

Strategy

Trump to wage tariff war

Key message

1. US President-elect Trump intends to raise tariffs on Chinese, Mexican, and Canadian imports.
2. Wiyynn, Inventec and Nien Made will suffer the most from Trump's new tariff policy, while their competitors Hon Hai Precision, Quanta Computer, and Ching Feng are safe, for now.
3. It remains to be seen whether smartphones and NB will be spared from additional tariffs.

Event

According to US President-elect Trump's comments on social media, he will impose a 25% tariff on all goods from Canada and Mexico, and an additional 10% tariff on imports from China.

Analysis

Trump to raise tariffs on Chinese, Mexican, & Canadian goods. Trump said explicitly that he will, right after taking office, impose a 25% tariff on imports from Canada and Mexico, and an additional 10% tariff on imports from China as the three countries have failed to pull their weight in stopping fentanyl (synthetic piperidine opioid) and illegal immigrants from entering the US. In 2020, Trump pushed through the United States-Mexico-Canada Agreement (USMCA), which waives tariffs on most goods traded among the three countries. The 25% tariff to be imposed on Mexican and Canadian goods means additional costs for importers. If importers choose to pass on the costs in full to consumers, we believe end-market demand will be squeezed, consequently hurting corporate earnings. If the additional costs are paid by importers or exporters, we believe the impact on corporate earnings will be more straightforward. Taiwan firms with production facilities in Canada or Mexico will face various levels of impact.

Wiyynn, Inventec, & Nien Made will be affected the most. Based on our supply chain checks, major Taiwan companies with production facilities in Mexico or Canada include Wiyynn (6669 TT; 70% of capacity), Inventec (2356 TT; 15-20%), Nien Made (8464 TT; 14%), Macauto (9951 TT; 10%), Bizlink (3665 TT; 3%), Sercomm (5388 TT; 0-10%), and Wistron NeWeb (6285 TT; 0-10%). Wiyynn, Inventec, and Nien Made will be the biggest victims of Trump's high tariff policy as a large portion of their capacities are based in Mexico, while the remainder is mostly in China.

Server assemblers Wiyynn & Inventec to fall victim, while Hon Hai & Quanta Computer are safe, for now. Wiyynn and Inventec will suffer the most from the tariff war, while Hon Hai and Quanta Computer are safe for the time being as their production capacities are relatively more dispersed across the world, allowing them to circumvent the additional tariffs. However, as Trump vows to raise tariffs on all imports coming to the US, Hon Hai and Quanta may not be able to remain immune if high tariffs become broad-based.

Window curtain maker Nien Made will also be hurt, while Ching Feng is safe. Mexico and China are respectively home to 14% and 43% of Nien Made's production capacity. We do not believe the firm is able to relocate or adjust capacity in time to avoid the impact of additional tariff, and thus we argue that it will be a major victim. Another curtain maker, Ching Feng (9935 TT), is relatively safe.

It remains to be seen whether smartphones & NB are spared from additional tariffs. Trump also intends to add an additional 10% tariff on Chinese imports, on top of the 10-25% in tariffs he imposed during his first term. For reference, a 25% tariff has been placed on US\$200bn of Chinese goods, while US\$300bn worth of goods are subject to a 10% tariff. However, smartphones and NB, which represent the bulk of Chinese exports to the US and of which Taiwan suppliers are most involved in, were exempted from the 10-25% tariffs. We do not know whether the newly announced 10% tariff will apply to smartphones and NB. If it does, the impact on smartphone makers will be tremendous as their capacities outside of China are not enough to fully cover demand in the US.

Conclusion & top picks

Trump has threatened to impose high tariffs on Chinese, Mexican, and Canadian goods mainly because the three countries have failed to stop fentanyl and illegal immigrants from entering the US. Based on our understanding, Taiwan companies with production facilities in Mexico or Canada include server assemblers Wiwynn and Inventec, window curtain maker Nien Made, auto parts vendors Macauto and Bizlink, and networking suppliers Sercomm and Wistron NeWeb. We believe Wiwynn, Inventec, and Nien Made will suffer the most from Trump's new tariff policy as the three firms rely too much on Mexico for production and cannot adjust capacities in other regions in a timely fashion. Their competitors, namely Hon Hai, Quanta Computer, and Ching Feng are relatively safe. We suggest investors engage Hon Hai and Quanta upon share price correction triggered by the tariff war as the production ramp-up of GB200 AI servers will drive solid earnings growth for the two firms in 2025F.

Figure 1: Breakdown of production capacity by country

	Company	Code	Breakdown of production capacity (%)								
			Chian	US	Taiwan	Vietnam	Thailand	India	Mexico	Philippines	Others
Semiconductor	TSMC	2330	8	3	86						3
	UMC	2303	10		85						
	VIS	5347			85						15
	Win	3105			100						
	ASEH	3711	22		60						17
	Chipbond	6147			100						
EMS / Electronic components	Wiwynn	6669			25-30				70		
	Hon Hai	2317	75								
	QCI	2382	70-80	<5	5-10						
	Pegatron	4938	80-90								
	Inventec	2356	70-80		<10				15-20		
	Catcher	2474	75-80		20-25						
	SZS	3376	70		20-30						
	Chicony	2385	70-80								
	SMP	6121	>90								
	NCCI	6230	>85								
	SUNON	2421	>80		5-10						
	Lotes	3533	>90								
	King Slide	2059			100						
MSI	2377	85-90		10-15							
DELTA	2308	68				10	3-5				
PCB	COMPEQ MANUFACT	2313	63		37						
	Chin-Poon	2355	33		57		10				
	EMC	2383	80		20						
	Tripod	3044	95		5						
	Kinsus	3189	40		55						
	ZDT	4958	100								
	Flexium	6269	40		75						
	TUC	6274	60		45						
Networking	Accton	2345	15		65	20					
	Arcadyan	3596	25			75					
	SerComm	5388	30		10						
	WNC	6285	15		40	40			0-10	40	
	GEMTEK	4906	25		5	70			0-10		
	Zyxel Group	3704	70		15	15					
	Alpha	3380	30		30	40					
Petrochemicals / Textile	FPCC	6505			100						
	FCFC	1326	21		79						
	FPC	1301	16		84						
	NPC	1303	30	20	50						
	CGPC	1305			100						
	OUCC	1710	42		58						
	GPPC	1312			100						
	FENC	1402	34	7	52	7					
Auto parts	HOTA	1536			100						
	CUB	2231	50		50						
	BHI (Bizlink)	3665	65	5-10	10-15				3		
	Global PMX	4551	95		5						
	Eurocharm	5288			5	95					
	Hu Lane	6279	60		30	10					
Macauto	9951	25		65				10			
Apparel / Footwear	ECLAT	1476			40-50	40-50					
	Makalot	1477	4			40					
	FT	9910	10			52		21			
	QVE	4438	18			77					
	Taiwan Paiho	9938	35-40		25	30		5			
Others	CSRC	2104	36	38	15			11			
	Nien Made	8464	43						14		43
	TFC	1722			100						
	TSC Auto ID	3611			100						
	AUO	2409	20		80						

Source: KGI Research

Figure 2: Trump started trade war on China in 2018, resulting in tit-for-tat retaliation

Tariffs that China and the US imposed on each other

	US tariffs on China		China retaliatory tariffs	
Jul-18	US\$34bn	25% tariffs (e.g. machinery)	US\$34bn	25% tariffs (e.g. soy beans)
Aug-18	US\$16bn	25% tariffs (e.g. semiconductors)	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	10% tariffs (e.g. NB and consumer products)	US\$75bn	5-10% tariffs (e.g. LNG, soy beans and automobiles)
	China annual exports to US		US annual exports to China	
	US\$5,50bn		US\$1,20bn	

Source: KGI Research

Figure 3: 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	2023	2024F	2025F
TSMC	2330 TT	Outperform	1450.0	807,400	1010.0	43.6	45.23	57.87	22.3	17.5	6.2	5.0	30.4	31.5	1.3	1.6	1.8
Hon Hai	2317 TT	Outperform	290.0	86,712	202.5	43.2	11.50	14.48	17.6	14.0	1.8	1.7	10.4	12.4	2.7	3.0	3.8
AVC	3017 TT	Outperform	885.0	7,755	649.0	36.4	21.40	31.61	30.3	20.5	9.5	7.7	34.1	41.6	1.1	1.6	2.4
DELTA	2308 TT	Outperform	512.0	31,028	387.5	32.1	15.56	18.97	24.9	20.4	4.4	3.9	18.8	20.1	1.7	2.0	2.4
ELASER	3450 TT	Outperform	270.0	1,073	239.0	13.0	3.78	8.97	63.2	26.6	8.6	7.7	14.0	30.5	0.0	0.8	2.5
Accton	2345 TT	Outperform	700.0	10,932	632.0	10.8	19.17	23.33	33.0	27.1	12.4	10.6	39.8	42.3	1.6	2.1	2.4
EMC	2383 TT	Outperform	595.0	4,981	468.0	27.1	27.05	33.14	17.3	14.1	5.3	4.6	32.6	35.2	2.1	3.5	4.2
GCE	2368 TT	Outperform	255.0	2,896	191.0	33.5	12.03	15.79	15.9	12.10	5.4	4.58	34.7	41.07	1.8	3.1	3.93
AES-KY	6781 TT	Outperform	925.0	2,154	818.0	13.1	24.20	31.70	33.8	25.8	5.0	4.6	15.4	18.5	1.4	1.5	1.9

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.