TSMC

August sales on track; 3Q likely to reach mid-high end of guidance amid tight leading-edge capacity

Overweight

2330.TW, 2330 TT
Price (10 Sep 26):NT$2450.0
Price Target (Jun-27):NT$3200.0

Technology and Telecoms

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TSMC's August revenue reached NT$514.8bn, up 53% YoY and 10% MoM, representing ~67% of JPMe/Bloomberg consensus 3Q26e revenue. We expect 3Q26 sales to reach the mid to high end of guidance, driven by robust AI accelerator demands. With datacenter AI demand visibility now extending into 2029-30 we remain confident in TSMC's sustained growth trajectory. Looking into 2027, our industry checks indicate the N3 supply/demand imbalance will likely worsen despite TSMC adding ~40% N3 capacity, driven by NVIDIA's steep Rubin/Vera ramp and accelerating agentic AI CPU demand. On margins, we expect GMs to remain in the mid- to high-60% range despite N2 ramp dilution, supported by pricing strength and sustained high N3 UTR. We expect TSMC to maintain a 95%+ share in the initial ramp of N2/A16 demand, and current progress on A14 should keep it well ahead of Intel and Samsung Foundry.

- **Revenue on track for mid to high end of 3Q guidance; margins holding firm despite N2 ramp pressures:** We believe TSMC is tracking towards the mid to high end of 3Q26 guidance (US$44.6-45.8bn, JPMe US$45.5bn) on sustained strong demand and 100%+ UTR at N3/N5. We forecast 3Q26 GM at ~66.5% (down ~1.2ppts QoQ) as N2 depreciation ramps. Looking ahead, we expect margins to stay in the mid to high-60% range (JPMe 66.9%/67.5%/68.7% in 2026/27/28), supported by improving N3 GMs (likely to cross corporate average in 2H26), sustained high UTR at leading-edge, and expected price hikes in early 2027 (10%+ for N3/N2, milder for N5/N7 and CoWoS), which should offset N2 ramp dilution.
- **N3 supply shortage intensifying into 2027; accelerated capacity expansion across leading-edge and advanced packaging:** Our industry checks indicate the N3 demand-supply gap (~600k wafers in 2026) is likely to widen further in 2027 despite TSMC adding ~40% N3 capacity in 2027. Key demand drivers include: 1) NVIDIA taking 55-60% of total N3 wafer supply in 2027 (up from <10% in 1H26) as Rubin/Vera production ramps, 2) agentic AI CPUs creating incremental demand, and 3) rising ASIC volumes (TPU v8, Trn3). We forecast TSMC capex at US$ 81bn/US$ 90bn for FY27/28, supporting aggressive capacity expansion with N3 expected to reach 178k/223k/243k wfpm by end-2026/27/28. Given the ongoing capacity shortfall, we believe that the capex expectations could be revised up further in the next several quarters. On advanced packaging, CoWoS capacity is expected to reach ~190-200k wfpm by end-2027 (up ~65% YoY), while we expect SoIC to become the primary focus in 2028 (JPMe 65k wfpm) as we think NVIDIA Feynman is likely to adopt 3DSoIC for GPU-GPU stacking.
- **Competitive positioning remains strong in the front end, some alternatives emerging in advanced packaging:** We expect TSMC's technology leadership to remain intact and do not see any meaningful project wins by Intel at the front end. By the time Intel 14A reaches mass production in 2028, we expect TSMC's N2 family to already be at a US$50-60bn revenue run rate and A14 to start getting into mass production. Based on our current research, the only 14A customer for Intel Foundry is likely to be Apple, which is working on test chips, and could eventually produce some products at Intel Foundry if the results go

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well. We haven't picked up any signs of HPC products being made at Intel 18A or 14A so far. In packaging, we believe Intel may secure some project wins (e.g., EMIB-T for TPU v9). However, we expect TSMC's CoWoS to remain the dominant platform, as TSMC continues to extend its advanced packaging roadmap (including 3DSoIC). These packaging capabilities should remain a key enabler of TSMC's leading-edge front-end wafer demand, in our view. Given TSMC's technology leadership and aggressive capacity expansion, we expect its leading edge market share to remain at 95%+ for the foreseeable future. We continue to emphasize that packaging is not an on-ramp for Foundry wins for challengers like Intel, since the development timelines are significantly different.

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Investment Thesis, Valuation and Risks

TSMC *(Overweight; Price Target: NT$3200.0)*

Investment Thesis

We are OW on TSMC, given the increased confidence in AI demand, along with an aggressive capex plan ahead. We believe AI demand visibility has extended to 2029/30 due to the solid accelerator product line-up in the coming years. In response, the company is also accelerating its capacity plan further in order to capture incremental AI demand and to leave limited room for potential competition. We believe TSMC's leading industry position is intact with its leading-edge process technology remaining ahead of its peers and its mature nodes continuing to grow with a focus on high value segments. For GMs, we believe it should stay on a slowly upward sloping curve once N2 dilution winds down, due to price increases, better operating efficiency and continued high utilization.

Valuation

Our Jun-27 PT of NT$3,200 is based on ~20x 12-month forward P/E and reflects strong revenue growth from stronger AI demand and faster capacity growth. 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.

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Date	Rating	Price (NT$)	Price Target (NT$)
20-Oct-23	OW	546.0	700
04-Jan-24	OW	578.0	750
19-Jan-24	OW	588.0	770
06-Mar-24	OW	730.0	850
07-Apr-24	OW	780.0	900
17-Jun-24	OW	922.0	1,080
19-Jul-24	OW	1005.0	1,200
18-Oct-24	OW	1035.0	1,500
13-Apr-25	OW	889.0	1,300
18-Apr-25	OW	847.0	1,275
24-Sep-25	OW	1340.0	1,550
17-Oct-25	OW	1485.0	1,700
07-Jan-26	OW	1705.0	2,100
16-Jan-26	OW	1690.0	2,250
02-Apr-26	OW	1855.0	2,400
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07-Jul-26	OW	2460.0	3,100
17-Jul-26	OW	2470.0	3,200

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