Taiwan Semi

Investment Thesis 2026 01 16

Taiwan Semiconductor is the world's largest dedicated semi-conductor foundry. TSM has the largest manufacturing capacity, and it produces more chips than anyone else. In addition, it has a technological advantage over other foundries in that it can produce more advanced chips than its competitors. These are their two key competitive advantages. They also invest more than any of the foundry companies in R&D, especially in the area of high-performance computing. TSM started producing at scale 2 nano chips last year. No one else is producing even 5 or 3 nano chips. The highest power compute requires these smaller chips. In short, only TSM can manufacture the chips needed to run artificial intelligence platforms, regardless of who designed the chips—Nvidia, Broadcom, Google, or whomever. With the growth of the use of AI, TSM's sales growth of high-performance chips has a very strong tailwind. As shown in the table below, in fiscal 2024, 69% of TSM's revenue came from advanced (7 nanometer or less) chips. In fiscal 2025, 74% of TSM's sales came from these advanced chips used in high performance computing. This increase is demand driven. The fact that only TSM can meet this demand explains why TSM's revenue was up 31.6% in 2025 and its net income was up 46.4%.

A persistent current market narrative is that AI is a bubble. This narrative acts at times as a governor on TSM's stock price. However, even if AI is a bubble and the bubble pops, wafer size, processing speed, and compute power have always been core competitive features of semiconductors. To see TSM's technological competitive advantages as being only relevant to AI would be a mistake.

Wafer Revenue by Technology	2025	2024
3nm	24%	18%
5nm	36%	34%
7nm	14%	17%
16/20nm	7%	8%
28nm	7%	7%
40/45nm	3%	4%
65nm	4%	4%
90nm	1%	1%
0.11/0.13um	1%	2%
0.15/0.18um	3%	4%
0.25um and above	0%	1%

Net Revenue by Platform	2025	2024
High Performance Computing	58%	51%
Smartphone	29%	35%
Internet of Things	5%	6%
Automotive	5%	5%
Digital Consumer Electronics	1%	1%
Others	2%	2%

Net Revenue by Geography	2025	2024
North America	75%	70%
Asia Pacific	9%	10%
China	9%	11%
Japan	4%	5%
EMEA	3%	4%

The number of semiconductor enabled devices is expected to grow about 27% per year for the next ten years. This growth and the AI boom should provide a market where TSM can continue to grow its annual revenue and earnings by 16+% for at least the next decade. Many investors worry about the possibility of China's annexing Taiwan. I feel that TSM has taken and continues to take steps to broaden its geographic footprint. TSM's first Arizona fab has begun shipping wafers. Two more fabs in Phoenix Arizona are under construction, and TSM just announced that it plans to ramp up its investment in Arizona beyond what had already been planned. TSM is also building a new fab in Dresden, Germany.

Prospects over the next 9 to 12 months

The most common consensus price target of analysts for TSM's stock lands in the **$400–$420** average range. There is a high of $520 and a low of $287.60. My fair value is $440.72. I used a current EPS of $10.59, a growth rate of 17.5%, and a PE of 20. I still feel this is conservative. TSM is a core holding in our portfolio. I don't see selling any shares. We have a full position that has recently grown to the second largest holding in our portfolio.

Taiwan Semiconductor Manufacturing Co., Ltd. (XNYS:TSM)	$ 340.27	77.21%													
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 TTM		10 year	5 year	1 year	trend
Revenue TWD Mil	947,909	977,443	1,031,362	1,069,985	1,339,255	1,587,415	2,263,891	2,161,736	2,894,308	3,809,054	3,809,054	17%	24%	32%	0.00%
Net Income	331,714	344,998	363,053	353,948	510,744	592,359	992,923	838,498	1,173,268	1,717,883	1,717,883	20%	30%	46%	0.00%
Earnings Per Share USD	63.95	66.50	70.00	68.25	98.50	114.20	191.45	164.25	223.35	331.25	331.25	20%	31%	48%	0.00%
Operating Income	377,911	386,657	383,626	372,699	566,780	649,984	1,121,227	921,430	1,322,015	1,936,078	1,936,078	20%	31%	46%	0.00%
Operating Income Per Share	72.87	74.56	73.97	71.87	109.29	125.33	216.20	177.68	254.92	373.33	373.33	20%	31%	46%	0.00%
Book Value Per Share USD	7.66	9.24	9.93	10.22	12.36	14.46	17.19	21.01	23.39	30.82	33.39	17%	21%	32%	8.34%
Free Cash Flow USD Mil	206,741	249,430	251,272	145,387	301,192	262,724	520,973	286,569	861,196	992,378	992,378	19%	39%	15%	0.00%
Free Cash Flow Per Share	39.87	48.10	48.45	28.03	58.08	50.66	100.46	55.26	166.06	191.36	191.36	19%	39%	15%	0.00%
Working Capital	469,443	470,313	594,843	224,250	460,287	848,720	1,066,333	1,251,228	1,823,827	2,359,112	2,359,112	20%	29%	29%	0.00%
Return on Invested Capital %	21.53	20.49	19.86	18.78	25.19	23.19	29.39	19.81	22.64	27.84	27.84	22.87	24.57	25.24	27.84
Return on Assets %	18.7	17.8	17.8	16.3	20.3	18.3	22.9	16.2	19.2	23.5	23.5	19.1	20.0	21.4	23.5
Return on Equity %	26.0	24.2	23.0	21.6	29.6	29.7	39.3	26.9	30.4	35.4	35.6	28.6	32.4	32.9	35.5
Operating Margin %	39.9	39.6	37.2	34.8	42.3	41.0	49.5	42.6	45.7	50.8	50.8	42.3	45.9	48.3	50.8
Shares	5,186	5,186	5,186	5,186	5,186	5,186	5,186	5,186	5,186	5,186	5,186	0%	0%	0%	0.00%
$1,660.38	Future EPS	$53.13													
$33,207.54	Future price	$1,062.64													
$13,772.42	Sticker price	$440.72													
$8,263.45	40% discount	$264.43													