

Strategy

Buckle up for tariff impacts

Key message

1. Taiwanese firms with a global presence will be impacted irrespective of whether Taiwan is on the reciprocal tariffs list.
2. The announcement of reciprocal tariffs could end the current bearishness, but the impact on the global economy is just beginning.
3. Taiex to trade in the 20,000-23,000 range.

Event

US President Trump will announce a list of reciprocal tariffs by April 2. The list will instigate full-blown trade wars no matter which countries or industries are included or what the tax rates are. Moreover, the global economy is bound to be impacted.

Analysis

Taiwanese firms with a global presence to be hit whether Taiwan is included for reciprocal tariffs or not. Trump is determined to initiate global trade wars with the core objective of reshaping the global manufacturing and trade system in America's favor. He is also using tariffs as a bargaining chip to achieve maximum benefits for the US, including securing strategic materials such as rare earths, shipping routes and semiconductor chips. As long as the April 2 tariff list includes countries like China, Southeast Asia and Mexico, Taiwanese companies will be impacted, due to their production capacities in these regions. According to our survey of the supply chains of listed Taiwanese companies, 56% of their production capacity is still concentrated in China. This is followed by Taiwan (26%), Southeast Asia (15%), Mexico (2%) and the US (1%). The key issue for Taiwanese manufacturers regarding the tariff list is whether IT products will be exempted. Since the Information Technology Agreement (ITA) was established in 1997, the electronics sectors, including information, communication and semiconductors, as well as the semiconductor manufacturing equipment industry, have enjoyed zero tariffs in global trade. Even electronics products manufactured in China are currently exempt from tariffs under the US tariff list on Chinese goods.

Earnings impact – Short-term pain absorbing tariffs, long-term pain transferring tariffs.

In the face of Trump's imposition of over 10% tariffs globally, we believe that regardless of whether Taiwanese companies can pass on tariff costs to customers, the difference in impact will only be in terms of short-term or long-term pain. If Taiwanese companies have to absorb all the increased tariff costs, their profits will be immediately impacted, resulting in short-term pain. On the other hand, if they can successfully pass these costs on to their customers, and the customers can fully pass them on to end consumers, the ultimate impact on end demand will still affect Taiwanese companies, leading to long-term pain. In 2024, Taiwan's exports to the US amounted to US\$116.3bn. If an additional 10% tariff is imposed and Taiwanese companies absorb the entire cost, the impact on earnings will be around 10%, given annual Taiex earnings of approximately NT\$3.7tn.

Reciprocal tariffs list may end bearishness, but economic impact will begin. Recently, Warren Buffett publicly stated that the imposition of tariffs can be considered "an act of war" to some degree. He emphasized that tariffs could lead to inflation and harm consumer interests. Looking back at major international wars or terrorist attacks since the 1940s, stock markets typically experience a strong rebound shortly after the event. However, if the war causes severe economic damage, the rebound is often short-lived, as the negative impacts of the economic shock begin to manifest. According to estimates by the Peterson Institute for International Economics, if Trump imposes a 10% tariff on all countries, the maximum impact on US GDP would be 0.4%, lasting for three years. However, if other countries retaliate with equivalent tariffs, the maximum impact on US GDP would increase to 0.8%, and this effect would also persist for three years. We believe the aforementioned estimates are optimistic, as global trade wars in the 1920s and 1930s ultimately led to a reduction in global trade volumes by 50% to 70%, plunging the global economy into severe recession. Additionally, while Trump's tariff policies can easily impact the economy, he has a knack for diluting tariffs (i.e., granting partial exemptions) or delaying their implementation. Coupled with his yet-to-be-deployed tools of tax cuts and deregulation, this means upcoming economic performance remains highly uncertain.

Conclusion & top picks

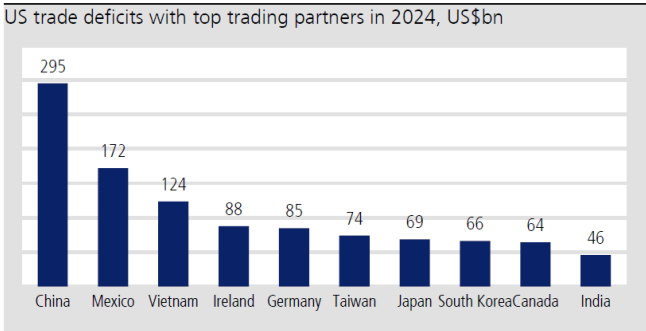
After the announcement of reciprocal tariffs, there might be a chance that the negative news is fully priced in. However, the economic impact is just beginning, meaning that significant volatility in the indices is inevitable. The fluctuation range for the Taieix is expected to be between 20,000 and 23,000 points. We recommend investors focus on “high growth, low PE” and “low PE, high yield” stocks. We are positive on Asustek Computer (2357 TT, NT\$631, OP), Simplo Technology (6121 TT, NT\$400, OP), Alltop Technology (3526 TT, NT\$280.5, OP), Chicony Electronics (2385 TT, NT\$168.5, OP), CTBC FHC (2891 TT, NT\$40.25, OP), E. Sun FHC (2884 TT, NT\$29.65, OP), Crowell Development (2528 TT, NT\$43, OP) and Uni-President Enterprises (1216 TT, NT\$82.5, OP).

Figure 1: Taiwanese firms bound to be hit due to global presence, whether Taiwan is hit with reciprocal tariffs or not

Capacity weighting by region (%)	Taiwan	China	US	Mexico	Southeast Asia and others
semiconductor	80.2	6.0	1.9		11.9
EMS and electronic components	2.5	75.5	0.6	2.3	21.5
PCB	23.7	76.8	-		0.5
Petrochemical/Textile	79.9	15.3	4.0		0.8
Auto/motorcycle parts	33.8	46.5	3.1	2.4	16.6
Garment/ sports shoes	11.1	10.4	-		78.5
Others	71.4	23.7	2.4		2.5
Tech	14.6	65.3	0.7	1.9	19.4
Non-tech	64.3	15.8	4.1	0.1	15.8
Total	26.1	55.9	1.3	1.6	15.1

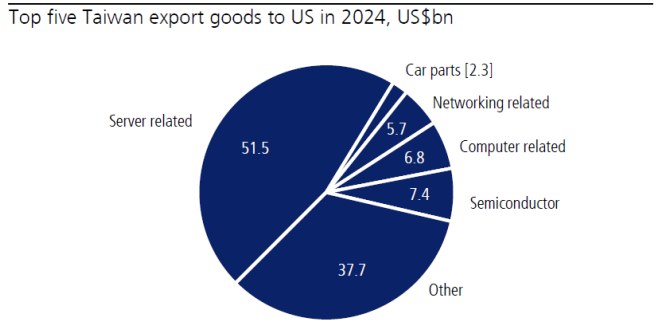
Source: KGI Research

Figure 2: Countries that the US has trade deficits with could all be on reciprocal tariff list



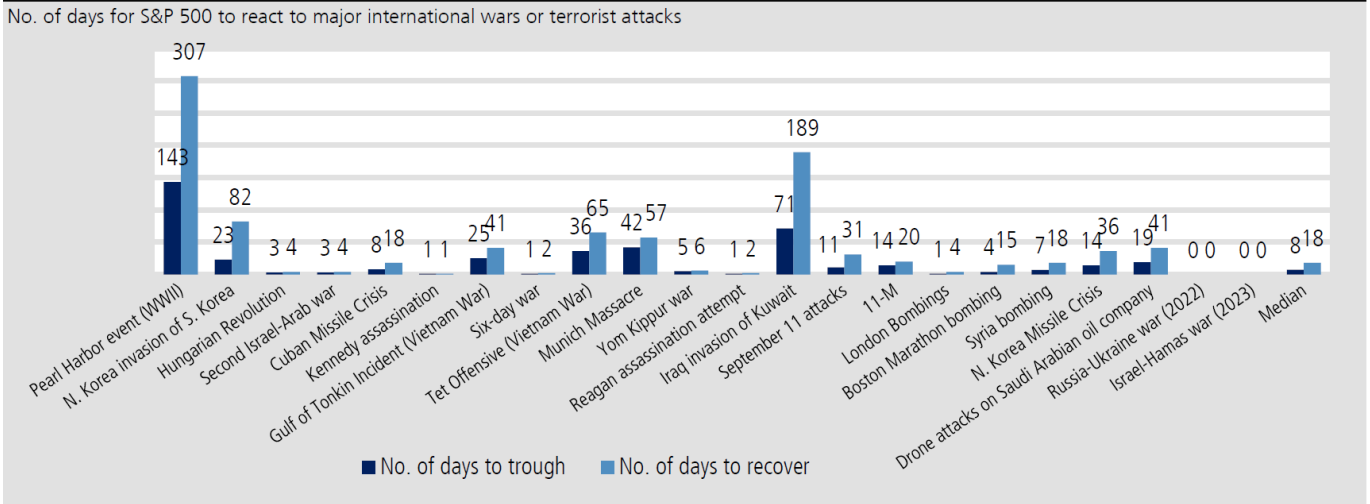
Source: US Department of Commerce; KGI Research

Figure 3: Taiwan exports to US were US\$116.3bn in 2024



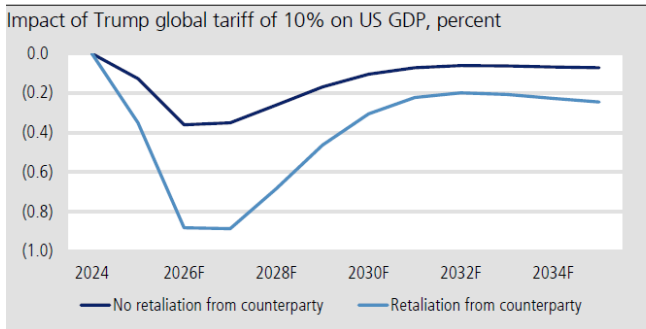
Source: ROC Ministry of Economic Affairs; KGI Research

Figure 4: Stock markets typically bottom out significantly shortly after major international wars or terrorist attacks



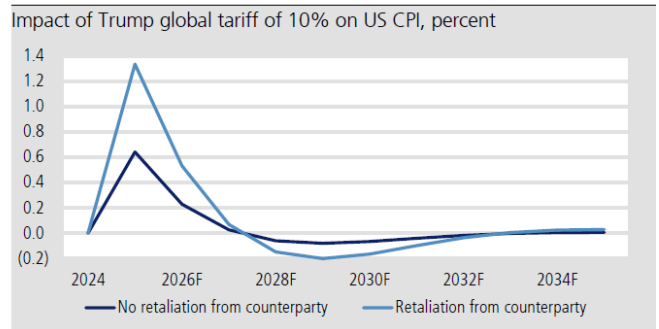
Source: KGI Research

Figure 5: Trump global tariff of 10% to cut US GDP by maximum of 0.4-0.8% for three years



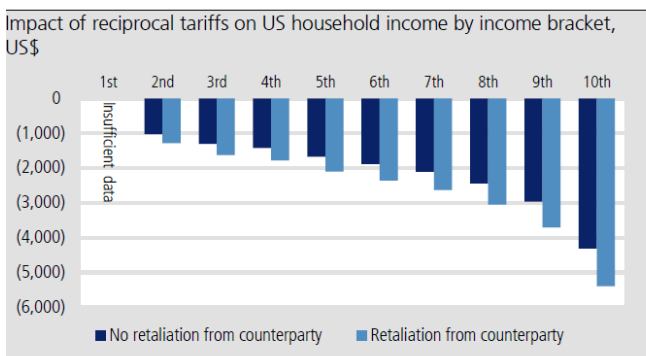
Source: Peterson Institute for International Economics; KGI Research

Figure 6: Trump global tariff of 10% to add 0.6-1.3ppts to US inflation in the first year after they are implemented



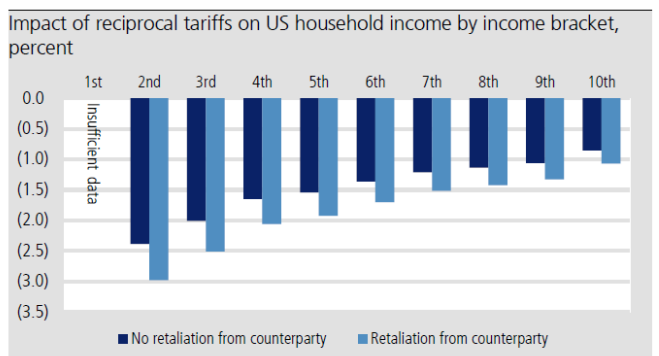
Source: Peterson Institute for International Economics; KGI Research

Figure 7: Reciprocal tariffs hit all US households significantly



Source: The Budget Lab at Yale; KGI Research
Note: 10th decile represents the highest income families

Figure 8: Reciprocal tariffs affect low-to-medium-income US families more



Source: The Budget Lab at Yale; KGI Research
Note: 10th decile represents the highest income families

Figure 9 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	2.00	2.22	2.00	1.76	1.65	1.64	2.28	0.95	16.25	19.37	16.25	15.19	15.01	17.07	21.73	8.80
Taix excl. TSMC	1.47	1.63	1.47	1.42	1.39	1.47	2.22	0.89	16.10	18.37	16.10	14.89	14.98	16.01	22.71	8.06

Source: TEJ; KGI Research

Figure 10 Our top picks

Company	Code	Investment rating	Target price (NT\$)	Mkt cap (US\$m)	Share price (NT\$)	Change +/- (%)	EPS (NT\$)		PE (x)		P/B (x)		ROE (%)		Cash yield (%)	
							2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F	2024F	2025F
Alltop	3526 TT	Outperform	350.0	552	280.5	24.8	16.80	19.46	16.7	14.4	6.7	6.6	39.5	48.3	6.0	7.2
Chicony	2385 TT	Outperform	198.0	3,877	168.5	17.5	12.43	13.22	13.6	12.7	2.8	2.6	21.2	20.4	5.9	6.2
Asustek	2357 TT	Outperform	800.0	14,190	631.0	26.8	42.27	44.45	14.9	14.2	1.7	1.7	12.3	12.1	5.4	5.6
SMP	6121 TT	Outperform	460.0	2,240	400.0	15.0	28.38	30.70	14.1	13.0	2.1	2.0	15.0	15.6	5.0	5.4
CTBC Holding	2891 TT	Outperform	46.0	23,949	40.3	14.3	3.67	3.80	11.0	10.6	1.7	1.6	16.6	15.5	5.5	5.7
E.S.F.H	2884 TT	Outperform	33.5	14,359	29.7	13.0	1.63	1.80	18.2	16.5	1.9	1.7	10.7	10.7	4.0	4.4
CROWELL	2528 TT	Outperform	52.0	538	43.0	20.9	3.26	6.03	13.2	7.1	2.5	2.3	21.0	33.6	4.7	10.5
Uni-President	1216 TT	Outperform	94.0	14,192	82.5	13.9	3.89	4.64	21.2	17.8	3.6	3.5	17.4	20.1	3.9	4.6

Source: KGI Research

All the above named KGI analyst(s) is SFC licensed person accredited to KGI Asia Ltd to carry on the relevant regulated activities. Each of them and/or his/her associate(s) does not have any financial interest in the respectively covered stock, issuer and/or new listing applicant.

Disclaimer

All the information contained in this report is not intended for use by persons or entities located in or residing in jurisdictions which restrict the distribution of this information by KGI Asia Limited ("KGI") or an affiliate of KGI. Such information shall not constitute investment advice, or an offer to sell, or an invitation, solicitation or recommendation to subscribe for or invest in any securities or investment products or services nor a distribution of information for any such purpose in any jurisdiction. In particular, the information herein is not for distribution and does not constitute an offer to sell or the solicitation of any offer to buy any securities in the United States of America, or to or for the benefit of United States persons (being residents of the United States of America or partnerships or corporations organised under the laws of the United States of America or any state, territory or possession thereof). All the information contained in this report is for general information and reference purpose only without taking into account of any particular investor's objectives, financial situation or needs. Such information is not intended to provide professional advice and should not be relied upon in that regard.

Some of KGI equity research and earnings estimates are available electronically on www.kgi.com.hk. Please contact your KGI representative for information. The information and opinions in this report are those of KGI internal research activity. KGI does not make any representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. The information and opinions contained in this report are subject to change without any notice. No person accepts any liability whatsoever for any loss however arising from any use of this report or its contents. This report is not to be construed as an invitation or offer to buy or sell securities and/or to participate in any investment activity. This report is being supplied solely for informational purposes and may not be redistributed, reproduced or published (in whole or in part) by any means for any purpose without the prior written consent of KGI. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers and employees may from time to time have a position in any securities mentioned herein.