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Technology Sector

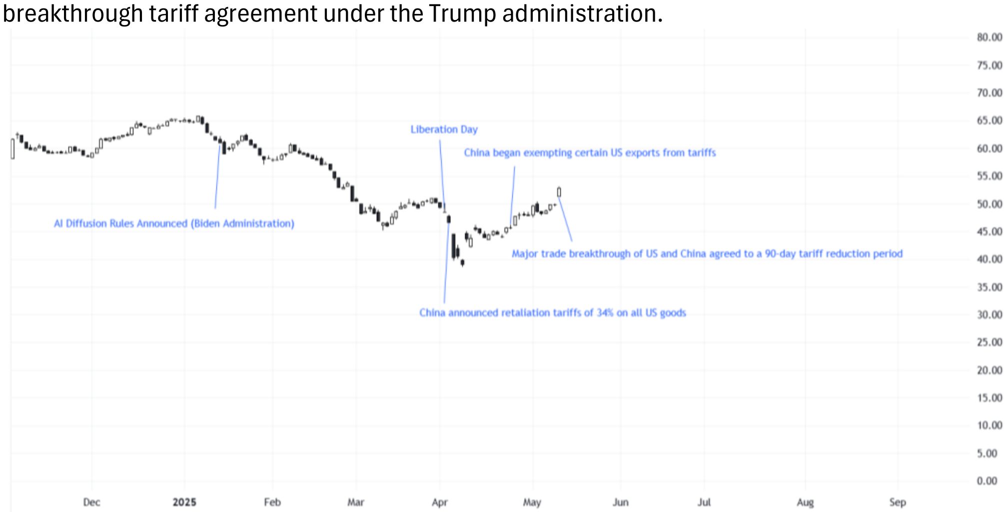
Overweight (↔)

Temporary US–China tariff truce lifts Tech sentiment despite lingering uncertainty

- **US and China have officially implemented a 90-day tariff truce, reducing US tariffs on Chinese goods from as high as 145% to 30%, and China's tariffs from 125% to 10%, effective today. This development offers indirect sentiment relief and improves cross-border supply chain visibility for Malaysian tech exporters.**
- **We observe that OSAT and EMS players to be key beneficiaries, while equipment manufacturers such as ATE remain vulnerable due to lingering uncertainties over long-term trade policy direction.**
- **We remain cautious on the temporary nature of the truce. Without a structural resolution or Malaysia securing a more competitive bilateral tariff rate, investment and supply chain relocation decisions may be delayed, potentially eroding Malaysia's strategic edge in the China+1 narrative.**
- **Nonetheless, we maintain our OVERWEIGHT stance on Malaysia's technology sector, underpinned by improving near-term sentiment and positioning within global supply chain realignments.**

US and China have agreed to temporary tariff reductions for 90 days, effective today. Under this arrangement, US will lower tariffs on Chinese goods from as high as 145% to 30%, while China will reduce its tariffs from 125% to 10%. While this truce does not directly benefit Malaysian chipmakers through tariff changes — since semiconductors were already exempted—it indirectly improves sentiment and cross-border supply chain visibility.

The Bursa Malaysia Technology Index, which had declined by as much as 22% since the initial announcement of reciprocal tariffs and the peak of US–China tensions, has recovered from its recent lowest points. This rebound has been supported by the easing of trade pressures and the breakthrough tariff agreement under the Trump administration.



Source: Tradingview, Apex Securities

The temporary tariff relief has provided near-term support for Malaysian tech companies, particularly those integrated into the global supply chain such as OSAT and EMS players, which had previously faced significant share price pressure.

However, we remain cautious on ATE and equipment manufacturers, as the longer-term implications are less clear. The China+1 strategy, which previously benefited Malaysia, is now under pressure. Going forward, Malaysia will need to secure a more competitive bilateral tariff rate to maintain its edge, ideally with a permanent resolution beyond this temporary 90-day window.

The temporary nature of the US–China tariffs reduction agreement means uncertainty remains elevated. Many multinational corporations are likely to hold back or delay investments and supply chain relocation decisions. If the US–China tariff pause is extended without structural changes, Malaysia's comparative advantage may begin to erode. In such a case, the previously anticipated influx of semiconductor assembly orders and foreign direct investment (FDI) into Malaysia could slow, as companies adopt a wait-and-see approach.

Scenario Analysis on the US-China tariffs deals

Base Case: The 90-day truce is extended by another 90 days without a permanent resolution. Simultaneously, Malaysia successfully negotiates a reduction of its current 24% tariff to 10%, in line with other ASEAN nations, though without long-term certainty. Under this scenario, Malaysian semiconductor exporters may benefit from stabilised global electronics demand and a partial recovery in OSAT and EMS order volumes. However, the continued uncertainty would likely result in limited investment or capacity expansion. Malaysia still retains its strategic relevance in the China+1 diversification narrative.

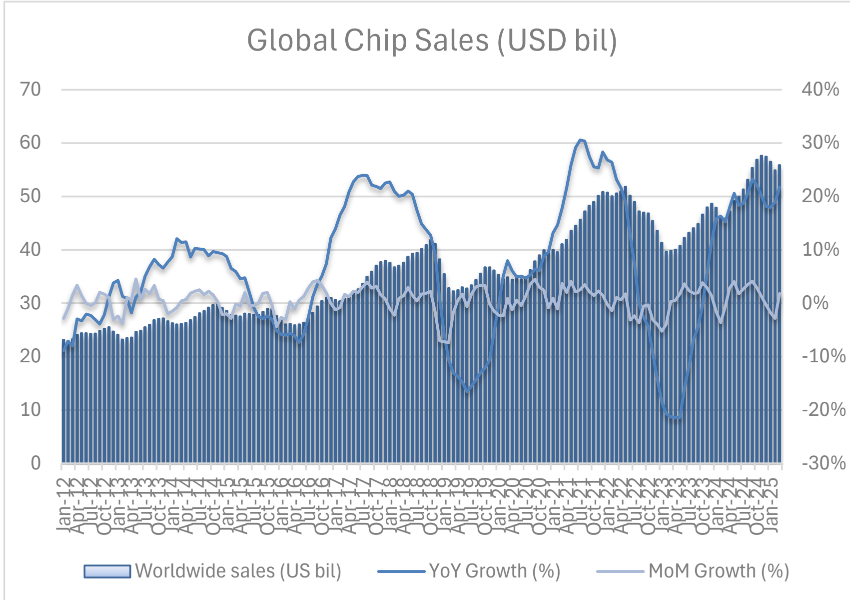
Best Case: The temporary truce evolves into a permanent trade resolution, and Malaysia secures a highly favourable bilateral agreement, reducing its tariff rate to well below China's 30%. This outcome would significantly enhance Malaysia's comparative cost advantage, likely spurring a new wave of FDI from multinational chipmakers and back-end service providers. Stronger demand visibility from end markets such as AI servers, EVs, and PCs, coupled with increased production capacity, would further boost operational leverage and earnings momentum.

Worst Case (we opine it will be low probability): The 90-day truce collapses, leading to a re-escalation of US–China tensions, with tariffs rising to 64% or more and further US export restrictions on chip-related technologies. In the event Malaysia fails to negotiate better terms and remains at a 24% tariff, it risks being squeezed out—losing trade-driven demand without the tariff advantages enjoyed by regional competitors like Vietnam or Mexico. Multinationals could divert planned expansions elsewhere, and Malaysian OSAT players would face weaker order visibility and greater volatility in operations.

Overall, while the US–China tariff truce offers short-term relief for Malaysia's semiconductor sector by improving order visibility and market sentiment, risks remain on the cards. The absence of a permanent resolution and the Trump administration's continued interest in strategic decoupling through sector-specific semiconductor tariffs highlight that uncertainty still lingers in the medium term.

We maintain our **Overweight** stance on the Malaysian technology sector, supported by improving macro visibility and more constructive sentiment following the US–China tariff truce and ongoing bilateral negotiations between Malaysia and the United States. Although the 90-day agreement is temporary, it removes an immediate overhang for OSAT and EMS players, creating a tactical window for earnings recovery and sentiment re-rating. We recommend selective exposure to export-oriented names with deep integration into the global supply chain, particularly **Inari Amertron (BUY; FV: RM3.53)**, **Atech (BUY; FV: RM4.17)**, and **Frontken (BUY; FV: RM4.42)**—all of which are well-positioned to benefit from a more stable trade backdrop and long-term tailwinds from structural supply chain realignments.

Global semiconductor sales (‘USD bn)

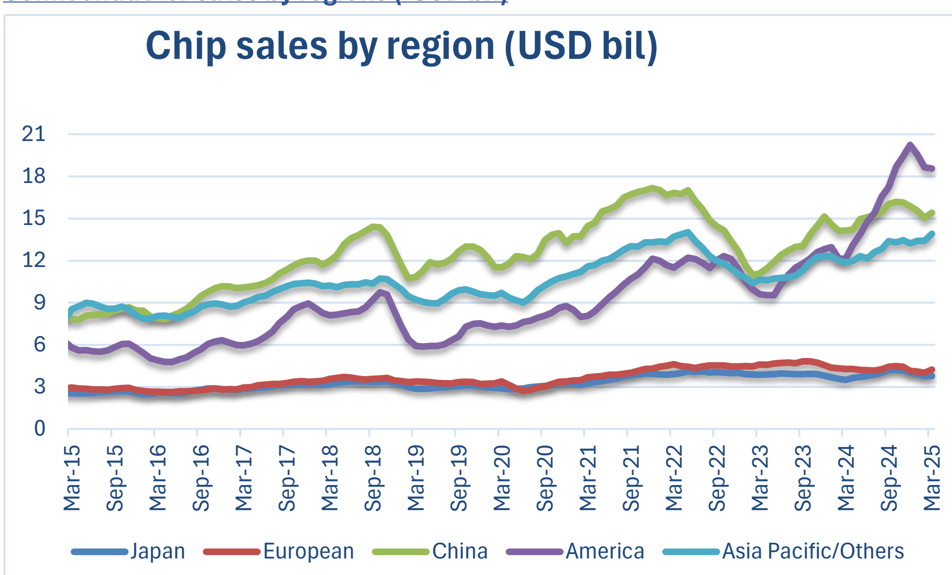


Source: SIA

YoY continues higher, MoM slightly lower. Global semiconductor sales reached USD55.9bn in March 2025, representing a 22% yoy increase from USD45.91bn in March 2024 and a 1.8% mom growth from USD54.9bn in Feb 25. We see the strong yoy growth was primarily driven by strong demand in AI related chips and the low base on Feb due to seasonality effect.

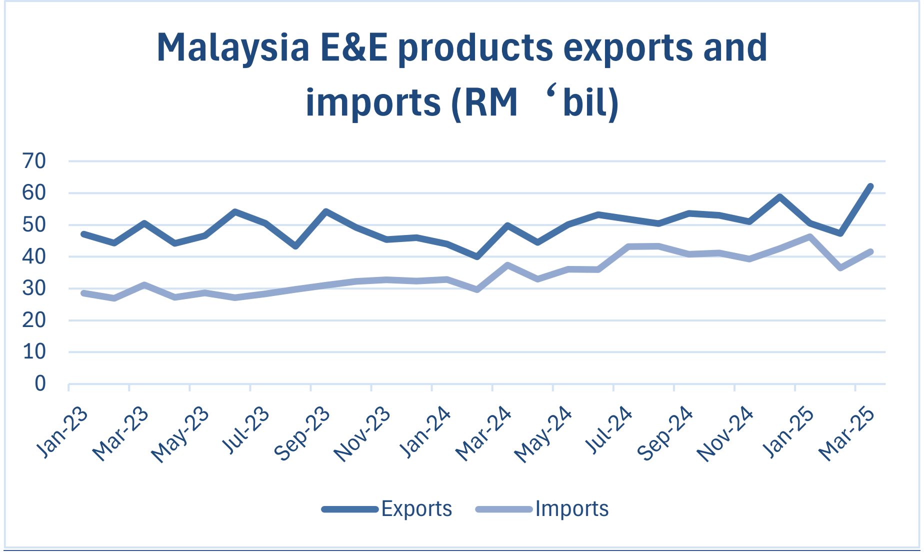
Sales breakdown by region. On a yoy basis, most regions recorded higher chip sales in March 2025, led by the Americas (+45.3%), followed by Asia Pacific/All Other (+15.4%), China (+7.6%), and Japan (+5.8%). Europe was the only region to post a decline (-2.0%), reflecting persistent softness in demand and lingering inventory correction. On a mom basis, sales increased in Europe (+5.7%), Asia Pacific/All Other (+3.6%), and China (+2.4%), while the Americas (-0.4%) and Japan (-0.4%) recorded slight pullbacks.

Semiconductor sales by regions (‘USD bn)



Source: SIA

Malaysia E&E products exports and imports



Source: DOSM, Apex

E&E external trade uptick in March 25. We see an uptick of external trade E&E products of Malaysia as we expect it was mainly due to the front-loading activities by companies to avoid tariffs stemmed from the uncertainties of Trump-era tariffs.

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 **Wednesday, 14 May, 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.