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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

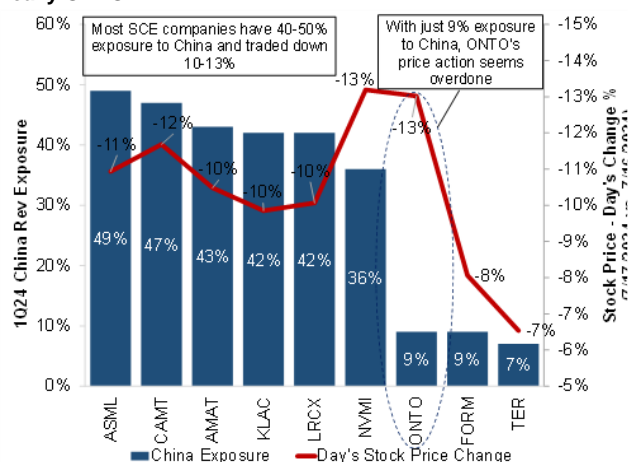
Low Probability of Near-Term Implementation of Stricter FDPR. Most SCE stocks traded down 10-13% as Bloomberg published an article mentioning consideration of FDPR rules on SCE tools selling into China. EvercoreISI policy team views the discussion of more stringent FDPR as an effort to bolster greater 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. [Is Biden About to Make a Move in the Chip Wars?](#)

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](#)

Notable Charts

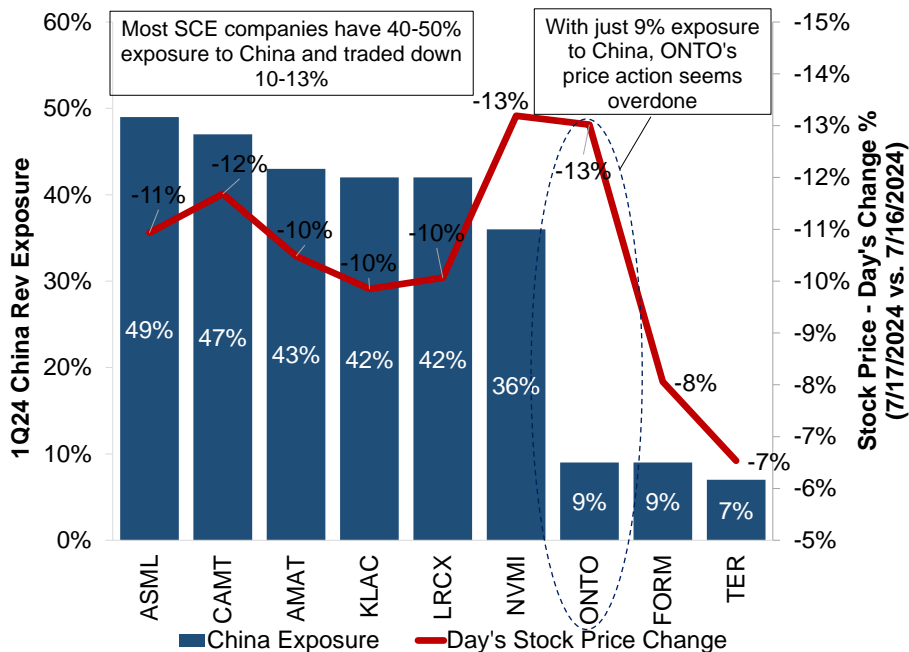
We show most SCE have ~40-50% exposure to China and traded down 10-13% today on concerns for tighter US trade restriction.

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.

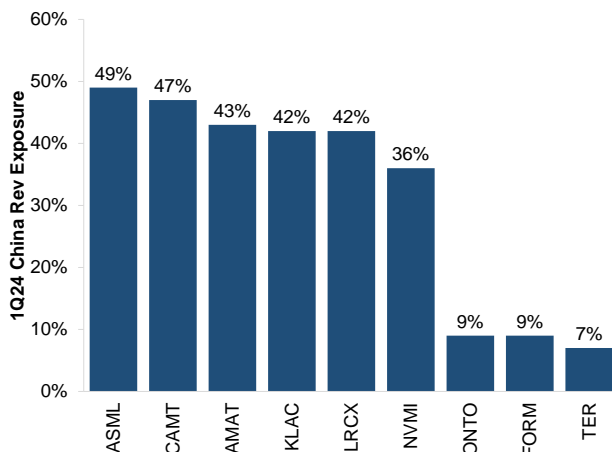
In case of ONTO, we think the price reaction may be overdone, given that ONTO has only ~9% exposure to China in 1Q24.

Figure 1: SCE Stocks Traded Down 10-13%. Unique Buying Opportunity for SCE – Specifically ONTO



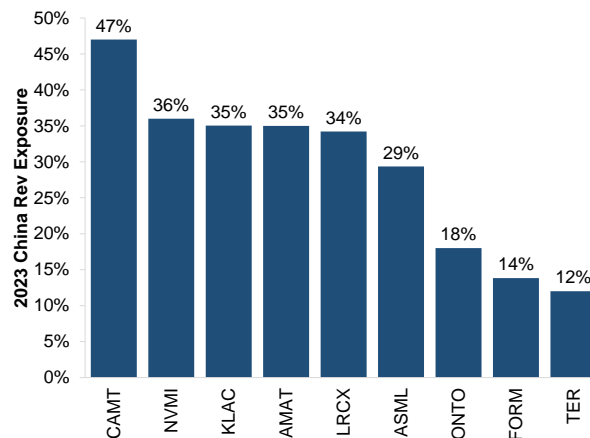
Source: Company Data, Evercore ISI Research, FactSet. **ASML** China Exposure at 49% in 2Q24 as well. As **CAMT** and **NVMI** don't provide quarterly region split, we have assumed 1Q24 to remain flat from 2023 levels.

Figure 2: 1Q24 China Revenue Exposure



Source: Company Data, Evercore ISI Research. **ASML** China Exposure at 49% in 2Q24 as well. As **CAMT** and **NVMI** don't provide quarterly region split, we have assumed 1Q24 to remain flat from 2023 levels.

Figure 3: 2023 China Revenue Exposure



Source: Company Data, Evercore ISI Research

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)e and Article 7 of MAR)**

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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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Ratings	Count	Pct.	Ratings	Count	Pct.
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Hold	303	38	Hold	26	9
Sell	14	2	Sell	0	0
Coverage Suspended	19	2	Coverage Suspended	6	32
Rating Suspended	7	1	Rating Suspended	1	14

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Price Charts

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