Action | Citi Research

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TSMC (2330.TW)

Scaling growth through technology, packaging and capacity

CITI'S TAKE

TSMC will host 2Q26 analyst meeting on July 16. **We think there is a higher likelihood for TSMC 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**. GM should continue to be resilient thanks to high UTR and efficiency despite rising depreciation and N2 dilution. We see demand extending well beyond GPUs, custom ASICs, TPUs, networking silicon and optical interconnects, and upside from CPU. These all supports broad-based utilization across advanced nodes. We also see wafer pricing trending up into next year on the back of strong N2 and N3 demand. We believe TSMC remains a primary beneficiary of AI semiconductor content growth regardless of customer mix.

Buy	
Catalyst Watch: Upside	
Price (03 Jul 26 13:30)	NT$2,445.00
Target price	NT$3,800.00↑
from NT$2,875.00	
Expected share price return	55.4%
Expected dividend yield	2.0%
Expected total return	57.4%
Market Cap	NT$63,404,645M
	US$2,001,472M

Capacity expansion to continue in both advanced node and packaging — Compared to other leading foundry peers, TSMC's largest advantage is not solely process technology but manufacturing scale. Our estimates suggest combined A14, N2/A16 and N3 capacity could approach c350-400k wpm by the end of 2028. The company also maintains priority access to EUV tools, even without high-NA EUV adoption, allowing faster capacity expansion while preserving industry-leading yields. This scale advantage should continue supporting wafer pricing, customer stickiness and GM sustainability despite increasing foundry competition. We lift our capex estimate for 2027/2028 to US$75-80bn (from US$68bn and US$75bn respectively) while maintaining our 2026 capex unchanged at US$55bn.

CoPoS to follow CoWoS and SoIC in 2029 onward — We also update advanced packaging capacity in this note; however, using CoWoS capacity growth alone to estimate its customer share gains or AI accelerator shipment is becoming increasingly misleading. As package architecture shifts from conventional 2.5D integration toward heterogeneous 3D stacking, the packaging content, manufacturing cycle time and material intensity per product are diverging rapidly. Looking further ahead, glass core and CoPoS represent the next potential packaging evolution by enabling larger package sizes, improved dimensional stability and finer routing density, potentially supporting future AI accelerators beyond today's organic substrates. We view glass as complementary for CoWoS, with hybrid bonding, SoIC and advanced interconnect likely remaining the key differentiators in next few years.

Reiterate Buy with TP NT$3,800 — We lift our TP of TSMC to NT$3,800 (25x of our 2027 EPS). AI infrastructure investment remains as its key multi-year growth driver.

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

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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	54.0	14.8	30.3	0.6
2025A	1,717,883	66.24	46.4	36.9	11.7	35.4	0.7
2026E	2,752,835	106.15	60.2	23.0	8.5	42.8	1.1
2027E	3,855,921	148.69	40.1	16.4	6.3	44.0	2.0
2028E	5,145,557	198.42	33.4	12.3	4.7	43.5	2.6

Source: Powered by dataCentral

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

2330.TW: Fiscal year end 31-Dec

Price: NT$2,445.00; TP: NT$3,800.00; Market Cap: NT$63,404,645m; Recomm: Buy

Profit & Loss (NT$m)	2024	2025	2026E	2027E	2028E
Sales revenue	2,894,308	3,809,054	5,494,192	7,599,082	10,069,949
Cost of sales	-1,269,954	-1,527,760	-1,804,479	-2,462,467	-3,236,423
Gross profit	1,624,354	2,281,294	3,689,713	5,136,615	6,833,525
Gross Margin (%)	56.1	59.9	67.2	67.6	67.9
EBITDA (Adj)	**1,984,850**	**2,624,188**	**4,157,645**	**5,683,889**	**7,488,567**
EBITDA Margin (Adj) (%)	68.6	68.9	75.7	74.8	74.4
Depreciation	-662,797	-688,096	-946,363	-1,213,023	-1,538,087
Amortisation	0	0	0	0	0
EBIT (Adj)	**1,322,053**	**1,936,092**	**3,211,282**	**4,470,866**	**5,950,480**
EBIT Margin (Adj) (%)	45.7	50.8	58.4	58.8	59.1
Net interest	67,781	86,206	100,491	172,894	248,749
Associates	828	2,546	2,000	2,000	2,000
Non-Op/Except/Other Adj	15,176	16,819	26,370	37,995	50,350
Pre-tax profit	**1,405,839**	**2,041,663**	**3,340,143**	**4,683,755**	**6,251,579**
Tax	-233,407	-326,266	-588,404	-830,340	-1,109,365
Extraord./Min.Int./Pref.div.	836	2,486	1,096	2,506	3,344
Reported net profit	**1,173,268**	**1,717,883**	**2,752,835**	**3,855,921**	**5,145,557**
Net Margin (%)	40.5	45.1	50.1	50.7	51.1
Core NPAT	1,173,268	1,717,883	2,752,835	3,855,921	5,145,557
Per share data	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Reported EPS ($)	45.24	66.24	106.15	148.69	198.42
Core EPS ($)	45.24	66.24	106.15	148.69	198.42
DPS ($)	14.00	18.00	27.63	47.95	63.44
CFPS ($)	73.46	93.95	123.99	193.83	255.00
FCFPS ($)	36.60	44.88	57.44	102.83	157.83
BVPS ($)	165.37	208.98	287.50	388.24	523.22
Wtd avg ord shares (m)	25,934	25,933	25,933	25,933	25,933
Wtd avg diluted shares (m)	25,934	25,933	25,933	25,933	25,933
Growth rates	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Sales revenue (%)	33.9	31.6	44.2	38.3	32.5
EBIT (Adj) (%)	43.5	46.4	65.9	39.2	33.1
Core NPAT (%)	39.9	46.4	60.2	40.1	33.4
Core EPS (%)	39.9	46.4	60.2	40.1	33.4
Balance Sheet (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
Cash & cash equiv.	2,127,627	2,767,856	3,532,182	5,047,303	7,006,606
Accounts receivables	272,088	281,791	639,020	751,185	1,016,476
Inventory	287,869	288,109	470,131	550,801	742,793
Net fixed & other tangibles	3,235,771	3,691,841	4,524,195	5,618,469	7,145,262
Goodwill & intangibles	0	0	0	0	0
Financial & other assets	769,374	903,426	1,194,037	1,332,488	1,654,489
Total assets	**6,692,729**	**7,933,024**	**10,359,565**	**13,300,245**	**17,565,626**
Accounts payable	74,227	84,330	113,456	126,485	187,670
Short-term debt	59,858	136,926	183,947	224,571	281,616
Long-term debt	958,429	896,062	896,062	896,062	896,062
Provisions & other liab	1,275,849	1,354,911	1,667,931	1,939,959	2,583,356
Total liabilities	**2,368,362**	**2,472,229**	**2,861,395**	**3,187,077**	**3,948,705**
Shareholders' equity	4,288,545	5,419,596	7,455,875	10,068,367	13,568,777
Minority interests	35,031	41,199	42,295	44,801	48,145
Total equity	**4,323,576**	**5,460,795**	**7,498,170**	**10,113,168**	**13,616,921**
Net debt (Adj)	**-1,109,340**	**-1,734,869**	**-2,452,173**	**-3,926,670**	**-5,828,927**
Net debt to equity (Adj) (%)	-25.7	-31.8	-32.7	-38.8	-42.8

Valuation ratios	2024	2025	2026E	2027E	2028E
PE (x)	54.0	36.9	23.0	16.4	12.3
PB (x)	14.8	11.7	8.5	6.3	4.7
EV/EBITDA (x)	31.4	23.5	14.7	10.5	7.8
FCF yield (%)	1.5	1.8	2.3	4.2	6.5
Dividend yield (%)	0.6	0.7	1.1	2.0	2.6
Payout ratio (%)	31	27	26	32	32
ROE (%)	30.3	35.4	42.8	44.0	43.5
Cashflow (NT$m)	**2024**	**2025**	**2026E**	**2027E**	**2028E**
EBITDA	1,984,850	2,624,188	4,157,645	5,683,889	7,488,567
Working capital	68,257	27,877	-483,716	-42,228	-70,702
Other	-147,949	-215,723	-458,447	-614,945	-804,922
Operating cashflow	**1,905,157**	**2,436,342**	**3,215,482**	**5,026,717**	**6,612,942**
Capex	-956,007	-1,272,411	-1,725,763	-2,360,000	-2,520,000
Net acq/disposals	74,369	122,881	140,206	291,308	-241,263
Other	0	0	0	0	0
Investing cashflow	**-881,638**	**-1,149,530**	**-1,585,557**	**-2,068,692**	**-2,761,263**
Dividends paid	-363,055	-466,779	-716,556	-1,243,429	-1,645,148
Financing cashflow	**-313,242**	**-590,737**	**-667,343**	**-1,197,793**	**-1,581,415**
Net change in cash	**627,147**	**615,273**	**871,653**	**1,669,303**	**2,179,335**
Free cashflow to s/holders	**949,151**	**1,163,931**	**1,489,719**	**2,666,717**	**4,092,942**

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

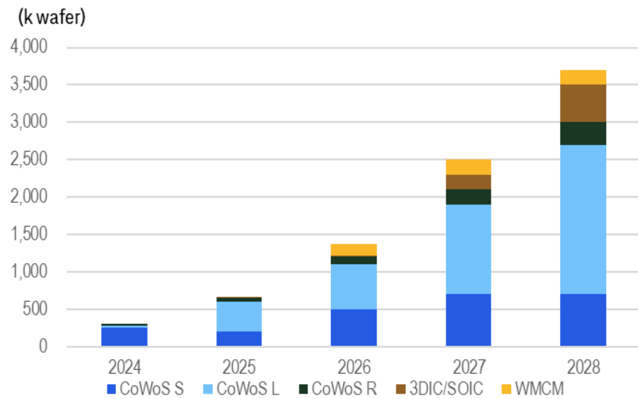
Technology Leadership Extends Beyond Process Nodes into Advanced Packaging

Compared to other leading foundry peers, TSMC's largest advantage is not solely process technology but manufacturing scale. Our estimates suggest combined A14, N2/A16 and N3 capacity could approach approximately c350-400k wafers per month by the end of 2028. The company also maintains priority access to EUV tools, even without high-NA EUV adoption, allowing faster capacity expansion while preserving industry-leading yields. This scale advantage should continue supporting wafer pricing, customer stickiness and gross margin expansion despite increasing foundry competition.

While competitors continue narrowing the transistor density gap, putting more capex and aggressive on advanced packaging. TSMC's competitive advantage increasingly comes from its integrated platform combining leading-edge logic with advanced packaging. TSMC's advanced packaging including CoWoS platform, SoIC and COUPE has become the industry's de facto standard for AI accelerators due to its superior HBM integration, manufacturing maturity and ecosystem support. Intel's EMIB remains an attractive architecture for certain chiplet applications by reducing silicon interposer size and lowering packaging cost, but it has yet to demonstrate comparable scalability for large AI systems requiring extremely high memory bandwidth (see our previous report of [TSMC (2330.TW) - Competitive Landscape Holding Steady]). Looking further ahead, glass core and CoPoS represent the next potential packaging evolution by enabling larger package sizes, improved dimensional stability and finer routing density, potentially supporting future AI accelerators beyond today's organic substrates. We view glass as complementary for CoWoS, with hybrid bonding, SoIC and advanced interconnect technologies likely remaining the key differentiators over the next several years.

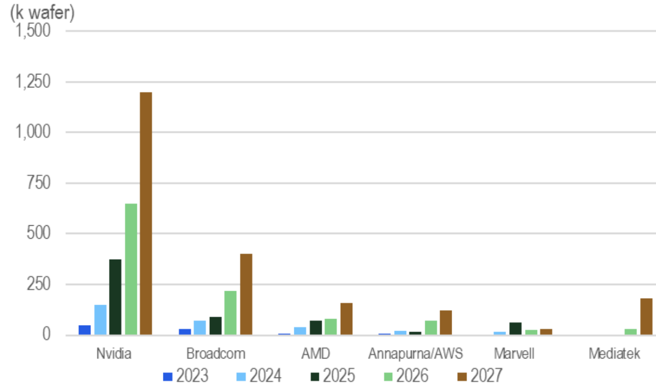
We expect TSMC to continue aggressive investment across CoWoS and SoIC under its 3DFabric roadmap; in 1Q26, we expected CoWoS capacity reaching roughly 200k wafers/month by 2027 while SoIC expanding toward 70-80k wafers/month in 2028. We now also expect TSMC may start CoPoS production in 2029/2030 with initial capacity plan at 40-50kwpm. Importantly, packaging demand is broadening beyond AI GPUs into AI ASICs, CPUs and high-speed networking processors, suggesting advanced packaging will remain one of TSMC's fastest-growing businesses. We also expect future packaging innovation—including glass core, chip-to-wafer hybrid bonding and larger multi-reticle integration—to further strengthen TSMC's technology leadership.

Figure 1. TSMC – advanced packaging capacity forecast



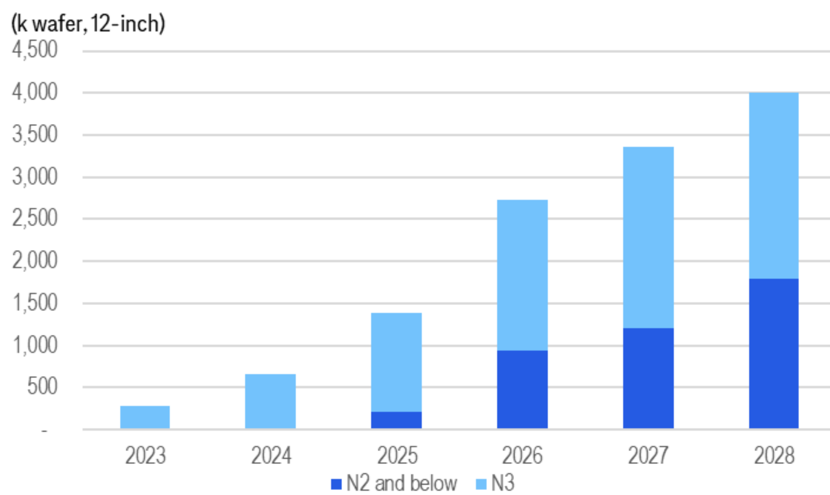
Source: Citi Research

Figure 2. TSMC – advanced packaging allocation by customer



Source: Citi Research

Figure 3. TSMC – advanced node capacity expansion forecast



Source: Citi Research

Advanced packaging getting more complex; the CoWoS capacity myth.

The rapid adoption of advanced 3D integration and applications are making CoWoS capacity a much less relevant proxy for investor to project GPU/ASIC shipment growth than it was in previous AI GPU cycles. Products such as AMD's MI455, which stacks six logic dies using SoIC, and next-generation platforms such as Feynman introduce significantly higher packaging complexity, making the conversion between wafer starts, SoIC output and effective CoWoS capacity increasingly difficult. **In other words, one "unit" of CoWoS capacity no longer represents the same amount of compute, silicon area, or packaging content across different products.**

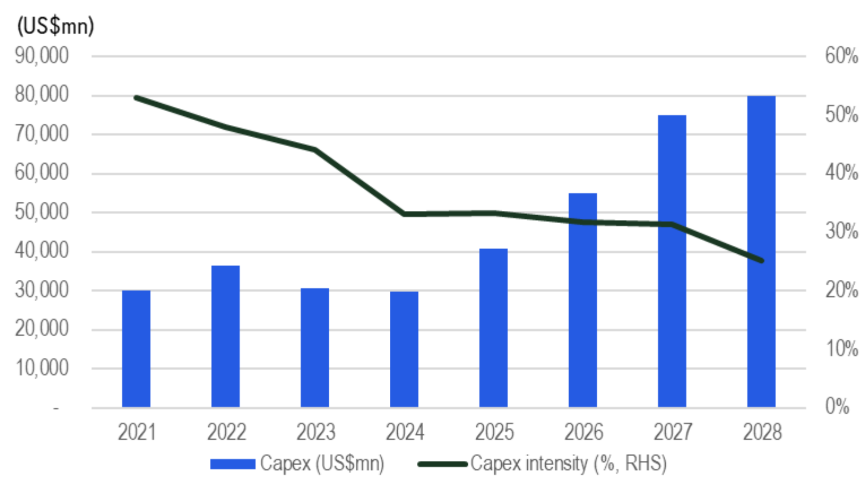
At the same time, investors are overlooking another important bottleneck: **CoWoS expansion is no longer determined solely by TSMC's packaging capacity. The ecosystem is becoming increasingly constrained by upstream ABF substrate availability, particularly as larger package sizes, higher layer counts and more complex substrate designs accompany advanced 3D architectures**. As a result, incremental CoWoS capacity additions do not necessarily translate into proportional shipment growth for every customer.

Therefore, using CoWoS capacity growth alone to estimate customer share gains or AI accelerator shipment growth is becoming increasingly misleading. As package architecture shifts from conventional 2.5D integration toward heterogeneous 3D stacking, the packaging content, manufacturing cycle time and material intensity per product are diverging rapidly. Future customer growth should be evaluated based on package architecture, SoIC content, substrate consumption and overall packaging complexity, rather than relying on a simple CoWoS capacity multiplier.

Capacity Expansion Supports a Multi-Year Growth Cycle

TSMC continues accelerating global capacity expansion across Taiwan, Arizona and Japan while reallocating existing fabs from N5 to N3 and from N3 toward N2 to reflect changing customer demand. We expect N3 capacity is expected to reach 170k wafers/month during 2026 and surpass 200k by 2028, while N2/A16 capacity could grow from approximately 80kwpm to 150kwpm in 2028. And A14 will start contribution firstly in 2028 with initial capacity at 50kwpm by our estimate. This aggressive expansion is supported by rising capex, which we expect projects could approach US$75-80bn annually in 2027–2028, following around US$55-56bn in 2026. We believe this capacity roadmap not only accommodates accelerating AI demand but also reinforces TSMC's pricing power and long-term technology leadership across both foundry and advanced packaging.

Figure 4. TSMC – capex trend and capex intensity



Source: Citi Research

Figure 5. TSMC – Taiwan 12 inch fabs and advanced packaging facilities

Taiwan 12 inch fabs			
Fab	Location	Current Process Focus	Note
Fab 12	Hsinchu	7/10nm, 16/20nm	
Fab 14A	Tainan	45nm	
Fab 14B	Tainan	12/16nm	
Fab 15A	Taichung	28nm	
Fab 15B	Taichung	6/7nm	
Fab 18A	Tainan	4/5nm	Expanding N3 capacity
Fab 18B	Tainan	N3	Expanding N3 capacity
Fab 20	Hsinchu	N2/A16	Expanding N2/A16 capacity; future expansion for A14
Fab 22	Kaohsiung/Tainan	N2/A16	Expanding N2/A16 capacity
Fab 25	Taichung	In construction (A14)	Mass production of A14 in 2028
Fab 26	Tainan	In planning (A10)	

Taiwan advanced packaging			
Fab	Location	Current Process Focus	Note
AP 1	Hsinchu	R&D	
AP 2	Tainan	Bumping	
AP 3	Longtan	InFO, WMCM	
AP 5	Taichung	CoWoS	
AP 6	Miaoli	CoWoS, SoIC, InFO	
AP 7	Chiayi	CoWoS, WMCM, SoIC	
AP 8	Tainan	CoWoS	

Source: Citi Research

Figure 6. TSMC – overseas 12 inch fabs and advanced packaging facilities

Overseas fabs			
Fab	Location	Current Process Focus	Note
Fab 21	US Arizona	4nm	Phase 2 for N3 in 2027, Phase 3 for N2/A16 afterwards
AP 10	US Arizona	In construction (mainly for CoWoS, WMCM, SoIC)	under development
TSMC (Nanjing)	China Nanjing	22/28nm, 12/16nm	
JSMC	Japan Kumamoto	22/28nm, 12/16nm	Phase 2 for N3 with mass production in 2028
ESMC	Germany Dresden	In construction	Mass production for 22/28nm, 12/16nm after 2027

Source: Citi Research

Reiterate Buy with NT NT$3,800

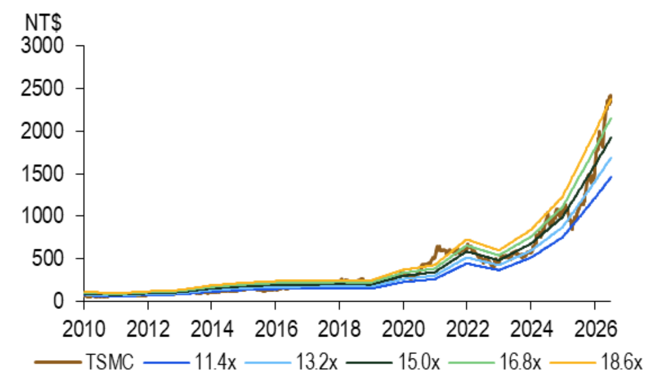
On the back of solid visibility in the longer term, we raise our 2027/2028 earnings estimates by 13%/21% and lift our TP of TSMC to NT$3,800 (25x of our 2027 EPS estimate, with unchanged PER but move to 2027). AI infrastructure investment remains the key driver behind TSMC's multi-year growth outlook. We think there is a higher likelihood for TSMC 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. GM should continue to be resilient thanks to high UTR and efficiency despite rising depreciation and N2 dilution. We see demand extending well beyond GPUs, custom ASICs, TPUs, networking silicon and optical interconnects, and upside from CPU. These all supports broad-based utilization across advanced nodes. We also see wafer pricing trending up into next year on the back of strong N2 and N3 demand.

Figure 7. TSMC – Estimates Revisions

	2026E			2027E			2028E		
(NT$mn)	New	Old	Chg.	New	Old	Chg.	New	Old	Chg.
Sales	5,494,192	5,253,452	4.6%	7,599,082	7,071,349	7.5%	10,069,949	8,762,189	14.9%
YoY growth	44.2%	37.9%		38.3%	34.6%		32.5%	23.9%	
Gross profit	3,689,713	3,442,282	7.2%	5,136,615	4,566,254	12.5%	6,833,525	5,686,467	20.2%
Opex	478,431	457,375	4.6%	665,749	619,541	7.5%	883,046	768,263	14.9%
Operating profit	3,211,282	2,984,907	7.6%	4,470,866	3,946,713	13.3%	5,950,480	4,918,205	21.0%
Pre-tax profit	3,340,143	3,111,959	7.3%	4,683,755	4,144,285	13.0%	6,251,579	5,179,068	20.7%
Net income	2,752,835	2,563,456	7.4%	3,855,921	3,410,850	13.0%	5,145,557	4,263,281	20.7%
EPS (NT$)	106.15	98.85	7.4%	148.69	131.52	13.0%	198.42	164.39	20.7%
Gross margin	67.2%	65.5%	+1.6 ppt	67.6%	64.6%	+3.0 ppt	67.9%	64.9%	+3.0 ppt
Opex ratio	8.7%	8.7%	+0.0 ppt	8.8%	8.8%	-0.0 ppt	8.8%	8.8%	+0.0 ppt
Operating margin	58.4%	56.8%	+1.6 ppt	58.8%	55.8%	+3.0 ppt	59.1%	56.1%	+3.0 ppt
Net margin	50.1%	48.8%	+1.3 ppt	50.7%	48.2%	+2.5 ppt	51.1%	48.7%	+2.4 ppt

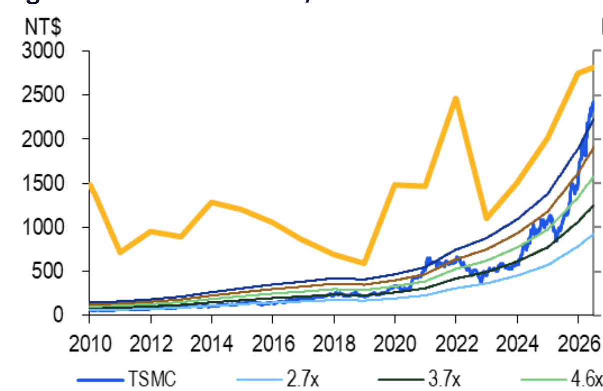
Source: Citi Research

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$bn	*1Q*	*2Q*	*3Q*	*4Q*	*1Q*	*2QE*	*3QE*	*4QE*	*1QE*	*2QE*	*3QE*	*4QE*	*2025*	*2026E*	*2027E*	*2028E*
Revenue	839.3	933.8	989.9	1,046.1	1,134.1	1,239.6	1,454.4	1,666.0	1,818.8	1,878.8	1,943.0	1,958.4	3,809.1	5,494.2	7,599.1	10,069.9
COGS	-345.9	-386.4	-401.4	-394.1	-382.8	-407.5	-473.8	-540.4	-595.9	-628.1	-608.7	-629.7	-1,527.8	-1,804.5	-2,462.5	-3,236.4
Gross Profit	493.4	547.4	588.5	652.0	751.3	832.2	980.6	1,125.7	1,222.9	1,250.7	1,334.3	1,328.7	2,281.3	3,689.7	5,136.6	6,833.5
Operating Expense	-85.2	-84.5	-87.8	-88.2	-94.0	-111.6	-132.9	-141.6	-151.2	-165.3	-172.9	-176.3	-345.2	-478.4	-665.7	-883.0
SG&A expenses	*-28.6*	*-23.2*	*-24.0*	*-23.3*	*-26.2*	*-34.7*	*-39.3*	*-41.7*	*-42.1*	*-52.6*	*-52.5*	*-49.0*	*-99.2*	*-141.9*	*-196.1*	*-260.3*
R&D expenses	*-56.5*	*-61.3*	*-63.7*	*-64.9*	*-67.8*	*-76.9*	*-93.7*	*-100.0*	*-109.1*	*-112.7*	*-120.5*	*-127.3*	*-246.4*	*-338.2*	*-469.6*	*-622.8*
EBIT	407.1	463.4	500.7	564.9	659.0	720.6	847.7	984.0	1,071.7	1,085.4	1,161.4	1,152.4	1,936.1	3,211.3	4,470.9	5,950.5
Net Interest Income	19.8	20.3	21.3	24.8	23.8	22.9	25.3	28.5	36.4	41.5	45.2	49.9	86.2	100.5	172.9	248.7
Net Other Income	4.0	9.4	3.4	2.6	5.1	6.7	7.8	8.8	9.6	9.9	10.2	10.3	19.4	28.4	40.0	52.3
Pre Tax Profit	430.9	493.0	525.4	592.4	687.8	750.2	880.7	1,021.4	1,117.6	1,136.7	1,216.8	1,212.6	2,041.7	3,340.1	4,683.8	6,251.6
Tax Expense/(Credit)	70.2	95.5	73.6	86.9	115.0	150.0	149.7	173.6	190.0	227.3	206.9	206.1	-326.3	-588.4	-830.3	-1,109.4
Net Profit	361.6	398.3	452.3	505.7	572.5	600.6	731.5	848.3	928.2	910.0	1,010.6	1,007.1	1,717.9	2,752.8	3,855.9	5,145.6
EPS (NT$)	13.94	15.36	17.44	19.50	22.08	23.16	28.21	32.71	35.79	35.09	38.97	38.84	66.24	106.15	148.69	198.42
Margins (%)																
Gross Margin	58.8	58.6	59.5	62.3	66.2	67.1	67.4	67.6	67.2	66.6	68.7	67.8	59.9	67.2	67.6	67.9
Operating Margin	48.5	49.6	50.6	54.0	58.1	58.1	58.3	59.1	58.9	57.8	59.8	58.8	50.8	58.4	58.8	59.1
Net Margin	43.1	42.7	45.7	48.3	50.5	48.4	50.3	50.9	51.0	48.4	52.0	51.4	45.1	50.1	50.7	51.1
Sequential Growth (%)																
Revenue	-3	11	6	6	8	9	17	15	9	3	3	1	32	44	38	33
Gross Profit	-4	11	8	11	15	11	18	15	9	2	7	0	40	62	39	33
EBIT	-4	14	8	13	17	9	18	16	9	1	7	-1	46	66	39	33
Net Profit	-4	10	14	12	13	5	22	16	9	-2	11	0	46	60	40	33
EPS	-4	10	14	12	13	5	22	16	9	-2	11	0	46	60	40	33

Source: Citi Research, company data

Adding Upside 30-Day Catalyst Watch on TSMC (2330.TW)

Direction:	**Upside**
Duration:	Within 30 Days
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 ▲64% Upside	NT$ 3,800.00 ▲55% Upside	NT$ 2,200.00 ▼10% Downside

Spread 74pp
Current Price and expected returns (upside/downside) as of 03 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 36x/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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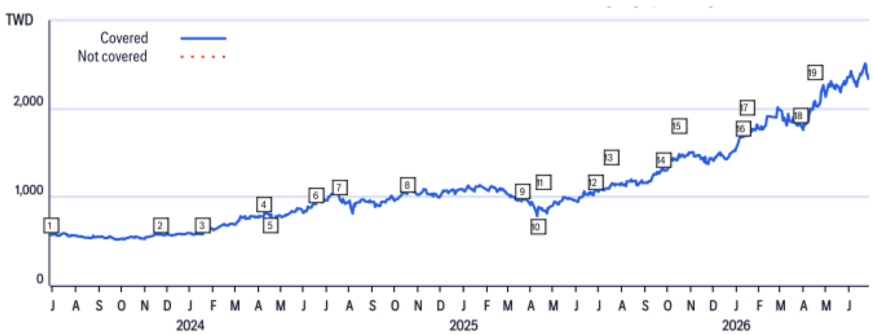
TSMC (2330.TW)

Ratings and Target Price History
Fundamental Research

Analyst: Laura (Chia Yi) Chen



#	Date	Rating	Target Price	Closing Price
1	28-Jun-23 11:09:56	1	*660.00	574.00
2	22-Nov-23 00:43:24	1	*720.00	577.00
3	18-Jan-24 10:40:18	1	*740.00	588.00
4	09-Apr-24 10:09:45	1	*950.00	819.00
5	18-Apr-24 09:00:06	1	*1,030.00	804.00
6	17-Jun-24 04:51:05	1	*1,150.00	921.00
7	18-Jul-24 08:21:47	1	*1,500.00	1,005.00
8	17-Oct-24 09:15:17	1	*1,540.00	1,035.00
9	21-Mar-25 15:53:47	1	*1,400.00	972.00
10	09-Apr-25 07:55:10	1	*1,050.00	785.00
11	17-Apr-25 10:33:27	1	*1,100.00	847.00
12	26-Jun-25 02:57:46	1	*1,280.00	1,075.00
13	17-Jul-25 09:46:31	1	*1,400.00	1,130.00
14	25-Sep-25 09:04:47	1	*1,600.00	1,320.00
15	16-Oct-25 10:32:46	1	*1,800.00	1,485.00
16	09-Jan-26 04:15:15	1	*2,450.00	1,680.00
17	15-Jan-26 10:05:29	1	*2,600.00	1,690.00
18	27-Mar-26 10:38:33	1	*2,800.00	1,820.00
19	16-Apr-26 08:25:24	1	*2,875.00	2,085.00

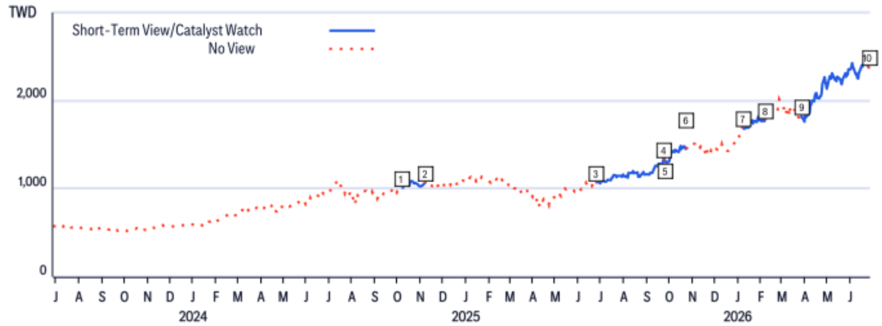
*Indicates Change

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

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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Citigroup Global Markets Taiwan Securities Company Limited	Jack Chen; Laura (Chia Yi) Chen; Nicholas Lai

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