Morgan Stanley | RESEARCH

UPDATE

July 16, 2026 10:14 AM GMT

TSMC | Asia Pacific

2026 revenue and capex guidance raised again; OW

Reaction to earnings

Strengthens our thesis	Modest upside	Modest revision higher
Impact to our thesis	Financial results versus consensus	Direction of next 12-month consensus EPS

Source: Company data, Morgan Stanley Research

Key Takeaways

- TSMC's 2Q26 results and 3Q26 guidance fall in our Catalyst preview Scenarios 1 and 2, where we assume the stock moves up 1-5% in the coming trading days.
- Mgmt guided 3Q26 revenue to rise 12% Q/Q, in line with MSe 10%-15% Q/Q.
- 2Q26 gross margin reached 67.7% vs. MSe 67.4%.
- Foundry competition – mgmt reiterated there are no shortcuts. Leading-edge foundry capabilities take years to develop, and a new fab takes 2-3 years to build.

Other key takeaways:

- **Key positive – 2026 full-year revenue growth guidance raised to above 40% Y/Y (vs. previously above 30% Y/Y):** In our 6/28 preview note, we expected guidance to increase to 40% Y/Y, but it came in even above our Street-high forecast, driven by very strong AI demand. Consensus expected an increase to 35%-40% Y/Y.
- **Key negative – GM matched our conservative forecast but missed the Street's elevated margin expectations:** With 2nm dilution, 3Q26 guidance at the midpoint is 66% vs. MSe 67.5%, below an unrealistic buyside bogey of 70%. We believe investors should buy on dips following the Street's margin forecast miss.
- **AI demand:** CSP customers are rapidly increasing cloud capex. TSMC did not update its projected AI semiconductor revenue CAGR but indicated it is tracking above its previous forecast.
- **2026 capex raised:** TSMC increased its 2026 capex target to US$60-64bn (vs. the previous high end of US$52-US$56bn), implying some equipment cost inflation. As expected, it did not provide the 3-year capex guidance of US$200bn that we had anticipated, but indicated that capex intensity should increase further.
- **Intel EMIB-T used by customers:** TSMC welcomed Intel's role in helping alleviate advanced packaging supply constraints and expressed support for customers' success. Notably, MediaTek is a major user of Intel's EMIB-T for a TPU project.

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TSMC (2330.TW, 2330 TT)

Greater China Technology Semiconductors | Taiwan

Stock Rating	**Overweight**
Industry View	**Attractive**
Price target	NT$2,888.00
Up/downside to price target (%)	17
Shr price, close (Jul 16, 2026)	NT$2,470.00
Mkt cap, curr (mn)	NT$64,042,111
Avg daily trading value (mn)	NT$65,119

Fiscal Year Ending	12/25	12/26e	12/27e	12/28e
EPS (NT$)**	66.25	107.56	143.01	177.30
Prior EPS (NT$)**	-	-	-	-
EPS (NT$)§	64.56	100.23	130.32	165.91
ModelWare net inc (NT $ bn)	1,718	2,778	3,708	4,597
P/E	23.4	23.1	17.3	13.9
Div yld (%)	1.4	1.1	1.4	1.7

Exhibit 1: TSMC CDI Table (Scenario 2 is our base case)

Details of the scenario	Scenario 1	Scenario 2	Scenario 3
Probabilities	**20%**	**60%**	**20%**
3Q26 USD revenue growth	15% Q/Q	10-15% Q/Q	5-10% Q/Q
3Q26 gross margin	70%	67-68%	66-67%
2026 full-year revenue growth	Around 40%	Close to 40%	Around 35%
2026 full-year capex in USD	Raised to US$60bn	Raised to US$56bn	Unchanged at US$54-56bn
Five-year AI semi revenue CAGR	Raised to 80%	Raised to 70%	Unchanged at mid-high 50s (%)
AI demand sustainability	Until the end of the decade	Strong until 2028	Could be affected by memory costs
Potential change in stock price (%)	**Up 3-5%**	**Up 1-3%**	**Down 3-5%**

Source: Morgan Stanley Research estimates

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Refinitiv Estimates
e = Morgan Stanley Research estimates

Valuation Methodology and Risks

TSMC (2330.TW)

Base case, residual income model. Key assumptions: a cost of equity of 9.2% (beta of 1.2, risk-free rate of 2.0% and risk premium of 6.0%), an intermediate growth rate of 10.5%, and a terminal growth rate of 4.0%.

Risks to Upside

- TSMC charges large customers more to keep its gross margin above 56% in the long term.
- AI semi demand grows more significantly than expected, while TSMC maintains high market share in leading-edge foundry business.
- Outsourcing from Intel CPU increases in 2025-27.

Risks to Downside

- Inventory correction occurs in 2026.
- Demand for leading edge technologies weakens.
- Costs of overseas fabs grow significantly.

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(as of June 30, 2026)

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Overweight/Buy	1544	42%	453	49%	29%	757	44%
Equal-weight/Hold	1577	43%	390	42%	25%	769	44%
Not-Rated/Hold	3	0%	1	0%	33%	1	0%
Underweight/Sell	544	15%	89	10%	16%	204	12%
Total	3,668		933			1731	

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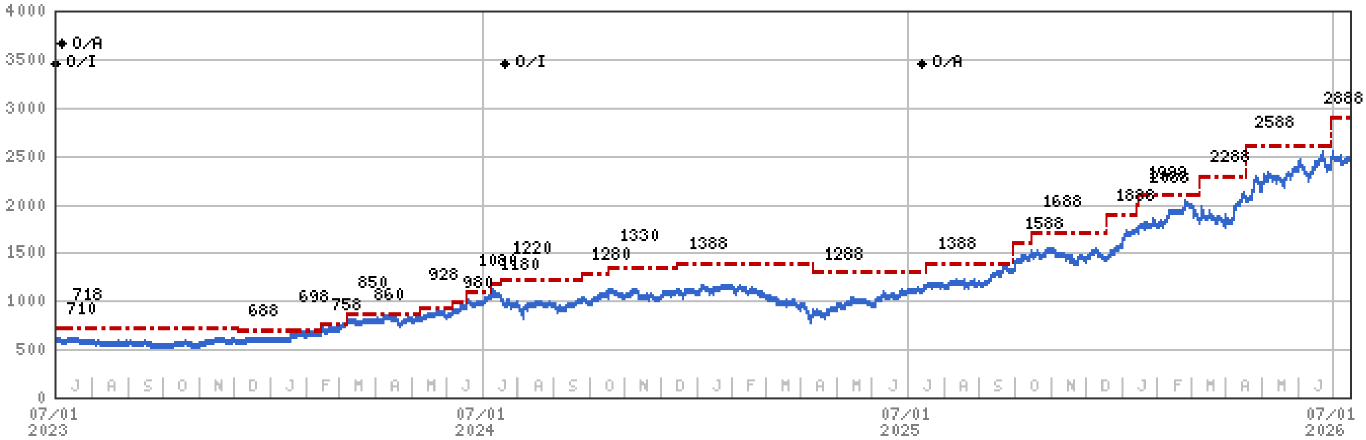
TSMC (2330.TW) - As of 07/16/26 GMT in TWD
Industry : Greater China Technology Semiconductors



Stock Rating History: 7/1/21 : E/I; 10/12/21 : E/C; 2/7/22 : O/C; 10/4/22 : O/A; 2/22/23 : O/I; 7/7/23 : O/A; 7/21/24 : O/I; 7/14/25 : O/A

Price Target History: 6/18/21 : 580; 1/3/22 : 618; 1/13/22 : 648; 2/7/22 : 780; 9/23/22 : 720; 12/14/22 : 700; 4/20/23 : 680; 6/12/23 : 710; 7/7/23 : 718; 12/4/23 : 688; 1/18/24 : 698; 2/14/24 : 758; 3/8/24 : 850; 3/22/24 : 860; 5/8/24 : 928; 6/6/24 : 980; 6/18/24 : 1080; 7/8/24 : 1180; 7/18/24 : 1220; 9/24/24 : 1280; 10/17/24 : 1330; 12/16/24 : 1388; 4/11/25 : 1288; 7/17/25 : 1388; 9/30/25 : 1588; 10/16/25 : 1688; 12/18/25 : 1888; 1/14/26 : 1988; 1/16/26 : 2088; 3/9/26 : 2288; 4/17/26 : 2588; 6/29/26 : 2888

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COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/16/2026)
Charlie Chan		
ACM Research Inc (ACMR.O)	O (03/07/2023)	US$91.96
Advanced Micro-Fabrication Equipment Inc (688012.SS)	O (11/06/2023)	Rmb361.42
Advanced Wireless Semiconductor Co (8086.TWO)	U (07/14/2025)	NT$127.00
Alchip Technologies Ltd (3661.TW)	O (05/14/2021)	NT$3,770.00
ASE Technology Holding Co. Ltd. (3711.TW)	O (09/15/2024)	NT$682.00
Cambricon Technology Corporation (688256.SS)	O (04/27/2026)	Rmb1,279.22
Global Unichip Corp (3443.TW)	O (06/24/2026)	NT$4,185.00
GlobalWafers Co Ltd (6488.TWO)	E (05/19/2026)	NT$1,370.00
Gudeng Precision (3680.TWO)	O (11/25/2025)	NT$516.00
Hua Hong Semiconductor Ltd (1347.HK)	E (03/12/2026)	HK$157.40
Iluvatar CoreX Semiconductor Co., Ltd. (9903.HK)	O (04/27/2026)	HK$556.50
King Yuan Electronics Co Ltd (2449.TW)	O (03/03/2023)	NT$318.00
Maxscend Microelectronics Co Ltd (300782.SZ)	U (01/11/2021)	Rmb83.25
MediaTek (2454.TW)	O (11/28/2025)	NT$3,700.00
MetaX Integrated Circuits (688802.SS)	E (04/27/2026)	Rmb890.00
Nanya Technology Corp. (2408.TW)	O (05/28/2026)	NT$439.00
NAURA Technology Group Co Ltd (002371.SZ)	O (11/06/2023)	Rmb702.76
OmniVision Integrated Circuits Group Inc (603501.SS)	E (11/17/2025)	Rmb109.85
Phison Electronics Corp (8299.TWO)	E (02/25/2026)	NT$1,980.00
SG Micro Corp. (300661.SZ)	E (11/03/2025)	Rmb107.32
Silergy Corp. (6415.TW)	U (05/19/2026)	NT$473.00
SMIC (0981.HK)	O (10/21/2025)	HK$75.20
TSMC (2330.TW)	O (02/07/2022)	NT$2,470.00
UMC (2303.TW)	O (05/19/2026)	NT$160.00
Vanguard International Semiconductor (5347.TWO)	E (01/14/2026)	NT$187.50
WIN Semiconductors Corp (3105.TWO)	U (07/14/2025)	NT$369.00

Daisy Dai, CFA		
ASMPT Ltd (0522.HK)	O (07/24/2025)	HK$177.50
China Resources Microelectronics Limited (688396.SS)	U (03/02/2026)	Rmb65.50
Empyrean Technology Co Ltd (301269.SZ)	E (01/17/2025)	Rmb106.21
Hangzhou Silan Microelectronics Co. Ltd. (600460.SS)	U (08/25/2025)	Rmb36.22
Hygon Information Technology Co., Ltd. (688041.SS)	O (07/03/2026)	Rmb320.40
Innoscience (2577.HK)	E (10/13/2025)	HK$48.00
JCET Group Co Ltd (600584.SS)	E (01/16/2026)	Rmb83.21
Shanghai Fudan Microelectronics (1385.HK)	O (03/07/2025)	HK$28.10
SICC Co Ltd (688234.SS)	O (03/20/2026)	Rmb120.24
StarPower Semiconductor Ltd (603290.SS)	E (05/14/2026)	Rmb97.93
Unigroup Guoxin Microelectronics Co Ltd (002049.SZ)	U (01/10/2023)	Rmb70.16
Universal Scientific Ind. (Shanghai) (601231.SS)	O (11/05/2025)	Rmb26.10
Yangjie Technology (300373.SZ)	O (06/10/2022)	Rmb101.70
Daniel Yen, CFA		
AP Memory Technology Corp (6531.TW)	O (07/11/2025)	NT$909.00
ASMedia Technology Inc (5269.TW)	U (10/03/2025)	NT$1,515.00
Aspeed Technology (5274.TWO)	O (06/09/2025)	NT$13,905.00
Egis Technology Inc (6462.TWO)	E (01/28/2026)	NT$101.50
Elan Microelectronics Corp (2458.TW)	O (10/03/2025)	NT$175.50
Espressif Systems (688018.SS)	O (05/15/2023)	Rmb120.61
GigaDevice Semiconductor Beijing Inc (603986.SS)	O (05/15/2025)	Rmb514.61
Macronix International Co Ltd (2337.TW)	O (09/18/2025)	NT$136.50
Montage Technology Co Ltd (6809.HK)	O (03/18/2026)	HK$278.60
Montage Technology Co Ltd (688008.SS)	O (03/18/2026)	Rmb211.13
Novatek (3034.TW)	U (02/04/2026)	NT$471.50
Nuvoton Technology Corporation (4919.TW)	U (11/10/2025)	NT$156.50
Parade Technologies Ltd (4966.TWO)	O (05/27/2026)	NT$631.00
Powerchip Semiconductor Manufacturing Co (6770.TW)	O (10/27/2025)	NT$76.50
Realtek Semiconductor (2379.TW)	E (01/30/2026)	NT$712.00
Shenzhen Goodix Technology Co Ltd (603160.SS)	U (07/14/2025)	Rmb54.83
Winbond Electronics Corp (2344.TW)	O (05/28/2026)	NT$172.00
WPG Holdings (3702.TW)	O (03/16/2026)	NT$113.50
WT Microelectronics Co. Ltd. (3036.TW)	O (01/27/2026)	NT$196.00
Duan Liu		
Dosilicon Co Ltd (688110.SS)	U (09/06/2024)	Rmb136.50
Shenzhen Longsys Electronics Co Ltd (301308.SZ)	E (02/25/2026)	Rmb463.59
Tiffany Yeh		
AllRing Tech Co. (6187.TWO)	O (09/23/2025)	NT$1,075.00
FOCI Fiber Optic Communications Inc (3363.TWO)	O (01/15/2025)	NT$555.00
Himax Technologies Inc (HIMX.O)	E (02/04/2026)	US$13.92
Hon Precision (7769.TW)	O (04/17/2026)	NT$6,695.00
MPI Corporation (6223.TWO)	O (04/17/2026)	NT$6,220.00
Silicon Motion (SIMO.O)	O (05/06/2024)	US$293.40
WinWay Technology Co Ltd (6515.TW)	O (04/17/2026)	NT$6,735.00

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.