

## Strategy

### Sell or buy amid likely tariff war?

#### Key message

1. We believe the real reason behind Trump's tariff campaign is not to wage a full-blown global tariff war but to obtain strategic materials.
2. Canadian and Mexican stock markets have fully recovered lost ground post-tariff announcements.
3. We expect the Taiex will consolidate in a 22,000-24,000 point range.

#### Event

On February 27, US President Trump announced that a 25% duty on Mexican and Canadian goods will be imposed on March 4 as scheduled. This has deepened market concerns that global tariffs on semiconductor chips or reciprocal tariffs will soon come into effect.

#### Analysis

**Market sentiment in flux on Trump tariff announcements.** Aside from the 25% tariff on Mexico and Canada, Trump also announced an additional 10% tariff on China, on top of the 10% already effective since February 4, bringing US tariffs on China to 20%. The market had previously expected that US tariffs on Mexico and Canada could be relaxed based on reciprocation on narcotics and illegal immigration issues. However, these hopes have now been dashed, sparking panic selling again on stock markets. The market is now concerned that semiconductor chips will be the next victim, resulting in very strong selling pressure on semiconductor plays.

**Aim of Trump's tariff campaign is to obtain strategic materials, not to wage a full-blown global tariff war.** We believe the real reason behind Trump's tariff campaign is not to wage a full-blown global tariff war but to obtain strategic materials, such as rare earth metals, and to gain control of shipping lanes and semiconductor chip production. This is why he has been pressuring TSMC (2330 TT, NT\$1,020, OP) to engage in actions beneficial to US manufacturing. We also believe that Trump uses tariffs as a bargaining chip to force other nations to negotiate with the US with the aim of furthering his "MAGA" campaign goal. In other words, if other countries are willing to accommodate US interests, the announced tariffs could be rescinded or relaxed, as in the recent cases of Japan and the UK. In a nutshell, while Trump is indeed weaponizing tariffs, the effect of this could turn out to be less severe than expected, so long as US interests are met.

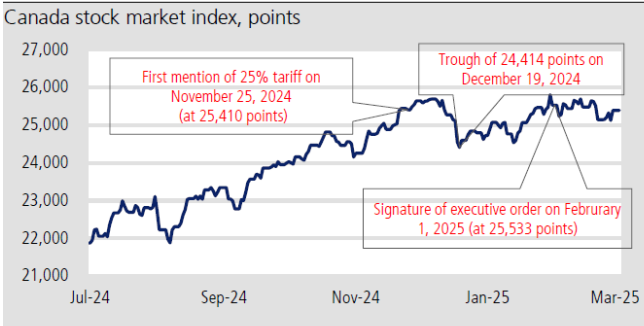
**Canadian & Mexican stock markets reclaimed lost ground post-tariff announcements.** Trump first announced on November 25 last year that he would impose a 25% tariff on Canada and Mexico as soon as he took office, the opening salvo of actions to fulfill his campaign promises. Canadian and Mexican stock markets both took a nosedive on the announcement, as was expected by the market and which proved to be a good entry point. The Canadian market fell 3.9% and had bottomed within a month, while Mexican stocks were down 2.7% and also bottomed within a month, with both markets reclaiming lost ground. Since Canada's and Mexico's exports to the US account for 20-30% of their respective GDP, a US tariff war would impact their economies significantly. However, their stock markets have reacted surprisingly well, which serves as a good reference point for the Taiex.

**We expect a Taiex range of 22,000-24,000 points.** The Taiex has consolidated in the 22,000-24,000 point range over the past six months, under the shadow of Trump's tariff policy and the Fed's monetary policy, but boosted by AI server shipments. Going forward, we predict the index will remain range-bound due to the above three uncertainties. We recommend investors add to positions when the Taiex approaches 22,000 points and reduce holdings to below 50% when it nears 24,000 points. Factors leading to a breach of 22,000 points are: (1) the US initiates a global tariff war and is retaliated against in equal measure; (2) China's economy collapses; (3) the US ten-year Treasury yield tops 5%; and (4) large CSPs worldwide cut capex. Factors that will push the Taiex above 24,000 points are: (1) Trump ends the tariff war; and (2) the US economy returns to 'Goldilocks' conditions and the Fed starts to cut interest rates.

**Conclusion & top picks**

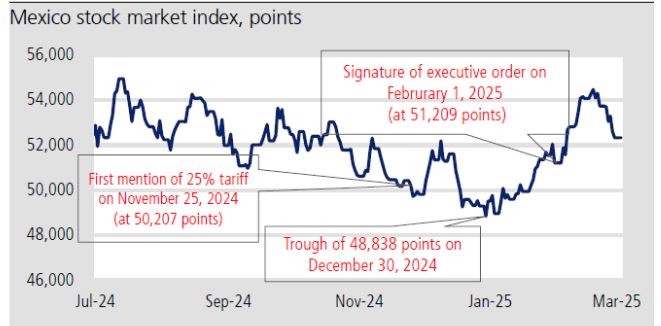
In response to wider Taiex swings going forward, we recommend investors focus on high-growth, low-PE and high-yield stocks. Our top picks are Mediatek (2454 TT, OP), Elite Material (2383 TT, OP), Auras Technology (3324 TT, OP), Asustek (2357 TT, OP), Simplo Technology (6121 TT, OP), Chicony Electronics (2385 TT, OP), CTBC FHC (2891 TT, OP), and E.Sun FHC (2884 TT, OP).

**Figure 1: Canada's TSX fell by as much as 3.9% on tariff announcement, but bottomed within a month**



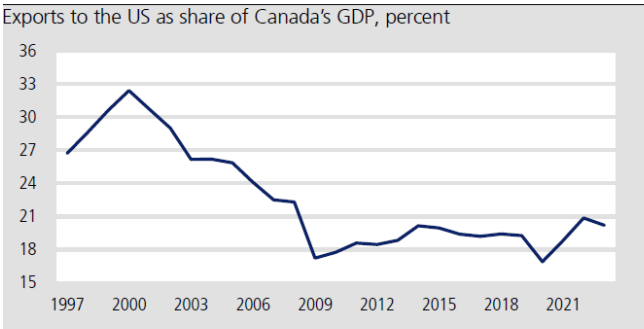
Source: Bloomberg; KGI Research

**Figure 2: Mexican stocks fell by as much as 2.7% on tariff announcement, but bottomed within a month**



Source: Bloomberg; KGI Research

**Figure 3: Exports to the US contribute about 20% of Canada's GDP, so tariffs would hurt the economy**



Source: BCA; KGI Research

**Figure 4: Exports to the US account for almost 30% of Mexico's GDP, so tariffs could be extremely harmful**



Source: BCA; KGI Research

**Figure 5: Comparison - Taix valuations**

	Forward PB(X)								Forward PE(X)							
	Forward 1-year	2024	2025	5-year average	10-year average	20-year average	2007 peak	2008 bottom	Forward 1-year	2024	2025	5-year average	10-year average	20-year average	2007 peak	2008 bottom
Taix	2.08	2.31	2.08	1.76	1.64	1.63	2.28	0.95	16.95	20.20	16.95	15.18	15.00	17.08	21.73	8.80
Taix excl. TSMC	1.51	1.67	1.51	1.42	1.39	1.47	2.22	0.89	16.70	18.88	16.70	14.89	14.98	16.02	22.71	8.06

Source: TEJ; KGI Research

**Figure 6: Our top picks**

Company	Code	Investment rating	Target price (NTS)	Mkt cap (US\$m)	Share price (NTS)	Change +/- (%)	EPS (NTS)		PE (x)		P/B (x)		ROE (%)		Cash yield (%)	
							2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
MTK	2454 TT	Outperform	1700.0	74,024	1515.0	12.2	66.92	71.58	22.6	21.2	6.1	5.7	27.7	27.6	4.6	4.5
EMC	2383 TT	Outperform	720.0	6,683	632.0	13.9	27.74	36.22	22.8	17.5	7.1	6.2	33.5	38.2	2.7	3.4
AURAS	3324 TT	Outperform	800.0	1,929	689.0	16.1	21.23	38.17	32.5	18.1	7.0	5.9	24.3	34.9	1.5	2.6
Asustek	2357 TT	Outperform	810.0	15,453	682.0	18.8	47.81	45.02	14.3	15.1	2.0	2.0	14.5	13.1	5.3	5.0
SMP	6121 TT	Outperform	460.0	2,116	375.0	22.7	28.38	30.70	13.2	12.2	1.9	1.9	15.0	15.6	5.4	5.8
Chicony	2385 TT	Outperform	198.0	3,768	162.5	21.8	12.03	13.22	13.5	12.3	2.8	2.7	21.5	22.0	5.3	5.8
CTBC Holding	2891 TT	Outperform	42.0	24,432	40.8	3.1	3.53	3.59	11.5	11.3	1.7	1.5	15.9	14.0	4.5	4.5
E.S.F.H	2884 TT	Outperform	33.5	14,224	29.2	14.9	1.63	1.80	17.9	16.2	1.8	1.6	10.7	10.7	4.1	4.5

Source: KGI Research

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