

Turning into buyers

April 10, 2025

NVDA: Quiet port in a tariff storm



KC Rajkumar, CFA, PhD

(408) 425-5680

KC@LynxEq.com

*As tariff winds howl across the globe, we think NVDA has in place a carefully crafted strategy to avoid nearly all tariffs, a rare semis company to have achieved that feat. Investors are likely to look beyond the slew of reasons that drove them away from what had been for two years one of the most crowded trades in recent history. We are going to set aside our long-running caution and get onboard NVDA as perhaps the **best idea** in semis while the focus on tariffs lasts.*

Worries over capex cuts at data centers and worries over the impact of DeepSeek are likely to be more than offset as investors dive into the impact tariffs are going to have on US companies and come to conclude that NVDA could be perhaps one of the few tariff-resistant names. And not just because of the USMCA argument. Our view is not dependent on the 'pause' and the shape of the deals that are to come after the pause expires.

*We expect tariffs to have a diverse range of outcome to semis/hardware names. The massive tariffs across US and China, cannot but hurt many US semis/hardware companies. But even the 10% tariff on 'friendly' nations takes a toll. We believe NVDA, with its AI servers sourcing most components outside the US and assembled by system integrators based in Taiwan, has built a multi-layered strategy to avoid **nearly all US tariffs**. As for China's tariffs on US imports, China is hardly likely to subject NVDA to tariffs, given China's continued dependence on NVDA products. NVDA's minimal-tariff status is likely to **boost its multiple** relative to semis peers.*

*Going into NVDA 4Q earnings event in Feb, we were firmly in the negative camp; we anticipated **20-point** downside to the stock from pre-earnings levels ([link](#)). The stock was down 20 points in little over a week. NVDA sell-off may have catalyzed a broader sell-off in Semis and Tech even before tariff worries kicked in.*

*Due to **tariff mitigation plans** NVDA has in place, we are now calling for NVDA to return to recent highs, despite potential downside to data center capex expectations. At 31x to consensus Cy25 eps of \$4.55, we believe NVDA has a path to **\$140 PT**.*

*As part of the NVDA supply chain, we reiterate our preference for **MU at \$125 PT** and **SMCI at \$60 PT**. Although we do not formally cover this hardware company, we expect **DELL**, a supplier of NVDA servers and PCs, also to benefit from tariff mitigation plans.*

--XX--

The Taiwan deal: In a note last week we posited that the semis/electronics sector of Taiwan may have had the elements of a deal in place with the Trump administration even **before** 'liberation day' ([link](#)). "We

don't want to hurt countries that don't need to be hurt, and they all want to negotiate", said President Trump yesterday. We think Taiwan has been in negotiations for some time, there is media reporting on this ([link](#)). TSM CEO's successful meeting with the president in early March was an overt indicator of the success Taiwan was having ([link](#)).

Taiwan – outline of the deal: But even within Taiwan, tariffs may not be felt uniformly across sectors and companies. While details are still a bit murky, we think 1) Taiwan's **raw ICs** imports into the US avoids tariffs, even the basic 10% rate and 2) some Taiwan **headquartered** ODMs may be able to avoid tariffs even if sub-components may have **originated** from China.

Foxconn - a beneficiary of the Taiwan deal: We think Foxconn is putting its balance sheet behind AI and NVDA as it pivots away from handsets and AAPL. Foxconn has had an operation in Tijuana Mexico going back many years. This operation is covered by USMCA tariff exemptions. But how to account for components within the AI servers sourced from China and its 125% tariff rate? The key to the Taiwan deal with the Trump administration, we believe, is to forgo the language of component 'origination' and focus on the system integrator's headquarters. Foxconn is headquartered in Taiwan.

What if Foxconn Mexico loses its tariff-free status? We are aware of Foxconn building a **US-based manufacturing** facility. Our checks show Foxconn is repurposing an old HP/Compaq campus in Houston, TX for manufacturing NVDA AI servers. A classic instance of re-shoring, the Foxconn's new US campus cannot but win approval from President Trump. The Houston facility could take up the slack if Foxconn's Mexico facility was to lose its tariff-free status.

A second source to Foxconn: NVDA has SMCI as a long-established manufacturing partner. Long before US OEMs were thinking of onshoring, SMCI's manufacturing base was established in the US. As such, SMCI shipments face **zero US tariffs**, a happy circumstance NVDA could not have possibly foreseen when NVDA's Jensen first partnered with SMCI's Charles Liang many year ago.

Summary- NVDA's multi-layered strategy to avoid tariffs: 1) Its Taiwan **headquarters** allows Foxconn to avoid US tariffs on China-**originated** components within NVDA servers, thanks to the deal we think Taiwan had in place prior to 'liberation day'. 2) Foxconn's Mexico facility avoids even the basic 10% tariff on Taiwan shipments due to the cover provided by USMCA treaty, 3) Foxconn is building a new US-based manufacturing facility as a backup to the Mexico facility and 4) Just so NVDA is not sole-sourced to Foxconn, NVDA has its long-established partnership with SMCI, which ships to all US customers entirely from US-based manufacturing facility.

Disclosures and Disclaimers

Lynx Equity Strategies, LLC is an independent equity research provider. The Company is not a registered broker dealer or investment adviser. No employee or member of the Company, or immediate family member thereof, exercises investment discretion over securities of any issuer analyzed in this report two days prior and/or two days after this report is issued. It participates in “Alpha Capture Systems” that seeks investment or trading ideas from the sell-side and may pay for the participation based on relative performance.

Limitations of Information

This report has been prepared for distribution to only qualified institutional or professional clients of Lynx Equity Strategies, LLC (the “Company”). The contents of this report represent the views, opinions, and analyses of its authors. The information contained herein does not constitute financial, legal, tax or any other advice. All third-party data presented herein were obtained from publicly available sources which are believed to be reliable; however, the Company makes no warranty, express or implied, concerning the accuracy or completeness of such information. In no event shall the Company be responsible or liable for the correctness of, or update to, any such material or for any damage or lost opportunities resulting from use of this data. Nothing contained in this report or any distribution by the Company should be construed as any offer to sell, or any solicitation of an offer to buy, any security or investment. Any material received should not be construed as individualized investment advice. Investment decisions should be made as part of an overall portfolio strategy and you should consult with a professional financial advisor, legal and tax advisor prior to making any investment decision. Lynx Equity Strategies, LLC shall not be liable for any direct or indirect, incidental or consequential loss or damage (including loss of profits, revenue or goodwill) arising from any investment decisions based on information obtained from Lynx Equity Strategies, LLC. Reproduction and Distribution Strictly Prohibited. No user of this report may reproduce, copy, distribute, sell, resell, transmit, transfer, license, assign or publish the report itself or any information contained therein. This report is not intended to be available or distributed for any purpose that would be deemed unlawful or otherwise prohibited by any local, state, national or international laws or regulations or would otherwise subject the Company to registration or regulation of any kind within such jurisdiction.

Copyright, Trademarks, Intellectual Property

Unless otherwise indicated, all copyrights, trademarks, service marks, logos and other intellectual property included in this report are proprietary materials of Lynx Equity Strategies, LLC and the unauthorized use of such terms, marks, and logos is strictly prohibited. The Company reserves all rights with respect to the intellectual property ownership of all materials in this report and will enforce such rights to the full extent permissible by law.