Trade Concerns Overdone. Unique Buying Opportunity for SCE

We think the near-term probability of implementing FDPR restrictions is low and view the near-term weakness as a unique buying opportunity.

Low Probability of Near-Term Implementation of Stricter FDPR. Most SCE stocks traded down 10-13% as Bloomberg published an article mentioning consideration of FDPR rules on SCE tools selling into China. EvercoreISI policy team views the discussion of more stringent FDPR as an effort to bolster greater multi-lateral coordination to further limit China’s ability to acquire key chips and chip-making tech from third countries. Given the challenges with implementing stricter FDPR unilaterally, EvrISI’s policy team views near-term probability of it happening as low.

SCE Stocks Traded Down 10-13%. In the chart below, we show most SCE have ~40-50% exposure to China and traded down 10-13% today on trade war concerns. ASML/CAMT has the highest exposure to China at 49%/47% respectively and traded down 11%/12% respectively. FORM and TER have the least exposure with 9%/7% of revs from China and traded down 8%/7%, respectively.

Unique SCE Buying Opportunity. We would use near-term weakness as a particular buying opportunity for our OP rated SCE names as we expect positive EPS revisions with recovery in leading edge and memory spending. Our top large cap picks: AMAT, LRCX, KLAC, ASML, and top SMID cap: ONTO, NVMI and CAMT

ONTO Price Action Overdone. In case of ONTO, we think the price reaction of -13% may be overdone, given that ONTO has only ~9% exposure to China in 1Q24 (Lowest in our SCE coverage).

SCE Stocks Traded Down 10-13%. Unique Buying Opportunity for SCE – Specifically ONTO

Source: Company Data, Evercore ISI Research, FactSet. ASML China Exposure at 49% in 2Q24 as well. For CAMT and NVMI we assumed 1Q24 to remain flat from 2023 levels.

Related Research. Semi-Caps: Bigger Chips - Higher Intensity; When TSMC Under-Forecasts CapEx
We show most SCE have ~40-50% exposure to China and traded down 10-13% today on concerns for tighter US trade restriction.

We show that ASML has the highest exposure to China at 49%, followed by CAMT at 47% and traded down 11%/12% respectively.

FORM and TER have the least exposure with 9%/7% of revs from China and traded down 8%/7%, respectively.

In case of ONTO, we think the price reaction may be overdone, given that ONTO has only ~9% exposure to China in 1Q24.

In 1Q24 ASML has the highest exposure to China vs. 29% in 2023. AMAT, LRCX and KLAC have ~42-43% of revs from China in 1Q24 vs. ~35% in 2023. ONTO, FORM and TER have least rev exposure at 7-9% in 1Q24 and 12-18% in 2023. As CAMT and NVMI don’t report a regional split on a quarterly basis, we assume China exposure to remain flat in 1Q24 vs. 2023.
TIMESTAMP
(Article 3(1)0 and Article 7 of MAR)
Time of dissemination: July 17 2024 10:24 PM ET

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Current Ratings Definition
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**Outperform:** the total forecasted return is expected to be greater than the expected total return of the analyst's coverage sector.

**In Line:** the total forecasted return is expected to be in line with the expected total return of the analyst's coverage sector.

**Underperform:** the total forecasted return is expected to be less than the expected total return of the analyst's coverage sector.

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- **Buy**: Return 10% to 20%
- **Neutral**: Return 0% to 10%
- **Cautious**: Return -10% to 0%
- **Sell**: Return < -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

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- **Equal-Weight**: the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
- **Underweight**: the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.

Suspended: the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group’s prior “Overweight,” “Equal-Weight” and “Underweight” ratings were viewed as “Buy,” “Hold” and “Sell,” respectively.

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- **Short**: the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
- **No Position**: the stock is not included in the model portfolio.

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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock’s weight in the portfolio reflects the analyst’s degree of conviction in the stock’s rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal 100%.

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### Evercore ISI rating (as of 07/17/2024)

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### Investment Banking Services I Past 12 Months

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**Price Charts**
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