

Strategy

Taiex to be driven by fundamentals after US tariff is unveiled

Key message

1. US tariff outcome will determine near-term Taiex performance. Our base case scenario is a 15-20% general tariff on Taiwan exports and 30-35% tariff on semiconductors.
2. A global effective US tariff rate of 20% would be detrimental to the economy and will likely lead to a muted peak season in 2H25.
3. We recommend AI plays and stocks featuring high dividends and low valuations.

Event

Taiex investors await the final results of US-Taiwan trade talks.

Analysis

Our base case scenario is 15-20% general tariff on Taiwan exports & 30-35% tariff on semiconductors. The latest US tariffs are set to take effect on August 1, with no further deferral or grace period. This implies that Taiwan's tariff rate will be announced imminently. Given the potential impact on short-term market sentiment, we have conducted a scenario analysis on the possible outcomes. Under our base-case scenario, we assume Taiwan's general tariff rate will be 15-20% and the semiconductor tariff will be 30-35%. If the final rates arrive as expected, we believe the Taiex will trade sideways in the near-term. If the tariffs exceed anticipated levels, the market will likely interpret this as a negative surprise, prompting a notable correction. If the tariffs come in below the base-case levels, this would be viewed positively and could drive a short-term rally.

The rationale behind a 15-20% blanket US tariff as our base-case scenario stems from recent remarks by President Trump that countries that have yet to strike a deal with the US will be subjected to tariffs of 15-20%, which also broadly aligns with tariffs imposed on Taiwan's neighboring countries. For semiconductors, the projected 30-35% tariff reflects the cost differential of building foundries in the US versus in Taiwan. Put simply, semiconductor tariffs must be high enough to create incentives for semiconductor firms to move production to the US.

Investors are monitoring the applicable tariff rate for Taiwan, but we note that tariffs are not a decisive factor for Taiwan's economy as Taiwan manufacturers have production capacity located around the world, with the weighting of overseas capacity far exceeding domestic capacity. Currently, only 26% of capacity is based in Taiwan, while 56% is located in mainland China and 15% is in Southeast Asia. China's US tariffs are 37.5-55.0%. Notably, China-made consumer electronics face a lower tariff of 20%, and the tariffs for Southeast Asian countries generally hover around 20%. As such, we believe a tariff of at least 20% will ultimately be imposed on Taiwan firms.

Trade war shifting toward de-escalation, implying weakening tariff impact on economy.

The global trade war waged by President Trump is moving in a positive direction as: (1) actual tariff rates have generally been lower than those announced on April 2; (2) most trading partners have refrained from retaliating against the US, and have largely acquiesced to Trump's objectives, either by significantly lowering tariffs on US goods, granting more market access, or by increasing investment in the US; and (3) even after tariffs have been officially announced, there is still room for negotiation and adjustments.

According to estimates from the Budget Lab at Yale, if the reciprocal tariff rates disclosed on April 2 had been implemented, the effective US tariff rate would have reached 25%. However, following the conclusion of trade deals with multiple countries, the latest projected tariff rate has declined to 20%. Moody's analysis indicates that for every 1ppt increase in US global tariffs, the country's GDP will decline by 0.07-0.08ppt. That is to say, the 5ppt reduction in tariff rates implies a narrowing of the economic drag by approximately 0.375ppt. Furthermore, the absence of retaliatory measures by trading partners prevents the negative impact from doubling. According to the Peterson Institute for International Economics (PIIE), under a 20% blanket tariff on countries, damage to US GDP would be up to 1.8ppts if all trading partners retaliate, compared to just 0.9ppt without retaliation. Markets are beginning to figure out how to play Trump's strategic game. The base principle is that tariffs are negotiable. As long as countries are willing to yield to his demands, the option of tariff reduction will remain open.

20% effective global tariffs will eventually weigh on economy & result in muted 2H25 peak season. Despite signs of amelioration in the global trade war over the past three months, the negative impact of the finalized 20% global effective tariff rate on the broader economy and industries is unlikely to fully dissipate. According to PII estimates, a 20% effective tariff would reduce US GDP by approximately 0.9ppt, which means US annual GDP growth would shrink from the pre-tariff range of 1.7-1.8% to around 0.9%. Although the economy is still growing, a slowdown in the pace of growth appears inevitable. From the perspective of industries, apart from continued robust demand for AI servers, most subsectors are facing headwinds, including skewed market demand in 2H25 due to early pull-in demand in 1H25, tariff-induced demand contraction, and order cuts. We estimate aggregate Taiex earnings will grow by a respective 39%, 24%, 5%, and 4% YoY in 1Q-4Q25. We forecast a 1H:2H Taiex earnings split of 52%:48% for 2025, which deviates from the 10-year historic average of 47%:53%, indicating that the upcoming 2H25 peak season will be muted.

Finalization of US tariffs on Taiwan to affect forex rates & foreign capital flows.

Following the conclusion of tariff negotiations with the EU and Japan, the US Dollar Index has shown signs of strengthening, leading to a reversal in the appreciation of the euro and yen. We expect a similar situation to unfold once Taiwan's tariff rates are finalized. If the outcome is in line with our base-case scenario, namely, a blanket tariff of 15-20% and semiconductor tariff of 30-35%, the US Dollar Index may edge up further in the short-term, prompting depreciation of the NT dollar indirectly. That said, as tariffs on Taiwan could be similar to those on neighboring Asian countries, foreign investors are unlikely to adjust their Taiex portfolios dramatically, implying limited downside for the NT dollar. If, however, Taiwan's final tariff rates exceed the base-case scenario, the NT dollar could face more pronounced depreciation on market concerns over potential erosion of Taiwan's competitiveness. Forex rates typically influence FINI capital flows into and out of the Taiex. Should the NT dollar undergo sharp depreciation in the near future, we expect foreign investors to reduce Taiex holdings. Historically, foreign investors have typically net sold US\$3.0bn, or NT\$90bn, worth of Taiex stocks for every 1% depreciation of the NT dollar since the end of the COVID-19 pandemic.

Conclusion & top picks

The outcome of US tariff negotiations on Taiwan will determine near-term Taiex performance. Our base case scenario is a 15-20% blanket tariff on US imports from Taiwan and a 30-35% tariff on semiconductors. While the global trade war is showing signs of de-escalation, a 20% global effective tariff rate would still be detrimental to the economy and would likely lead to a muted 2H25 peak season. We forecast a 1H:2H Taiex earnings split of 52%:48% for 2025, which deviates from the 10-year historic average of 47%:53%, which could potentially undermine Taiex performance in 3Q25. In light of this, we suggest investors focus on AI plays and stocks featuring high dividends and low valuations.

Figure 1: US tariff outcome will determine near-term Taiex performance. Our base case scenario is a 15-20% general tariff on Taiwan exports and 30-35% tariff on semiconductors

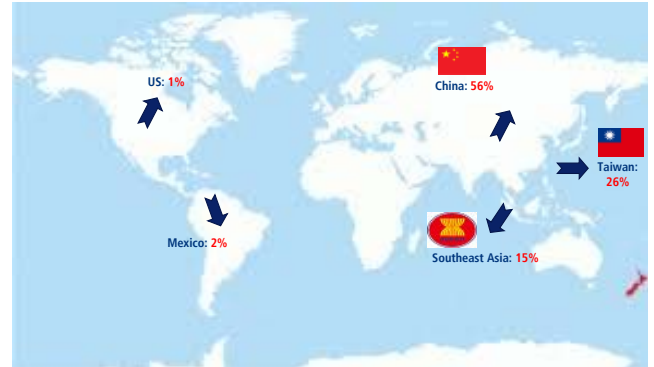
Updates on US trade talks and tariff rates

Final tariff	Short-term impact on Taiex
Scenario 1: 15-20% tariff on general Taiwan exports 30-35% tariff on semiconductors	In line with market expectations, but share prices will consolidate
Scenario 2: over 15-20% tariff on general Taiwan exports over 30-35% tariff on semiconductors	A market headwind that will cause major share corrections
Scenario 3: less than 15-20% tariff on general Taiwan exports less than 30-35% tariff on semiconductors	A positive catalyst that will drive stock rallies

Source: KGI Research

Figure 2: Most (56%) production capacity of Taiwan firms is still based in China, followed by 26% in Taiwan & 15% in Southeast Asia

Production capacity by region



Source: KGI Research

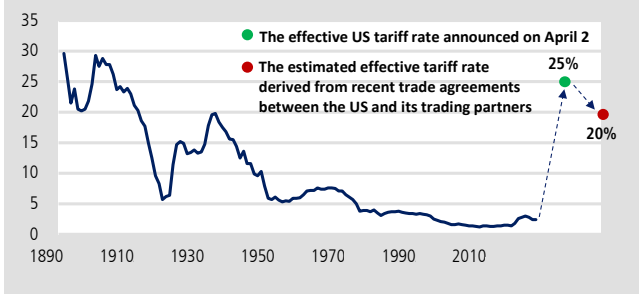
Figure 3: Overview of Taiwan manufacturers' total production capacity worldwide: overseas capacity far exceeds domestic capacity

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/Textil	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 4: Latest US effective tariff rate is 20%, down from peak of 25% on April 2

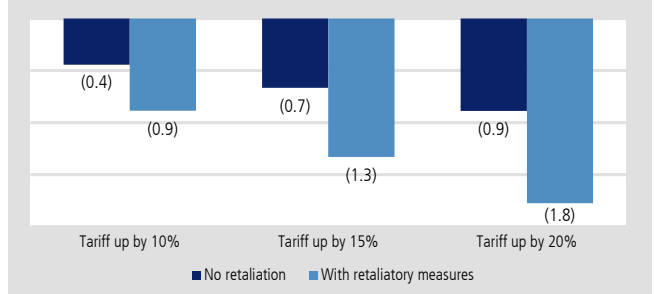
Effective US tariff rate, percent



Source: Budget Lab at Yale; KGI Research

Figure 5: Under increased US tariffs, the absence of retaliatory measures by trading partners could prevent negative impacts from doubling

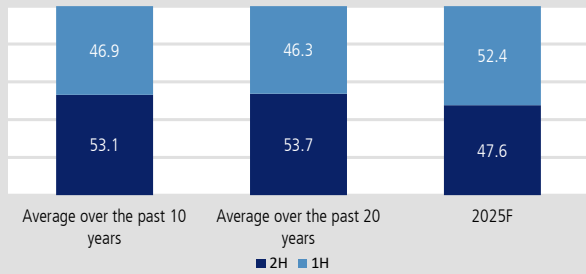
Scenario analysis of US tariff impact on Taiex market



Source: PIIE; KGI Research

Figure 6: We forecast a 1H:2H Taie x earnings split of 52%:48% for 2025, indicating a muted 2H25 peak season

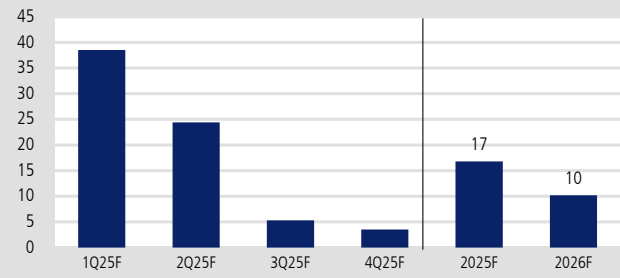
USD-TWD exchange rate, NT\$ (LHS); accumulated net-buying or selling of Taie x stocks by FINI, US\$bn (RHS)



Source: TEJ; KGI Research

Figure 7: We estimate aggregate Taie x earnings will grow by a respective 39%, 24%, 5%, and 4% YoY in 1Q-4Q25, also pointing to a muted 2H25 peak season

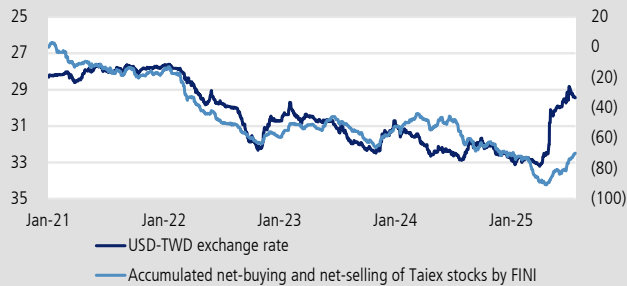
Scenario analysis of tariff impact on Taie x earnings, percent



Source: TEJ; KGI Research

Figure 8: Foreign direct investment and exchange rates: since 2021, foreign investors have typically net sold US\$3.0bn, or NT\$90bn, worth of Taie x stocks for every 1% depreciation of the NT dollar

USD-TWD exchange rate, NT\$ (LHS); accumulated net-buying or selling of Taie x stocks by FINI, US\$bn (RHS)

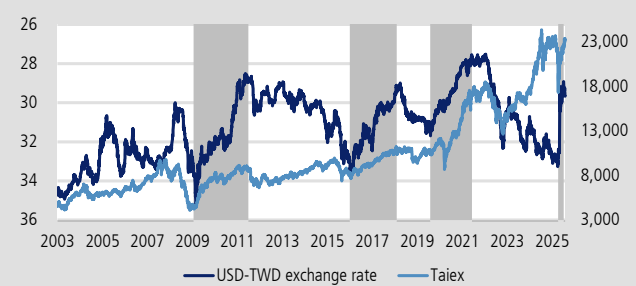


Source: Bloomberg; KGI Research

Note: Based on accumulated net-buying or selling of Taie x stocks by FINI as of January 2021, indexed to a base of 0

Figure 9: Exchange rate fluctuations heavily influence foreign investment flows, which in turn significantly impact bullish or bearish trends in the Taiwan stock market

USD-TWD exchange rate, NT\$ (LHS); Taie x index, point (RHS)



Source: Bloomberg; KGI Research

Figure 10: Projected earnings & valuations of Taie x constituents

Earning (NT\$bn)	2021	2022	2023	2024	2025F	2026F
Taie x	3,917	3,771	2,682	3,769	4,402	4,851
Taie x excl. TSMC	3,320	2,755	1,844	2,595	2,847	3,098
Tech	1,914	2,147	1,698	2,249	2,768	3,247
Tech excl. TSMC	1,317	1,130	860	1,075	1,213	1,494
TSMC	597	1,017	838	1,173	1,555	1,753
EPS growth (%)						
Taie x	78.1	(3.7)	(28.9)	40.5	16.8	10.2
Taie x excl. TSMC	97.4	(17.0)	(33.1)	40.8	9.7	8.8
Tech	51.7	12.2	(20.9)	32.4	23.1	17.3
Tech excl. TSMC	77.1	(14.2)	(23.9)	25.1	12.8	23.1
TSMC	15.2	70.4	(17.5)	39.9	32.5	12.8
P/E (x)						
Taie x	19.2	20.0	28.1	20.0	17.1	15.5
Taie x excl. TSMC	13.7	16.5	24.6	17.5	15.9	14.7
Tech	28.4	25.3	32.0	24.2	19.6	16.7
Tech excl. TSMC	18.5	21.6	28.4	22.7	20.1	16.3
TSMC	50.2	29.5	35.7	25.5	19.3	17.1

Source: KGI Research

Figure 11: Our top picks

Sector/ theme	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 (%)	
								2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F	2025F	2026F
AI supply chain	Alchip	3661 TT	Outperform	4020.0	10,234	3750.0	7.2	75.82	129.66	49.5	28.9	6.9	5.9	14.5	21.7	1.0	1.7
	MPI	6223 TT	Outperform	1005.0	3,209	1010.0	(0.5)	33.40	40.34	30.2	25.0	8.3	6.3	30.2	28.5	1.8	2.2
	ASEH	3711 TT	Outperform	168.0	22,663	152.0	10.5	10.29	12.96	14.8	11.7	1.9	1.8	13.2	15.4	2.9	4.0
	Hon Hai	2317 TT	Outperform	219.0	80,325	171.5	27.7	12.85	14.46	13.3	11.9	1.4	1.3	10.6	11.3	4.0	4.4
	QCI	2382 TT	Outperform	325.0	35,162	270.0	20.4	16.52	19.62	16.3	13.8	4.4	4.2	27.9	31.2	4.9	5.8
	Wistron	3231 TT	Outperform	145.0	12,775	120.5	20.3	8.46	11.08	14.2	10.9	2.0	1.7	16.0	17.3	4.3	5.6
	AVC	3017 TT	Outperform	820.0	11,424	872.0	(6.0)	36.26	45.78	24.0	19.0	9.3	7.4	43.2	43.4	2.0	2.5
	EMC	2383 TT	Outperform	1140.0	11,943	1005.0	13.4	45.28	58.33	22.2	17.2	7.8	6.3	39.5	40.4	2.7	3.5
	TSMC	2330 TT	Outperform	1350.0	1,009,851	1155.0	16.9	59.96	67.61	19.3	17.1	5.6	4.6	32.3	29.4	1.7	1.7
	Accton	2345 TT	Outperform	950.0	15,948	843.0	12.7	37.99	N.A.	22.2	N.A.	10.3	N.A.	51.8	N.A.	2.5	N.A.
High-yield and undervalued stocks	Fositek	6805 TT	Outperform	1080.0	2,034	880.0	22.7	26.80	43.15	32.8	20.4	9.3	7.6	30.6	41.1	1.5	2.5
	MediaTek	2454 TT	Outperform	1700.0	74,521	1380.0	23.2	68.64	83.54	20.1	16.5	5.7	5.2	27.9	32.8	4.9	5.0
	Uni-President	1216 TT	Outperform	92.0	15,843	82.7	11.2	4.32	4.86	19.2	17.0	3.3	3.1	17.7	18.7	3.6	3.8
	PCSC	2912 TT	Outperform	303.0	9,201	262.5	15.4	11.88	13.36	22.1	19.6	6.0	5.5	28.2	29.2	3.4	3.4
	CTBC Holding	2891 TT	Outperform	45.0	27,760	41.9	7.4	3.32	3.95	12.6	10.6	1.6	1.3	13.5	13.8	5.0	5.7
	E.S.F.H	2884 TT	Outperform	34.0	17,532	32.2	5.8	1.84	1.94	17.4	16.6	1.8	1.6	11.0	10.3	4.2	4.4
	Gigabyte	2376 TT	Outperform	348.0	6,064	268.5	29.6	20.29	23.16	13.2	11.6	3.2	3.0	24.7	26.8	6.0	6.9
	Alltop	3526 TT	Outperform	295.0	518	235.5	25.3	17.91	22.69	13.2	10.4	4.0	3.9	30.4	38.4	7.6	9.6

Source: KGI Research

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