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Technology Sector

Overweight (↔)

90-Day Tariff Suspension Offers Breather As US-China Trade War Fuels Malaysia Tech Relocation Opportunities

Executive Summary

- **On 10 Apr 2025, President Trump announced a 90-day suspension of reciprocal tariffs, reducing the rate to 10% (from 24%) for most countries, likely including Malaysia. Importantly, semiconductors remain exempt, offering short-term relief for Malaysia's tech sector and preserving a key export category (c.RM73bn to the US in 2024).**
- **Deepening US-China trade war (US slapped 125% tariffs, China retaliated with 84% tariffs) is likely to accelerate global supply chain relocation, with Malaysia being a potential key beneficiary. Malaysia contributes c.13% of global OSAT capacity and is increasingly favoured under the China+1 strategy.**
- **EMS and finished electronics exporters may still face temporally 10% tariffs, risking margin compression should customers request cost-sharing. Relocation to the US remains unlikely, but order realignment for low-complexity devices may present.**
- **Short-term relocation challenges include rules-of-origin compliance and avoiding transshipment risks. Long-term benefits hinge on Malaysia maintaining neutral strategic positioning while attracting FDI and capacity expansions.**
- **OVERWEIGHT on the tech sector. Bursa Technology Index slumped 40% YTD, trading at 15x forward P/E, well below the 5-year average of 30.6x, offers a decent bargain hunting entry point. Policy clarity in the next 90 days will be pivotal.**

On 10 Apr 2025, US President Trump announced a 90-day suspension of the recently imposed reciprocal tariffs, following outreach from over 75 countries seeking tariff-related negotiations. Under this arrangement, tariffs on most countries – likely including Malaysia, have been temporarily capped at 10%, down from the earlier-announced 24% rate. Most importantly, semiconductors remain exempt, safeguarding one of Malaysia's critical exports to the US.

This latest twist of the suspension offers much-needed short-term relief for Malaysia's technology sector. However, recent developments occur during the intensifying US-China trade war with the US raising tariffs on Chinese goods to 125%, after China responded with 84% tariffs on US imports. Deepening rift is likely to accelerate long-term structural shifts in global supply chains, with Malaysia emerging as a likely beneficiary of accelerated relocation and diversification efforts.

Malaysia continues to play a central role in the global semiconductor ecosystem, contributing c.13% of global backend packaging and testing capacity. In 2024, the country exported roughly RM73bn in semiconductor products to the US, accounting for c.12–13% of total E&E exports. The exemption of semiconductor products from current tariffs has preserved Malaysia's export flow and reinforced its strategic positioning in the supply chain.

That said, the sector is not entirely insulated. Should semiconductors be targeted in future tariff rounds, Malaysian OSAT players may face margin compression if clients request partial absorption of tariff costs. Moreover, given the unpredictability of US trade policy, this exemption remains vulnerable to a potential reversal, if any.

EMS and broader Electronics may potentially face margin headwinds. Despite the tariff suspension, finished electronics and system-level products exported from Malaysia remain subject to the 10% temporary tariff, which may be raised after the grace period. EMS players and broader electronics exporters could face margin pressure, especially should customers request partial cost-sharing. While full-scale relocation of EMS operations back to the US remains unlikely due to cost and capacity constraints, realignment of orders particularly for low-complexity consumer devices are on the cards.

Geopolitical tensions driving relocation. Despite the sector outlook still highly uncertain, we are positive on local sector ecosystem as heightened US-China tensions appear to be fast-tracking the "China+1" strategy. Malaysia is increasingly viewed as a preferred alternative for technology firms seeking to diversify operations. We expect this trend to support incremental foreign direct investment and capacity expansions in Malaysia over the next 12–24 months, particularly if US-China decoupling persists and successfully of negotiate between Malaysia and US.

However, over the short term, relocation efforts from China to Malaysia may face logistical challenges, including compliance with rules-of-origin to avoid transshipment risks. Companies must ensure value-added transformation occurs locally to avoid US tariff enforcement.

Risks and structural considerations. While the reconfiguration of global supply chains may benefit Malaysia in the medium term, several risks must be considered such as (i) Input supply disruptions due to China's potential retaliatory export controls to US origin products, (ii) Weaker global electronics demand, especially in the consumer segment, due to rising end-product costs and macro uncertainty and (iii) Strategic neutrality pressures, as Malaysia may face increasing pressure to align more clearly with either the US or China, complicating trade and investment decisions.

Company Implications (Under Coverage).
Frontken Corporation Berhad (BUY; TP:RM4.37), Infoline Tec Group Berhad (BUY; TP:RM1.19), Ramssol Group Berhad (HOLD; TP:RM0.78): Minimal to zero direct impact, given negligible US exposure and business focus on services or non-export segments.

Inari Amertron Berhad (BUY; TP:RM3.53): Products remain exempt for now. Relocation risk is low due to the high cost of shifting backend processes. However, margin compression is a concern if tariff risks materialize.

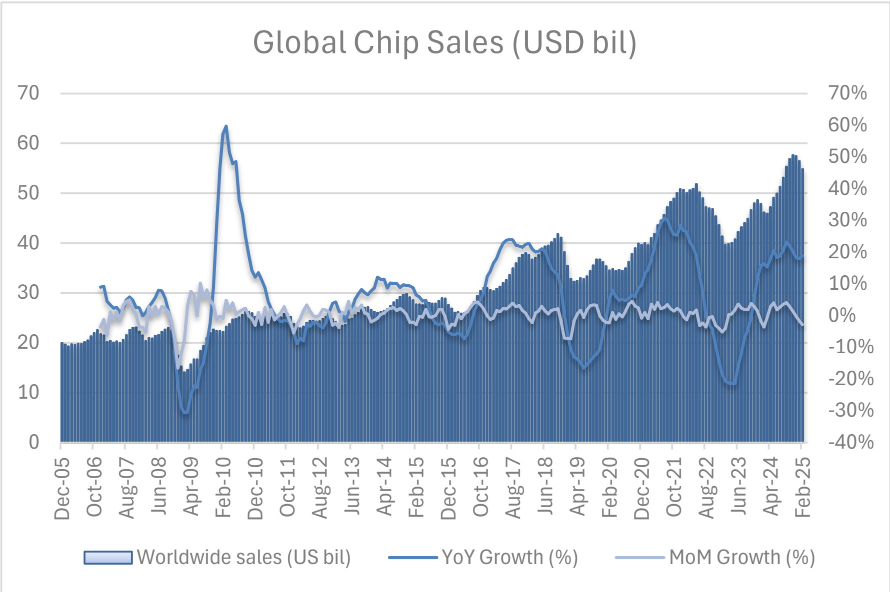
QES Group Berhad (BUY; TP:RM0.54): Limited direct exposure to the US, though indirect risks exist via potential customer delays in capex or equipment orders.

Aurelius Technologies Berhad (BUY; TP:RM4.17): With c.50% revenue exposure to the US, the Group remains sensitive to policy shifts. Relocation is unlikely due to high switching costs and limited alternatives, but earnings may be pressured by margin concessions if cost-sharing is required.

Valuation & Recommendation. Against the uncertain policy backdrop, we believe the risk-reward remains attractive. The Bursa Malaysia Technology Index has declined 40% YTD, hitting its lowest level since 2020. The sector is now trading at 15x one-year forward P/E, well below its five-year average of 30.6x. Given the accelerating trade diversion potentially benefiting Malaysia, and oversold valuations, we maintain our **OVERWEIGHT** stance on the Malaysian technology sector. The next 90 days will be critical in determining the long-term tariff structure and the flow of strategic investments into Malaysia.

Risk / Opportunity	Impact
Semiconductor exemption	Positive – Supports OSAT/export continuity and maintains global backend role; however, policy flip-flops and risk of future tariff inclusion persist.
10% tariff (temporary)/back to 24%	Manageable short-term for EMS/electronic products, but if extended or increased, could compress margins and shift demand.
China retaliation	Indirect risk – supply disruption, slower demand
Trade diversion	Upside – Malaysia may gain from China and US from the trade war
Neutrality pressure	Long-term challenge – Malaysia may face pressure to align with either US or China; supply chain and customer relationships may be tested.
Logistical transformation & compliance	Requires stricter adherence to rules-of-origin to avoid transshipment penalties; firms may incur short-term cost to ensure compliance.
Consumer electronics slowdown	Global demand could soften due to inflation and tariff-led price increases, impacting the ecosystem volume orders.
Policy unpredictability (Trump administration)	Ongoing uncertainty – risk of abrupt policy changes may deter immediate investment decisions and delay large-scale tech orders.
Valuation re-rating potential	Opportunity – Sector currently trading at depressed levels; clarity on trade direction could unlock re-rating upside.

Global semiconductor sales ('US$ bn)

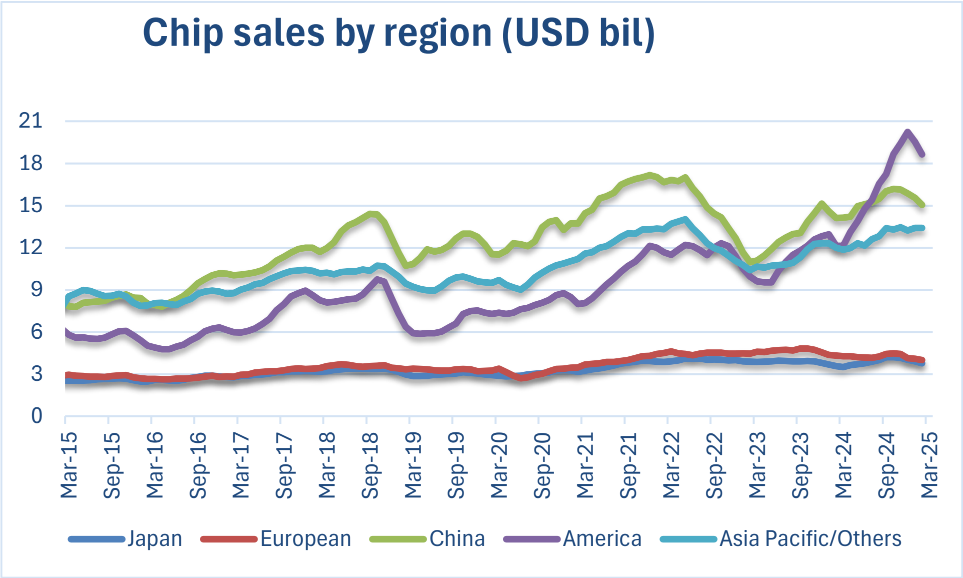


Source: SIA

YoY continues higher, MoM slightly lower. Global semiconductor sales reached US$54.9bn in Feb 2025, representing a 19% yoy increase from US$46.2bn in Feb 2024 but a 2.8% mom decline from US$56.5bn in Jan 25. The strong yoy growth was primarily driven by strong demand in AI related chips. However, the slight mom decline, was attributed to seasonal factors with a lower working days month.

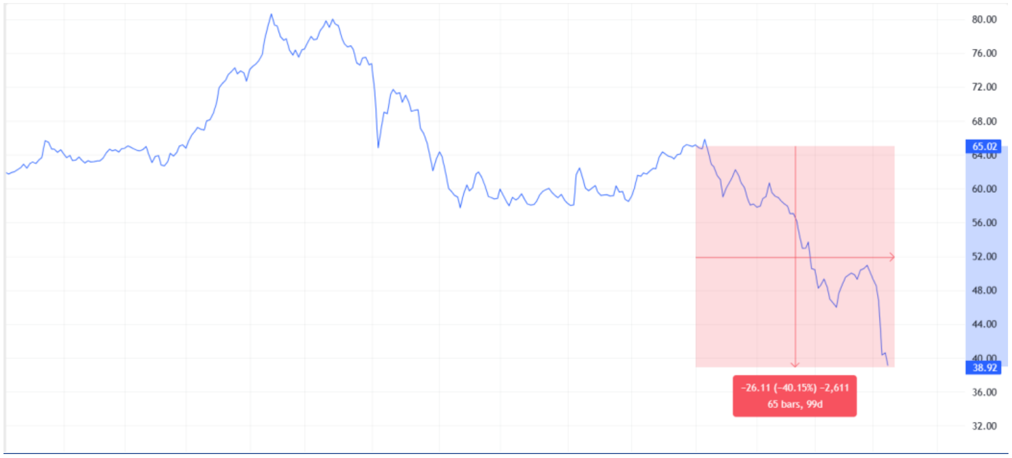
Sales breakdown by region. On a yoy basis, most regions posted higher chip sales in Feb 2025, including the Americas (48.4%), Asia Pacific/All Other (10.8%), China (5.6%), and Japan (5.1%). Europe, however, registered 8.1% yoy decline, pointing to relative weakness in European end-markets and ongoing inventory adjustments. Month-over-month, all regions decreased from seasonally factors with Asia Pacific/All Other (-0.1%), Europe (-2.4%), China (-3.1%), Japan (-3.1%), and the Americas (-4.6%).

Semiconductor sales by regions (‘US$ bn)



Source: SIA

Bursa Technology index



Source: Tradingview

Recommendation Framework:
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain

Sector Recommendations:
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:
★★★★★ : Appraised with 3% premium to fundamental fair value
★★★★ : Appraised with 1% premium to fundamental fair value
★★★ : Appraised with 0% premium/discount to fundamental fair value
★★ : Appraised with -1% discount to fundamental fair value
★ : Appraised with -5% discount to fundamental fair value

As of **Thursday, 10 Apr, 2025**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:
(a) nil.