TSMC

Potential collaboration with Tesla for US fab – JPM thoughts

Overweight

2330.TW, 2330 TT
Price (05 Oct 26):NT$2575.0
Price Target (Jun-27):NT$3300.0

Over the weekend, Elon Musk indicated that TSLA / SPCX is in discussions with TSMC for semiconductor capacity in the US, following on the heels of news (see our note) last week that TSMC will consider building a second US Fab Cluster in Texas. Here are our quick thoughts, although nothing has been finalized.

- **TSMC could consider a JV or pure Foundry model based on our research:** Our supply chain checks indicate that early discussions are aimed at establishing a pure Foundry relationship or a JV arrangement (similar to JSMC or ESMC recently) which would provide a dedicated capacity corridor for TSLA/SPCX. We expect this Fab to ramp in 2030 and beyond, and the first three phases of the US expansion are likely to still focus on Arizona. US fab capacity has been a key impediment for expanded Foundry engagements with Tesla and TSMC and this change could expand the Foundry opportunity.
- **Technology and process ownership and majority fab ownership would be with TSMC:** We believe that TSMC will still keep control of process and technology ownership and is unlikely to agree to any technology sharing agreement (unlike Intel- Tesla TeraFab agreement on 14A process). We believe that fab operations are also likely to be fully controlled by TSMC – in alignment with its other Fabs and engagement with other customers. Co-investment in Fab capacity is possible, but we would be surprised if the Fab is not majority owned by TSMC.
- **What motivates this move? Rising compute demand + some uncertainties in competitor ramp?** We believe the primary driver for this move is strong compute demand (SPCX has been able to sell compute at $20-30 per watt, indicating significant ROIC for compute sales and hence the urgency to build up new compute capacity as quickly as possible). We have also picked up some signals of slower progress on competitor process ramp (Tesla AI6 may be re-engaging with TSMC for instance), and new ASIC programs (likely working with Mediatek) are also on TSMC process, not Intel. While we will have to await more clarity on this engagement, these developments further strengthen TSMC's competitive position, in our view. TSMC also appears to be more open to building out capacity at an accelerated pace now, given the strong demand for compute and the desire to not become the primary bottleneck for customers on a long-term basis.
- **Stock view:** We believe the potential cooperation with Tesla points to a diminished competitive narrative, which could support TSMC's PE multiple. We maintain our OW rating on TSMC with a price target of NT$3300 (20x 12m forward EPS). In addition, a larger switch-back to TSMC for TSLA could benefit GUC, which is currently the design partner for AI5 but had previously been facing the prospect of share loss on AI6.

Technology and Telecoms

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Investment Thesis, Valuation and Risks

TSMC *(Overweight; Price Target: NT$3300.0)*

Investment Thesis
We are OW on TSMC, given continued strong leading edge wafer demand from AI, along with stronger efforts for capacity expansion in N3, N2, as well as an earlier ramp of A14. We expect A14 to go into mass production in 1H28, which could generate some revenue in 2H28. We believe the tight leading edge wafer supply will extend into 2027-28 and expect TSMC to continue its accelerated capacity build plans into 2028. We expect GMs to stay at mid-high 60% range due to continued N2 dilution balanced by strong N3 demand, price hikes in 1H27, and continued cross-Fab collaboration. We believe that GMs have a chance to approach 70% levels once N2 dilution becomes modest (likely in late 2027 or early 2028). 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.

Valuation
Our Jun-27 PT of NT$3,300 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.

