TSMC (2330.TW)

Earnings review: 3Q26 inline but 4Q26 GM came in slightly softer; AI demand outlook shows no signs of slowdown; reiterate Buy

2330.TW	12m Price Target: **NT$3,300.00**	Price: **NT$2,440.00**	Upside: **35.2%**
TSM	12m Price Target: **$660.00**	Price: **$430.00**	Upside: **53.5%**

BUY

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Stronger revenue momentum while GM guidance came in softer

TSMC hosted its 3Q26 analyst meeting on October 15. While we view the higher full-year 2026 revenue guidance and the further acceleration in capacity buildout as the key positives, the GM guidance could be the softer spot. In the meeting, management further raised its 2026 revenue growth outlook to grow by around 44% YoY (from slightly above 40%; USD term), supported by continued strong demand especially for AI/HPC. However, both 3Q26 GM result and 4Q26 GM guidance came in lower than our expectations; we believe this is to reflect a steeper N2 ramp and overseas fab dilution in the near term.

AI demand still ahead of supply, with no sign of slowdown

Key questions among investors largely surrounded demand outlook. Overall, we think that management's tone on AI demand remained very bullish. While TSMC did not formally update its long-term AI accelerator revenue CAGR, management indicated the CAGR will probably be higher, noting demand is extremely robust with no sign of slowdown and still far exceeds supply, with multiple drivers reinforcing this view, including - 1) agentic AI driving incremental CPU demand, which is excluded from TSMC's AI accelerator definition and implies upside beyond the headline CAGR; 2) broader adoption of open-source models lowering the barrier to AI usage and lifting leading-edge silicon demand; 3) continued demand for networking chips alongside AI accelerators; and 4) TSMC's own checks on US data center build progress and power supply, where management sees CSPs as very well prepared.

Capacity build-out accelerating again: N2 capacity more than double in 2027; additional N3 fab addition; Texas under evaluation

On N2, management for the first time guided its N2 capacity will be

Key Data

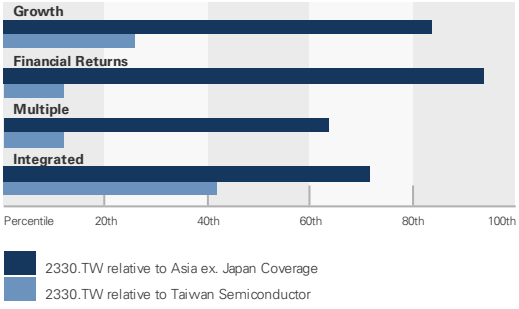
Market cap: NT$63.3tr / $2.0tr
Enterprise value: NT$60.4tr / $1.9tr
3m ADTV: NT$63.8bn / $2.0bn
Taiwan
Taiwan Semiconductor
M&A Rank: 3
Leases incl. in net debt & EV?: Yes

GS Forecast

	12/25	12/26E	12/27E	12/28E
Revenue (NT$ mn) New	**3,809,054.3**	**5,620,115.7**	**7,683,481.6**	**9,941,180.4**
Revenue (NT$ mn) Old	3,809,054.3	5,533,119.0	7,616,958.4	9,935,012.5
EBITDA (NT$ mn)	2,624,188.0	4,148,113.5	5,795,566.1	7,648,573.7
EPS (NT$) New	**66.26**	**112.35**	**150.01**	**196.90**
EPS (NT$) Old	66.26	110.77	150.00	195.67
P/E (X)	17.6	21.7	16.3	12.4
P/B (X)	5.6	8.2	5.8	4.2
Dividend yield (%)	1.9	1.2	1.4	1.5
CROCI (%)	24.3	34.1	39.5	42.6

	6/26	9/26E	12/26E	3/27E
EPS (NT$)	27.25	29.43	33.61	34.26

GS Factor Profile



Source: Company data, Goldman Sachs Research estimates.
See disclosures for details.

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BUY

TSMC (2330.TW)

Rating since May 7, 2019

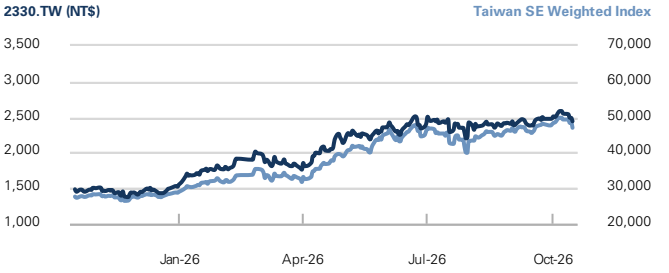
Ratios & Valuation

	12/25	12/26E	12/27E	12/28E
P/E (X)	17.6	21.7	16.3	12.4
P/B (X)	5.6	8.2	5.8	4.2
FCF yield (%)	3.3	2.6	3.9	5.8
EV/EBITDAR (X)	10.8	14.6	10.1	7.3
EV/EBITDA (excl. leases) (X)	10.8	14.6	10.1	7.3
CROCI (%)	24.3	34.1	39.5	42.6
ROE (%)	35.4	44.3	41.9	39.4
Net debt/equity (%)	(34.3)	(37.7)	(42.3)	(49.0)
Net debt/equity (excl. leases) (%)	(34.3)	(37.7)	(42.3)	(49.0)
Interest cover (X)	99.1	159.9	350.7	1,021.0
Days inventory outst, sales	27.6	24.8	25.7	24.5
Receivable days	26.6	27.4	27.6	24.6
Days payable outstanding	157.7	193.6	200.5	197.4
DuPont ROE (%)	31.5	37.5	35.7	33.8
Turnover (X)	0.5	0.5	0.6	0.5
Leverage (X)	1.5	1.4	1.3	1.2
Gross cash invested (ex cash) (NT$)	9,199,168.9	11,312,090.4	13,935,574.6	16,893,345.7
Average capital employed (NT$)	3,371,689.3	4,215,069.1	5,565,337.1	6,999,414.8
BVPS (NT$)	208.99	298.08	418.09	580.99

Growth & Margins (%)

	12/25	12/26E	12/27E	12/28E
Total revenue growth	31.6	47.5	36.7	29.4
EBITDA growth	32.2	58.1	39.7	32.0
EPS growth	46.4	69.6	33.5	31.3
DPS growth	29.4	31.8	13.8	12.1
EBIT margin	50.8	59.1	60.1	61.5
EBITDA margin	68.9	73.8	75.4	76.9
Net income margin	45.1	51.8	50.6	51.4

Price Performance



	3m	6m	12m
Absolute	0.0%	17.3%	66.6%
Rel. to the Taiwan SE Weighted Index	(2.8)%	(8.3)%	(3.3)%

Source: FactSet. Price as of 15 Oct 2026 close.

Income Statement (NT$ mn)

	12/25	12/26E	12/27E	12/28E
Total revenue	3,809,054.3	5,620,115.7	7,683,481.6	9,941,180.4
Cost of goods sold	(1,527,760.3)	(1,874,702.8)	(2,550,456.2)	(3,208,678.0)
SG&A	(98,775.0)	(103,546.5)	(124,628.0)	(142,028.0)
R&D	(246,427.3)	(321,860.8)	(387,916.0)	(479,916.0)
Other operating inc./(exp.)	–	–	–	–
EBITDA	**2,624,188.0**	**4,148,113.5**	**5,795,566.1**	**7,648,573.7**
Depreciation & amortization	(688,096.4)	(828,107.9)	(1,175,084.7)	(1,538,015.2)
EBIT	**1,936,091.7**	**3,320,005.6**	**4,620,481.4**	**6,110,558.5**
Net interest inc./(exp.)	86,206.5	91,497.7	97,520.8	104,678.2
Income/(loss) from associates	5,496.6	3,123.4	0.0	0.0
Pre-tax profit	**2,041,662.8**	**3,501,713.8**	**4,718,002.1**	**6,215,236.6**
Provision for taxes	(326,266.1)	(587,022.9)	(826,845.9)	(1,107,976.6)
Minority interest	2,485.8	(1,094.5)	(1,108.0)	(1,108.0)
Preferred dividends	–	–	–	–
Net inc. (pre-exceptionals)	**1,717,882.6**	**2,913,596.4**	**3,890,048.2**	**5,106,152.1**
Post-tax exceptionals	–	–	–	–
Net inc. (post-exceptionals)	**1,717,882.6**	**2,913,596.4**	**3,890,048.2**	**5,106,152.1**
EPS (basic, pre-except) (NT$)	**66.26**	**112.35**	**150.01**	**196.90**
EPS (diluted, pre-except) (NT$)	**66.26**	**112.35**	**150.01**	**196.90**
EPS (basic, post-except) (NT$)	**66.26**	**112.35**	**150.01**	**196.90**
EPS (diluted, post-except) (NT$)	**66.26**	**112.35**	**150.01**	**196.90**
DPS (NT$)	22.00	29.00	33.00	37.00
Div. payout ratio (%)	33.2	25.8	22.0	18.8

Balance Sheet (NT$ mn)

	12/25	12/26E	12/27E	12/28E
Cash & cash equivalents	2,767,856.4	3,498,381.5	4,868,723.0	7,480,069.9
Accounts receivable	282,059.2	560,521.2	600,545.0	737,328.5
Inventory	288,109.5	474,146.2	608,341.7	726,932.3
Other current assets	479,105.8	603,826.0	603,826.0	603,826.0
Total current assets	**3,817,130.8**	**5,136,874.8**	**6,681,435.7**	**9,548,156.6**
Net PP&E	3,691,840.9	5,028,894.0	6,565,521.7	8,152,618.9
Net intangibles	24,952.6	19,393.2	10,680.8	1,968.4
Total investments	172,370.4	227,935.7	227,935.7	227,935.7
Other long-term assets	226,729.2	255,063.0	255,063.0	255,063.0
Total assets	**7,933,023.9**	**10,668,160.7**	**13,740,636.8**	**18,185,742.6**
Accounts payable	714,546.9	1,274,278.1	1,528,013.1	1,942,016.1
Short-term debt	0.0	–	–	–
Short-term lease liabilities	–	–	–	–
Other current liabilities	743,472.4	875,205.6	875,205.6	875,205.6
Total current liabilities	**1,458,019.3**	**2,149,483.7**	**2,403,218.7**	**2,817,221.7**
Long-term debt	896,062.0	564,263.7	264,263.7	64,263.7
Long-term lease liabilities	–	–	–	–
Other long-term liabilities	118,147.3	179,158.2	179,158.2	179,158.2
Total long-term liabilities	**1,014,209.3**	**743,421.9**	**443,421.9**	**243,421.9**
Total liabilities	**2,472,228.6**	**2,892,905.6**	**2,846,640.6**	**3,060,643.6**
Preferred shares	–	–	–	–
Total common equity	5,419,596.0	7,729,951.3	10,841,990.2	15,066,390.7
Minority interest	**41,199.3**	**45,303.8**	**52,006.0**	**58,708.3**
Total liabilities & equity	**7,933,023.9**	**10,668,160.7**	**13,740,636.8**	**18,185,742.6**
Net debt, adjusted	(1,871,794.4)	(2,934,117.8)	(4,604,459.3)	(7,415,806.2)

Cash Flow (NT$ mn)

	12/25	12/26E	12/27E	12/28E
Net income	1,717,882.6	2,913,596.4	3,890,048.2	5,106,152.1
D&A add-back	688,096.4	828,107.9	1,175,084.7	1,538,015.2
Minority interest add-back	(2,485.8)	1,094.5	1,108.0	1,108.0
Net (inc)/dec working capital	98,731.8	95,232.4	79,515.7	158,628.9
Other operating cash flow	(227,249.3)	(171,751.0)	0.0	0.0
Cash flow from operations	**2,274,975.6**	**3,666,280.3**	**5,145,756.7**	**6,803,904.2**
Capital expenditures	(1,272,410.5)	(2,032,215.9)	(2,703,000.0)	(3,116,400.0)
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Others	128,017.1	(2,899.4)	–	–
Cash flow from investing	**(1,144,393.4)**	**(2,035,115.4)**	**(2,703,000.0)**	**(3,116,400.0)**
Repayment of lease liabilities	–	–	–	–
Dividends paid (common & pref)	(440,851.8)	(622,379.8)	(778,009.3)	(881,751.6)
Inc/(dec) in debt	40,448.1	(307,998.9)	(300,000.0)	(200,000.0)
Other financing cash flows	(89,949.1)	29,738.9	5,594.2	5,594.2
Cash flow from financing	**(490,352.9)**	**(900,639.9)**	**(1,072,415.1)**	**(1,076,157.3)**
Total cash flow	**640,229.4**	**730,525.1**	**1,370,341.6**	**2,611,346.8**
Free cash flow	1,002,565.1	1,634,064.4	2,442,756.7	3,687,504.2

Source: Company data, Goldman Sachs Research estimates.

more than double in 2027. As for N3, management announced an additional 3nm fab expansion in Tainan on strong customer demand, with volume production in 1H28. This comes on top of 1) the ongoing N3 fab expansion in Tainan (ramp in 1H27), 2) Arizona fab 2 (ramp in 3Q27, slightly ahead of its prior schedule), 3) Japan fab 2 (ramp in 2028), and 4) continued N5-to-N3 tool conversion. Beyond Arizona, TSMC confirmed it is evaluating Texas as a potential additional US site, and is in discussion with one customer building Terafab on utilizing that capacity; while the business model and structure remains under discussion, TSMC highlighted that its principle is to run the fab by itself.

GM: steeper N2 dilution near term, but "no ceiling" long term

3Q26 GM declined 1.3ppt QoQ to 66.4%, primarily on dilution from the initial N2 ramp, and 4Q26 GM is guided down a further 40bps to 66.0% at the mid-point on continued N2 dilution and overseas fabs. Management now expects overseas fab dilution to be closer to 2% for full-year 2026 (vs. 2-3% previously), helped by larger scale and cost improvement, but reiterated it will widen to 3-4% in the latter part of the five-year period as more US fabs ramp. Longer term, management stated there is "no ceiling" for TSMC's profitability, though any dramatic increase will not happen overnight. On pricing, management reiterated a strategic approach by segment, location and technology, with US production priced differently from Taiwan. Overall, we slightly lower our GM to 66.6%/66.8%/67.7% in 2026-2028E (vs. 67.2%/67.5%/67.8% previously).

CapEx: 2026 unchanged, multi-year step-up reiterated

2026 CapEx guidance was unchanged at US$60-64bn. While management did not provide numeric guidance beyond 2026, but reiterated that 2026-2028 CapEx will be significantly higher than the prior three years, and that revenue growth should continue to outpace CapEx growth. Management acknowledged the tools, material and labor inflation, but said the majority of CapEx is driven by long-term demand. Net net, we maintain our 2026E/2027E/2028E CapEx at US$64bn/US$85bn/US$98bn.

High confidence in its structural lead

Addressing questions regarding rising competition, management remains confident in its technology lead for both front end wafer and advanced packaging technology. Despite the later adoption timeframe (planned for in 2030) vs peers on High NA EUV, TSMC does not see the later adoption than peers as a disadvantage. In advanced packaging, TSMC is in volume production at 5x reticle size, which management believes no peer can match today, with 9x and 14x in development and CoPoS for future cost reduction. In addition, management also highlighted that it expects A14 (volume production in 2028) to be a bigger node than N2, with customer engagement already exceeding N2's at the same stage.

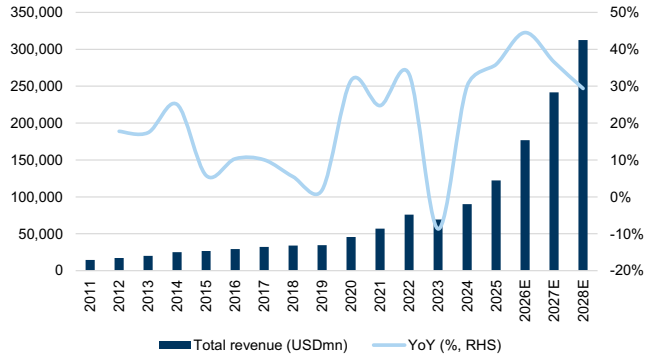
Key tables and charts

Exhibit 1: TSMC financial snapshot

TSMC (2330.TW)	2019	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E	25-28E CAGR
P&L (NT$bn)											
Revenue (US$bn)	34.7	45.6	56.9	75.9	69.3	90.1	122.4	177.0	241.6	312.6	36.7%
%YoY	1.9%	31.6%	24.7%	33.3%	-8.7%	30.0%	35.9%	44.5%	36.5%	29.4%	
Revenue	1,070	1,339	1,587	2,264	2,162	2,894	3,809	5,620	7,683	9,941	37.7%
%YoY	3.7%	25.2%	18.5%	42.6%	-4.5%	33.9%	31.6%	47.5%	36.7%	29.4%	
Gross profit	493	711	820	1,348	1,175	1,624	2,281	3,745	5,133	6,733	43.4%
%GM	46.0%	53.1%	51.6%	59.6%	54.4%	56.1%	59.9%	66.6%	66.8%	67.7%	
EBIT	373	567	650	1,121	921	1,322	1,936	3,320	4,620	6,111	46.7%
%OpM	34.8%	42.3%	40.9%	49.5%	42.6%	45.7%	50.8%	59.1%	60.1%	61.5%	
Net income	345	518	597	1,017	838	1,173	1,718	2,914	3,890	5,106	43.8%
%YoY	-1.7%	50.0%	15.2%	70.4%	-17.5%	39.9%	46.4%	69.6%	33.5%	31.3%	
EPS (NT$)	**13.3**	**20.0**	**23.0**	**39.2**	**32.3**	**45.3**	**66.3**	**112.4**	**150.0**	**196.9**	**43.8%**

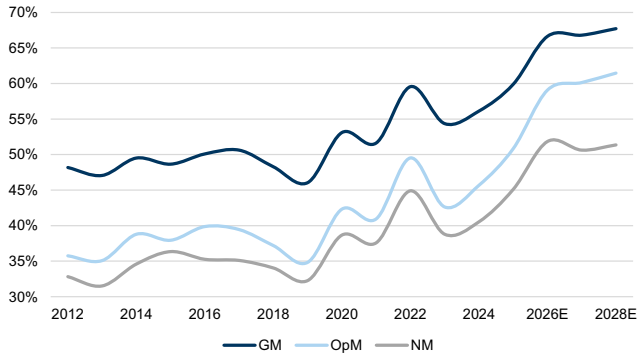
Source: Company data, Goldman Sachs Global Investment Research, Bloomberg

Exhibit 2: TSMC's revenue growth outlook



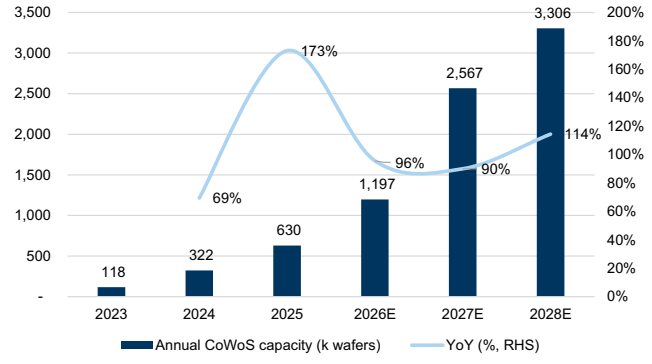
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 3: TSMC's margin outlook



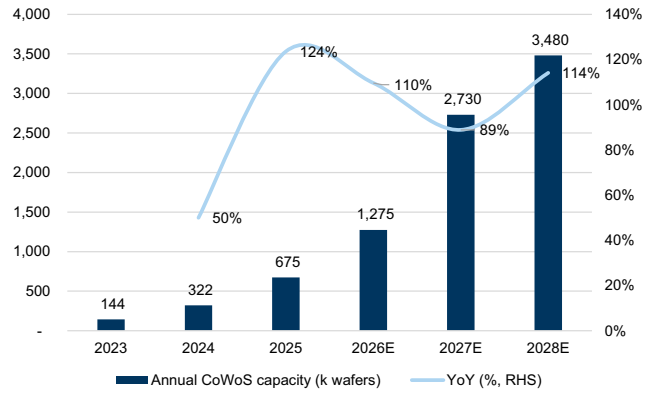
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 4: TSMC's annual CoWoS shipment growth trend



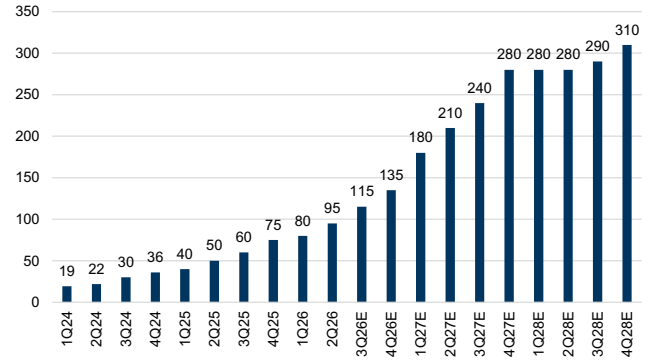
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 5: TSMC's annual CoWoS capacity growth trend



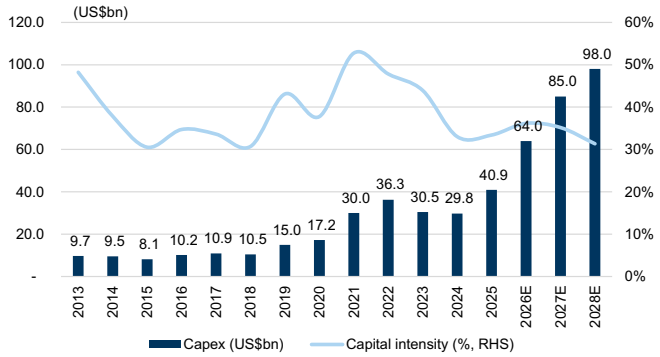
Source: Company data, Goldman Sachs Global Investment Research

Exhibit 6: TSMC's quarterly CoWoS capacity ramp (kwpm)



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 7: TSMC's capex and capital intensity trend



Source: Company data, Goldman Sachs Global Investment Research

3Q26 results and 4Q26 guidance recap

4Q26 guidance: revenue well above expectations, GM below GSe

For 4Q26, management guided revenue to US$52.3-54.3bn (+14% QoQ at the mid-point; based on FX [TWD/USD] of 31.8), GM to 65-67% and OpM to 56.5-58.5%. Revenue guidance came in well above GSe of +11.0% QoQ, supported by continued strong leading-edge demand including the steep N2 ramp. However, the GM mid-point of 66.0% is 1.3ppt below GSe of 67.3% and broadly in line with consensus of 66.1%, as continued N2 dilution and overseas fabs are only partly offset by productivity gains and cross-node capacity optimization.

3Q26 results: revenue and EPS beat, GM below GSe

3Q26 revenue of NT$1,494.2bn (US$46.72bn) was up 17.6% QoQ and 50.9% YoY, above the high end of guidance in USD terms and above GSe/consensus by 0.8%/2.1%. EPS of NT$29.43 was up 8.0% QoQ and 68.7% YoY, above GSe/consensus by 1.2%/3.7%; excluding the NT$2.24 one-off gain from the VIS disposal in 2Q26, EPS grew 18% QoQ. GM of 66.4% (-1.3ppt QoQ) landed in the upper half of guidance (65-67%) but 1.1ppt below GSe, while OpM of 58.7% beat the high end of guidance (56-58%) on stable OpEx at 7.8% of revenue.

By technology, N2 contributed 8% of wafer revenue (vs. 3% in 2Q26) and N3 33% (vs. 30%), taking advanced nodes (7nm and below) to 79% (vs. 77%). By platform, HPC rose 22% QoQ to 68% of revenue (vs. 66%), with smartphone +10% QoQ at 21%. Inventory days fell 5 days QoQ to 82 days on higher wafer shipments.

Exhibit 8: 3Q26 results summary

	3Q26	2Q26	3Q25	%QoQ	%YoY	GS prev.	%Diff	Consensus	%Diff
(NT$mn)									
Revenue	1,494,243	1,270,380	989,918	17.6%	50.9%	1,482,698	0.8%	1,463,320	2.1%
Gross profit	992,379	860,311	588,543	15.4%	68.6%	1,000,438	-0.8%	972,771	2.0%
Op. income	876,445	766,603	500,685	14.3%	75.0%	892,956	-1.8%	854,354	2.6%
Net income	763,064	706,562	452,301	8.0%	68.7%	753,824	1.2%	738,565	3.3%
EPS (NT$)	29.43	27.25	17.44	8.0%	68.7%	29.07	1.2%	28.38	3.7%
GM	66.4%	67.7%	59.5%	-1.3%	7.0%	67.5%	-1.1%	66.5%	-0.1%
OpM	58.7%	60.3%	50.6%	-1.7%	8.1%	60.2%	-1.6%	58.4%	0.5%
NM	51.1%	55.6%	45.7%	-4.6%	5.4%	50.8%	0.2%	50.5%	1.2%

Source: Bloomberg, Company data, Goldman Sachs Global Investment Research

Earnings revisions, valuation and key risks

Forecast changes

Post its earnings results, we tweak our 2026/2027/2028E EPS by 1.4%/0.0%/0.6% to reflect: 1) stronger 4Q26 revenue guidance and the higher 2026 growth outlook, but partly offset by 2) lower GM assumptions on steeper N2 ramp and overseas fab dilution.

Exhibit 9: Earnings revisions

	2026E			2027E			2028E		
(NT$mn)	Old	New	Diff (%)	Old	New	Diff (%)	Old	New	Diff (%)
Revenue	5,533,119	5,620,116	1.6%	7,616,958	7,683,482	0.9%	9,935,012	9,941,180	0.1%
Gross profit	3,720,174	3,745,413	0.7%	5,140,114	5,133,025	-0.1%	6,739,653	6,732,502	-0.1%
Op. income	3,314,172	3,320,006	0.2%	4,645,886	4,620,481	-0.5%	6,105,525	6,110,558	0.1%
Net income	2,872,580	2,913,596	1.4%	3,889,923	3,890,048	0.0%	5,074,175	5,106,152	0.6%
EPS (NT$)	110.77	112.35	1.4%	150.00	150.01	0.0%	195.67	196.90	0.6%
GM	67.2%	66.6%	-0.6%	67.5%	66.8%	-0.7%	67.8%	67.7%	-0.1%
OpM	59.9%	59.1%	-0.8%	61.0%	60.1%	-0.9%	61.5%	61.5%	0.0%
NM	51.9%	51.8%	-0.1%	51.1%	50.6%	-0.4%	51.1%	51.4%	0.3%

	4Q26E			1Q27E			2Q27E		
(NT$mn)	Old	New	Diff (%)	Old	New	Diff (%)	Old	New	Diff (%)
Revenue	1,645,937	1,721,389	4.6%	1,711,413	1,778,044	3.9%	1,846,140	1,865,007	1.0%
Gross profit	1,108,130	1,141,428	3.0%	1,155,117	1,178,067	2.0%	1,248,183	1,245,106	-0.2%
Op. income	995,648	1,017,992	2.2%	1,040,535	1,053,531	1.2%	1,128,701	1,118,170	-0.9%
Net income	839,714	871,491	3.8%	880,339	888,340	0.9%	938,351	926,864	-1.2%
EPS (NT$)	32.38	33.61	3.8%	33.95	34.26	0.9%	36.18	35.74	-1.2%
GM	67.3%	66.3%	-1.0%	67.5%	66.3%	-1.2%	67.6%	66.8%	-0.8%
OpM	60.5%	59.1%	-1.4%	60.8%	59.3%	-1.5%	61.1%	60.0%	-1.2%
NM	51.0%	50.6%	-0.4%	51.4%	50.0%	-1.5%	50.8%	49.7%	-1.1%

Source: Goldman Sachs Global Investment Research

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Exhibit 10: TSMC's P&L summary

	1Q26	2Q26	3Q26E	4Q26E	1Q27E	2Q27E	3Q27E	4Q27E	2026E	2027E	2028E
P&L (NT$mn)											
Revenue	1,134,103	1,270,380	1,494,243	1,721,389	1,778,044	1,865,007	1,954,437	2,085,994	5,620,116	7,683,482	9,941,180
Gross profit	751,295	860,311	992,379	1,141,428	1,178,067	1,245,106	1,310,056	1,399,797	3,745,413	5,133,025	6,732,502
Operating profit	658,966	766,603	876,445	1,017,992	1,053,531	1,118,170	1,180,720	1,268,061	3,320,006	4,620,481	6,110,558
Net income	572,480	706,562	763,064	871,491	888,340	926,864	1,000,360	1,074,484	2,913,596	3,890,048	5,106,152
EPS (NT$)	22.08	27.25	29.43	33.61	34.26	35.74	38.58	41.43	112.35	150.01	196.90
Margins (%)											
Gross margin	66.2%	67.7%	66.4%	66.3%	66.3%	66.8%	67.0%	67.1%	66.6%	66.8%	67.7%
Operating profit margin	58.1%	60.3%	58.7%	59.1%	59.3%	60.0%	60.4%	60.8%	59.1%	60.1%	61.5%
Net margin	50.5%	55.6%	51.1%	50.6%	50.0%	49.7%	51.2%	51.5%	51.8%	50.6%	51.4%
YoY (%)											
Revenue	35.1%	36.0%	50.9%	64.6%	56.8%	46.8%	30.8%	21.2%	47.5%	36.7%	29.4%
Gross profit	52.3%	57.2%	68.6%	75.1%	56.8%	44.7%	32.0%	22.6%	64.2%	37.0%	31.2%
Operating profit	61.9%	65.4%	75.0%	80.2%	59.9%	45.9%	34.7%	24.6%	71.5%	39.2%	32.2%
Net income	58.3%	77.4%	68.7%	72.3%	55.2%	31.2%	31.1%	23.3%	69.6%	33.5%	31.3%
EPS	58.3%	77.4%	68.7%	72.3%	55.1%	31.2%	31.1%	23.3%	69.6%	33.5%	31.3%
QoQ (%)											
Revenue	8.4%	12.0%	17.6%	15.2%	3.3%	4.9%	4.8%	6.7%			
Gross profit	15.2%	14.5%	15.4%	15.0%	3.2%	5.7%	5.2%	6.9%			
Operating profit	16.7%	16.3%	14.3%	16.2%	3.5%	6.1%	5.6%	7.4%			
Net income	13.2%	23.4%	8.0%	14.2%	1.9%	4.3%	7.9%	7.4%			
EPS	13.2%	23.4%	8.0%	14.2%	1.9%	4.3%	7.9%	7.4%			

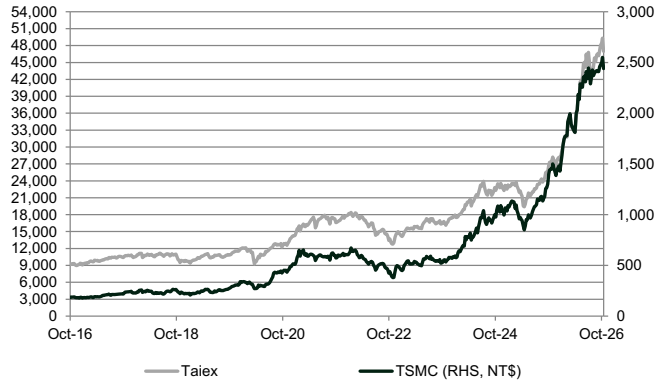
Source: Company data, Goldman Sachs Global Investment Research

Reiterate Buy; 12m TP maintain at NT$3,300

We maintain our 12m TP at NT$3,300 based on a target P/E of 22x (unchanged, benchmarked to 1.0stdv above 5-year avg. forward P/E) applied to our 2027E EPS. Accordingly, we maintain our 12 month TP for the ADR at US$660, based on an unchanged FX conversion of USD/TWD of 30.0 and unchanged ADR premium of 20%. Our 22x target P/E multiple is also benchmarked to TSMC's trading average of 22x during its previous revenue upcycle where its 3-year revenue CAGR (2019-2021) was 28%, vs. our 3-year revenue CAGR at 38% during 2025-2028E.

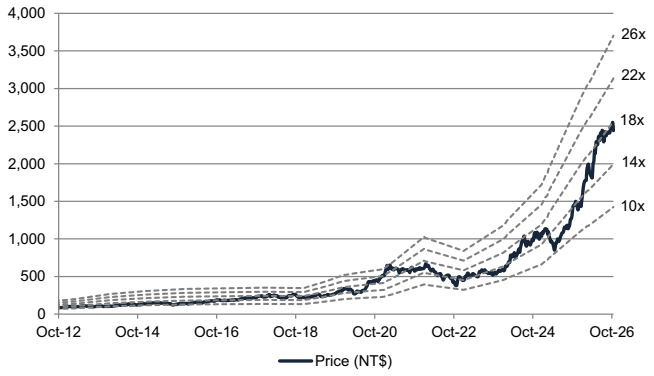
Our TP implies 35% (ADR 54%) upside to the last close. As a result, we reiterate our Buy ratings for TSMC/ADR. We maintain our constructive view on TSMC's long-term growth outlook as we believe the company's solid technology leadership and execution better positions it vs. peers to capture the industry's long-term structural growth opportunities, especially in AI.

Exhibit 11: Taiex vs. TSMC



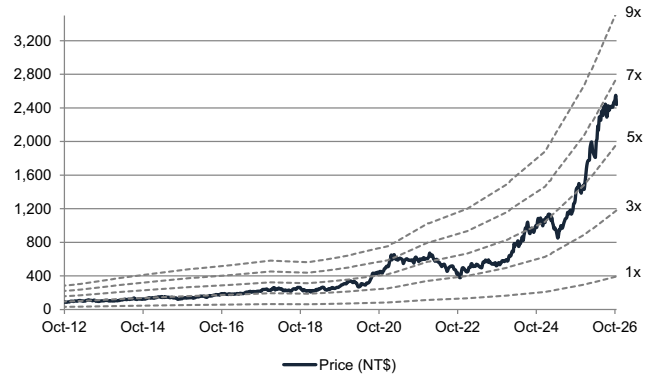
Source: Bloomberg

Exhibit 12: Forward P/E



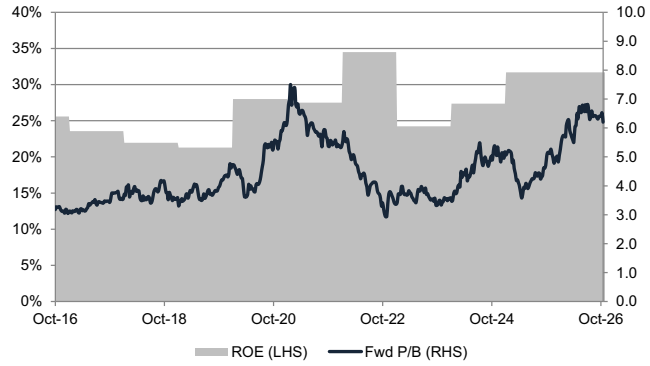
Source: Bloomberg

Exhibit 13: Forward P/B



Source: Bloomberg

Exhibit 14: P/B vs. ROE



Source: Bloomberg, Data compiled by Goldman Sachs Global Investment Research

Investment Thesis, Price Target Risks and Methodology

Investment Thesis - TSMC (2330.TW/TSM)

TSMC is a leading global foundry company specializing in cutting-edge nodes. Its leading technology stance enables it to enjoy more than 60% revenue share in the global foundry market. We like TSMC as we believe its solid technology leadership and execution better position it vs. peers to capture the industry's long-term structural growth opportunities, particularly in areas such as AI/5G/HPC/EV. In addition, valuation looks attractive in our view, with the shares trading at the mid-range of their 10-year trading history (P/E: 10-29x). Furthermore, we view TSMC as the key AI enabler among our Taiwan Semis coverage, thanks to its leadership stance in leading edge nodes and advanced packaging technology – CoWoS (chip on wafer on substrate). We believe TSMC will achieve its 25% revenue CAGR target for the next several years, driven primarily by increasing silicon content growth and AI/HPC demand, with LT GM to remain at 56%+. We are Buy rated.

Price Target Risks and Methodology - TSMC (2330.TW/TSM)

Valuation methodology: We have a 12m TP of NT$3,300, which is derived by applying a target P/E multiple of 22x to our 2027E EPS. Our 22x target P/E is benchmarked against 1.0stdv above its 5-year trading average. For the ADR (TSM), we have a 12m TP of US$660, based on a USD/TWD rate of 30.0 and an ADR premium of 20%.

Key downside risks to our views: (1) further deterioration in end-demand recovery impacting capacity utilization; (2) slower customer node migrations; (3) slowdown in AI investment resulting in lower long-term semiconductor content growth; (4) poor yields/execution resulting in worse-than-expected profitability; (5) stronger competition resulting in ASP/profitability erosion; and (6) unfavorable FX trend or higher-than-expected cost increase weighing on the margin outlook.