

European Technology

Limited impact of Red Sea disruptions on our Tech coverage

Industry Overview

Red Sea crisis = limited, if any, damages for EU Tech

We discuss in this note the potential impact of the Red Sea crisis since mid-December on European Technology companies. In short, we don't expect a material direct impact on our coverage, but we could see some of our companies suffering from indirect impact, particularly those exposed to the automotive industry. However, there are possible offsets. For instance, OEM customers of our semis companies could carry higher levels of inventory to mitigate any supply chain risks. So far, only Logitech mentioned freight headwinds going into the next quarter (100bps impact on profit margin), paired with higher inventory on-hand. Logitech also noted the Red Sea adds about four weeks of lead times. Our understanding is that shipping rates have increased but remain at one fourth of the peak rate we saw during the COVID-induced supply chain crisis.

No direct impact on IT Hardware/semis but indirect risk

None of the companies in our EU semis/HW coverage have commented on potential disruptions caused by the Red Sea crisis, but we believe there will be no material direct impact. Semis are usually shipped by air freight, hence lead times should not be impacted, although we could see a slight uptick in transportation costs. Although hard to quantify at this stage, we believe there could be an indirect impact to chipmakers. For example, automotive OEMs could suffer from disruptions as manufacturing sometimes takes place in China and then shipped back to Europe. Ultimately this may have an impact on suppliers like STMicro, Infineon and AMS as car OEMs may decide to reduce production. Equally they may also need more inventories as domestic (EU-based) production may have to increase to offset lost production in China.

No direct impact on Software/IT services/Payment

We don't see any direct impact on our Software coverage. We note potential indirect impacts coming from clients asking for a greater discount to offset higher shipping costs or customers delaying their purchases to avoid higher shipping, but unlikely. Lastly, we note this could be a potential positive for SAP as companies would need to invest in Supply Chain Solutions (this remains marginal). For IT services/payments, we highlight macro sensitivity could have a negative indirect impact if broader macro deteriorates (as IT Services revenues are linked to broader GDP, and Payments are linked to consumer spending).

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OEM: Original equipment
manufacturer

COGS: cost of goods sold

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