Action | Citi Research

16 Jul 2026 09:16:42 ET | 20 pages

TSMC (2330.TW)

AI demand keeps accelerating; Upside surprise on further capex increase

CITI'S TAKE

TSMC delivered another strong quarter with 2Q26 revenue of US$40.2bn (+12% QoQ, +34% YoY) and guiding 3Q26 revenue to US$44.6–45.8bn, implying another ~12% sequential increase. More importantly, management repeatedly emphasized that AI demand has become even stronger than previously expected. 2026 Capex is lifted to US$60–64bn as AI demand is broadening beyond GPUs to include CPUs, custom ASICs and networking silicon, reinforcing confidence in 2026 revenue growth of above 40% YoY. Importantly, management stressed that it evaluates CSP deployment schedules, power availability and data-center construction before expanding capacity, supporting confidence that current AI demand represents real deployment rather than inventory build. Reiterate Buy.

The lifted guidance and capex driven by higher demand and inflationary pricing environment — Despite aggressively raising 2026 capex, management acknowledged that supply will likely remain tight for years. TSMC highlighted that AI-related demand spans CPUs, GPUs/XPUs, requiring continuous balancing of wafer allocation across customers. TSMC reinforced that leading-edge capacity expansion remains entirely demand driven rather than competitively motivated. At the same time, TSMC announced additional US$100bn investment in Arizona, with total investment to reach US$265bn in the coming years. Management reiterates that customer engagement begins several years before production, making foundry partnerships fundamentally different from commodity manufacturing. Capacity planning relies on extensive collaboration with customers, balanced with TSMC's own judgment rather than simply aggregating optimistic customer forecasts.

Tight AI semiconductor to continues; welcome alternative packaging technology — TSMC reaffirmed that N2-family capacity could grow more than 70% CAGR from 2026–2028, while N3 capacity also continues expanding rapidly to support advanced AI products. Advanced packaging remains the key bottleneck, particularly CoWoS, remains severely supply constrained and is currently limiting customer shipments. TSMC is accelerating backend capacity while welcoming alternatives such as Intel's EMIB, which could be beneficial for TSMC's wafer foundry business and without threatening TSMC's front-end foundry leadership.

Reiterate Buy — We keep our TP NT$3,800 unchanged (25x of 2027 EPS) with Buy.

Earnings Summary

Year to 31 Dec	Net Profit (NT$M)	Diluted EPS (NT$)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2024A	1,173,268	45.24	39.9	54.6	14.9	30.3	0.6
2025A	1,717,883	66.24	46.4	37.3	11.8	35.4	0.7
2026E	2,871,487	110.73	67.2	22.3	8.5	44.2	1.1
2027E	3,940,141	151.93	37.2	16.3	6.3	44.3	2.0
2028E	5,374,291	207.24	36.4	11.9	4.6	44.6	2.7

Source: Powered by dataCentral

Buy

Catalyst Watch: Upside, expires 03-AUG-26

Price (16 Jul 26 13:30)	NT$2,470.00
Target price	NT$3,800.00
Expected share price return	53.8%
Expected dividend yield	2.0%
Expected total return	55.9%
Market Cap	NT$64,052,954M
	US$2,005,352M

Price Performance (RIC: 2330.TW, BB: 2330 TT)

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2330.TW: Fiscal year end 31-Dec

Price: NT$2,470.00; TP: NT$3,800.00; Market Cap: NT$64,052,954m; Recomm: Buy

Profit & Loss (NT$m)	2024	2025	2026E	2027E	2028E
Sales revenue	2,894,308	3,809,054	5,557,456	7,612,493	10,334,364
Cost of sales	-1,269,954	-1,527,760	-1,831,089	-2,393,431	-3,236,962
Gross profit	1,624,354	2,281,294	3,726,366	5,219,062	7,097,403
Gross Margin (%)	56.1	59.9	67.1	68.6	68.7
EBITDA (Adj)	**1,984,850**	**2,624,188**	**4,177,580**	**5,847,207**	**7,822,719**
EBITDA Margin (Adj) (%)	68.6	68.9	75.2	76.8	75.7
Depreciation	-662,797	-688,096	-907,283	-1,275,986	-1,602,135
Amortisation	0	0	0	0	0
EBIT (Adj)	**1,322,053**	**1,936,092**	**3,270,296**	**4,571,221**	**6,220,583**
EBIT Margin (Adj) (%)	45.7	50.8	58.8	60.0	60.2
Net interest	67,781	86,206	102,573	176,451	257,308
Associates	828	2,546	2,000	2,000	2,000
Non-Op/Except/Other Adj	15,176	16,819	92,722	38,062	51,672
Pre-tax profit	**1,405,839**	**2,041,663**	**3,467,591**	**4,787,734**	**6,531,563**
Tax	-233,407	-326,266	-596,599	-850,153	-1,160,765
Extraord./Min.Int./Pref.div.	836	2,486	495	2,560	3,492
Reported net profit	**1,173,268**	**1,717,883**	**2,871,487**	**3,940,141**	**5,374,291**
Net Margin (%)	40.5	45.1	51.7	51.8	52.0
Core NPAT	1,173,268	1,717,883	2,871,487	3,940,141	5,374,291
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Reported EPS ($)	45.24	66.24	110.73	151.93	207.24
Core EPS ($)	45.24	66.24	110.73	151.93	207.24
DPS ($)	14.00	18.00	27.63	49.75	65.48
CFPS ($)	73.46	93.95	126.93	199.17	266.02
FCFPS ($)	36.60	44.88	51.86	106.24	161.91
BVPS ($)	165.37	208.98	292.08	394.26	536.01
Wtd avg ord shares (m)	25,934	25,933	25,933	25,933	25,933
Wtd avg diluted shares (m)	25,934	25,933	25,933	25,933	25,933
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue (%)	33.9	31.6	45.9	37.0	35.8
EBIT (Adj) (%)	43.5	46.4	68.9	39.8	36.1
Core NPAT (%)	39.9	46.4	67.2	37.2	36.4
Core EPS (%)	39.9	46.4	67.2	37.2	36.4
Balance Sheet (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Cash & cash equiv.	2,127,627	2,767,856	3,647,049	5,156,956	7,297,559
Accounts receivables	272,088	281,791	649,716	756,322	1,023,840
Inventory	287,869	288,109	478,000	554,567	748,174
Net fixed & other tangibles	3,235,771	3,691,841	4,524,195	5,654,033	7,168,157
Goodwill & intangibles	0	0	0	0	0
Financial & other assets	769,374	903,426	1,206,858	1,338,645	1,663,315
Total assets	**6,692,729**	**7,933,024**	**10,505,820**	**13,460,522**	**17,901,045**
Accounts payable	74,227	84,330	115,601	117,040	172,365
Short-term debt	59,858	136,926	184,064	226,267	283,109
Long-term debt	958,429	896,062	896,062	896,062	896,062
Provisions & other liab	1,275,849	1,354,911	1,693,872	1,952,416	2,601,214
Total liabilities	**2,368,362**	**2,472,229**	**2,889,599**	**3,191,785**	**3,952,750**
Shareholders' equity	4,288,545	5,419,596	7,574,527	10,224,483	13,900,547
Minority interests	35,031	41,199	41,694	44,255	47,747
Total equity	**4,323,576**	**5,460,795**	**7,616,221**	**10,268,737**	**13,948,295**
Net debt (Adj)	**-1,109,340**	**-1,734,869**	**-2,566,923**	**-4,034,627**	**-6,118,388**
Net debt to equity (Adj) (%)	-25.7	-31.8	-33.7	-39.3	-43.9

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	54.6	37.3	22.3	16.3	11.9
PB (x)	14.9	11.8	8.5	6.3	4.6
EV/EBITDA (x)	31.7	23.7	14.7	10.3	7.5
FCF yield (%)	1.5	1.8	2.1	4.3	6.6
Dividend yield (%)	0.6	0.7	1.1	2.0	2.7
Payout ratio (%)	31	27	25	33	32
ROE (%)	30.3	35.4	44.2	44.3	44.6
Cashflow (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA	1,984,850	2,624,188	4,177,580	5,847,207	7,822,719
Working capital	68,257	27,877	-487,017	-50,975	-77,672
Other	-147,949	-215,723	-398,810	-631,080	-846,293
Operating cashflow	**1,905,157**	**2,436,342**	**3,291,753**	**5,165,152**	**6,898,754**
Capex	-956,007	-1,272,411	-1,946,765	-2,410,000	-2,700,000
Net acq/disposals	74,369	122,881	351,914	255,374	-99,832
Other	0	0	0	0	0
Investing cashflow	**-881,638**	**-1,149,530**	**-1,594,851**	**-2,154,626**	**-2,799,832**
Dividends paid	-363,055	-466,779	-716,556	-1,290,185	-1,698,226
Financing cashflow	**-313,242**	**-590,737**	**-668,428**	**-1,242,861**	**-1,634,399**
Net change in cash	**627,147**	**615,273**	**937,546**	**1,676,736**	**2,373,594**
Free cashflow to s/holders	**949,151**	**1,163,931**	**1,344,988**	**2,755,152**	**4,198,754**

For definitions of the items in this table, please click here.

Pricing Discipline Preserves Long-Term Relationship — Despite that overseas fabs and N2 ramp will dilute GM, these headwinds are largely offset by stronger advanced-node utilization and manufacturing efficiencies. With 2Q26 gross margin reaching 67.7%, advanced technologies already accounting for 77% of wafer revenue, and 2nm contributing revenue for the first time, TSMC remains well positioned to sustain industry-leading profitability while supporting long-term AI growth. TSMC reiterated that it will not maximize short-term pricing at the expense of customer relationships. We believe TSMC's GM outlook remains resilient thanks to its better efficiency and looking for constructive pricing trend ahead.

Solid position with long term order visibility, reiterate Buy — Reflecting its robust growth trend, better profitability and solid competitive landscape, we lift our earnings projection by 4%/2%/4% for 2026/2027/2028. We keep our TP NT$3,800 unchanged (25x of 2027 EPS estimate), reiterate Buy.

AI Demand Remains the Core Growth Engine, Supporting a Multi-Year Expansion

Key TSMC earnings call recap

- **3Q26 guidance**
  - Sales: US$44.6-45.8bn (+12% QoQ at the mid-point)
  - GPM: 65-67% (assuming USDTWD=32)
  - OPM: 56-58%
- **2026 full-year & long-term guidance**
  - **Full year sales**: raise 2026 full-year USD-based sales guidance from more than 30% growth to **>40% growth**
  - **Full year capex**: Driven by scaling AI demand across AI accelerator, networking and CPU as well as inflationary cost, TSMC raise 2026 capex from US$52-56bn to **US$60-64bn** (70-80% advanced process, 10% specialty, 10-20% for advanced packaging, testing and masks)
  - **US investment**
    - TSMC adds additional US$100bn investment for its US Arizona expansion (total investment amount to reach US$265bn)
  - **GM outlook**
    - 2H26 GM to be supported by continued productivity improvement, UTR enhancement and optimizing capacity allocation
    - N2 ramping in 2H26 to have 3-4ppts GM impact in 2H26
    - Oversea fabs expansion to impact GM by 2-3ppts in early stage and 3-4ppts in later stage
  - **Long-term outlook**

- **5-year AI sales CAGR** (2024-2029) remains at high-50%

- **Mature node comment**
  - TSMC will continue to focus on supporting customer's demand, especially for the specialty process in mature node. In JSMC and ESMC fabs, it will continue to increase its mature node capacity to support the local demand

- **A14 family process node development**
  - A14 is the second generation of nanosheet transistor. Compared to N2, A14 provides 10-15% speed improvement, or 25-30% power consumption improvement, or 20% chips density gains. Strong interest from HPC and smartphone customers. Volume production is scheduled in 2028
  - A13/A12 as the extension of A14 family. A13 achieves >6% die area saving. Both A13 and A12 are scheduled to volume production in 2029

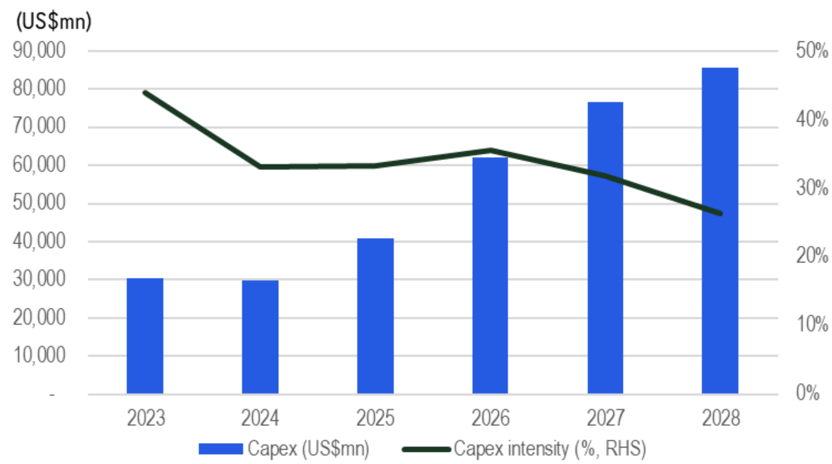
- **2Q26 sales mix by node**
  - 2nm: 3% (vs. 0% in 1Q26)
  - 3nm: 30% (vs. 25% in 1Q26)
  - 5nm: 33% (vs. 36% in 1Q26)
  - 7nm: 11% (vs. 13% in 1Q26)
  - Advanced node (<7nm): 77% (vs. 74% in 1Q26)

- **2Q26 sales by applications**
  - HPC (66% of sales), +20 QoQ
  - Mobile (22%), -4% QoQ
  - IoT (5%), +4% QoQ
  - Auto (4%), +15% QoQ
  - DCE (1%), +5% QoQ

TSMC previously guided its 2026 capex at US$52-56bn in the beginning of the year, and lifted it to the high-end of the guidance in April. And now further upgrade 2026 capex to US$60-64bn with much bigger cycle into next few years

Once again it delivers solid visibility on AI development, emphasizing that customer demand continues to exceed expectations and has strengthened further since the beginning of the year. Management deliberately refrained from raising its previously announced five-year AI accelerator CAGR guidance (high-50% CAGR), not because demand has weakened, but because the current outlook is already materially above the original assumptions. Importantly, TSMC sees the AI semiconductors beyond GPUs to include CPUs, custom AI ASICs, networking chips, and other AI accelerators, indicating that the AI ecosystem is becoming much more diversified. While investors remain concerned about power availability and data-center construction potentially slowing deployment, **TSMC stated that it closely tracks customers' AI infrastructure buildouts — including power, site construction and deployment schedules — before committing capacity.** Management therefore remains confident that semiconductor demand will continue to translate into actual deployments rather than idle inventories.

Figure 1. TSMC - Capex intensity trend



Source: Citi Research

Advanced Node Capacity Expansion Accelerates as N3 and N2 Stay Fully Utilized

Despite aggressively raising 2026 capital spending, management acknowledged that supply will likely remain tight for years. TSMC reaffirmed that N2 family capacity is expected to expand at 70% CAGR between 2026 and 2028 or higher, while the N3 family continues growing at an exceptionally strong pace as more AI products migrate toward advanced nodes (see our report of TSMC (2330.TW) - Scaling growth through technology, packaging and capacity). TSMC announced an additional US$100bn investment in Arizona, with total investment to reach US$265bn in the coming years.

Advanced Packaging Remains the Primary Bottleneck Despite Aggressive Investment

Investors were also concerned about potential competition from EMIB-T in advanced packaging (see our report of TSMC (2330.TW) - Competitive Landscape Holding Steady). While wafer fabrication continues expanding rapidly, TSMC acknowledged that advanced packaging remains the industry's biggest bottleneck. CoWoS capacity is still unable to fully satisfy customer demand, prompting the company to significantly increase backend investment while simultaneously welcoming alternative packaging technologies that can improve overall ecosystem flexibility. Looking ahead, TSMC confirmed that larger CoWoS formats continue progressing beyond current reticle limits to support increasingly complex AI systems. The company is also working on different variants of advanced packaging, yet CoWoS remains as today's mainstream solution, while alternative approaches are under active development with substrate partners. Pilot production lines are currently being established, with management expecting roughly another year of maturation before customer production becomes feasible. Despite TSMC not disclosing packaging capex because frontend, packaging and testing investments continually shift depending on evolving manufacturing bottlenecks, advanced packaging investment will remain elevated for several years.

Pricing Discipline Supports Sustainable Gross Margins Rather Than Short-Term Maximization

On profitability, TSMC presented a remarkably disciplined philosophy despite operating in one of the industry's strongest demand environments. Although investors questioned why foundry GM should trail those recently reported by leading memory manufacturers, management made clear that maximizing short-term margins is not the company's objective. Instead, TSMC aims to earn sufficient returns to continuously reinvest in technology leadership and capacity expansion while ensuring customers to remain competitive. As advanced-node complexity increases and AI demand remains robust, we believe TSMC's pricing power will naturally strengthen, we therefore expect TSMC's GM should remain resilient supported by favorable product mix, advanced-node migration, and premium packaging technologies despite the dilution from the most advanced node ramp-up and overseas dilution.

Solid position with long term order visibility, reiterate Buy

Overall, the company's message was unequivocal: AI demand remains significantly stronger than supply, advanced-node utilization should remain exceptionally high across both N3 and N2, advanced packaging will continue constraining industry growth, and TSMC's disciplined investment, pricing and technology strategies position it to sustain leadership throughout the remainder of this decade.

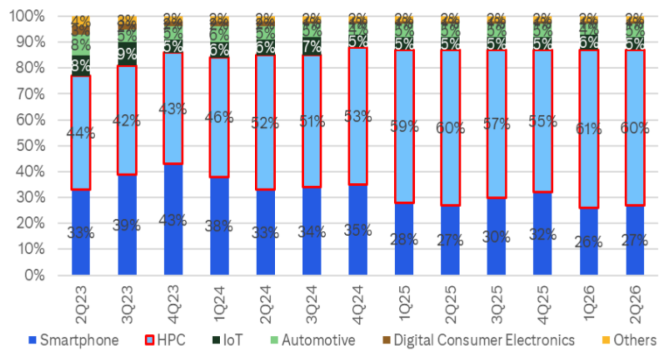
Reflecting its robust growth trend, better profitability and solid competitive landscape, we lift our earnings projection by 4%/2%/4% for 2026/2027/2028. We also lift our capex to US$62bn/77bn/86bn for 2026/2027/2028. We keep our TP NT$3,800 unchanged (25x of 2027 EPS estimate), reiterate Buy.

Figure 2. TSMC – 2Q26 results comparison

(NT$mn)	2Q26 Actual	1Q26 Actual	Q/Q	2Q26 Guidance	2Q26 Citi	Diff.	2Q26 Cons	Diff.	3Q26 Guidance	Citi Prior Est.	Cons Prior Est.
Revenue	1,270,381	1,134,103	12%	US$39-40.2bn	1,239,647	2%	1,264,538	0%	US$44.6-45.8bn	1,454,424	1,375,834
Gross profit	860,311	751,295	15%		832,158	3%	846,140	2%		980,602	902,134
Gross margin	67.7%	66.2%	+1.5 ppt	65.5-67.5%	67.1%	+0.6 ppt	66.9%	+0.8 ppt	65-67%	67.4%	65.6%
Op. profit	766,603	658,966	16%		720,590	6%	740,699	3%		847,680	786,801
OP margin	60.3%	58.1%	+2.2 ppt	56.5-58.5%	58.1%	+2.2 ppt	58.6%	+1.8 ppt	56-58%	58.3%	57.2%
Net income	706,562	572,480	23%		600,573	18%	618,678	14%		731,482	678,000
EPS (NT$)	27.25	22.08	23%		23.16	18%	23.91	14%		28.21	26.25

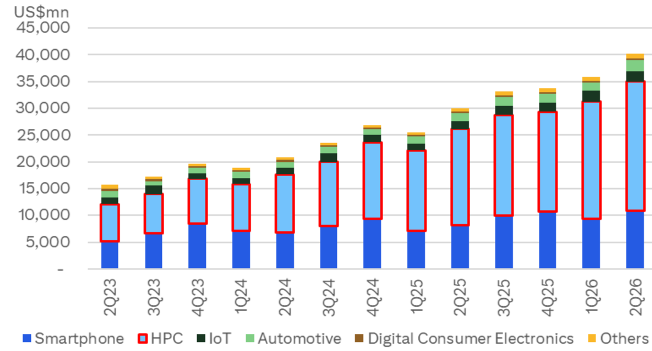
Source: Citi Research, Bloomberg, Company Reports

Figure 3. TSMC – Sales Mix by Platform



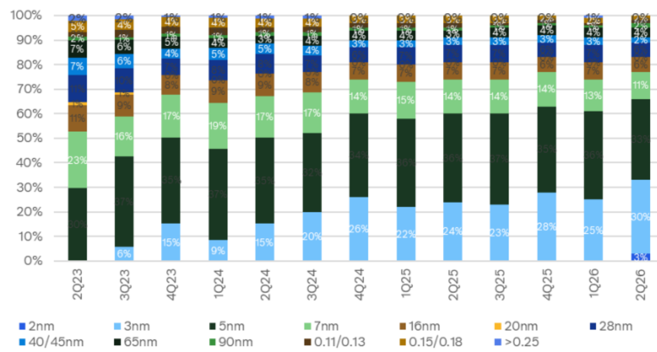
Source: Citi Research

Figure 4. TSMC – Sales by Platform



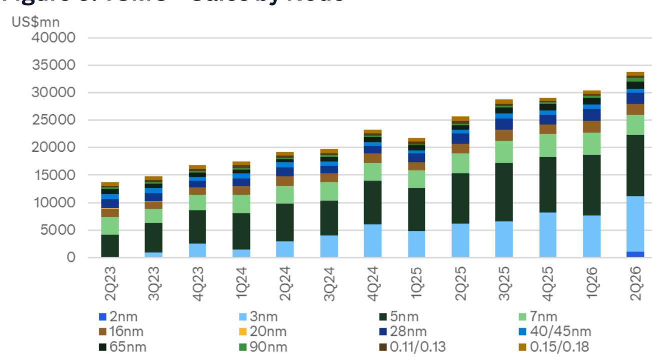
Source: Citi Research

Figure 5. TSMC – Sales Mix by Node



Source: Citi Research, company data

Figure 6. TSMC – Sales by Node



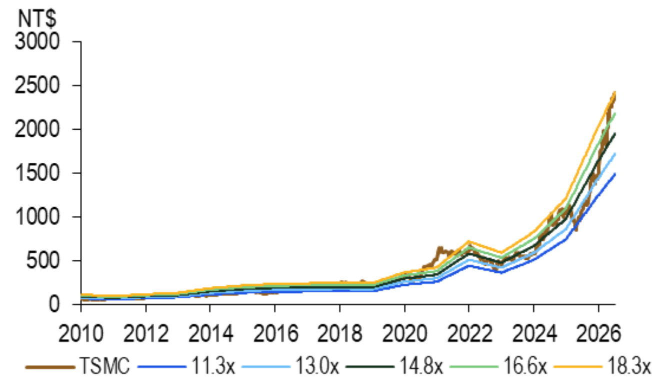
Source: Citi Research, company data

Figure 7. TSMC – Estimates Revisions

	2026E			2027E			2028E		
(NT$mn)	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.
Sales	5,557,456	5,494,192	1.2%	7,612,493	7,599,082	0.2%	10,334,364	10,069,949	2.6%
YoY growth	45.9%	44.2%		37.0%	38.3%		35.8%	32.5%	
Gross profit	3,726,366	3,689,713	1.0%	5,219,062	5,136,615	1.6%	7,097,403	6,833,525	3.9%
Opex	456,070	478,431	-4.7%	647,841	665,749	-2.7%	876,819	883,046	-0.7%
Operating profit	3,270,296	3,211,282	1.8%	4,571,221	4,470,866	2.2%	6,220,583	5,950,480	4.5%
Pre-tax profit	3,467,591	3,340,143	3.8%	4,787,734	4,683,755	2.2%	6,531,563	6,251,579	4.5%
Net income	2,871,487	2,752,835	4.3%	3,940,141	3,855,921	2.2%	5,374,291	5,145,557	4.4%
EPS (NT$)	110.73	106.15	4.3%	151.93	148.69	2.2%	207.24	198.42	4.4%
Gross margin	67.1%	67.2%	-0.1 ppt	68.6%	67.6%	+1.0 ppt	68.7%	67.9%	+0.8 ppt
Opex ratio	8.2%	8.7%	-0.5 ppt	8.5%	8.8%	-0.3 ppt	8.5%	8.8%	-0.3 ppt
Operating margin	58.8%	58.4%	+0.4 ppt	60.0%	58.8%	+1.2 ppt	60.2%	59.1%	+1.1 ppt
Net margin	51.7%	50.1%	+1.6 ppt	51.8%	50.7%	+1.0 ppt	52.0%	51.1%	+0.9 ppt

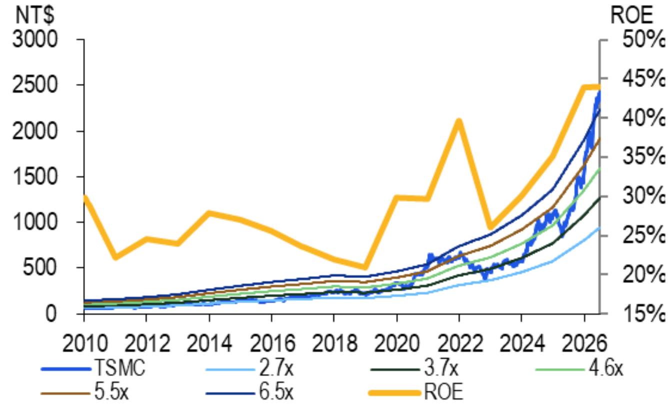
Source: Citi Research

Figure 8. TSMC – Forward P/E band



Source: Citi Research, company data

Figure 9. TSMC – Forward P/B band & ROE



Source: Citi Research, company data

Figure 10. TSMC – Forecast Summary

	2025				2026				2027							
Unit: NT$bn	*1Q*	*2Q*	*3Q*	*4Q*	*1Q*	*2Q*	*3QE*	*4QE*	*1QE*	*2QE*	*3QE*	*4QE*	*2025*	*2026E*	*2027E*	*2028E*
Revenue	839.3	933.8	989.9	1,046.1	1,134.1	1,270.4	1,459.1	1,693.9	1,764.1	1,931.7	1,944.9	1,971.8	3,809.1	5,557.5	7,612.5	10,334.4
COGS	-345.9	-386.4	-401.4	-394.1	-382.8	-410.1	-485.5	-552.8	-548.9	-615.4	-613.9	-615.3	-1,527.8	-1,831.1	-2,393.4	-3,237.0
Gross Profit	493.4	547.4	588.5	652.0	751.3	860.3	973.6	1,141.2	1,215.2	1,316.3	1,331.0	1,356.5	2,281.3	3,726.4	5,219.1	7,097.4
Operating Expense	-85.2	-84.5	-87.8	-88.2	-94.0	-99.0	-126.1	-144.0	-146.7	-160.3	-163.4	-177.5	-345.2	-456.1	-647.8	-876.8
SG&A expenses	*-28.6*	*-23.2*	*-24.0*	*-23.3*	*-26.2*	*-25.8*	*-32.1*	*-42.3*	*-40.8*	*-44.4*	*-42.8*	*-49.3*	*-99.2*	*-126.5*	*-177.3*	*-238.1*
R&D expenses	*-56.5*	*-61.3*	*-63.7*	*-64.9*	*-67.8*	*-73.1*	*-94.0*	*-101.6*	*-105.8*	*-115.9*	*-120.6*	*-128.2*	*-246.4*	*-336.5*	*-470.5*	*-638.7*
EBIT	407.1	463.4	500.7	564.9	659.0	766.6	847.6	997.2	1,068.5	1,156.0	1,167.6	1,179.1	1,936.1	3,270.3	4,571.2	6,220.6
Net Interest Income	19.8	20.3	21.3	24.8	23.8	22.9	26.3	29.6	37.6	41.8	46.1	51.0	86.2	102.6	176.5	257.3
Net Other Income	4.0	9.4	3.4	2.6	5.1	72.9	7.8	9.0	9.3	10.2	10.2	10.4	19.4	94.7	40.1	53.7
Pre Tax Profit	430.9	493.0	525.4	592.4	687.8	862.4	881.6	1,035.7	1,115.5	1,208.0	1,223.9	1,240.4	2,041.7	3,467.6	4,787.7	6,531.6
Tax Expense/(Credit)	70.2	95.5	73.6	86.9	115.0	155.6	149.9	176.1	189.6	241.6	208.1	210.9	-326.3	-596.6	-850.2	-1,160.8
Net Profit	361.6	398.3	452.3	505.7	572.5	706.6	732.2	860.2	926.5	967.0	1,016.5	1,030.2	1,717.9	2,871.5	3,940.1	5,374.3
EPS (NT$)	13.94	15.36	17.44	19.50	22.08	27.25	28.24	33.17	35.72	37.29	39.20	39.72	66.24	110.73	151.93	207.24
Margins (%)																
Gross Margin	58.8	58.6	59.5	62.3	66.2	67.7	66.7	67.4	68.9	68.1	68.4	68.8	59.9	67.1	68.6	68.7
Operating Margin	48.5	49.6	50.6	54.0	58.1	60.3	58.1	58.9	60.6	59.8	60.0	59.8	50.8	58.8	60.0	60.2
Net Margin	43.1	42.7	45.7	48.3	50.5	55.6	50.2	50.8	52.5	50.1	52.3	52.2	45.1	51.7	51.8	52.0
Sequential Growth (%)																
Revenue	-3	11	6	6	8	12	15	16	4	10	1	1	32	46	37	36
Gross Profit	-4	11	8	11	15	15	13	17	6	8	1	2	40	63	40	36
EBIT	-4	14	8	13	17	16	11	18	7	8	1	1	46	69	40	36
Net Profit	-4	10	14	12	13	23	4	17	8	4	5	1	46	67	37	36
EPS	-4	10	14	12	13	23	4	17	8	4	5	1	46	67	37	36

Source: Citi Research, company data

Catalyst Watch on TSMC (2330.TW)

Direction:	**Upside**
Duration:	Within 30 Days (expires 03 Aug 2026)
Date Added:	03 Jul 2026
Catalyst:	Earnings

TSMC will host 2Q26 analyst meeting on July 16. We open a 30-day upside catalyst watch as we expect the company to further lift its revenue growth target for 2026 and long term revenue CAGR given sustained leading-edge demand and improving visibility in the longer term.

Bull/Bear: TSMC (2330.TW)

NT$ 4,000.00	NT$ 3,800.00	NT$ 2,200.00
▲62% Upside	▲54% Upside	▼11% Downside

Spread 73pp
Current Price and expected returns (upside/downside) as of 16 Jul 2026

BULL Assumptions

- Higher-than-expected utilization
- Stronger-than-expected margin expansion
- Bull case TP to be based on its upcycle valuation of 27x PER

BASE Assumptions

- Solid sales CAGR of >35% in 2025-2028E
- GPM to be maintained above 60% level

BEAR Assumptions

- Weaker-than-expected HPC demand globally
- Worse-than-expected margin contraction
- Bear case TP to be based on its valuation of 15x PER

TSMC

Company description

TSMC is the founder and leader of the dedicated IC foundry segment. The company has built its reputation by offering advanced and "more-than-Moore" wafer production processes and unparalleled manufacturing efficiency. From its inception in 1987, TSMC has consistently offered the foundry segment's leading technologies and TSMC-compatible design services.

Investment strategy

We rate TSMC shares as Buy. We expect TSMC to deliver sales growth of >35% in recent years thanks to strong growth from HPC/AI as well as stable demand growth from smartphone, IoT, and automotive on tech migration and a shortened replacment cycle. CPU outsourcing to TSMC offers further growth upside potential. A rising cash dividend should also support the share price. While TSMC has been increasing capex meaningfully since 2009, its cost structure is maintained through continuous product mix improvements, efficiency enhancements, and cost reductions.

Valuation

Our target price for TSMC shares of NT$3,800 is based on 25x the average of our 2027E EPS, higher than its three-year average forward PER, versus global peers' average of 15-23x. We believe our PER target is justified by TSMC's leading position in advanced process node and robust AI demand growth outlook. Given its continuing leadership in the semiconductor foundry industry, we believe TSMC's stable order visibility and earnings outlook make it less vulnerable than peers to a potential global economic downturn. Our target price equates to 2026E/27E P/E of 34x/25x and 2026E/27E P/B of 13x/10x.

Risks

Key downside risks that could impede the shares from achieving our target price include: 1) weakness in the global semiconductor market; 2) larger-than-expected margin contractions due to depreciation cost hikes and strong NTD; 3) competitors entering the foundry business; 4) longer-than-expected digestion of inventory in the supply chain; and 5) a slowdown in demand either from a global economic downturn or a global trade disruption triggered by tariffs.

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Appendix A-1

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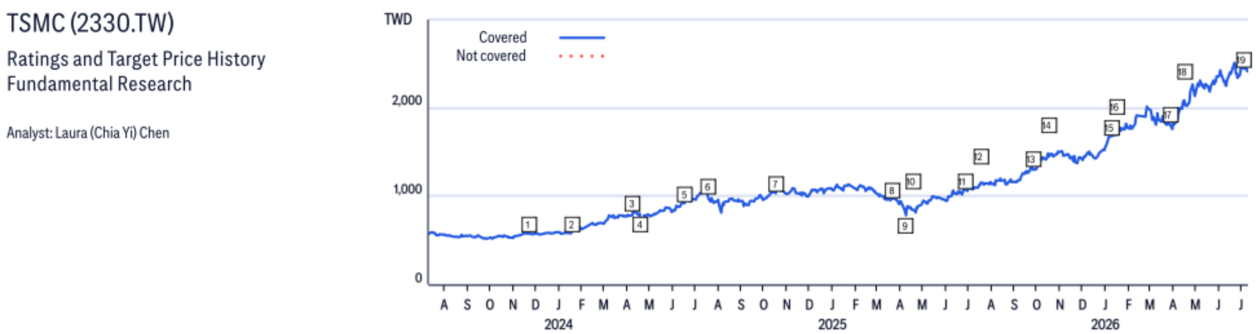


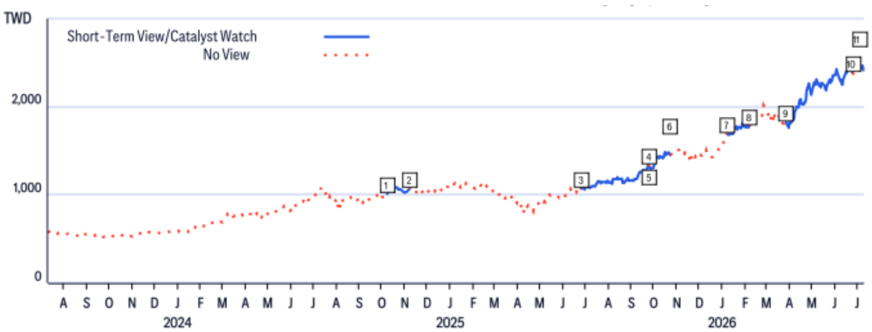
	Date	Rating	Target Price	Closing Price
1	22-Nov-23 00:43:24	1	*720.00	577.00
2	18-Jan-24 10:40:18	1	*740.00	588.00
3	09-Apr-24 10:09:45	1	*950.00	819.00
4	18-Apr-24 09:00:06	1	*1,030.00	804.00
5	17-Jun-24 04:51:05	1	*1,150.00	921.00
6	18-Jul-24 08:21:47	1	*1,500.00	1,005.00
7	17-Oct-24 09:15:17	1	*1,540.00	1,035.00
8	21-Mar-25 15:53:47	1	*1,400.00	972.00
9	09-Apr-25 07:55:10	1	*1,050.00	785.00
10	17-Apr-25 10:33:27	1	*1,100.00	847.00
11	26-Jun-25 02:57:46	1	*1,280.00	1,075.00
12	17-Jul-25 09:46:31	1	*1,400.00	1,130.00
13	25-Sep-25 09:04:47	1	*1,600.00	1,320.00
14	16-Oct-25 10:32:46	1	*1,800.00	1,485.00
15	09-Jan-26 04:15:15	1	*2,450.00	1,680.00
16	15-Jan-26 10:05:29	1	*2,600.00	1,690.00
17	27-Mar-26 10:38:33	1	*2,800.00	1,820.00
18	16-Apr-26 08:25:24	1	*2,875.00	2,085.00
19	03-Jul-26 11:05:54	1	*3,800.00	2,445.00

*Indicates Change

Rating/target price changes above reflect Eastern Time

TSMC (2330.TW)
Short-Term View/Catalyst Watch Research

Analyst: Laura (Chia Yi) Chen



	Date	Action	Expected Direction	Duration	Closing Price
1	08-Oct-24 01:00:00	Add CW	Upside	30 Days	1,010.00
2	07-Nov-24 19:58:59	Remove CW	Upside	30 Days	1,065.00
3	25-Jun-25 22:57:46	Add STV	Upside	90 Days	1,070.00
4	24-Sep-25 21:58:41	Remove STV	Upside	90 Days	1,340.00
5	25-Sep-25 05:04:47	Add CW	Upside	30 Days	1,320.00
6	24-Oct-25 14:20:26	Remove CW	Upside	30 Days	1,450.00
7	08-Jan-26 23:15:15	Add CW	Upside	30 Days	1,685.00
8	08-Feb-26 19:44:43	Remove CW	Upside	30 Days	1,780.00
9	27-Mar-26 06:38:33	Add STV	Upside	90 Days	1,820.00
10	25-Jun-26 21:54:39	Remove STV	Upside	90 Days	2,390.00
11	03-Jul-26 07:05:54	Add CW	Upside	30 Days	2,445.00

CW - Catalyst Watch , STV - Short-Term View

Rating/target price changes above reflect Eastern Time

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	12 Month Rating			Catalyst Watch		
Data current as of 01 Jul 2026	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**

Citi Research Global Fundamental Coverage (Neutral=Hold)	61%	32%	7%	36%	48%	16%
% of companies in each rating category that are investment banking clients	38%	42%	27%	42%	37%	36%

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