$33.6, N), Senao Networks (3558 TT, NT\$206.5, NR), and CyberTAN Technology (3062 TT, NT\$30.9, NR). Telecom operators are less likely to receive transferred orders as a result of the ban.

Limited impact on Taiwan firms if China consumers prefer local suppliers. Since the outbreak of the Sino-US trade war in 2018, Taiwan networking suppliers have focused on developing US and EU markets. Networking demand in India has been growing in 2024, and we believe the uptick will continue in 2025. However, we note that China consumers are more inclined to purchase from local vendors. As far as Wi-Fi 7 is concerned, as China has reserved 6,425-7,125MHz for 5G and 6G networks, the remaining bandwidth for technologies beyond Wi-Fi 6E within 5,925-7,125MHz is only 500MHz. Put simply, while China may continue to upgrade its communication protocols, such as multi-link operation (MLO) and coding technologies like 4096QAM beyond Wi-Fi 6E, its wireless networking product specs and prices will be lower than those in the US and EU given limited demand on the spectrum front. As such, even if China consumers opt for products offered by local suppliers, we believe the impact on Taiwan vendors will be limited.

Stocks for Action

If sales of TP-Link products are banned in the US, we believe Zyxel, D-Link, and Asustek would directly benefit from the vacuum left by TP-Link, while Sercomm, Gemtek, Arcadyan, Accton, Wistron NeWeb, Alpha Networks, Senao Networks, and CyberTAN would benefit from orders transferred from US and European networking brands.

Risks

Rising global geopolitical risk; macroeconomic downturn.

Figure 1: US market contribution to 3Q24 sales of Taiwan networking firms

Company	Ticker	US sales contribution (%)
Accton	2345 TT	65-75
Arcadyan	3596 TT	40
Sercomm	5388 TT	65
Wistron NeWeb Corp	6285 TT	70
Gemtek	4906 TT	25-30
Zyxel Group	3704 TT	16
Alpha Networks	3380 TT	55

Source: Company data; KGI Research

Figure 2: Comparison – Peer valuations

Company	Code	Market cap (US\$ mn)	Share price (LCY)	EPS (LCY)			EPS CAGR (%) (2023-2025F)	PER (x)			PBR (x)			ROE (%)			Dividend yield (%)		
				2023	2024F	2025F		2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F	2023	2024F	2025F
Accton	2345 TT	12,693	735.0	15.99	19.61	25.25	25.7	46.0	37.5	29.1	16.4	14.3	11.9	39.1	40.5	44.6	1.4	1.8	2.0
Alpha Networks	3380 TT	560	33.6	1.01	0.12	1.81	33.7	33.2	288.7	18.6	1.8	1.8	1.6	5.4	0.6	9.3	3.0	3.0	5.4
Arcadyan	3596 TT	1,173	173.0	10.98	11.17	13.01	8.8	15.7	15.5	13.3	2.6	2.5	2.3	16.9	16.2	18.0	4.0	4.6	5.5
Zyxel Group	3704 TT	486	38.4	3.38	0.65	2.95	(6.5)	11.4	59.4	13.0	1.4	1.4	1.3	12.9	2.4	10.6	3.9	0.5	2.6
Gemtek	4906 TT	432	32.85	1.55	1.71	2.96	38.3	21.3	19.2	11.1	1.0	1.0	1.0	4.7	5.4	9.3	4.5	4.6	4.6
Sercomm	5388 TT	1,025	111.0	9.17	8.03	9.04	(0.7)	12.1	13.8	12.3	2.3	2.3	2.2	20.7	17.4	18.7	4.5	4.8	5.3
Wistron NeWeb Corp	6285 TT	1,829	122.5	8.98	6.44	7.89	(6.3)	13.6	19.0	15.5	1.9	1.9	1.8	15.0	9.9	11.9	4.9	3.5	4.3
Peer Average								21.9	64.7	16.1	3.9	3.6	3.2	16.4	13.2	17.5	3.7	3.2	4.2

Source: Bloomberg; KGI Research

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