

## Taiwan Strategy

### Trump victory clears near-term negatives for Taix

#### Key message

1. Trump victory clears near-term negatives for the Taix, although it may add to long-term volatility .
2. We see benefits to the defense, heavy electrical equipment, biotech, industrial automation, steel distribution channel and cryptocurrency sectors, as well as Tesla (US) supply chains.

#### Event

The US presidential election has concluded with Trump winning and the Republicans taking the majority of the Senate.

#### Analysis

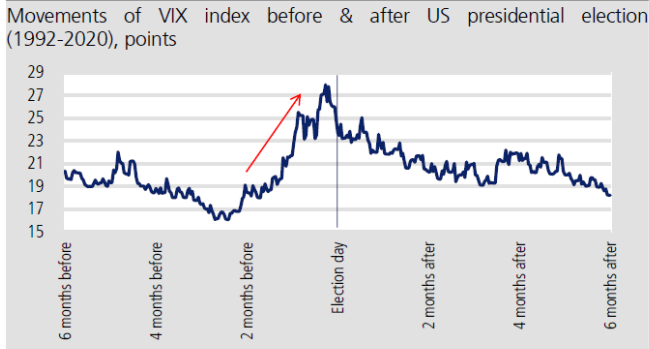
**Trump victory clears near-term negatives for Taix, although it may add to long-term volatility.** A victory for Trump and his party in the presidential and congressional elections puts an end to near-term negatives for the Taix, as risks of a second term for the former US president had been priced in over the past 2-3 weeks. From a long-term perspective, the Taix may see higher volatility in the face of the new Trump administration; but the rally driven by the AI frenzy is unlikely to change course. While investors are concerned that the high tariff policies proposed by Trump could be detrimental to Taiwanese exporters, we note that the extent to which such policies will be implemented is unknown. After all, the president-elect has said that such policies are meant to encourage reshoring of the manufacturing sector, and to reduce US reliance on foreign supply chains. Manufacturers can circumvent the high tariffs by building capacities in the US. While Trump has vowed to revoke subsidies for Taiwanese semiconductor firms, the CHIPS and Science Act actually helps the US access advanced chips without becoming more involved in cross-strait geopolitical risks. As such, we believe Trump's remarks are more campaign language than what he actually intends to do. The earnings boost to Taiwan's tech firms of the AI boom has only just begun, and we estimate it will prompt Taix earnings to grow substantially, at a respective 30%, 19% and 11% YoY in 2024-26F.

**Taix beneficiaries of a second Trump term.** We believe the defense, heavy electrical equipment, biotech, industrial automation, steel distribution channel and cryptocurrency sectors, as well as Tesla (US) supply chains, are all beneficiaries of a victory for Trump. The president-elect has made it clear that Taiwan needs to raise its defense budget to 5% of GDP (standing at only 2.5% at present). Trump may reinstate high tariffs on Chinese-made power transformers or even impose a total ban, which in turn could create transferred orders for Taiwanese heavy electrical equipment vendors. The potential scrapping of Obamacare could force the US FDA to speed up the review of generic drug licenses, benefitting Taiwanese biotech firms. Industrial automation firms and steel distributors could capture business opportunities stemming from the reshoring of manufacturing, while the new president's public support for cryptocurrencies bodes well for board prices. Elon Musk's strong support for Trump may bring additional business opportunities for Tesla, benefitting its supply chains.

#### Conclusion

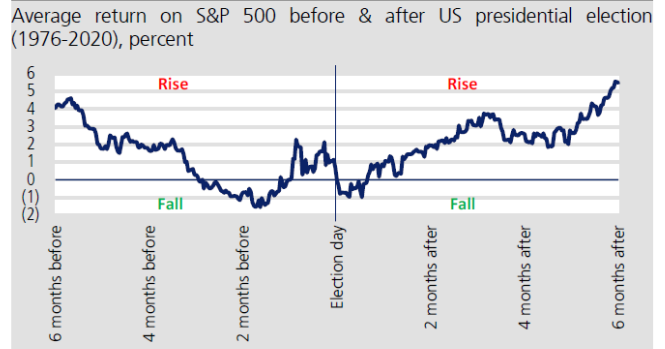
Confirmation of a Trump victory puts an end to near-term negatives for the Taix, which however may see higher volatility over the long run. But the rally driven by AI is unlikely to be reversed. While Taiwan's semiconductor and other export-oriented sectors may fall victim to Trump's policies, it remains to be seen whether the new president will actually impose high tariff policies. We thus believe the outlook is neutral for the aforementioned sectors. Beneficiaries of the Trump win are the sectors of defense, heavy electrical equipment, biotech, industrial automation, steel distribution channels, cryptocurrencies and Tesla supply chains.

**Figure 1: Stock markets tend to be less volatile after a US presidential election**



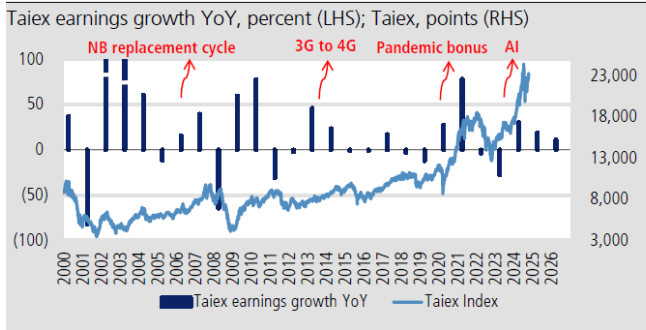
Source: Bloomberg; KGI Research

**Figure 2: US stock markets tend to advance after presidential elections**



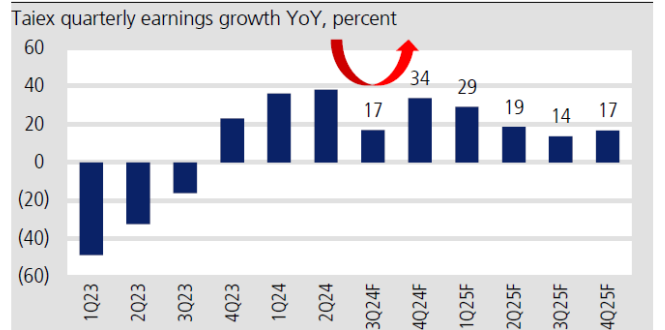
Source: Bloomberg; KGI Research

**Figure 3: AI boom to drive robust earnings growth for Taix in coming three years**



Source: TEJ; KGI Research

**Figure 4: Growing AI server shipments to rekindle solid earnings growth for Taix in 4Q24-1Q25F**



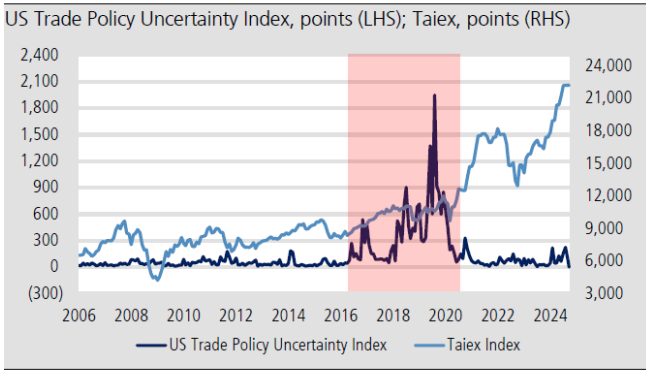
Source: TEJ; KGI Research

**Figure 5: Taix winners & losers of a second term for Trump**

	Sector	Note
Winners	Defense	Trump demands that Taiwan raise military budget to 5% GDP from the present 2.5%
	Heavy electrical equipment	Trump may reinstate high tariffs on Chinese-made power transformers or even impose a total ban
	Biotech	Scrapping of the Obamacare will allow drug prices to fall through market mechanism, which is done by speeding up the review of generic drug licenses
	Industrial automation	Reshoring of manufacturing could create new demand from factory build-out
	Steel	Reshoring of manufacturing could boost steel demand as new factories are built
	Cryptocurrencies	Trump is publicly supportive of cryptocurrencies
	Petrochemicals and energy	Trump endorses relaxation of regulations for environment and energy supervision, especially those concerning extraction of shale oil, natural gas and clean coal, but beneficiaries should be limited to US firms
	Financials	Financial deregulation for M&A will reinvigorate the capital market, but beneficiaries should be limited to US firms
	Elon Musk supply chains	Tesla EV, X's AI development, Space X are all likely to benefit, but beneficiaries should be limited to US firms
Losers	Green energy	Trump may reduce or cancel subsidies for green energy firms
	Semiconductor	Trump may reduce or cancel investment subsidies for semiconductor firms
	Export	Trump pledges to impose an additional 10% tariff on all imports to the US, and 60% tariff on Chinese imports

Source: KGI Research

**Figure 6: Trump's trade war against China caused Taiex fluctuations, but didn't affect overall uptrend in 2016-20**



Source: Bloomberg; KGI Research

**Figure 7: Trump started a trade war against China in 2018, followed by tit-for-tat attacks**

Lists of goods subject to additional tariffs amid US-China trade war

US tariffs on China		China retaliatory tariffs	
Jul-18	US\$34bn (e.g. machinery) 25% tariffs	US\$34bn	25% tariffs (e.g. soy beans)
Aug-18	US\$16bn (e.g. semiconductors) 25% tariffs	US\$16bn	25% tariffs (e.g. waste copper)
Sep-18	US\$200bn 10% tariffs	US\$60bn	5-10% tariffs (e.g. LNG)
May-19	US\$200bn 25% tariffs	US\$60bn	10-25% tariffs
Sep-19	US\$300bn (e.g. NB and consumer products) 10% tariffs	US\$75bn	5-10% tariffs (e.g. LNG, soy beans and automobiles)
<b>China annual exports to US</b>		<b>US annual exports to China</b>	
US\$5,50bn		US\$1,20bn	

Source: KGI Research

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