AI Semi

EQUITY: TECHNOLOGY

TSMC shares react negatively despite guidance beat

Consolidation in AI trade likely; component shortage, price hikes and earnings upside still next catalysts

Research Analysts

Semiconductor

Aaron Jeng, CFA - NITB
aaron.jeng@nomura.com
+886(2) 21769962

Eric Chen, CFA - NITB
eric.chen@nomura.com
+886(2) 21769965

Vivian Yang - NITB
vivian.yang@nomura.com
+886(2) 21769970

What happened? The divergence between TSMC's guidance beat and T+1 day share price reaction

In our Anchor Report published in end-June, we highlighted our views on the AI cycle (*report* ; we had flagged the possibility of a short-term correction, but also stated that the AI cycle would remain in play). Subsequently, TSMC (2330 TT, Buy) during its 16 July results call (*report*) delivered a clear beat in terms of revenue guidance and capex (vs our and consensus expectations). Still, its T+1 day share price reaction was disappointing (down 7%/2% for local shares/ADR). **In this report, we delve into the "interesting" divergence between TSMC's share price performance and fundamental dynamics.**

It happened four times over the last 10 years (40 TSMC earnings calls)

Our analyses of TSMC earnings calls over the last 10 years (40 earnings calls in total) calls attention to four such occasions (i.e. fundamental beat followed by negative share price reaction) – April 2021 (*review*), July 2021 (*review*), April 2022 (*review*), and July 2024 (*review*).

From *Fig. 1* , we can conclude that the T+1 day share price corrections in all the four occasions suggest a near-term (at least one month) share price (of either TSMC, SOX, or OTCELE index) consolidation or an ongoing weakness.

The rationale behind the first three corrections, particularly in April 2022, is straightforward in our assessment — a sign of the cycle peaking. We had flagged several times during 2H21-1H22 that the COVID-19 cycle peak could materialize in 1H22: "*Price hikes continue; cycle risks beyond 1Q22*" Oct 2021, "*2022: Likely a strong beginning, but soft ending*" Dec 2021, "*Cycle peak is here*" April 2022, "*Cycle peak is here – part II*" June 2022. From *Fig. 2* , we could infer that the share price of TSMC consolidated through 2021, and then started falling in 2022.

Our reading of the July 2024 correction was however different. The share price correction appeared to be a false alarm, suggesting a cycle peak but later on it was overridden by the AI-driven uptrend. By the time TSMC raised its guidance in July 2024, TSMC/SOX/TWOTCELE had appreciated by a "significant" 105%/92%/59% following the launch of ChatGPT3.5 – or as Jensen Huang in Feb 2023 claimed, AI's "iPhone moment," *news*). And in our May 2024 semiconductor strategy report ("*It's all about AI*"), we had flagged elevated sector valuation and AI transition risk heading into 2H24 (from Hopper to Blackwell) before the rally in 2025. From *Fig. 2* - *Fig. 4* , we can see TSMC/SOX/OTCELE had corrected in 3Q24 and then climbed back up in 4Q24.

So, where are we now? In variance with conventional cycle wisdom, we expect the AI trade to re-emerge after the recent consolidation/weakness. We expand coverage of advanced semiconductor testing supply chain where we highlight four new Buy ideas

In our latest AI semi and server Anchor Report ("*Is the cycle over?*" June 2026)," we had highlighted several reasons that could drive a share price correction, such as a lack of visibility into 2028 new data center builds, US hyperscalers facing 2027 FCF pressure, the worst-ever component supply mismatch, and rising yields (rising burden for tech funding) – following the substantial 80%+ rise in the SOX in a single quarter (2Q26) – but we have continued to maintain a positive stance on the ongoing component/material shortage, price hike and earnings upward revisions with the AI semi/server sector providing potential positive catalysts. At the time of writing, Google (GOOGL US, Not rated), among major US hyperscalers, has announced its earnings and suggested that compute power is still in shortage, and 2027E capex would still be significantly higher than the revised-up 2026 numbers despite FCF pressure. Such commentary seem to be consistent with our

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view in the *Anchor Report*.

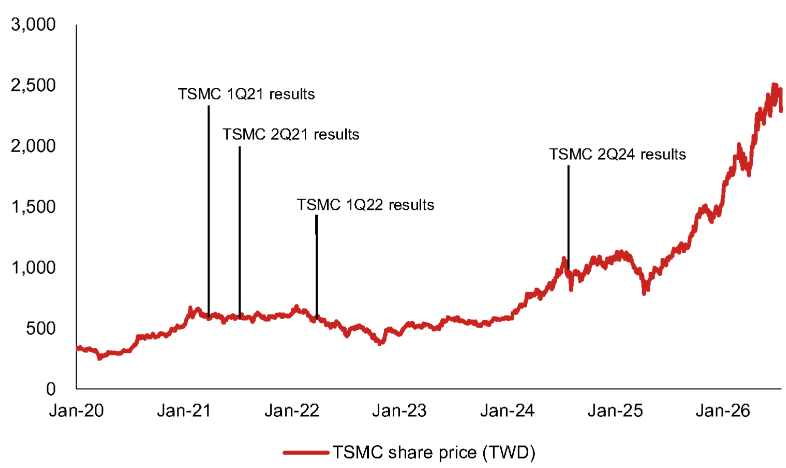
We continue to maintain this view — in variance with conventional cycle wisdom, we expect AI trade to re-emerge after the recent consolidation/weakness (which might last at least one month if history rhymes). That is one reason why we have picked up coverage of advanced semiconductor testing supply chain today (see *report*) with four new initiations/resumption of coverage with Buy ratings — Hon Precision (7769 TT), Chroma (2360 TT), MPI (6223 TT), WinWay (6515 TT) — and have reiterated our Buy on ASE (3711 TT) and KYEC (2449 TT). The key risk would still be hyperscalers' capex outlook.

Fig. 1: How TSMC, SOX, and TWOTCELE reacted following TSMC's earnings over the past 10 years

Results quarter	Earnings call date	Full-year guidance metrics		Reaction of TSMC share price			Reaction of SOX index			Reaction of OTCELE index		
		Revenue	Capex	1 day	1 week	1 month	1 day	1 week	1 month	1 day	1 week	1 month
2Q26	7/16/2026	Beat	Beat	-7.3%			-4.3%			-8.0%		
1Q26	4/16/2026	In line	In line	-2.6%	-0.2%	8.9%	1.0%	9.1%	30.7%	2.2%	5.5%	21.3%
4Q25	1/15/2026	Beat	Beat	3.0%	4.1%	13.3%	1.8%	4.6%	5.0%	0.9%	3.6%	4.8%
3Q25	10/16/2025	In line	In line	-2.4%	-2.4%	-1.7%	0.5%	1.2%	0.8%	-1.2%	-0.3%	-0.3%
2Q25	7/17/2025	Beat	In line	2.2%	1.3%	4.0%	0.7%	-0.9%	3.3%	0.0%	-1.4%	6.6%
1Q25	4/17/2025	In line	In line	0.4%	2.0%	17.2%	-0.6%	9.1%	27.9%	-0.1%	0.9%	10.5%
4Q24	1/16/2025	In line	Beat	1.4%	2.7%	-1.4%	0.2%	5.6%	0.1%	-0.8%	1.6%	1.9%
3Q24	10/17/2024	In line	In line	4.8%	2.4%	0.0%	0.9%	0.0%	-2.9%	-1.5%	-0.9%	-6.6%
2Q24	7/18/2024	Beat	In line	-3.5%	-8.1%	-6.2%	0.5%	-7.5%	-4.4%	-2.3%	-6.3%	-6.5%
1Q24	4/18/2024	In line	In line	-6.7%	-4.7%	4.6%	-1.7%	1.0%	9.9%	-4.1%	-4.7%	-1.5%
4Q23	1/18/2024	In line	In line	6.5%	9.2%	18.5%	3.4%	9.9%	12.0%	1.1%	3.4%	8.6%
3Q23	10/19/2023	In line	In line	1.8%	-2.7%	6.8%	-1.3%	-6.6%	9.1%	-0.7%	-2.6%	3.5%
2Q23	7/20/2023	In line	In line	-3.3%	-1.7%	-6.0%	-3.6%	-0.9%	-9.3%	-0.5%	-0.9%	-6.4%
1Q23	4/20/2023	Miss	In line	-0.4%	-3.8%	3.3%	0.0%	-3.4%	5.8%	-2.0%	-3.5%	-0.7%
4Q22	1/12/2023	Beat	In line	2.8%	3.4%	11.0%	1.2%	-1.6%	11.0%	-0.7%	0.7%	8.8%
3Q22	10/13/2022	In line	In line	4.3%	0.6%	3.2%	2.9%	2.5%	21.6%	3.7%	2.4%	10.9%
2Q22	7/14/2022	Beat	In line	3.7%	5.5%	8.2%	1.9%	13.2%	15.6%	1.8%	7.2%	6.5%
1Q22	4/14/2022	Beat	In line	-1.9%	-1.4%	-11.9%	-2.9%	-1.9%	-9.4%	-2.7%	-1.7%	-11.0%
4Q21	1/13/2022	Beat	Beat	1.7%	-1.5%	-1.8%	-2.3%	-10.4%	-9.4%	-0.8%	-1.0%	-1.6%
3Q21	10/14/2021	Beat	In line	4.7%	4.0%	5.8%	3.1%	6.9%	17.9%	2.4%	5.5%	12.9%
2Q21	7/15/2021	Beat	In line	-4.1%	-3.7%	-4.6%	-2.2%	-0.9%	0.7%	-0.2%	-0.1%	-5.5%
1Q21	4/15/2021	Beat	Beat	-1.5%	-4.5%	-11.6%	1.8%	-2.5%	-10.0%	0.4%	-1.7%	-13.7%
4Q20	1/14/2021	Beat	Beat	1.5%	13.7%	12.0%	2.1%	4.7%	6.3%	-2.1%	-1.9%	-0.1%
3Q20	10/15/2020	Beat	In line	-0.9%	0.4%	1.1%	-0.3%	-1.9%	2.5%	-1.0%	-0.4%	1.8%
2Q20	7/16/2020	In line	Beat	2.7%	6.7%	20.0%	-0.4%	0.3%	6.7%	-1.7%	1.7%	-0.8%
1Q20	4/16/2020	Beat	Beat	7.0%	3.1%	2.3%	2.6%	1.0%	5.5%	0.2%	0.0%	6.4%
4Q19	1/16/2020	Beat	Beat	-0.4%	-0.4%	0.1%	1.7%	3.9%	4.7%	0.0%	0.4%	-3.0%
3Q19	10/17/2019	Beat	Beat	-0.2%	-0.2%	3.4%	0.3%	0.9%	7.9%	0.3%	1.9%	0.1%
2Q19	7/18/2019	In line	Beat	2.0%	4.3%	-2.4%	1.5%	6.0%	-4.3%	1.2%	4.5%	-2.1%
1Q19	4/18/2019	In line	In line	0.0%	1.1%	-6.6%	0.1%	0.2%	-8.2%	1.0%	1.0%	-7.4%
4Q18	1/17/2019	In line	In line	-0.9%	0.9%	2.9%	1.1%	5.6%	13.2%	0.9%	2.2%	10.8%
3Q18	10/18/2018	Beat	In line	-0.2%	-7.2%	-2.3%	-2.5%	-8.2%	-3.3%	-1.0%	-8.6%	2.0%
2Q18	7/19/2018	Miss	Miss	5.8%	7.3%	6.5%	-0.3%	0.7%	-2.7%	-1.1%	-0.1%	-8.2%
1Q18	4/19/2018	Miss	Beat	-6.3%	-9.2%	-7.4%	-4.3%	-5.6%	1.6%	-1.5%	-9.0%	-3.0%
4Q17	1/18/2018	Beat	In line	2.8%	3.8%	-2.4%	0.5%	-2.0%	-3.0%	0.0%	0.0%	-5.1%
3Q17	10/19/2017	In line	In line	-0.6%	-1.3%	-0.4%	-0.3%	0.7%	6.9%	0.0%	0.7%	1.8%
2Q17	7/13/2017	In line	In line	-0.7%	0.5%	-0.2%	-0.2%	2.2%	-3.0%	1.1%	2.6%	-0.5%
1Q17	4/13/2017	In line	In line	-1.3%	-2.3%	8.4%	-0.7%	3.2%	7.9%	-2.7%	-2.2%	-1.3%
4Q16	1/12/2017	Miss	In line	-1.6%	-2.2%	-0.3%	-0.9%	-0.9%	4.0%	-0.1%	0.9%	7.7%
3Q16	10/13/2016	In line	In line	-0.3%	1.1%	-1.6%	-1.2%	0.5%	-0.8%	-1.6%	0.7%	-4.2%
2Q16	7/14/2016	In line	Beat	0.3%	1.8%	4.4%	0.7%	2.7%	8.0%	0.5%	1.7%	2.0%
1Q16	4/14/2016	Miss	In line	-1.2%	-2.8%	-9.6%	-0.9%	-2.6%	-7.9%	-0.3%	-0.3%	-9.9%

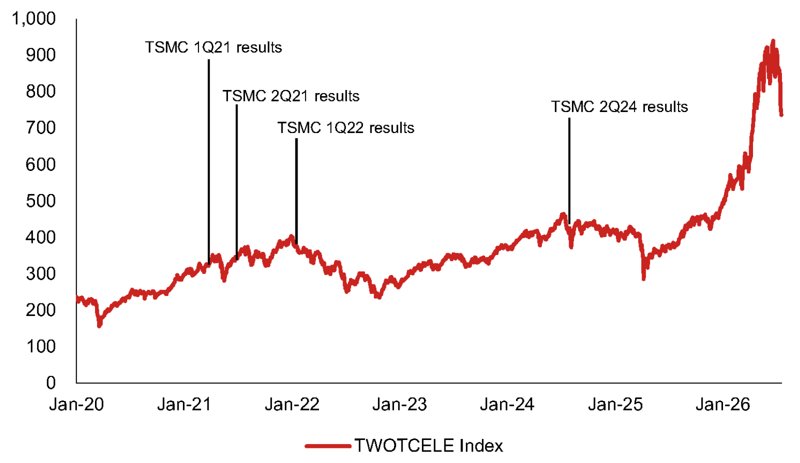
Note: As of July 20, 2026.
Source: Bloomberg Finance L.P., Nomura research

Fig. 2: TSMC share price



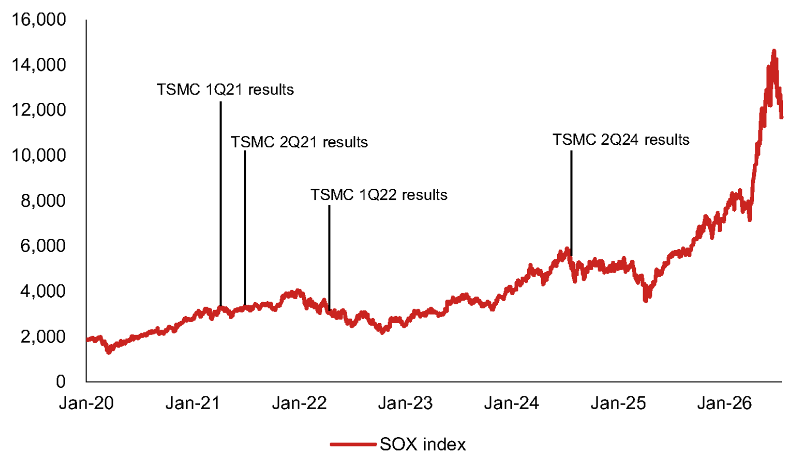
Note: As of July 20, 2026.
Source: Bloomberg Finance L.P., Nomura research

Fig. 3: TWOTCELE index



Note: TWOTCELE – we include Taiwan OTC electronic Index in the share price chart comparison as it doesn't include TSMC and is a proxy to small-cap tech companies in Taiwan - likely indicating a tech stock portfolio with higher share price volatility vs. share price of TSMC and SOX. Data is as of July 20, 2026.
Source: Bloomberg Finance L.P., Nomura research

Fig. 4: SOX index



Note: As of July 20, 2026.
Source: Bloomberg Finance L.P., Nomura research

Appendix A-1

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