Technology: Semiconductors: Read-across from TSMC's 3Q26 results

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TSMC (covered by Evelyn Yu) reported 3Q26 revenue above the top end of its guidance, with revenue growing 16% qoq in USD terms, supported by strong demand for leading-edge nodes. As such, we note that HPC demand grew 22% qoq and contributed 68% of quarterly revenue, and SP revenue increased 10% qoq and contributed 21% of 3Q revenues. Looking ahead, the company now expects its FY26 revenue to grow around 44% yoy in USD terms (vs 40% in USD terms prior) and reiterated its FY26 capex to be between $60-$64bn. Importantly, TSMC continues to expect FY26-28 capex to be significantly above the prior three-year period. While management reiterated that consumer and price-sensitive end-markets remain under pressure due to higher component costs and macro uncertainty, it continues to see robust AI-related demand. In this vein, the company highlighted that its previously communicated AI accelerator CAGR of mid-to-high-50% could be higher than expected. We view the combination of continued strong leading-edge demand, incremental N3 capacity additions, positive outlook on N2 and A14 demand as constructive for European semicap names, notably ASML (Buy, on CL), ASMI (Buy) and BESI (Buy), Technoprobe (Buy).

We highlight the following key datapoints from TSMC's 3Q26 results conference call:

- First, TSMC's commentary on capex is a positive for semicap players indexed to leading-edge demand, in our view. Further, we note that the company's continued positive commentary on the A14 node development (planned to enter HVM in 2028) is a positive for ASML, ASMI, BESI and Technoprobe, in our view, as it underscores constructive LT demand for leading-edge Logic nodes.
- Second, TSMC highlighted the continued strength in AI demand. Importantly, management noted that its previously stated estimate of mid-to-high-50% CAGR for AI accelerators could be higher than expected. Additionally, TSMC commentary that demand continues to exceed supply is a positive for the semicap names in our view as it provides equipment provider with better visibility into technological and production roadmaps.

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- Finally, the company stated that it aims to use ASML's High NA tool in 2030 which was in line with the latter's recent comments at its 3Q results (see more details here). Additionally, TSMC highlighted that its plan to use any new technology is underpinned by factors such as: 1) tool maturity, 2) technology, and 3) cost. Furthermore, TSMC also reiterated its plans to develop 12-inch photomask with ASML by 2031. As such, we see the commentary on adoption timelines as well as photomask development as in line with our positive view on ASML as it helps provide confidence on High NA adoption.

Valuation and key risks

ASML: We are Buy-rated on ASML (on CL) with a 12-month price target of €2,315 based on a 32x 2HCY27+1HCY28E P/E multiple. Key risks to our view and price target include EUV delays, capex cyclicality and unfavourable market share shifts.

ASMI: We are Buy rated on ASMI with a 12-month price target of €955 based on a 20x 2HCY27+1HCY28E EV/EBITDA multiple. Key risks to our view and price target include a worsening of the semi cycle, stronger-than-expected competition and high customer concentration.

BESI: We are Buy rated on BESI with a 12-month price target of €325 based on a 29x 2HCY27+1HCY28E EV/EBITDA multiple. Key risks to our view and price target include customer spend cyclicality, hybrid bonding adoption delays and increasing competition.

TPRO: We are Buy rated on Technoprobe with a 12-month price target of €44 based on a 42x CY28E P/E multiple. Key risks to our view and price target include a slowdown in AI infrastructure spending, delays in the planned capacity ramp, and large EURUSD movements which could create revenue and earnings volatility.

