Taiwan Semiconductor Manufacturing Co.

Capital appropriation ramping to support demand; US fab ramps progressing well

Maintain Rating: BUY | PO: 3,100 TWD | Price: 2,380 TWD

Solid capital budget for advanced front/back-end demand

BoD approved capital appropriations of US$29bn, putting the budget +99% YoY from 1Q-3Q26. While the quarterly trend could be lumpy, we would note budget mix (Exhibit 2) continues shifting to front-end expansion and a modest pick up in advanced back-end packaging and specialty process, suggesting it is undergoing a period of steep capacity ramp as facilities/clean room get ready (35% of budget LTM vs 47% avg. in '24-25). Based on our wafer demand estimate on GPUs, ASICs, x86/ARM server CPU, networking switch and existing mobile SoCs, the capex is on track to its guide midpoint of US$62bn in '26 and could reach US$80-85bn in '27 (vs. BofAe/street US$78bn/US$75bn) if its capital appropriation run rate sustains above the long term trend at +40-45% YoY.

GMs hold up well even with ramping overseas operation

While TSMC's depreciation could grow at ~20% CAGR from '26-28 amid significant capex growth to support demand across advanced and specialty technologies including JV with Sony for image sensor production in '29, the solid HPC demand pipeline along with the existing high-end mobile chipsets should allow it to better reflect the value of technology leadership, keeping its GMs solid at high-60% levels. It is noteworthy that its Arizona fabs sales was up 17% QoQ and 145% YoY to NT$45bn at 4% of TSMC's total sales. We also estimate its net margins ex-grants stayed resilient at 38% in 2Q26 (vs. -90% in '25 for its Arizona fabs and corporate average of ~50%), potentially moderating the margins dilution if it stays well executed on utilization/pricing in overseas fabs.

Stock at mid-cycle supported by robust AI demand pipeline

We maintain our Buy rating with PO at NT$3,100 on 20x '27 P/E. The share valuation is undemanding at 17x '27 P/E (vs. its long term 11-21x range) backed by 33%/40% sales/earnings CAGR on strong technology leadership and extending AI demand visibility.

Estimates (Dec) (NT$)	**2024A**	**2025A**	**2026E**	**2027E**	**2028E**
Net Income (Adjusted - mn)	1,173,268	1,717,886	2,857,919	3,972,158	4,718,757
EPS	45.24	66.24	110.20	153.17	181.96
EPS Change (YoY)	39.9%	46.4%	66.4%	39.0%	18.8%
Consensus EPS (Visible Alpha)			108.29	144.31	180.04
Dividend / Share	18.00	22.00	24.00	24.00	24.00
Free Cash Flow / Share	33.55	38.66	67.82	93.39	126.04
ADR EPS (US$)	7.04	10.62	17.31	24.06	28.58
ADR Dividend / Share (US$)	2.80	3.53	3.77	3.77	3.77
Valuation (Dec)					
P/E	52.60x	35.93x	21.60x	15.54x	13.08x
Dividend Yield	0.756%	0.924%	1.01%	1.01%	1.01%
EV / EBITDA*	29.50x	22.31x	14.34x	10.35x	8.87x
Free Cash Flow Yield*	1.41%	1.62%	2.85%	3.92%	5.30%

* For full definitions of *iQmethod* SM measures, see page 7.

18 August 2026

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Stock Data

Price (Common / ADR)	2,380 TWD / 430.97 USD
Price Objective	3,100 TWD / 590.00 USD
Date Established	13-Jul-2026 / 24-Jun-2026
Investment Opinion	B-1-7 / B-1-7
52-Week Range	1,135 TWD-2,535 TWD
Market Value (mn)	1,938,656 USD
Market Value (mn)	61,719,041 TWD
Shares Outstanding (mn)	25,932.4 / 5,186.5
Average Daily Value (mn)	2,668 USD
Free Float	92.1%
BofA Ticker / Exchange	TSMWF / TAI
BofA Ticker / Exchange	TSM / NYS
Bloomberg / Reuters	2330 TT / 2330.TW
ROE (2026E)	43.0%
Net Dbt to Eqty (Dec-2025A)	-37.3%

iQprofile SM Taiwan Semiconductor Manufacturing Co.

Key Income Statement Data (Dec)	2024A	2025A	2026E	2027E	2028E
(NT$ Millions)					
Sales	2,894,308	3,809,054	5,477,153	7,624,785	8,920,142
Gross Profit	1,624,354	2,281,294	3,654,584	5,107,101	5,989,971
Sell General & Admin Expense	(96,888)	(99,222)	(108,728)	(131,058)	(147,877)
Operating Profit	1,322,053	1,936,092	3,251,539	4,604,996	5,423,431
Net Interest & Other Income	83,786	105,574	195,028	181,827	263,268
Associates	NA	NA	NA	NA	NA
Pretax Income	1,405,839	2,041,666	3,446,566	4,786,823	5,686,699
Tax (expense) / Benefit	(233,407)	(326,266)	(589,232)	(817,495)	(971,303)
Net Income (Adjusted)	1,173,268	1,717,886	2,857,919	3,972,158	4,718,757
Average Fully Diluted Shares Outstanding	25,932	25,933	25,933	25,933	25,933
Key Cash Flow Statement Data					
Net Income	1,173,268	1,717,886	2,857,919	3,972,158	4,718,757
Depreciation & Amortization	662,797	688,096	831,710	1,053,944	1,179,802
Change in Working Capital	(143,010)	(72,100)	(98,157)	(169,601)	(63,286)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	133,123	(58,907)	155,002	77,356	95,369
Cash Flow from Operations	1,826,177	2,274,976	3,746,474	4,933,857	5,930,643
Capital Expenditure	(956,007)	(1,272,411)	(1,987,705)	(2,512,151)	(2,662,089)
(Acquisition) / Disposal of Investments	(58,000)	(37,014)	(59,179)	3,026	189
Other Cash Inflow / (Outflow)	149,164	165,031	118,284	(4,000)	1,931
Cash Flow from Investing	(864,843)	(1,144,393)	(1,928,601)	(2,513,125)	(2,659,970)
Shares Issue / (Repurchase)	(9)	(2)	(1)	0	0
Cost of Dividends Paid	(337,129)	(440,855)	(570,514)	(622,381)	(622,381)
Cash Flow from Financing	(346,301)	(440,345)	(577,519)	(624,257)	(622,960)
Free Cash Flow	870,171	1,002,565	1,758,769	2,421,706	3,268,553
Net Debt	(1,403,733)	(2,035,607)	(3,385,555)	(5,181,108)	(7,829,225)
Change in Net Debt	(556,872)	(647,079)	(1,247,470)	(1,798,352)	(2,648,292)
Key Balance Sheet Data					
Property, Plant & Equipment	3,234,980	3,691,841	5,058,473	6,595,644	8,000,659
Other Non-Current Assets	368,606	424,052	455,441	462,135	463,065
Trade Receivables	272,088	281,791	336,627	421,001	445,123
Cash & Equivalents	2,422,020	3,068,595	4,421,297	6,214,973	8,862,511
Other Current Assets	394,245	466,745	528,263	653,244	721,183
Total Assets	6,691,938	7,933,024	10,800,100	14,346,996	18,492,541
Long-Term Debt	958,429	896,062	887,047	884,597	884,290
Other Non-Current Liabilities	145,408	118,147	180,257	213,694	241,939
Short-Term Debt	59,858	136,926	148,695	149,268	148,995
Other Current Liabilities	1,204,667	1,321,094	1,682,253	1,737,804	1,782,535
Total Liabilities	2,368,362	2,472,229	2,898,251	2,985,363	3,057,760
Total Equity	4,323,576	5,460,795	7,901,849	11,361,634	15,434,781
Total Equity & Liabilities	6,691,938	7,933,024	10,800,100	14,346,996	18,492,541
iQ*method SM - Bus Performance					
Return On Capital Employed	23.2%	28.4%	35.7%	36.6%	32.2%
Return On Equity	30.3%	35.4%	43.0%	41.4%	35.3%
Operating Margin	45.7%	50.8%	59.4%	60.4%	60.8%
EBITDA Margin	68.6%	68.9%	74.6%	74.2%	74.0%
iQ*method SM - Quality of Earnings					
Cash Realization Ratio	1.6x	1.3x	1.3x	1.2x	1.3x
Asset Replacement Ratio	1.4x	1.8x	2.4x	2.4x	2.3x
Tax Rate (Reported)	16.6%	16.0%	17.1%	17.1%	17.1%
Net Debt-to-Equity Ratio	-32.5%	-37.3%	-42.8%	-45.6%	-50.7%
Interest Cover	NM	NM	NM	NM	NM

Key Metrics

* For full definitions of *iQmethod* SM measures, see page 7.

Company Sector

Semiconductors

Company Description

TSMC was founded in 1987 and is listed in Taiwan (2330TT) and the US (TSM/NYS).TSMC is the largest and global leader in integrated circuit (IC) manufacturing. As a build-to-order foundry, it provides a wide range of value-add activities: IC manufacturing, mask-making, IC design services, turnkey solutions, and process development. We attribute its success to its proven, winning business model, unparalleled scale advantage, optimized execution, and technology scope and depth. 5 shares = 1 ADR.

Investment Rationale

The ongoing semi content growth in mobile, rise of artificial intelligence (AI), and proliferation of Internet of Things (IoT) should result in sustainable upside in aggregate computing power globally. TSMC, as the leading contract manufacturer of semiconductor chips, is in a good position to capitalize. We are structurally positive on TSMC and expect it to sustain over 15% growth with rising FCF from 2026 onwards.

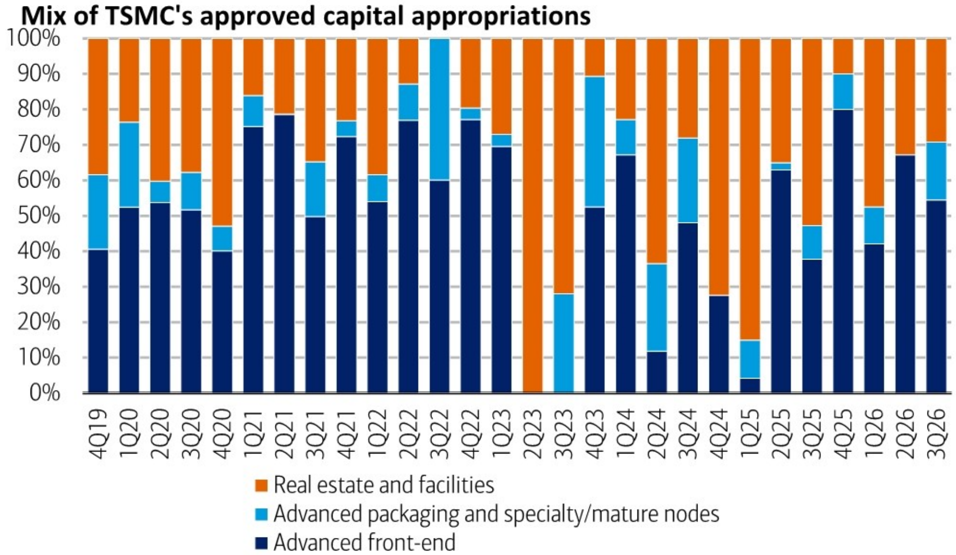
Stock Data

Shares / ADR	5.00
Price to Book Value	7.9x

Focus charts and tables

Exhibit 1: TSMC's approved capital appropriations mix

The budget approved is lumpy on a quarterly basis but shows a trend toward front/back-end capacity expansion in the past couple of quarters



Source: BofA Global Research estimates

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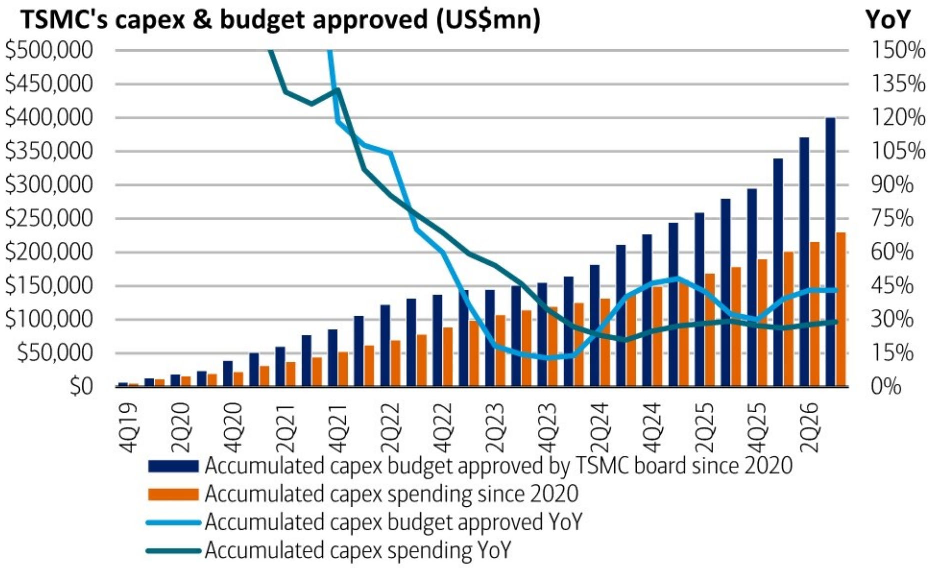
Exhibit 2: TSMC's approved capital appropriations vs. actual capex trend

TSMC's accumulated capital appropriations YoY growth is reaccelerating



Source: BofA Global Research estimates

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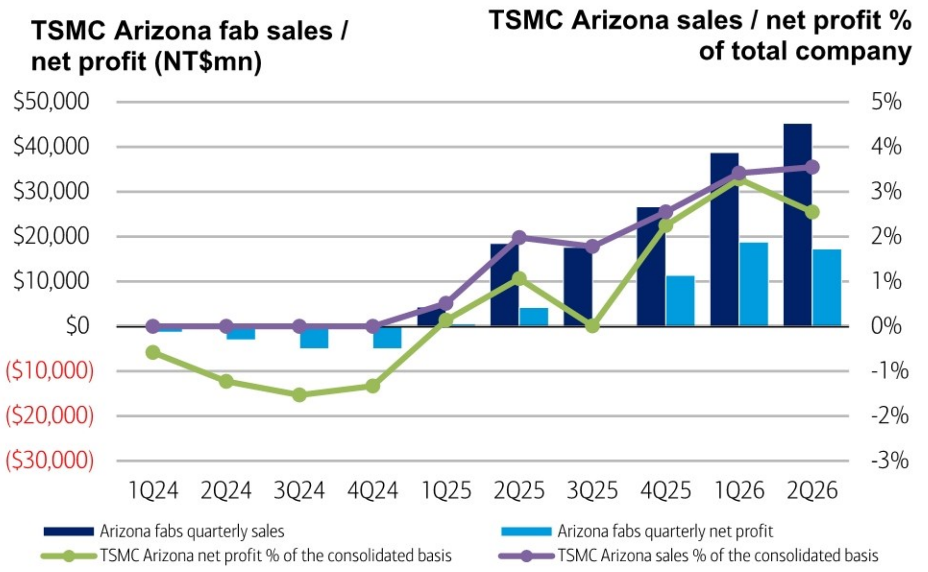
Exhibit 3: TSMC's Arizona fab sales/net profit trend
TSMC's reported net profit for its Arizona fabs improved in 2Q26



Source: BofA Global Research estimates

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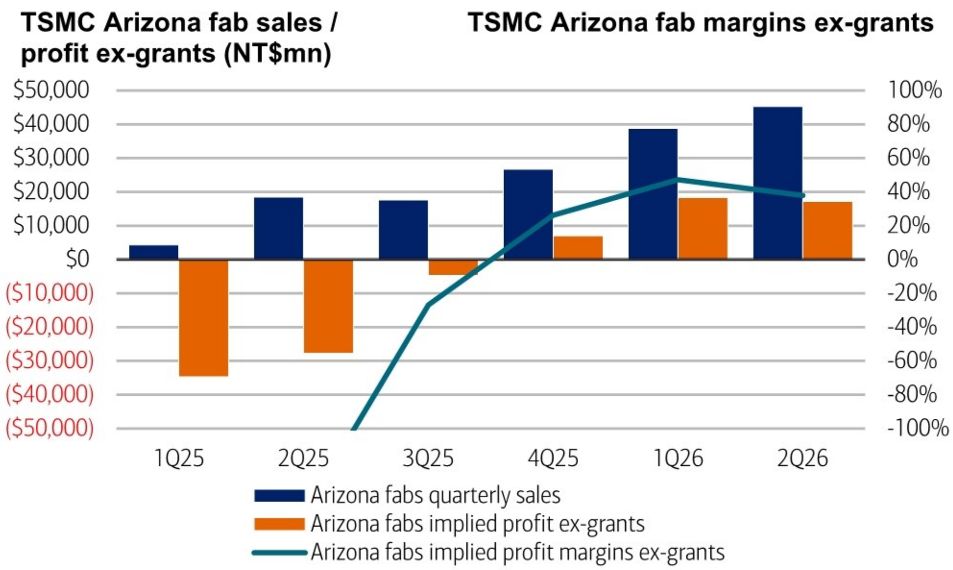
Exhibit 4: TSMC's Arizona fab sales/profit ex-grants trend
TSMC's Arizona fab margins ex-grants strengthened in 2Q26 and could improve further



Source: BofA Global Research estimates

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Price objective basis & risk

Taiwan Semiconductor Manufacturing Co. (TSMWF / TSM)

Our PO for TSMC is NT$3,100 per share (US$590 per ADR), based on 20x 2027E P/E. TSMC's valuation has traded in the range of 10-26x PE from 2017. 20x is in the mid to high end of the historical range, above the average P/E of 18x. We think a PE above the average is justified given TSMC's enhanced industry position and mid-40% 5-year CAGR in AI should underpin a rerating

Downside risks to our price objective are: (1) greater-than-expected slowdown in global smartphone/consumer electronics demand, (2) Intel's potential insourcing strategy and ambitions in foundry service, (3) execution risks on advanced nodes, and (4) higher than expected tariffs.

Analyst Certification

I, Haas Liu, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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APR - Semiconductor Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alchip	ALCPF	3661 TT	Haas Liu
	All Ring	XNQNF	6187 TT	Haas Liu
	AMEC	XRTOF	688012 CH	Dai Shen
	ASE Technology Holding	XSRIF	3711 TT	Haas Liu
	ASE Technology Holding -ADR	ASX	ASX US	Haas Liu
	ASMPT	ASMVF	522 HK	Simon Woo, CFA
	Aspeed	XLKMF	5274 TT	Mike Yang
	Chroma ATE	CRMJF	2360 TT	Haas Liu
	eMemory	XYLWF	3529 TT	Mike Yang

APR - Semiconductor Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	GigaDevice	XGXIF	603986 CH	Daley Li, CFA
	Global Unichip Corp.	GBUHF	3443 TT	Haas Liu
	Grand Process Technology Corp	XZOWF	3131 TT	Haas Liu
	Hanmi Semiconductor	HNSIF	042700 KS	Simon Woo, CFA
	Hon Precision	XXPIF	7769 TT	Haas Liu
	Horizon Robotics	HRZRF	9660 HK	Daley Li, CFA
	Iluvatar CoreX	XSIBF	9903 HK	Daley Li, CFA
	Ingenic	XISCF	300223 CH	Dai Shen
	InnoScience Technology	XSCHF	2577 HK	Daley Li, CFA
	JCET Group Co Ltd	XJIEF	600584 CH	Dai Shen
	King Yuan Electronics Corp.	KYUFF	2449 TT	Haas Liu
	Kinik	KIKCF	1560 TT	Haas Liu
	Macronix International	MXICF	2337 TT	Dai Shen
	MediaTek	MDTKF	2454 TT	Haas Liu
	Montage Technology	XRDFF	688008 CH	Daley Li, CFA
	MPI Corporation	XMJCF	6223 TT	Mike Yang
	Nanya Technology	NNYAF	2408 TT	Simon Woo, CFA
	NCE Power	XVFFF	605111 CH	Daley Li, CFA
	OmniVision	XXHQF	603501 CH	Dai Shen
	Phison Electronics	PISNF	8299 TT	Simon Woo, CFA
	Powerchip Semiconductor Manufacturing Co	XCHPF	6770 TT	Haas Liu
	Powertech Technology	PWOGF	6239 TT	Simon Woo, CFA
	Rockchip	XRPXF	603893 CH	Daley Li, CFA
	Samsung C&T	XCDTF	028260 KS	Simon Woo, CFA
	Samsung Elec -G	SSNHZ	SMSN LI	Simon Woo, CFA
	Samsung Electronics	SSNLF	005930 KS	Simon Woo, CFA
	Samsung Electronics Preferred	SSNNF	005935 KS	Simon Woo, CFA
	Silergy Corp.	SLEGF	6415 TT	Mike Yang
	Silicon Motion	SIMO	SIMO US	Simon Woo, CFA
	SK Hynix	HXSCF	000660 KS	Simon Woo, CFA
	SK Hynix ADR	SKHY	SKHY US	Simon Woo, CFA
	SK Square	SKSQF	402340 KS	Simon Woo, CFA
	Taiwan Semiconductor Manufacturing Co.	TSM	TSM US	Haas Liu
	Taiwan Semiconductor Manufacturing Co.	TSMWF	2330 TT	Haas Liu
	Vanguard International Semiconductor Co	VGILF	5347 TT	Haas Liu
	Winbond Electronics	WBEKF	2344 TT	Dai Shen
	WinWay Technology	XWCLF	6515 TT	Mike Yang
	WT Microelectronics	XZOPF	3036 TT	Mike Yang
NEUTRAL				
	ASMedia Technology Inc.	XZSFF	5269 TT	Mike Yang
	Black Sesame Intl Holding	BSIHF	2533 HK	Daley Li, CFA
	Hangzhou Silan Microelectronics	XDFRF	600460 CH	Daley Li, CFA
	Lion Electronics	XDHFF	605358 CH	Dai Shen
	MetaX	XMEZF	688802 CH	Daley Li, CFA
	Novatek	NVKMF	3034 TT	Mike Yang
	Realtek	RLTKF	2379 TT	Mike Yang
	Shenzhen Goodix	XQPLF	603160 CH	Daley Li, CFA
	Soulbrain	XSBOF	357780 KS	Simon Woo, CFA
UNDERPERFORM				
	Crystal Clear	XPPTF	300655 CH	Dai Shen
	Faraday	FDYTF	3035 TT	Haas Liu
	GlobalWafers	XWLFF	6488 TT	Mike Yang
	Hua Hong Grace	HHUSF	1347 HK	Dai Shen
	LX Semicon	XLXSF	108320 KS	Simon Woo, CFA
	M31 Technology	XMTZF	6643 TT	Mike Yang
	Maxscend	XMXSF	300782 CH	Daley Li, CFA
	Parade	PRDWF	4966 TT	Mike Yang
	United Microelectronics Corp.	XUMIF	2303 TT	Haas Liu
	United Microelectronics Corp.	UMC	UMC US	Haas Liu
	VeriSilicon	XMLZF	688521 CH	Daley Li, CFA
	Win Semiconductors	WSMIF	3105 TT	Haas Liu
	Wonik IPS	XRHQF	240810 KS	Simon Woo, CFA

iQmethod℠ Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 − Tax Rate) + Goodwill Amortization	Total Assets − Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations − Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt − Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations − Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

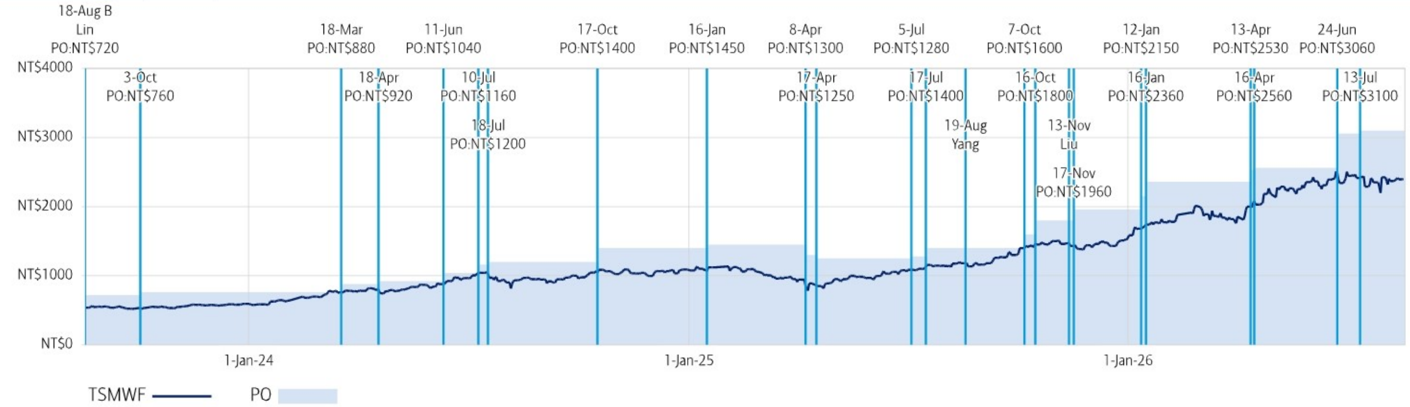
iQmethod℠ is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

Disclosures

Important Disclosures

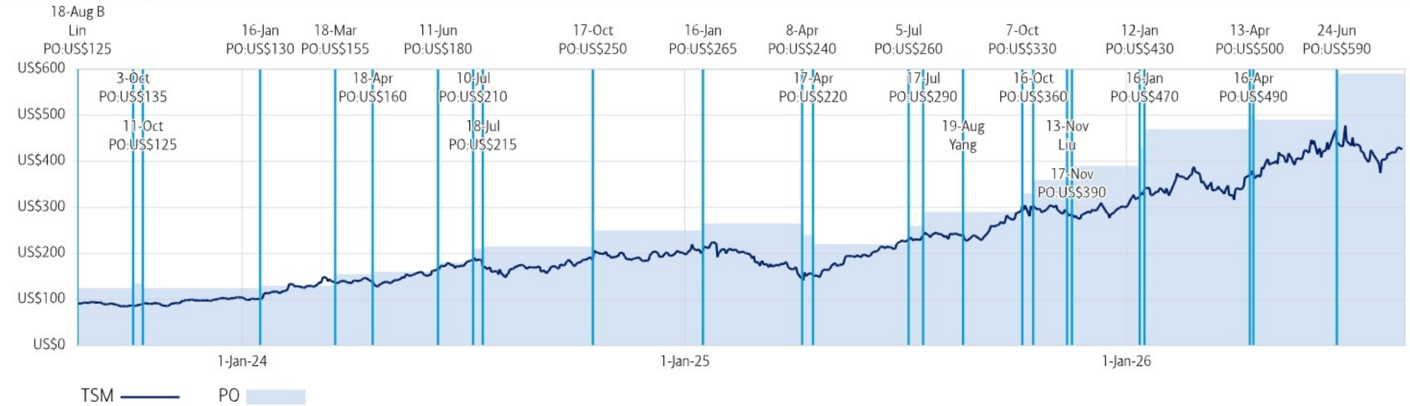
Taiwan Semi Mfg Co (TSMWF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Taiwan Semi Mfg Co (TSM) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 30 Jun 2026)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	243	60.60%	Buy	123	50.62%
Hold	87	21.70%	Hold	45	51.72%
Sell	71	17.71%	Sell	21	29.58%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2026)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1987	56.11%	Buy	1190	59.89%
Hold	797	22.51%	Hold	496	62.23%
Sell	757	21.38%	Sell	391	51.65%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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