NOMURA

Korea Strategy

Global Markets Research

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EQUITY: TECHNOLOGY

How tariff tensions/new election will shape KOSPI

Quick Note

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On 4 April, South Korea's Constitutional Court upheld the impeachment of President Yoon, clearing the political overhang that has lingered over the past four months. Acting President Han will have to announce the date for the next presidential election by 14 April, as the deadline is set at 3 June (60 days from the president removal).

With the impeachment now behind, we believe Korea's financial markets will begin to reflect: 1) policy makers' decisions to counter inflation, economic growth concerns posed by the escalating tariff tensions between the US and China (*link*), in addition to domestic issues including wildfire (*link*) and the waning domestic economy; and 2) industry and corporate strategies on how to circumvent the tariffs while capitalizing on the US' "technology embargo" on rivalling countries such as China. Near term, the sheer scale of economic challenges for Korea triggered by the US tariffs will likely require concerted strategic efforts by policymakers, corporates, and associated stakeholders to seek and find effective solutions.

Korea – could seek US plant production increase or capacity expansions

Although the escalating tariff concerns from the US and China pose risks to Korea trade activities in the near term, we see potential for some Korea manufactures to maintain or expand revenue from their US-based production plants. Korea's direct investment in the US during Trump's first administration in 2017-21 averaged USD14.4bn per year (source: Korea International Trade Association) while the figure nearly doubled to USD26.9bn/year during the Biden Administration in 2021-25, aided by the Inflation Reduction Act (IRA) and the CHIPS Act in 2022. Some sectors/ companies such as batteries, power equipment, autos, and electronics derive 15-20% of revenue from their US plants, and we believe this number will rise if the companies decide to raise utilization or expand production capacity further.

Fig. 1: Korean industries that derive sizeable revenue from their US plants (among companies that fall under Nomura coverage)

Industry	Company	Ticker (Rating)	U.S. based production as percentage of revenue
Autos	Hyundai Motor Group	005380 KS (Buy)	~10%
EV battery	LG Energy Solution	373220 KS (Buy)	15-20%
Electronics	LG Electronics (home appliance only)	066570 KS (Buy)	15%
Renewable	CS Wind	112610 KS (Buy)	50-60%
Electric equipment	Hyundai Electric	267260 KS (Buy)	18%
	Hyosung Heavy Industries	298040 KS (Buy)	10%

Note: Above figures are based on revenue and Nomura estimates for 2024-25F; the list is not exhaustive

Source: Nomura estimates

US' "technology embargo" on China might bring spillover benefits to Korea

In recent years, the US has imposed restrictions or export controls to curb China's access to advanced technologies (military association included) across multiple sectors including semiconductor, AI, electric vehicle batteries, shipbuilding, telecom, and pharmaceuticals. Under such policy, the competing companies in Korea (with China) should see some indirect/spillover benefits, in our view. Although these might be offset by the high tariffs imposed by the US on Korea and its neighboring countries (e.g. Vietnam, which assembles Korea smartphone and PC, among others, and exports to the US) and retaliation from China (potential slowdown in trade activities with the US), we argue that net-net, the escalating tensions between the US and China might provide market share

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gain opportunities for Korea players in the US.

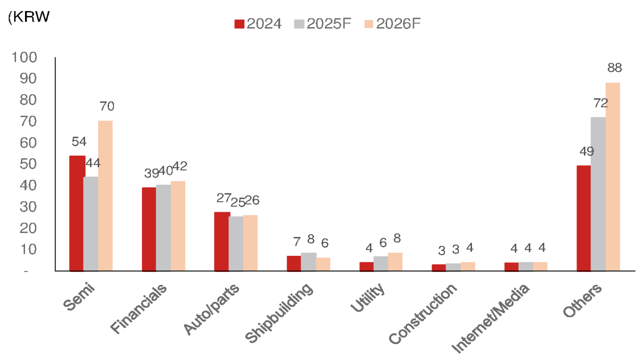
Industries that could escape US tariffs? Defense for now; pharma/semi stocks now exempted from reciprocal tariffs, but could face sector tariffs (section 232)

The US White House announced on 2 April (*link*) a list of goods that will not be subject to Reciprocal Tariffs. Copper, pharmaceuticals, semis, lumber articles, energy and critical minerals, products the US is in a trade deficit position, are included in the list. However, we see a high likelihood of pharma/semi sectors facing sector tariffs as they are seemingly under investigation by the US government regarding section 232 (products that threaten the national security of the US). In our view, Korea's defense industries should be relative "safe" from the US tariff imposition as the geopolitical uncertainties the Trump administration brings about would raise the needs for countries to raise their self-defense budgets.

Escalating tariff tensions – down/upside risks to 2025F EPS and beyond

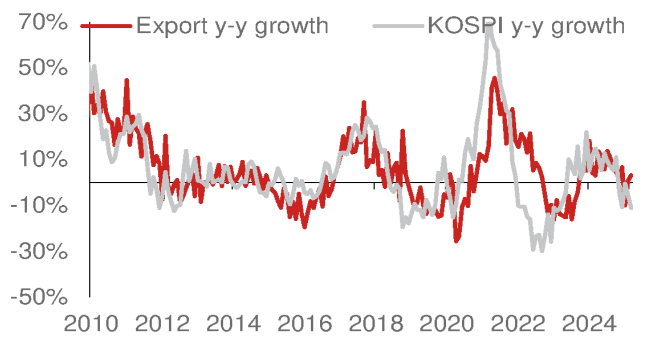
We forecast the KOSPI reaching 2,700 in 1H25F, based on P/BV 0.8x (ROE 9%; 2025F KOSPI PER and P/BV at 8.8x and 0.9x, respectively), pillared by 2025/26F EPS growth of 8%/23% y-y. We forecast 2025F EPS growth to be led by non-semi tech, petrochem, utility sectors while we expect to see a decline in the semi and auto sectors. As Korea autos represented 60% of trade surplus with the US in 2024 (source: KITA), followed by machineries (12%; likely due to expanded direct investments by Korea tech, auto, battery industries), and semis (8%), these sectors might see export volume tapering off from as early as April when the base/reciprocal tariffs become effective. However, how companies balance between direct exports and US local production and/or other routes are yet to be seen.

Fig. 2: Korea's net profit estimates by sector



Source: Bloomberg Finance L.P., Nomura estimates

Fig. 3: Korea's export growth vs KOSPI growth



Source: Quantiwise, Nomura research

New presidential election – capital market reform likely to reignite, in our view

With the new presidential election, we expect the financial regulators to resume their focus on capital market reform, although the approach might differ depending on who becomes the next President. Likely key agendas are the Corporate Value-Up, Commercial Act revision (this was vetoed by Acting President Han on 1 April, and the bill is now returned to the National Assembly for reconsideration. If a majority of members are present and two-thirds of the attendees vote in favor, the bill will be passed) and inclusion of South Korea in MSCI Developed Market.

Semiconductor – US tariffs have negative impact on semi demand (CW Chung)

We believe Trump's overall tariff policy will have a negative impact on semiconductor demand. Set makers (smartphones, PC, etc.) that export to the US will either have to lower the memory content per device or raise product prices to offset the tariffs, and these will drive down demand for DRAM and NAND chips. Likewise, HBM will be negatively affected. Although HBM is not directly exported to the US, it is sent to other countries (mainly Taiwan) for packaging before it is exported to the US. Hence, we expect its demand to be affected as well (the tariff rate will depend on the country in which the HBM is packaged). Only pure semi chips (DRAM, NAND, etc.) which are rarely exported directly to the US are exempted from tariffs (both memory modules and SSDs have been imposed with a 25% tariff).

On the other hand, the US may ban AI chip-related exports to certain countries including China (named AI Diffusion Rule) after July (postponed again from May). This concern has positively affected short-term HBM demand (China's pre-emptive purchases of HBM), but might negatively impact HBM demand if the ban is implemented. In this case, China's AI investment will have to rely mainly on the supply of Chinese AI ASIC chip manufacturers, in our view.

Auto – tariff risk not fully priced in (Angela Hong)

We had cut 2025/26F EPS for HMC (005380 KS, Buy) by 13%/11% (*link*) and that for Kia (000270 KS, Buy) by 17% each (*link*) to reflect the 25% US import tariff proposed. With roughly half of HMC and Kia's US sales still import-dependent, tariff exposure remains high for these names, even assuming partial ASP offsets. Hyundai Motor Group's (unlisted; under HMGMA) localization of manufacturing base in Georgiacould help to ease some concerns, but not all. Auto OEMs would seek to raise ASP in light of the US tariff increase but this might trigger higher input costs and weaken demand elasticity.

Shipbuilding/shipping – trade volume likely to soften post US tariffs/reshoring, but USTR should bring in benefits for Korean shipyards (Eon Hwang)

Tariffs will pressure trade activities, and reshoring will also lower 'trade growth %/GDP growth %'. Demand decrease is likely to decelerate freight rates (shipping) and potentially new orders (shipbuilding). However, as the US is likely to regulate Chinese shipyards and Asia countries are likely to buy more LNG (Korea shipbuilding accounts for a global market share of 70-80%, on our estimates), Korea shipbuilding companies are ultimately likely to benefit from Trump's policies. The US and Korea need to negotiate on Korea shipyards supporting US Naval shipyards; as such a new leadership formation in Korea should help bring in new opportunities.

Defense – "Trump disruption" likely to raise defense budget globally (Eon Hwang)

We believe the Trump administration and the current geopolitical uncertainty increase the needs of each country to raise self-defense budget, rather than relying on the US. Also, we believe Korea's defense industry is bi-partisan, and a fast government formation would work most favorably for the industry.

Renewables, electrical equipment – production base in the US (Siwoo Kim)

We believe the strong demand for electric equipment alongside short supplies will support the earnings and share price of power equipment companies, and should help ease the tariff concerns. We prefer companies that could continue to expand/increase production in the US. We expect US demand to stay supported, as the key concern of customers is "delivery delay" and not "cost", in our view. Among renewables, CS Wind (112610 KS, Buy) has a sizeable manufacturing base in the US.

Appendix A-1

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