TSM Co Ltd

AI chip dominance deepens

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Company Overview

TSM is the world's leading semiconductor foundry company. The company provides wafer manufacturing, wafer probing, assembly and testing, mask production and design services. TSMC's products are used in computer, communication, consumer electronics, automotive and industrial equipment industries. The foundry business model adopted by TSMC means that the company does not design, manufacture, or market any products under its own name and thereby guarantees its customers that it will never compete with them. TSMC commanded c. 67% share of the foundry market in 2024.

Investment Overview

Technology leadership solidified. TSMC has a wide economic moat stemming from its technological leadership. It remains at the forefront of next-generation, leading-edge process technologies (3nm or below), which made up 23% of its 3Q25 revenue vs 0% for both UMC and SMIC. The gap with the next player in the race looks set to widen further as TSMC increases its R&D spending and capex over the next few years. The high technological barrier will support TSMC's continued leadership, enhance cost competitiveness, improve shareholder returns, and provide resilience against industry cyclicality.

Relentless longer-term growth and strong pricing power. After a dip in FY23 due to macroeconomic headwinds, TSMC's earnings rebounded in 2024 and are on track to grow steadily through 2025 and 2026. This upward trajectory is fueled by strong demand and long- term industry drivers such as the rising semiconductor demand from AI, 5G, IoT, and EVs, as well as increased outsourcing by Integrated Device Manufacturers (IDMs). Additionally, the commercialisation of higher-value advanced nodes and the growth of the advanced packaging segment are emerging as key growth contributors.

Strategic partnerships. TSMC has cultivated strong relationships with leading semiconductor designers such as Apple, Qualcomm, and NVIDIA. This, coupled with its partners' market-leading product development, ensures a stable and growing customer base, supporting consistent demand for its products.

We have a BUY recommendation on TSMC with a TP of TWD 2,030 per share (USD346 per ADR,) up from TWD1,620 per share (USD276 per ADR) previously.Our TP is based on 8.0x FY26 P/B, reflecting its dominant market position and strong earnings growth visibility. We believe investors will continue to favour industry leaders like TSMC, given its ability to better navigate industry cyclicality and capture long-term secular growth trends

Risks

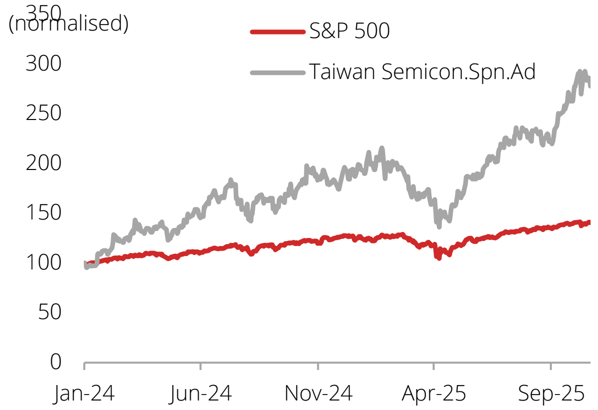
Adverse forex movements (a stronger TWD compressing margins), geopolitical uncertainties (e.g. US–China tech restrictions or Taiwan Strait tensions), and potential cost overruns or delays in overseas fabs that could drag on margins.

Key Financial Data

Bloomberg Ticker	TSM US
Sector	Semiconductors & Semiconductor Equipment
Share Price (USD)	292.93
DBS Rating	BUY
12-mth Target Price (USD)	346.00
Market Cap (USD bn)	1,529.8
3m Avg. Daily Val (USDmn)	3,890.3
Dividend yield (%)	0.2
Fwd. P/E (x)	122.2
P/Book (x)	1,319.3
ROE (%)	30.2

Closing Price as of 4 Dec 2025
Source: Bloomberg, DBS

Indexed Share price vs Composite Index Performance



Source: Thomson Reuters

DBS

Financial Summary (TWDmn)

FY Dec	FY2022 (A)	FY2023 (A)	FY2024 (A)	FY2025 (F)	FY2026 (F)
Sales	2,264	2,162	2,894	3,727	4,369
% y/y	*NaN*	*(4.5)*	*33.9*	*28.8*	*17.2*
Gross Profit	1,348	1,175	1,624	2,148	2,477
% y/y	*NaN*	*(12.8)*	*38.2*	*32.2*	*15.3*
EBITDA	1,571	1,463	1,992	2,457	2,820
% y/y	*NaN*	*(6.8)*	*36.1*	*23.3*	*14.8*
Net Profit (Loss)	992.9	851.7	1,158	1,557	1,804
% y/y	*NaN*	*(14.2)*	*36.0*	*34.4*	*15.9*
FCF	629.3	457.6	1,048	1,304	1,303
% y/y	*NaN*	*(27.3)*	*129.1*	*24.3*	*(0.0)*
CAPEX	(981.3)	(784.3)	(777.9)	(1,111)	(1,302)
% y/y	*NaN*	*(20.1)*	*(0.8)*	*42.9*	*17.1*
EBITDA Margin (%)	69.4	67.7	68.8	65.9	64.6
Net Margin (%)	43.9	39.4	40.0	41.8	41.3
ROA (%)	40.0	16.2	19.0	21.0	20.4
ROE (%)	68.4	26.9	30.2	32.8	30.9
Tax Rate (%)	13.2	13.1	17.7	17.6	17.6

Source: DBS HK

Valuation Metrics

FY Dec	FY2022 (A)	FY2023 (A)	FY2024 (A)	FY2025 (F)	FY2026 (F)
PE (x)	59.1	96.2	134.3	117.9	101.8
P/B (x)	391.1	479.5	818.2	860.8	762.9
Dividend Yield (%)	0.4	0.4	0.3	0.3	0.3
EV/EBITDA (x)	36.9	55.5	77.4	73.8	64.0
FCF Yield (%)	1.1	0.6	0.7	0.7	0.7
Net DPS (TWD)	0.3	0.4	0.5	0.7	0.8
BV Per Share (TWD)	0.2	0.2	0.2	0.3	0.3

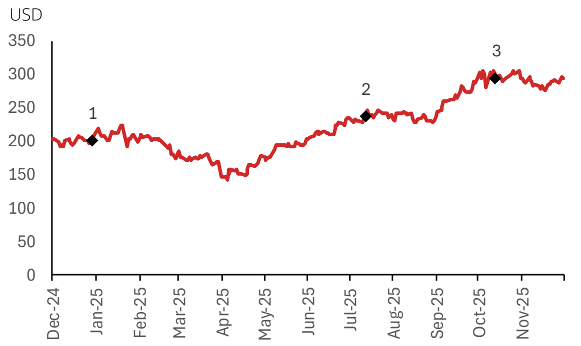
Source: DBS HK

Credit & Cashflow Metrics

FY Dec	FY2022 (A)	FY2023 (A)	FY2024 (A)	FY2025 (F)	FY2026 (F)
Debt / Equity (x)	0.3	0.3	0.2	0.2	0.2
Net Debt / Equity (x)	cash	cash	cash	cash	cash
Debt / Assets (x)	0.2	0.2	0.2	0.1	0.1
EBITDA / Int Exp (x)	nm	nm	nm	nm	nm
Debt / EBITDA (x)	0.5	0.7	0.5	0.4	0.4
Receivables Days	18.7	36.6	29.9	30.4	31.7
Days Payable	306.8	635.3	551.5	503.6	510.1
Inventory Days	84.4	189.6	162.0	132.9	131.2

Source: DBS HK

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	
1	2-Jan-25	197.49	223.00	BUY
2	16-Jul-25	236.95	276.00	BUY
3	17-Oct-25	299.84	346.00	BUY

Note: Share price and Target price are adjusted for corporate actions

Source: DBS

Analysts: Jim Au

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**Share price appreciation + dividends*

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