TSMC

First Take: 2Q26 - upside to FY26 revenue guide and capex; GMs slightly lower than market expectations

Overweight

2330.TW, 2330 TT
Price (15 Jul 26):NT$2440.0
Price Target (Jun-27):NT$3100.0



Technology and Telecoms

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Our First Take: TSMC's 2Q earnings came in better than expected, helped by strong operating leverage (driving OP margins to 60+% for the first time), while revenue and GMs came in at the top of the guidance range. The positive surprises came from the revenue guidance upgrade (to 40+% YoY) in 2026 and the capex upside ($60-64 bn in 2026, with significant upside in 2027/28 as well), and strong AI demand commentary, suggesting AI demand trends are likely to remain strong into 2029-30. In the very short term, the stock is likely to be weighed down by the lack of meaningful upside in near-term GMs vs. investor expectations of high 60-70%. However, we believe that GMs are likely to settle in the high 60% range in the next several quarters, despite N2 and overseas Fab dilution, as N3 profitability continues to improve (likely crossing over with Corporate profitability in 2H26) and TSMC continues to run at very high utilization with increasing operational efficiency. Longer term, we came away with the view that pricing and GMs will slowly trend higher as TSMC is able to contribute more value to its key customers. Messaging around competition was quite emphatic, with TSMC exuding confidence in continuing to maintain share in leading edge process, underlining additional $100bn investment in the US to serve US customers better, continuing to selectively grow its mature node capacity, while also welcoming new sources of back-end capacity such as Intel EMIB, given the acute shortage in advanced packaging.

Key Positives

- FY26 revenue guidance of 40+% growth (in USD terms) is well above expectations of mid-high 30% guidance.
- Stronger capex in FY26 ($60-64bn), with the upside coming from tool pull-ins, N3 and N5 capacity investments, Fab construction and some tool price appreciation.
- AI demand indicators stronger, with management indicating upside to its AI Accelerator CAGR of mid-high 50% (2024-29E).
- Strong indications from customers (and end users) for demand in Agentic AI, including accelerators, CPUs, networking, memory base-die etc, which should keep demand growing very strongly into the 2029-2030 timeframe.
- While not providing long-term numerical capex guidance, TSMC indicated significant upside to capex for the next few years, which suggests further upside to our current estimate of $78/$84bn in 2027/28.
- Increasing investments in the US by another $100bn, suggesting stronger demand from US customers and TSMC's confidence in emerging as the foundry player with the largest leading edge footprint in the US.
- Long-term margins are likely to be gradually upward sloping, judging from the company's commentary on continuing to sell its value, strong demand and strong operational efficiency.
- N2 revenue contribution coming in larger than expected in 2Q, with a steep

See page 5 for analyst certification and important disclosures, including non-US analyst disclosures.

ramp in 2H26/2027, could drive stronger growth in 2027/28.

- Welcoming more participants in the advanced packaging space (including Intel EMIB), highlighting that TSMC itself is leveraging OSATs to bring on more packaging capacity. TSMC pushed back aggressively against the notion that OSAT could be an on-ramp to Foundry services.
- TSMC management detailed its long-term capacity planning methodology, outlining how it accommodates "too-bullish" aggregate customer demand forecasts as well as being aware of other bottlenecks in the supply chain, such as datacenter roll-out and power. This should assuage investor concerns regarding potential overinvestment and inventory correction due to shifting bottlenecks in the medium term.

Key Negatives/Question Marks

- 2Q26 margins, while they beat the guidance range, came in lower than some of the bullish expectations (including JPMe at 69.5%). Key difference appears to be N2 depreciation kicking in earlier vs. our expectations, with some increased dilution in overseas Fabs. We view this as a one-off reset, with long-term GMs still likely to remain in the high-60% range.
- 2H26 gross margins are likely to see some downside from N2 ramp (3-400bps drag), but should also be partially offset by N3 ramp and improvement in N3 profitability. Overall, we only see a modest drop in GMs in 2H26.
- More guarded tone on consumer / smartphone demand and it appears that 2H seasonality for these areas could be less pronounced, while Gen AI demand should remain very strong.
- Mature Foundry demand is only strong for AI related areas (AI PMICs, interposers etc., our view), while the remainder of mature Foundry capacity still shows some slack.

Likely Changes to Consensus

Given the upside to revenue numbers in 2026, and indications of stronger growth in 2027, we expect consensus revenue numbers to move up 4-5%, while gross margins may see a slight downward reset. Overall, we believe that street 2026 EPS numbers are likely to move up 2-3% post results, with 27/28 likely seeing more upside given lead time for capacity additions.

Expected Stock Reaction

- In the very short term, we expect the stock to see some downward pressure due to the lack of a big upside surprise in GMs, but we view this as a one-off reset. Long-term growth expectations for AI are likely to rise, while long-term GMs should still settle in the high-60% range.



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Table 1: 2Q26 Earnings Review

NT$bn, EPS in NT$, %

	2Q26			Variance		Growth	
NT$ billion	Actual	JPMe	BBG 28 days	vs. JPMe	vs. Consensus	Q/Q	Y/Y
Revenues	**1,270**	**1,272**	**1,269**	**-0%**	**0%**	**12%**	**36%**
Gross profit	860	884	857	-3%	0%	15%	57%
GM (%)	*67.7%*	*69.5%*	*67.6%*	*-180 bps*	*17 bps*	*147 bps*	*910 bps*
Operating profit	767	779	749	-2%	2%	16%	65%
OPM (%)	*60.3%*	*61.2%*	*59.1%*	*-88 bps*	*129 bps*	*224 bps*	*1072 bps*
Pretax profit	862	802	774	8%	11%	25%	75%
Net profit	707	641	634	10%	11%	23%	77%
EPS (NT$)	**27.25**	**24.72**	**24.46**	**10%**	**11%**	**23%**	**77%**

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates.

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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 and 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.