Semiconductor Series · 2 of 6

TSMC

makes the chips for Nvidia, Apple, AMD, Broadcom...

The world's chip factory is growing faster than at any time in the past decade, and September sales suggest third-quarter revenue will beat its own guidance. Its risks are less about demand than about geography, currency and cost.

Global Markets Research · Semiconductors Desk Prepared by **Andra Markets**

everyone's supplier = a bet on the whole AI chain

Coverage summary. Taiwan Semiconductor Manufacturing Company (TSMC) manufactures the most advanced chips in the world for companies that design but do not make them, including Nvidia, Apple, AMD and Broadcom. In the second quarter its revenue rose 36 per cent to NT$1.27 trillion (US$40.2 billion), net income rose 77 per cent and the gross margin reached 67.7 per cent. Monthly sales published on 8 October show third-quarter revenue of about NT$1.49 trillion, which on our calculation is above the top of the company's guidance. TSMC raised its 2026 capital spending plan to US$60 to 64 billion and expects revenue growth of slightly more than 40 per cent this year. It reports third-quarter results on 15 October. The Taiwan-listed shares reached a record on 5 October and are up more than 55 per cent this year.

ADR price, 7 Oct	Q2 revenue	Gross margin, Q2	P/E, forward
$472.20	**US$40.2bn**	**67.7%**	**20.4x**
market value $2.08tn	*+33.7% y/y in dollars*	*operating 60.3%*	*29.9x trailing*

Exhibit A. Key figures, second quarter of 2026

Metric	Q2 2026	Note
Revenue (NT$bn)	1,270.4	+36.0% y/y; +12.0% q/q
Revenue (US$bn)	40.20	+33.7% y/y
Gross margin	67.7%	Q3 guide 65 to 67%
Operating margin	60.3%	Q3 guide 56 to 58%
Net income (NT$bn)	706.6	+77.4% y/y
EPS per ADR (US$)	4.31	NT$27.25 per share
Share of 7nm and below	77%	of wafer revenue
HPC platform share	66%	AI and data centre chips
2026 capex (US$bn)	60 to 64	raised from 52 to 56

net margin 55.6%: incredible for a manufacturer

capex raised by ~$8bn

Company results as reported on 16 July 2026. Colour convention (charts only): green marks growth, red marks risk or decline. Handwritten notes and highlights are Andra Markets commentary.

1.0 Executive Summary

Key takeaways

Ahead of its own guidance. TSMC guided third-quarter revenue of US$44.6 to 45.8 billion. Sales for July, August and September add up to NT$1,494 billion, about US$46.7 billion at the exchange rate assumed in the guidance, which would be above the top of the range, although the result in dollars depends on the actual exchange rate. September sales were 55 per cent higher than a year earlier.

Q3 likely beats guidance

AI = HPC = 2/3 of revenue

AI has taken over the business. High-performance computing, the category that includes AI accelerators and data centre processors, accounted for 66 per cent of revenue in the second quarter, against 22 per cent for smartphones. Chief executive C.C. Wei said demand for AI accelerators is getting "stronger and stronger", and TSMC's plans for spending in the next three years are significantly higher than in the past three.

margins will dip: 2nm + overseas fabs

Margins will dip from a record. The gross margin is guided to fall to 65 to 67 per cent in the third quarter, as the ramp of the new 2-nanometre process dilutes it by 3 to 4 points and the fabs in Arizona, Japan and Germany cost more to run than those in Taiwan. At about 20 times forward earnings, the shares trade at a discount to most chip designers despite growing about as fast.

2.0 Business Overview

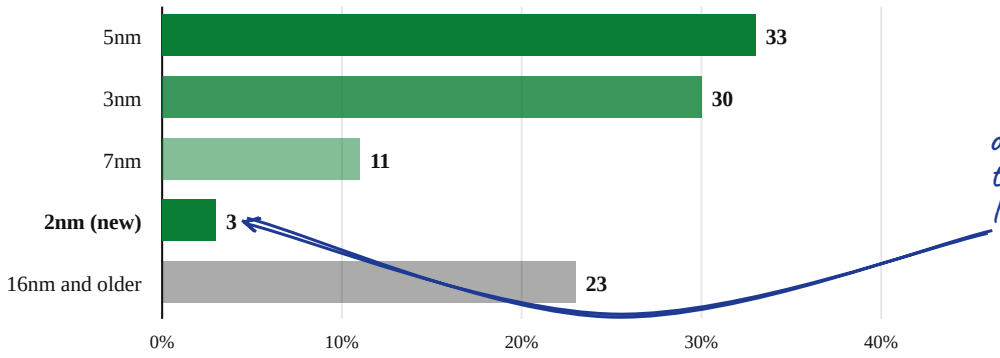
The foundry of the world

foundry = makes chips designed by others

TSMC is a foundry: it does not design or sell chips under its own name, but manufactures them for other companies, which allows it to serve competitors such as Nvidia and AMD at the same time. Its advantage lies in the most advanced manufacturing processes, measured in nanometres, where it has no real competitor at scale. Processes of 7 nanometres or smaller generated 77 per cent of wafer revenue in the second quarter, led by 5 nanometres at 33 per cent and 3 nanometres at 30 per cent, while the new 2-nanometre process contributed 3 per cent in its first quarter of volume.

smaller nm = more advanced = more expensive

Exhibit 1. Wafer revenue by process technology, Q2 2026 (%)



only 3% today, the next growth leg

Source: TSMC Q2 2026 results. Older processes calculated by Andra Markets as the remainder.

C.C. Wei on capacity: "not buying milk"

TSMC also leads in advanced packaging, the technology (called CoWoS) that joins processors with high-bandwidth memory to build AI accelerators. Capacity is so tight that Wei said it limits customers' growth and that TSMC welcomes alternatives, including Intel's. Reports in the Taiwanese press point to capacity doubling by 2028. As Wei put it on the July call, choosing and ramping a technology "is not buying a milk from 7-Eleven".

3.0 Second-Quarter Results

Record profitability

profit grew 2x faster than sales

Revenue rose 36 per cent in Taiwan dollars and 33.7 per cent in US dollars, and net income rose 77 per cent to NT$707 billion, as higher prices for advanced processes and full factories lifted margins. The gross margin of 67.7 per cent and the operating margin of 60.3 per cent are among the highest of any manufacturing company in the world. Earnings per ADR, the US-listed share, were US$4.31.

4.0 Third Quarter So Far

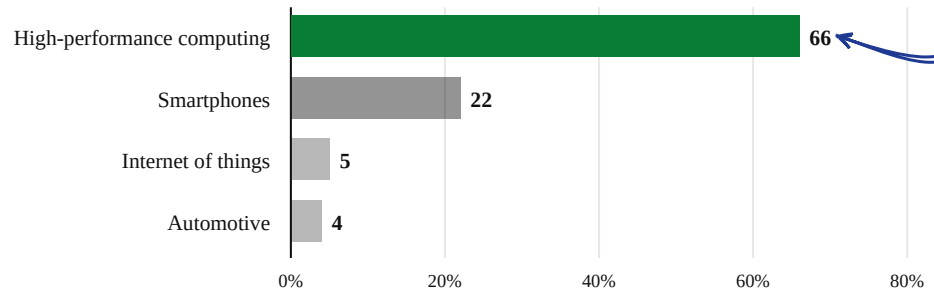
Monthly sales point to a beat

Q3 ~NT$1.49tn vs guide ~NT$1.43 to 1.47tn

TSMC publishes revenue every month, which gives an early read on the quarter. July revenue was NT$467.6 billion, up 45 per cent from a year earlier, August NT$514.8 billion, up 53 per cent, and September NT$511.9 billion, up 55 per cent. In total, the third quarter came to about NT$1,494 billion. At the exchange rate of 32 Taiwan dollars per US dollar assumed in the

guidance, that is about US$46.7 billion, above the top of the US$44.6 to 45.8 billion range. The beat looks likely; the open question is the margin, given the cost of ramping 2 nanometres.

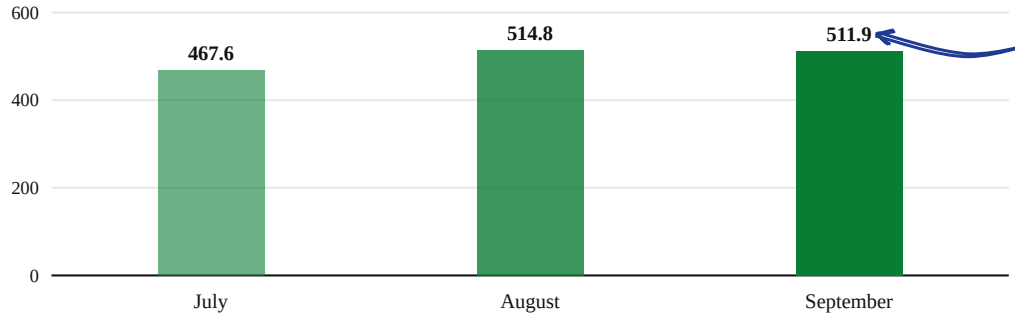
Exhibit 2. Revenue by platform, Q2 2026 (%)



HPC +20% q/q, phones −4%

Source: TSMC Q2 2026 earnings call (16 July 2026). Remaining categories not shown.

Exhibit 3. Monthly revenue, third quarter of 2026 (NT$bn)



+55% y/y in September

Source: TSMC monthly revenue reports (10 August, 10 September and 8 October 2026). Year-on-year growth: July +44.7%, August +53.3%, September +54.6%.

5.0 Expansion and Costs

Building outside Taiwan

TSMC is investing heavily outside Taiwan, partly to reduce geopolitical risk and to avoid US tariffs. In July it committed another US$100 billion to Arizona for at least four more fabs at 2 nanometres and below, bringing its announced US investment to US$265 billion. Its fab in Dresden, Germany, celebrated its topping-out in September and is on schedule, and in Japan it is forming an image-sensor joint venture with Sony. These fabs cost more to run: management expects them to reduce the gross margin by 2 to 3 points at first, and by 3 to 4 points later. To protect margins, TSMC has reportedly told customers it will raise some prices by up to 10 per cent in 2027, which the company has not confirmed.

US investment now US$265bn

overseas fabs cost 2 to 4 pts of margin

6.0 Valuation

A discount for geography

At US$472.20, TSMC's ADR values the company at US$2.08 trillion, about 30 times trailing earnings and 20.4 times forward earnings, below the multiples of Broadcom, AMD and ASML and similar to Nvidia's. The 21 analysts covered by StockAnalysis rate it a strong buy, with an average target of US$555, 17.5 per cent above the current price. The shares trade at a discount to the chip designers they supply largely because of the political risk attached to Taiwan.

cheaper than its customers

target $555 = +17.5%

7.0 Risk Considerations

Where the case could break

The most discussed risk is geopolitical: most of TSMC's advanced capacity is in Taiwan, and tensions with China, including frequent military flights near the island, would make any disruption extremely costly for the whole technology industry. Currency is a second risk, since a stronger Taiwan dollar reduces the value of dollar sales; the central bank intervened in July to slow its rise. Third, US tariffs on imported chips, at 25 per cent on certain advanced chips since January, may be broadened, although companies building in the United States are expected to

Taiwan risk: low probability, huge impact

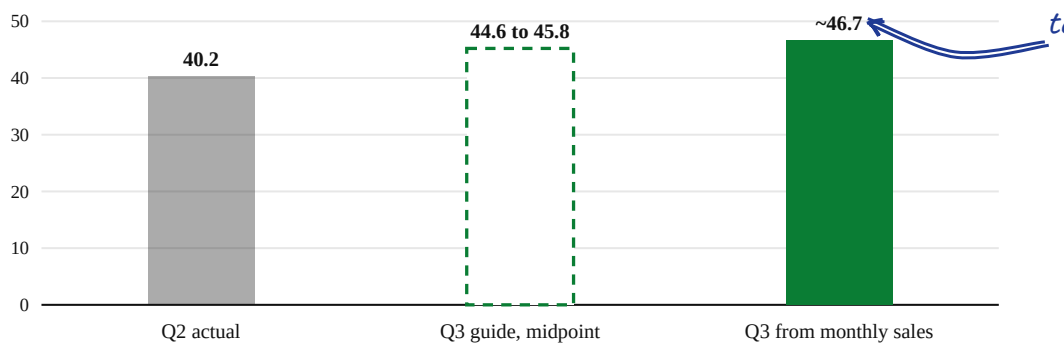
strong NT$ = lower revenue in NT$

Nvidia ~19% of revenue

be exempt. Finally, TSMC depends on a few customers: its largest, reported to be Nvidia, accounted for 19 per cent of revenue in 2025, and an AI spending slowdown would hit it with a lag, once its US$60 billion-plus capacity plan is already committed.

Exhibit 4. Quarterly revenue: Q2 actual, Q3 guidance and Q3 implied by monthly sales (US$bn)

beat of ~2% vs top of range



Source: TSMC; Q3 implied figure is an Andra Markets calculation converting monthly sales at NT$32 per US dollar, the rate assumed in guidance.

8.0 Outlook and Monitoring Points

What to watch

TSMC reports third-quarter results on 15 October. Beyond the likely revenue beat, investors will focus on the gross margin given the 2-nanometre ramp, guidance for the fourth quarter, any first comments on capital spending and growth in 2027, and updates on advanced packaging capacity and pricing. Because TSMC makes chips for almost every AI company, its comments are a read-across for Nvidia, AMD and Broadcom, which report later.

15 Oct: results, 14:00 Taipei

watch: GM, 2027 capex, AI growth

verdict: the safest way to own AI chips, if you accept the Taiwan risk

Methodology and Source Notes

Method. This note reviews TSMC's results for the second quarter of 2026, reported on 16 July 2026, monthly revenue to September 2026 and market data at the close of 7 October 2026 for the US-listed ADR. The third-quarter revenue implied by monthly sales, the older-process share in Exhibit 1 and multiple comparisons are Andra Markets calculations. Capacity and pricing figures from the Taiwanese press are reported, not confirmed by TSMC. Handwritten notes and highlights are informal commentary by the desk. This note is analysis, not investment advice.

Principal sources. TSMC, Q2 2026 results (16 July 2026), monthly revenue releases (August to October 2026) and investor relations calendar; Motley Fool, earnings call transcript (16 July 2026); TrendForce, on capacity and pricing reports (July and September 2026); Tom's Hardware, on Arizona (July 2026); Focus Taiwan, on Dresden (September 2026); FXStreet, on the Taiwan dollar (August 2026); Taiwan News, on customer concentration (February 2026); StockAnalysis, for market data.

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