

TSMC 4Q Exceeds on HPC and Smartphone Strength

TSM	5 est.	Taiwan Semi/TSMC	CY24rev:	21%
Qtr:	4Q	Grade:	B	Growth (qtr-qtr)
Rev:	19,624	Rev:	++	Rev: 13.6%
GM:	53.0%	EPS:	+++	Fcst: -8-4%
EPS:	\$1.44	Fcst:	+	Div: \$0.563

Taiwan Semiconductor/TSMC (TSM \$113.03 +10.08 at close on 1/18/24)

4Q Earnings: TSM announced 4Q results above expectations last night due to strength from high-performance computing (HPC) and smartphones on leading-edge 3nm process technology. Guidance for 1Q calls for a sequential revenue decline as continuing HPC strength is more than offset by unfavorable smartphone market seasonality.

4Q Results: 4Q revenue of \$19.6B increased by 14% sequentially on strength from smartphone growth of +27%, HPC +17% and automotive +13%, while digital consumer electronics (DCE) declined by -35%, Internet of Things (IoT) by -29% and others by -16%. Both HPC and smartphones accounted for 43% of revenue each with IoT accounting for 5%, automotive 5%, DCE 2% and others at 2%. Advanced technologies accounted for 67% of total revenue up from 59% last quarter which included 3nm at 15% up from 6%, 5nm at 35% down from 37% and 7nm at 17% up from 16%. North American customers accounted for 72% of revenue while China accounted for 11%, Asia Pacific 8%, Japan 5%, and EMEA (Europe, Middle East, and Africa) 4%.

2023 Annual Results: For all of 2023, revenue of \$69.3B decreased by 9% as smartphones declined by -8% and accounted for 38% of total sales, IoT by -17% for 8%, DCE by -16% for 2% and others by -6% for 3% while HPC was flat but inched up to 43% of sales and automotive increased by +15% to 6%. Advanced technologies accounted for 58% of total revenue up from 53% in 2022, including 3nm at 6% up from 0%, 5nm at 33% from 26%, and 7nm at 19% down from 27%. North American customers accounted for 68% of sales with China at 12%, Asia Pacific 8%, Japan 6%, and EMEA 6%. "TSMC deployed 288 distinct process technologies, and manufactured 11,895 products for 528 customers in 2023."

Guidance: 1Q guidance calls for revenue of \$18-18.8B, gross margin at 52-54%, and operating margin of 40-42% assuming a foreign currency exchange rate of 31.1-NTD per 1-USD. The capital expenditure budget for 2024 is \$28-32B after last year's \$30.45B.

Marginal Upside—Maybe: TSM is a wafer foundry juggernaut hoarding most of the sector's market share and profitability, and is well positioned for continued dominance for the foreseeable future. Unfortunately, much of this is already priced into the shares at the current price level, in my opinion—especially after today's rally. The shares are already trading at over 5-times book value, 7-times 2024 expected sales (over 20% growth), and over 18-times expected 2024 earnings that consensus estimates have exceeding \$6 per share.

LEGEND		Grade	
+++	exceeded the high-end of the range	A	all +++
++	above consensus, within the high-end of the range	B	all +
+	slightly above consensus	C	all o/+
o	met consensus	D	mixed -o/+
-	slightly below consensus	E	all o/-
--	missed consensus, within the low-end of the range	F	all -
---	missed the low-end of the range		

—Dan K. Scovel
Semiconductor Analyst

Tokeneke Research LLC

Rowayton, CT 06853

dscovel@tokenekeresearch.com

www.tokenekeresearch.com

203-554-4621

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