

Huawei ban: major direct and indirect effects, but could be part of negotiation

Industry Overview



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US to potentially ban shipment of components to Huawei

News reports suggest the US could potentially ban shipments of certain semiconductor components to China's largest telecom equipment and smartphone company, Huawei. This could be part of the negotiation between the US and China, but if this ban persists, it could have important near-term consequences for certain vendors in our coverage listed below. A prior ban on Huawei's smaller competitor ZTE had smaller but multi-quarter impact, and nearly drove ZTE out of business. Longer-term, semi suppliers could potentially make up for the impact by increased shipping to (larger) non-China customers (Cisco, Apple, Samsung, Nokia, Ericsson), though that could take time, and a negative impact on Huawei could have other negative repercussions on the Chinese economy and demand for other products, in our view.

Estimating the impact

We estimate China overall consumes ~25-30% of all semiconductor components, with specific Huawei exposure estimated as follows:

- 1) Most impact (Huawei 10-15% of sales): IPHI, SWKS, QRVO, MU
- 2) Medium impact (Huawei 5-10% of sales): XLNX, ADI, QCOM
- 3) Low/moderate impact (Huawei 0-5% of sales): AVGO, INTC, TXN, MXIM, ON, CY, MRVL, NXPI, MCHP, CRUS

In our view, in most cases Huawei does not have alternative components, though over time certain digital logic components (infrastructure ASICs, smartphone processors) could be designed in-house. Restrictions on Huawei could also potentially drag the deployment of 5G networks which is expected to be a key growth driver for semiconductors.

Trade escalation could impact semicap equipment also

While attention has been focused on direct Huawei exposure, we also flag that US semicap equipment companies also supply critical chip-making tools/machines/services to China's fledgling memory and foundry customers. Trade escalation could create near-term risks to these vendors (AMAT, LRCX, KLAC, others) as well.

Ratings/estimates unchanged, watching for more details

We are not making any rating or estimate changes but will monitor further developments.

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