

Strategy

Taiex winners & losers in a second Trump administration

Key message

1. Consensus has begun to price in a second Trump presidential term.
2. Taiex losers in a second Trump administration would include semiconductor, downstream tech brands & assemblers, fitness equipment, household hardware/ furniture, & solar module makers.
3. Taiex defense & heavy electrical sectors would benefit from a second term for Trump.

Consensus has begun to price in a second term for the former president

While the US presidential election is still over three months away, and many unpredictable things could happen beforehand, we note that consensus has begun to price in a second Trump administration, which many believe would reshape geopolitical and global trade regimes, and create a significant impact on financial markets, as a failed assassination attempt has greatly increased the odds of success for the former president in his campaign. We compiled the latest remarks from Trump on economic, trade, diplomatic and domestic policies, which are based on realist or mercantilist views. Regarding the economy and trade, Trump pledges to raise trade tariffs while providing more tax cuts for individuals and businesses, and keep interest rates and US dollar exchange rates low. As for industry development, the former president aims to support the fossil fuel energy sector, revoke subsidies for green energy, protect traditional manufacturers, relax financial regulations and revise the Affordable Care Act, more commonly known as Obamacare. In the diplomatic arena, Trump is an upholder of nationalist diplomacy, and will most likely ask allied countries which rely on the US for military protection to increase defense expenditures. As far as domestic policies are concerned, Trump vows to clamp down on illegal immigration, and leave the decision to legalize abortion to individual states.

Taiex losers in the face of second Trump administration include semiconductor, downstream tech brands & assemblers, fitness equipment, household hardware/ furniture, and solar module makers

The biggest global impact of a second term for Trump as President of the US would be a full-fledged trade war, and a more stringent tech blockade on China, consequently hurting countries that have enjoyed substantial trade surpluses with the US. Export-oriented industries, including semiconductors, will bear the brunt of the impact, and within the Taiex, the primary victims will be the semiconductor sector, downstream electronics brands, and assemblers. During his campaign, Trump has proposed to raise tariffs on all imported goods by 10%, and to impose additional tariffs of over 60% on goods imported from China. While it's hard to tell whether the proposals are only political bluster or will be actually implemented, financial markets are already pricing in a worst-case scenario. Taiex subsectors with the highest sales exposure to the US market are, in descending order, semiconductor foundries (60%), fitness equipment (58%), household hardware and furniture (54%), IC packaging and testing (49%), downstream electronics brands and assembly (38%), golf equipment (32%), aircraft components (32%) and automotive parts (22%). These subsectors will suffer from a US trade war, and those with production based in China will be particularly vulnerable.

Broad-based tariff hikes from the US will undermine the profitability of Taiwanese firms should they wish to absorb the additional costs, and if, more likely, the costs are borne by downstream clients or end-consumers, total demand will decline in the face of higher product prices, ultimately capping earnings for these exporters. In the 1920s and 1930s, the US significantly raised trade tariffs twice, leading to respective 50% and 70% declines in total trade value, which in turn lowered the US consumer price index. Higher tariffs are in many ways similar to rising oil prices, as they both erode consumers' disposable incomes.

Additionally, Trump may reduce or even scrap subsidies for renewable energy, and channel resources to traditional energy sectors, should he gain power again. This bodes ill for export-driven green energy firms in Taiwan, especially solar module makers.

Taiex defense & heavy electrical sectors would benefit from a second Trump term

As a believer in realpolitik foreign policy, Trump has made it clear on public occasions that allies protected by the US would need to raise their defense expenditures. This will translate to more orders for US military engineering firms, and for their Taiwanese supply chains at the same time. Trump also said that Taiwan should raise its defense budget to 5% of GDP, from a current 2.5%. To achieve the 5% goal, Taiwan would need to increase its defense budget by at least NT\$600bn. Trump also called for NATO allies to increase their defense budgets to 4% of GDP, up from the current 2%. In other words, they are to double their military expenditures.

In 2020, when Trump was President of the US, he banned the import of high-voltage transformers from China, reducing the supply weighting from China to less than 1%, but the ban was lifted by his successor in 2021. We believe Trump will resume a hawkish stance on China if he becomes the president again, and may re-implement high tariffs on or completely cut off imports of power transformers from China. Taiwanese heavy electrical equipment makers may receive additional orders as a result.

Valuation & Action

Although the actual US presidential election is still over three months away, we note that consensus has begun to price in a second Trump administration, given the significant potential impact on geopolitical relationships, global trade regimes, and financial markets. We believe Taiex losers in a second Trump administration would include semiconductors, downstream tech brands and assemblers, fitness equipment, household hardware/ furniture, and solar module makers, while winners would be the military defense and heavy electrical sectors. Military defense related stocks to watch include AIDC (2634 TT, NT\$52.6, OP) and the US Aerospace and Defense ETF (US). For heavy electrical stocks, FE (1519 TT, NT\$775, OP) would be the primary beneficiary. The main component stocks of the U.S. Aerospace and Defense ETF are GE Aerospace (US), Raytheon Technologies (US), Boeing (US), Northrop Grumman (US), and Lockheed Martin (US).

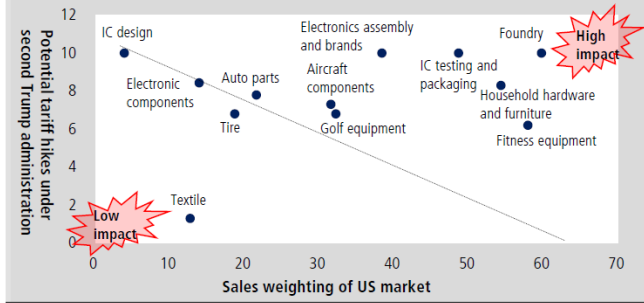
Figure 1: Latest remarks and policy commitments by Trump

Aspect	Key policy proposals by Trump
Trade and economy	Raise import tariffs, further tax cuts for individuals and businesses, keep US dollar weak and interest rates low
Industry development	Support fossil fuel energy sector and revoke subsidies for green energy; protect traditional manufacturing sector; relax financial regulations and revamp Obamacare
Diplomacy	Nationalism will be the backbone of US diplomatic policy; allied countries relying on US protection would need to increase defense expenditures
Domestic issues	Zero tolerance for illegal immigration; abortion legalization to be determined by individual states

Source: KGI Research compiled

Figure 2: Taixex to lose should Trump wage a trade war

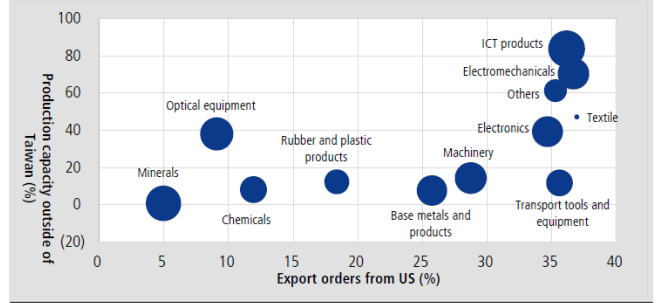
Sales exposure to US market, percent (x-axis), proposed tariff hikes, percent (y-axis)



Source: TEJ; KGI Research

Figure 3: Exports to drop for firms with production in China

US market as a percentage of export orders, percent (x-axis), weighting of production capacity outside of Taiwan, percent (y-axis)

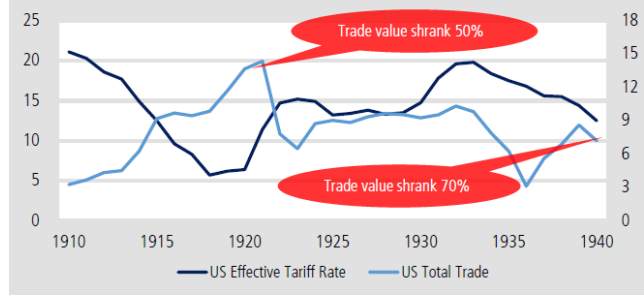


Source: TEJ; KGI Research

Note: Size of circle indicates the extent of vulnerability to tariff hikes

Figure 4: 1920-30s tariffs led to steep declines in trade value

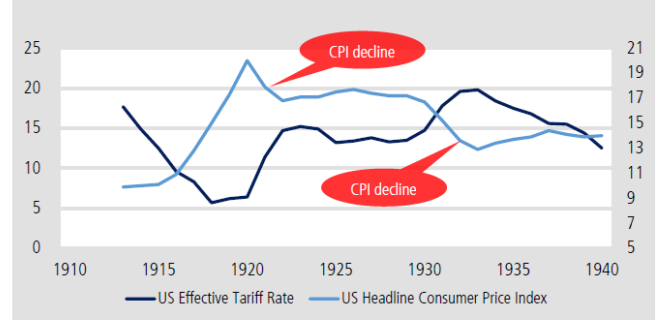
Effective tax rate on imports to the US, percent (LHS); US total trade value, US\$bn (RHS)



Source: US International Trade Commission; KGI Research

Figure 5: Tariff wars dragged down consumer prices

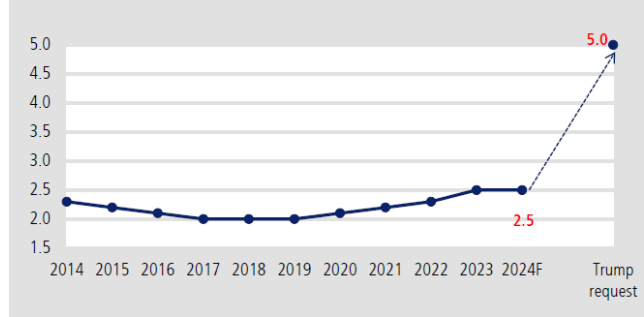
Effective tax rate on imports to the US, percent (LHS); US CPI, point (RHS)



Source: US International Trade Commission; KGI Research

Figure 6: Trump calls for doubling Taiwan's defense budget

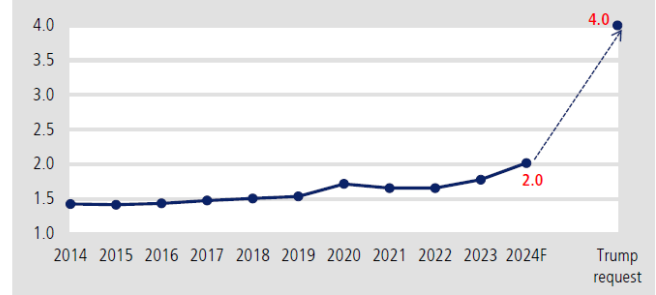
Taiwan's defense budget to GDP ratio, percent



Source: Directorate General of Budget, Accounting and Statistics of Taiwan; KGI Research

Figure 7: NATO defense budgets called to double by Trump

Average ratio of defense budget to GDP of non-US NATO members, percent



Source: North Atlantic Treaty Organisation; KGI Research

Figure 8: 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	2023	2024F	2025F
Military industry	AIDC	2634 TT	Outperform	69.0	1,514	52.6	31.2	3.18	3.73	16.5	14.1	2.7	2.5	16.9	18.5	2.7	3.6	4.3
	International Trade Administration	ITA US	Not rated	-	-	139.5	-	-	-	-	-	-	-	-	-	-	-	-
Heavy electricity	FE	1519 TT	Outperform	850.0	6,800	775.0	9.7	16.43	24.25	47.2	32.0	23.6	17.4	59.9	63.9	0.8	1.5	2.2

Source: KGI Research

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