Panic to Profit: Tariffs Impact on Valuation

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Introduction

Unpacking the impact of tariffs on the global economy and Africa

In April 2025, President Donald Trump implemented a comprehensive new tariff regime, invoking the International Emergency Economic Powers Act (IEEPA) to address a national emergency resulting from sustained U.S trade deficits and non-reciprocal trade practices by foreign nations. This policy established a flat 10% tariff on all U.S imports, with exemptions granted for specific products effective April 5, 2025. Additional individual tariffs were implemented on imports from countries with which the United States has the largest trade deficits, starting from April 9, 2025.

These country-specific tariffs ranged widely from 11% up to 50%, with some African countries, such as Lesotho, Madagascar, and Mauritius, facing rates as high as 50%. Others, like Nigeria, were subjected to a 14% tariff on most exports, excluding crude oil and gas. In response to these challenges, businesses are actively looking to diversify their supply chains or relocate operations to regions that are not subject to these tariff measures to remain competitive.

For Africa, the impact has been particularly profound. Nearly all African countries have been affected by the tariffs due to their reliance on exports to the U.S., with at least 22 countries facing tariffs of up to 50% on all their products.

Export-focused businesses in Africa may face diminished access to global markets, making the diversification of trade partnerships even more critical. In response to U.S. tariffs, some African countries have suspended duties on American imports to ease tensions, while others remain engaged in ongoing trade negotiations with the United States.

To mitigate tariffs' effect, the African Development Bank (AfDB) has encouraged African countries to diversify export markets, reduce dependency on any single partner, and accelerate the African Continental Free Trade Area implementation to unlock the potential $3.4 trillion market to build regional value chains and reduce reliance on external markets.

Africa must also invest in local production and implement policies that shield vulnerable sectors from external shocks. Several African countries have used import tariffs to support domestic industries. For instance, Nigeria has historically imposed various levies and duties on key sectors and products such as rice, tomato paste, and cement to boost the competitiveness of local industries.

During our recent webinar on "The Impact of Tariffs on Valuation", Mr. Rasheed Sarumi of Saroafrica International Limited noted that Nigeria's tariff policy is primarily designed to encourage local production and reduce reliance on imports. However, he also emphasised that international tariffs and global benchmark prices still influence local production, particularly in sectors like cassava and ethanol, where global pricing dynamics directly affect the profitability and pricing of domestically produced goods.

Source: AFDB, *US department of commerce and KPMG research*

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Tariffs and value

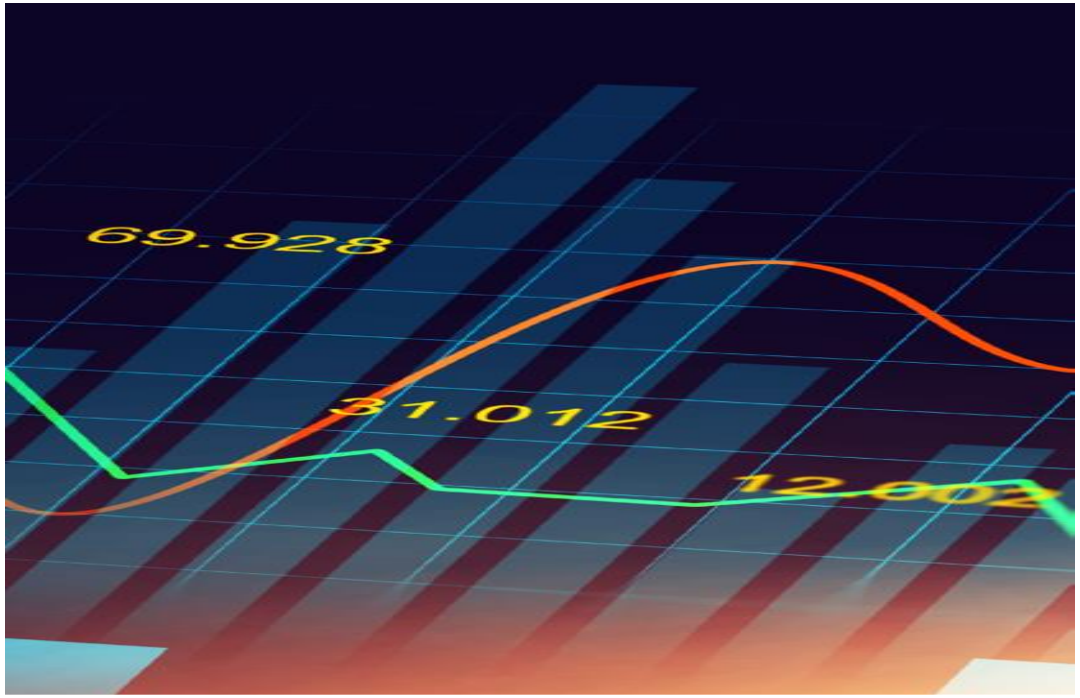
Capital market reaction to the tariff

Tariff announcements have impacts on stock markets and the economy. On April 2, 2025, the U.S. announced a set of “Liberation Tariffs” triggering volatility across global markets. Within three days of this announcement, the S&P 500 declined by 12%.

The African stock market was not left out of this impact as the Johannesburg Stock Exchange (JSE) experienced an 8.5% drop in its All Share Index within two days. The Nigerian Exchange (NGX) All Share Index experienced a decline of 1.2%, while the Nairobi Securities Exchange (NSE) All Share Index fell by 3.6% within a week of the tariff announcement. Although tariff announcements might not be the only factors influencing share price movements, significant changes in pricing reflect investor reactions to trade policies, especially for export-oriented companies.

While the volatility of share prices during the April 2025 tariff announcement has decreased, recent months have shown that businesses and investors need to understand how current and future tariffs affect business fundamentals and valuations.

Given the fluctuations in share prices that result from tariff announcements, it is advisable not to rely on a single valuation method. Instead, it is recommended to estimate values by triangulating different valuation approaches, such as the discounted cash flow method, comparable trading multiples, and transaction multiples etc.



Key considerations and recommendations : Income approach

Forecast assumption

Key considerations

- Tariffs can reduce sales volumes by making goods less competitive or more expensive.
- Many companies have international supply chains that utilise intermediate or final products manufactured in other countries. Disruptions caused by various tariffs can reduce a company's profitability by increasing inventory costs. This can result in the need to hold more stock for longer periods and can also lengthen the working capital cycle.

Recommendations

In our latest webinar, Mr. David Brown of DBrown Consulting emphasised the following:

- Businesses should prioritise leading, forward-looking insights over historical assumptions when making projections.
- Assessing volume forecasts and market studies to incorporate tariff assumptions, especially for export-oriented businesses.
- In addition, capex projections should account for potential investments in local production facilities or supply chain adjustments in response to tariffs.
- Working capital assumptions should reflect longer inventory holding periods and potential supply chain delays.
- Incorporate sensitivity and scenario analysis into the financial forecast.
- Alternative scenarios that consider the reduction or increase of tariffs should be included in the financial forecast to avoid basing critical decisions on potentially unsustainable profit levels. This approach is necessary to ensure that critical decisions are not made based on potentially unsustainable profit levels.

Discount rate assumption

Key considerations

- Increased macroeconomic risks facing export-oriented businesses could intensify scrutiny on highly leveraged companies. Beyond the increased refinancing risk, the combination of business and financial risks amplifies the impact of current uncertainties.
- Providers of finance may demand higher returns from businesses impacted by tariffs, effectively increasing cost of debt for such businesses.
- Hence, tariffs can increase business and market risk, which may cause key discount rate components such as cost of equity, cost of debt, beta and expected market risk returns to fluctuate.

Recommendations

- **Careful assessment in the selection of the risk-free rate:** Consider using long-term, liquid bonds where available. Where such bonds are not available, apply a build-up approach using the risk-free rate of a matured market, such as the U.S.
- **Review the methodology used in calculating beta:** A five-year beta may be preferable to a one-year beta as it can help smooth out short-term fluctuations and reduce “noise” in the data.
- Consider applying a company-specific discount (alpha) to the estimated discount rate for export-oriented companies with tariff exposure.

Key considerations and recommendations : Market approach

Key considerations

- Tariff news can create volatility in the share prices of companies, particularly those that are exporters. This volatility can also lead to fluctuations in trading multiples that may not accurately reflect long-term fundamentals. Initial market reactions to tariffs can sometimes be exaggerated, temporarily inflating or suppressing these multiples.
- Many African countries lack deep and liquid capital markets, which limits the availability of publicly listed comparable companies for valuation purposes. When there are not enough local comparable companies, valuation professionals often broaden their search to include comparable companies listed in other African countries and, in some cases, emerging markets outside of Africa. However, varying exposures to tariffs can distort the valuations of companies in those countries, affecting the valuation multiples for companies operating there.

Recommendations

- The universe of comparable companies must be carefully selected. Comparable companies should have similar supply chain structures and geographic reach, and tariff exposure.
- Consider categorising transaction multiples into pre-tariff and post-tariff periods to observe potential trends.
- The earning base should be carefully adjusted or normalised where necessary. For example, if a company was previously impacted by tariff related costs that have since been reversed, appropriate adjustments should be made to reflect a more sustainable earnings profile.

Other valuation considerations 1/2

01
Valuation date

Valuations are conducted at a specific date, which raises the question of what information should be included based on what was known or available at that time. This necessitates an examination of the timeline of events that occurred both before and after the valuation date.

02
Company valuations

The direct effects of tariffs on a company's performance and the indirect effects from the perception of increased risk will tend to reduce valuation.

03
Terminal value

If short-term cash flows are reduced, terminal value calculations are likely to be a greater proportion of the overall value. Given the uncertainty regarding amounts to be realised further in the future, increased scrutiny of such values will be important.

More consideration needs to be given to the assumptions embedded in the long term "normalised" situation after the current uncertainties stabilise, as developments during the explicit projection period may or may not change some important business dynamics for the company being valued.

04
Accounting effects

The tariffs are expected to have wide-ranging effects on a company's accounting, including potential asset and investment impairments, higher expected credit losses (ECLs), going concern risks, recovery of deferred tax assets, etc., with related disclosure requirements.

05
Valuation range

Given the uncertainty, the range of values of an asset or company may be wider than normal.

06
Corporate transactions

The tariffs are likely to lead to delays or the abandonment of M&A transactions or even new or renewed financing arrangements. Existing M&A and financing processes are seeing increased time spent on due diligence as counterparties seek comfort on the effects of tariffs.

On the other hand, this might be a catalyst for deals to gain access to certain markets and establish a direct footprint to avoid tariffs, e.g. to secure a US manufacturing footprint.

Other valuation considerations 2/2

07 Investment plans

Companies with significant investment plans have to consider the effects of tariffs on the expected profitability of such capital expenditures. Those companies may delay such plans to better understand the long-term tariff outcome. Delays like these, adopted cumulatively across many companies, may reduce economic growth and contribute to recession risks.

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08 Caveats

Given the level of uncertainty, valuations may contain caveats similar to this: Our valuation opinion is based on prevailing market, economic, and other conditions at the valuation date and corresponds with a period of significant volatility in global financial markets and widespread macroeconomic uncertainty. To the extent possible, we have reflected these conditions in our valuation.

However, the factors driving these conditions can change over relatively short periods of time. The impact of any subsequent changes in these conditions on the global economy and financial markets generally, could impact upon value in the future, either positively or negatively.

Greater efforts required to understand clients' plans

- The financial statements alone may not reveal how a business is adapting to a tariff regime.
- Tariffs can drive businesses to explore alternative strategies such as substituting imported inputs, renegotiating supplier contracts, or investing in backward integration to strengthen local supply chains.
- Hence, a comprehensive understanding of a company's commercial plans is a critical factor in any valuation, especially in such an evolving situation.

Conclusion

Tariff regimes continue to influence global business dynamics, international relations, and policy decisions. For valuation professionals, it is crucial to understand how these tariffs impact key valuation inputs such as cash flows, discount rates, market multiples, and comparable transactions.

In businesses that are affected by tariffs, scenario analyses should be performed to forecast potential outcomes in the short to medium term. The risks associated with these scenarios should result in adjustments to the discount rate and be accompanied by clearly articulated caveats to ensure that advisory opinions are robust and well-informed.

How KPMG can help

- **Reliable independent valuations:**
  We provide board-ready advice throughout the deal cycle, delivering fairness opinions, as well as accounting, tax and regulatory valuations, all of which can withstand scrutiny from investors, auditors and regulators.
- **Financial modelling and scenario analysis fit for decision-making purposes:**
  We combine in-depth sector knowledge with advanced analytics, simulation tools and visualisation techniques to model various tariff scenarios and assess the impact on cash flows, cost of capital and enterprise value.
- **Strategic support focused on value:**
  Whether you are financing growth, navigating restructuring, resolving disputes, or setting up value-based management systems, we help you unlock, protect, and maximise value across your organisation.

Key contacts

Ijeoma Emezie-Ezigbo
Partner & Head,
Transaction Services
Deal Advisory
KPMG West Africa
E: ijeoma.emezie-ezigbo@ng.kpmg.com

Heather Carswell
Partner & Head,
Valuations
Deal Advisory
KPMG Southern Africa
E: heather.carswell@kpmg.co.za

Gbolahan Ashagbe
Associate Director & Head,
Valuations
Deal Advisory
KPMG West Africa
E: gbolahan.ashagbe@ng.kpmg.com

Evans Asare
Partner & Head,
Deal Advisory,
KPMG West Africa
E: easare@kpmg.com

Oluwole Adelokun
Partner,
Strategy & Customer Solutions,
KPMG West Africa
E: oluwole.adelokun@ng.kpmg.com

Amos Donkor
Associate Director,
Deal Advisory,
KPMG West Africa
E: adonkor@kpmg.com

David Brown
Managing Partner,
Dbrown Consulting

Contributors (KPMG West Africa)

Segun Adewumi
Assistant Manager
Deal Advisory

Bukola Olarewaju
Experienced Analyst
Deal Advisory

Fatai Shuaib
Associate
Research & Insights

Gloria Arogundade
Analyst
Deal Advisory

Olugbemileke Olushuyi
Experienced Analyst
Deal Advisory

Festus Ogunbayo
Analyst
Research & Insights

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