TSMC

2Q26 sales reaching high-end of guidance; GM likely to beat

Overweight

2330.TW, 2330 TT
Price (13 Jul 26):NT$2440.0
Price Target (Jun-27):NT$3100.0

Technology and Telecoms

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TSMC's June revenue reached NT$443bn, up 6% MoM and 68% YoY. Preliminary 2Q26 sales came in at NT$1,270bn, up 12% QoQ and 36% YoY, largely in line with JPMe/Consensus and reaching the high end of 2Q26 USD guidance (US$39.0-40.2bn). The strong 2Q top-line was primarily driven by sustained datacenter AI momentum. As a result, we expect 2Q26 GM to exceed the high end of guidance (JPMe 69.5% vs guided 65.5-67.5%), supported by elevated UTR (N3/N5 likely continue running at over 100% UTR), hot-run/super-hot-run orders (carrying 50%/100% price premiums), and continued efficiency gains. We expect GMs to remain at a high level (67%+) in coming quarters despite dilution from the N2 ramp and overseas fabs, underpinned by the sustained S/D imbalance (likely persisting into 2028). Overall, we forecast TSMC's revenue to grow 37%/34%/23% YoY in USD terms in 2026/27/28, respectively. Key fundamental drivers include: 1) larger die sizes; 2) adoption of chiplet configurations; and 3) faster growth in ASICs. Meanwhile, CPUs emerge as a new fast-growth driver, given rising agentic AI demand.

- **Near-term GMs remain solid on high UTR and firm pricing, despite dilution from N2 and overseas expansion:** We expect TSMC's 2Q26 GM to reach 69.5% (up 3.3ppts QoQ), driven primarily by: 1) strong utilization (N3 and N5 remain at 120+% UTR), 2) increased ASPs from hot run/ super hot run orders (carrying 50%/100% price premium), and 3) improved overall efficiency. As for 3Q, we expect revenue to grow ~10% QoQ, with GM at 67.6%. While the N2 ramp and rising overseas capacity contribution could dilute margins in 2H, we expect GM to hold at 67-68% in coming quarters, underpinned by improving N3 GMs (set to surpass the corporate average in 2H26) and a richer mix (continuing rising HPC contribution). In addition, we expect another round of price hikes in 2027 (~8-10% for N3 and N2, with a milder uplift for N5, N7, and CoWoS) to provide further GM support.
- **Accelerated capacity build on leading-edge nodes and advanced packaging:** Given strong AI demand and a persistent S/D imbalance at leading-edge nodes (especially N3/N2), TSMC has been more proactive in accelerating build-out plans since early 2026. We raised our capex expectations for 2026/27/28 to US$58bn/$78bn/$84bn respectively in our previous note (see our TSMC preview note), and expect the company to revise up or highlight upside to its 2026 capex guidance (previously guided at the upper range of US$52-56bn), with only qualitative commentary on 2027-28 capex likely at this point. For N3, we are seeing accelerated cross-fab collaboration (utilizing N7/N12/28nm fabs to support wafer processing for N3 and N5), and expect N3 capacity to reach 167k/213k/240k wfpm by end-2026/27/28, against a current S/D gap of ~600k wafers, in our view. The N2 ramp also looks strong (eventual capacity reaching 240-250k wfpm by 2029-30), as TSMC encourages HPC customers to migrate to N2 on better yields and performance. In advanced packaging, we now expect TSMC's CoWoS capacity to reach 115k/190k wfpm by YE26/27 (up 95%/65% YoY), but S/D is likely to remain tight given recent upside in CPU demand (NVIDIA Vera and AMD Venice will start adopting CoWoS, with more ASIC CPUs potentially following).

See page 4 for analyst certification and important disclosures, including non-US analyst disc



- **Key topics for the upcoming earnings meeting:** Looking ahead to TSMC's 2Q26 earnings call, we expect company to share: 1) a strong message on near-term GM strength (2Q approaching the 70% level; 3Q guided to the 67-68% range); 2) qualitative commentary on demand and capacity dynamics; 3) a potential upward revision to 2026 revenue guidance towards mid-to-high 30% YoY growth in USD terms (previously "above 30%"); 4) reassurances dismissing concerns over competition in both leading-edge and mature-node; 5) commentary addressing potential upside to capex; and 6) possible updates on the Datacenter AI TAM, given accelerating demand for AI accelerators and the emergence of CPUs as a new growth driver.

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Investment Thesis, Valuation and Risks

TSMC *(Overweight; Price Target: NT$3100.0)*

Investment Thesis
We expect TSMC's structural growth drivers to remain very strong as leading-edge supply (N4, N3, and N2) stays tight well into 2027 or early 2028, given accelerating AI demand, continued growth in N3, N2 and advanced back-end revenues, and long lead time for capacity build despite accelerated capex. Near-term, we believe GMs are also likely to remain strong, nudging 70% levels, given N3 improvement, high UTR and decent pricing, despite N2 and overseas dilution. We expect broader price hikes in 2027, given the widening supply-demand gap and a stronger Datacenter AI CAGR (we now estimate 69% CAGR from 2024-29E, driven by both higher accelerator estimates and a surge in AI CPU numbers).

Valuation
Our Jun-27 PT of NT$3,100 is based on ~20x 12-month forward P/E and reflects stronger near-term profitability, better visibility on AI demand, stronger capacity build and firmer pricing into 2028. Our target multiple is higher than TSMC's five-year average historical multiple.

Risks to Rating and Price Target
Key downside risks to our rating and price target include: (1) the debate on the duration of the AI capex growth cycle and (2) any negative impact from weak PC/Smartphone demand in 2H26.