Strategy

Impact on Taiex & sectors of US presidential election

Key message

1. Trump's plan for higher tariffs the main risk.
2. Taiwan's export-oriented green energy sector to be impacted under Trump victory.
3. Taiex backend-loaded – To peak at 23,000 points and trough at 20,000 points in 2H24F.

Market concerned about risk of a Trump victory after the presidential debate

Former President Donald Trump has inched ahead of President Biden in the first national poll since the incumbent's widely-considered "disastrous" CNN debate on June 28. Trump will return to the White House if the results of national polling hold up. Due to the electoral system in the US, swing states are critical to candidates. Trump has led Biden in swing states before and since the debate. Since Trump has made it clear that he will impose another round of new import tariffs, namely a 10% across-the-board levy on all products imported into the US, and calls for a 60% tariff on all Chinese goods if elected, countries around the world are concerned about damage to the global economic system. In addition to a possibile global tariff war, the global green energy sector may be impacted heavily as Trump is not a believer in climate change, though this would benefit traditional energy industries as environmental regulations may be lifted. More generally, Trump and Biden hold radically different views on many issues, including abortion, immigration, business and personal income taxes (including the wealth tax) and the Russia-Ukraine conflict. However, we think the overall impact of a Trump victory will be greater in the US than in Taiwan, which will only be moderately affected.

Trump's higher import tariffs the main risk for Taiwan

During Trump's 2016-20 term, his administration imposed a round of tariffs that targeted US$250bn of China-made goods. As a result, many Taiwanese manufacturers operating in China moved production lines to Southeast Asia and/ or back to Taiwan, not only reducing the negative impact but actually benefiting from order transfers. However, this time around Trump is floating a 10% across-the-board tariff on all US imports, which means the impact on the profitability of Taiex-listed companies will be siginificant. Based on annual exports of approximately US$100bn to the US, if all of Taiwan's goods exported to the US are fully levied with a 10% tariff, Taiwanese exporters will have to pay an additional US$10bn in tariff fees (NT$320bn). This equates to as much as 8.2% of total Taiex profitability, leaving 2025F forward profitability at around NT$3.9tn. Overall risk will be unpredictable as Taiwanese firms pass on the additional tariffs to US companies, which in turn pass on to US consumers, resulting in price hikes and a consumption slowdown. Meanwhile, Trump's proposed levy of 60% or more on Chinese imports will put 'de-Sinicization' efforts back in the spotlight. Since Trump initiated tariff wars against China in 2018 and Biden a technology war in 2022, China's market share in overall US import value has dropped from 18% to 11.6% (in 2023), while its import ranking has dropped from first place to third, now trailing Mexico (first place) and Canada (second place).

The presidential election is scheduled for November 5. If pre-election polls or swing state support rates veer towards Trump, we believe the impact on the stock market will be gradually priced in during 2H24F. Therefore, the Taiex may be prone to volatility two to three months prior to the election. We see three potential scenarios post-election. Scenario 1 is a Trump victory. The Taiex will slump as Trump pledges to implement his tariff policy, affecting global trade. Scenario 2 is a Trump loss, though Trump does not admit defeat. The Taiex will plunge due to concerns about political turmoil and civil strife in the US. And Scenario 3 is a Biden win of a second term. The Taiex will rally as Biden continues existing trade and military policies.

**Trump victory will hurt US green energy sector & Taiwan's related exports**

Trump is disdainful of climate change theory and believes strong moves in the direction of renewable energy mean the US will give up its advantages in abundant natural resources for exploitation, benefiting traditional energy industries and allowing China and Europe, which have stronger clean energy industries, to profit. Therefore, a Trump return could mean a cancelation of federal subsidies for renewable energy, reduced investment in clean energy technology and infrastructure, and a shift back toward traditional energies. These policies will weigh on the profitability of global solar and electric vehicle sectors, and reduce the market competitiveness of these industries. Companies may face challenges such as capital shortages and lower market demand and investment. For the traditional energy industry, under relaxed regulations, firms could cut operating costs, further stimulating the production and export of US oil and liquefied natural gas. For Taiwan's green energy industry, except for a few solar module manufacturers and automobile components exported to the US, most green energy companies are domestic-oriented. In addition, demand for green energy will continue to expand in Taiwan due to AI industry-driven electricity demand. Thus, negative impacts will be limited.

Valuation & Action

If pre-election polls or support rates in swing states lean towards Trump, the market will be most concerned about the risk of comprehensive tariff hikes under Trump. As a result, the Taiex may be in consolidation mode in 2H24F, especially in the two to three months before the election. If he wins, Trump may reduce or cancel subsidies for the green energy industry, impacting Taiwan's export-oriented green energy companies. In addition, early pull-in (to avoid high tariffs) may be seen, leading to urgent orders for shipping and air freight. Hence, we recommend investors keep an eye on freight rate changes at election time. Since there is still some time until the election, we maintain our Taiwan investment preferences for 3Q-4Q24F. Namely, for 3Q24, stocks in industries that are bottoming, stocks with low valuations and high dividends, and stocks with government policy support. For 4Q24, we recommend focusing on the AI supply chain.

We maintain our estimate the Taiex will peak at 23,000 points (20x 2024-25F average EPS) and trough at 20,000 points (18x 2024-25F average EPS) in 2H24F. The average PE of the Taiex over the past five years is 15x.

Figure 1: Support for Trump has edged above Biden since the presidential debate

Support for Biden & Trump in national polls, percent

Source: RealClearPolitics; KGI Research
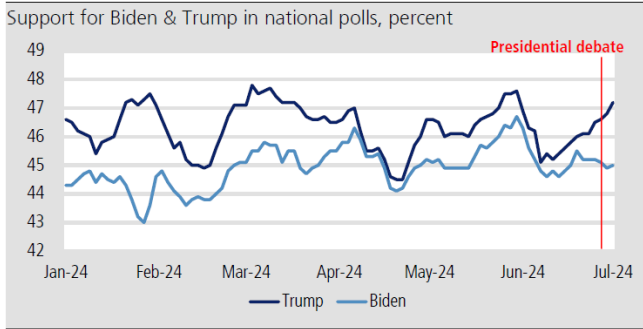
Figure 2: Votes from swing states critical to election result

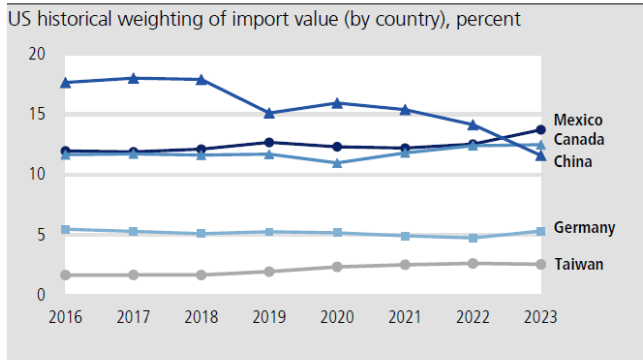Votes from Republican & Democratic parties and swing states

Source: KGI Research
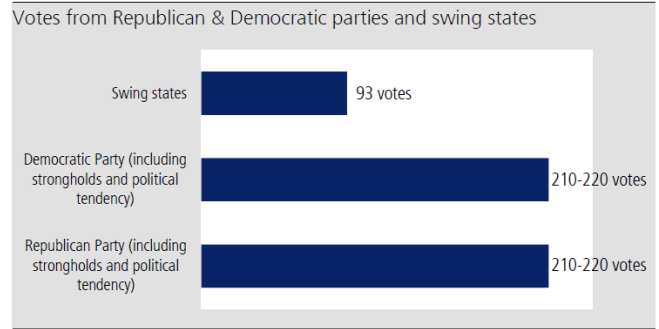
Figure 3: Political views - Trump vs. Biden

	Trump	Biden
Global trade	Imposing a 10% across-the-board levies on all products imported from overseas and a 60% tariff on all Chinese goods and products	Launch tariff and technology wars against China
Green energy	Green energy sector to be affected; traditional energy industries to benefit from relaxed regulations	Aggressively supporting clean energy projects
Tax	Cutting taxes for businesses and top earners	Raise taxes on corporations and the wealthy.
Abortion	Abortion rights should be left to the states	A doctor should be making the decisions
Immigration	"Zero tolerance" policy toward illegal border crossing	Taking a more 'humane' approach to US immigration policy
Russo-Ukrainian War	Disagrees to give financial support, confident to settle the war	Continue to send Ukraine fresh military aid

Source: Bloomberg; TEJ; KGI Research and KGI estimates

Figure 4: China's overall US import weighting fell to 11.6% in 2023 from 18% before the trade war

US historical weighting of import value (by country), percent

Source: U.S. Bureau of Economic Analysis; KGI Research

Figure 5: China's global US import ranking slipped to No.3 in 2023 from No.1 before the trade war

US historical weighting of import value (by country), percent

| 2023 rank		2016	2017	2018	2019	2020	2021	2022	2023
No.1	Mexico	12%	12%	12%	13%	12%	12%	13%	14%
No.2	Canada	12%	12%	12%	12%	11%	12%	12%	12%
No.3	China	18%	18%	18%	15%	16%	15%	14%	12%
No.4	Germany	5%	5%	5%	5%	5%	5%	5%	5%
No.5	Japan	6%	6%	6%	6%	5%	5%	5%	5%
No.6	United King	4%	4%	4%	4%	4%	4%	4%	4%
No.7	Korea, Soutl	3%	3%	3%	3%	3%	3%	3%	3%
No.8	India	3%	3%	3%	3%	3%	3%	3%	3%
No.9	Vietnam	2%	2%	2%	2%	3%	3%	3%	3%
No.10	Ireland	2%	2%	2%	3%	3%	3%	3%	3%
No.11	Taiwan	2%	2%	2%	2%	2%	3%	3%	3%
No.12	Italy	2%	2%	2%	2%	2%	2%	2%	2%
No.13	France	2%	2%	2%	3%	2%	2%	2%	2%

Source: U.S. Bureau of Economic Analysis; KGI Research

Figure 6: Historically, US stocks tend to consolidate two to three months before a presidential election

Average rate of return of S&P 500 in first half of year before & after US presidential election, percent

Source: Bloomberg; KGI Research
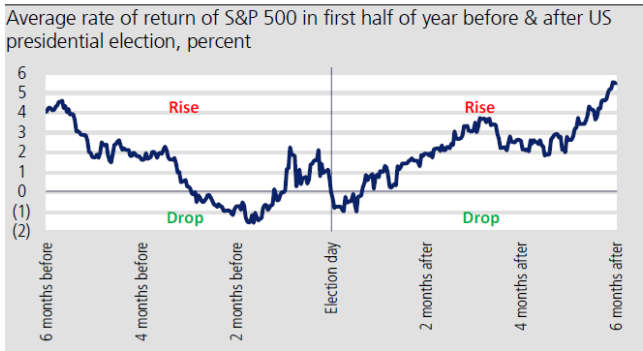
Figure 7: Scenario analysis - 2024 US presidential election

Possible scenarios	Possible influence	Taiex trend	
Scenerio 1: Donald Trump wins	Promoting tariff war may impact global trade	Slight slump	
Scenario 2: Donald Trump loses but doesn't concede defeat	May cause political unrest or civil war	Excessive plummet	
Scenario 3: Joe Biden wins presidency for a second term	Continue existing trade and military policies	Rally	

Source: Bloomberg; KGI Research

Figure 8: Current Taiex valuation at record high

Taiex forward PE (12-months), x

Source: TEJ; KGI Research and KGI estimates
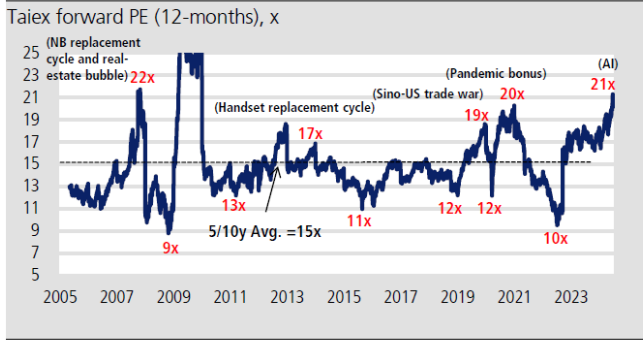
Figure 9: Comparison - Taiwan stock valuations & Taiex

2024-25F PE	Equivalent index level (point)	2025F PE	Equivalent index level (point)
15x	17,102	15x	18,611
16X	18,242	16X	19,851
17x	19,382	17x	21,092
18X	20,522	18X	22,333
19X	21,663	19X	23,574
20X	22,803	20X	24,815

Source: TEJ; KGI Research and KGI estimates

Figure 10: Taiex – 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
Taiex	2.14	2.25	2.09	1.72	1.62	1.62	2.28	0.95	20.04	22.03	18.46	15.21	15.01	17.14	21.73	8.80
Taiex excl. TSMC	1.60	1.68	1.56	1.40	1.38	1.46	2.22	0.89	19.26	21.01	18.13	14.92	15.00	16.06	22.71	8.06

Source: KGI Research

Figure 11: Our top picks

	Company	Code	Investment rating	Target price (NT$)	Mkt cap (US$mn)	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
3Q24 Top picks (low valuations, high dividends & policy support)	Zilltek	6679 TT	Outperform	560.0	684	405.0	38.3	12.16	16.06	33.3	25.2	3.9	3.7	12.2	14.8	1.4	2.6	3.4
	Parade	4966 TT	Outperform	970.0	2,039	818.0	18.6	34.62	44.08	23.6	18.6	3.1	2.8	13.5	15.6	1.5	2.1	2.7
	Silergy	6415 TT	Outperform	480.0	5,202	440.0	9.1	5.48	13.61	80.3	32.3	1.3	1.1	6.7	15.1	0.4	0.5	1.4
	WNC	6285 TT	Outperform	158.0	2,149	144.5	9.3	10.52	N.A.	13.7	N.A.	2.2	N.A.	16.1	N.A.	4.2	4.5	N.A.
	MIC	9914 TT	Outperform	280.0	1,960	213.5	31.1	8.80	12.71	24.3	16.8	3.0	2.8	12.5	17.0	2.8	2.5	3.6
	EGAT	2645 TT	Outperform	157.0	1,300	113.0	38.9	5.23	5.83	21.6	19.4	3.2	3.2	15.0	16.5	4.0	4.2	4.6
	BHI (Bizlink)	3665 TT	Outperform	402.0	1,848	367.0	9.5	20.82	29.49	17.6	12.4	2.4	2.1	13.6	18.0	2.5	3.4	4.8
	Largan	3008 TT	Outperform	3370.0	10,965	2675.0	26.0	168.55	164.06	15.9	16.3	2.0	1.8	13.0	11.6	2.5	3.1	3.1
	E.S.F.H	2884 TT	Outperform	32.0	13,831	28.8	11.3	1.52	1.64	19.0	17.6	1.7	1.6	9.5	9.2	4.2	3.8	4.2
	CTBC Holding	2891 TT	Outperform	39.0	23,201	38.5	1.3	3.29	3.39	11.7	11.4	1.5	1.3	14.3	12.6	4.9	4.9	5.2
	Bora	6472 TT	Outperform	860.0	2,676	858.0	0.2	43.11	60.23	19.9	14.2	7.5	5.4	58.2	58.5	1.0	1.0	1.0
4Q24 Top picks (AI、Green energy)	EMC	2383 TT	Outperform	590.0	5,127	484.5	21.8	27.41	31.55	17.7	15.4	5.5	4.8	33.0	33.6	3.5	3.5	4.1
	Accton	2345 TT	Outperform	620.0	9,486	551.0	12.5	19.28	22.05	28.6	25.0	10.8	9.4	39.9	40.0	2.4	2.4	2.6
	DELTA	2308 TT	Outperform	490.0	30,555	383.0	27.9	14.21	18.13	27.0	21.1	4.4	3.9	17.4	19.6	1.9	1.9	2.4
	Hon Hai	2317 TT	Outperform	205.0	87,069	204.5	0.2	11.38	14.19	18.0	14.4	1.8	1.7	10.3	12.2	2.9	2.9	3.7
	Asustek	2357 TT	Outperform	540.0	11,178	490.0	10.2	31.53	35.91	15.5	13.6	1.5	1.4	9.6	10.6	4.8	4.8	5.5
	Kaori	8996 TT	Outperform	570.0	1,280	464.0	22.8	7.97	16.95	58.2	27.4	14.9	10.5	26.0	45.1	0.9	0.9	1.8
	GCE	2368 TT	Outperform	270.0	3,225	213.5	26.5	12.79	17.21	16.7	12.4	5.7	4.5	37.5	40.6	2.8	2.8	3.7
	AVC	3017 TT	Outperform	800.0	8,853	752.0	6.4	18.91	26.66	39.8	28.2	11.2	9.4	30.4	36.2	1.3	1.3	1.8
	Alchip	3661 TT	Outperform	4600.0	5,970	2455.0	87.4	84.39	99.44	29.1	24.7	8.4	7.0	32.1	30.8	1.7	1.7	2.0
	Chenbro	8210 TT	Outperform	340.0	1,089	294.0	15.6	14.52	18.90	20.2	15.6	5.6	4.8	29.4	32.9	2.6	2.6	3.3
	Shinfox Energy	6806 TT	Outperform	161.0	1,102	162.5	(0.9)	6.86	8.96	23.7	18.1	2.3	2.1	11.3	12.3	2.2	2.2	2.8
	KTI	8936 TT	Outperform	114.0	587	77.1	47.9	3.37	5.69	22.9	13.5	3.2	2.8	14.3	22.1	2.3	2.3	3.8

Source: KGI Research

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