

Taiwan Semiconductor Manufacturing

Quick Take: 2Q21 Full Notes: Sales outlook lifted a bit higher, slightly offset by FX

Semiconductor Devices | Earnings

2330.TW

Target price (12M, NT\$)
675.00

Outperform

- **2Q21 sales at the upper half, GMs slightly light.** Sales grew 2.7% QoQ to NT\$327.1bn, the high-end of +1-3% QoQ guidance with HPC/Auto both +12% QoQ, offset by declines in smartphone -3%, IoT -2% and consumer -12%, with China also rebounding from 6% to 11% on HPC ramps. GMs were 50bp light of the midpoint and -240bp to 50% from incremental 2% FX depreciation on top of the already guided for N5 dilution, slower cost improvement at very full loadings and absence of inventory revaluation.
- **3Q21 growing in-line, full year growth lifted above 20%.** TSMC guided sales +10-12% QoQ, matching print CS/Street +11% QoQ with growth across platforms. GMs were guided to 49.5% to 51.5%, slightly below CS/Street 51.6%/52.4% due to NT\$ appreciation, a 2pt YoY GM headwind and N5 ramping, and yet 2-3pts dilutive to corporate margins until maturing in 2022. Full year was lifted from 20% to above 20% (and 2020-25 CAGR to the high-end of +10-15%), in-line with CS +22% and supported Apple (larger die size, Mac/iPad growth Mediatek and Qualcomm 5G, NVIDIA AI, AMD share gains along with IoT/Automotive).
- **TSMC's ROIC model still intact.** TSMC's structural 50% profitability is intact and normalizing from high 2020 levels for Huawei's pre-ban shipments and strong 7nm ramps. TSMC's combination of higher priced new nodes and "firmed up" existing node pricing should sustain +4-5% blended price increase to offset depreciation and maintain upcycle GMs in-line with historical 50% range and ROIC 20%. It did note incremental spend to its US\$100bn if it moves ahead with a Japan fab. We expect more mild increase for a 40k 28/40nm fab for auto MCU and CIS closer to US\$4bn for 40k WPM than the US\$8bn spent in the next 3 years for capex and initial opex in Arizona for 20k 5nm.
- **Earnings growth with rebounding cash flows to come.** We see estimates intact and business still on track through 2025 sales at 13% CAGR, GMs/OpM around 51%/40% and NT\$36 earnings to drive 30-60% upside to NT\$750-930 at 20-25x 2025 EPS in 3-4 years. We also project FCF rebounding to NT\$30 in 2025, supporting a rise in dividend/share toward NT\$20 by 2025 and net cash to rebound to NT\$27/share.

| | |
|----------------------------|----------------------|
| Price (15 Jul 21, NT\$) | 614.00 |
| Upside/downside (%) | 9.9 |
| Mkt cap (NT\$/US\$ mn) | 15,921,254 / 570,552 |
| Enterprise value (NT\$ mn) | 15,496,147 |
| Number of shares (mn) | 25,930 |
| Free float (%) | 87.3 |
| 52-wk price range (NT\$) | 673-358 |
| ADTO-6M (US\$ mn) | 1000.3 |

Research Analysts

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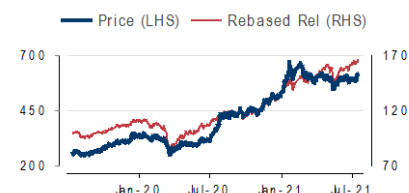
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Financial and valuation metrics

| Year | 12/20A | 12/21E | 12/22E |
|-------------------------|-----------|-----------|-----------|
| Revenue (NT\$ mn) | 1,339,255 | 1,549,735 | 1,759,676 |
| EBITDA (NT\$ mn) | 898,509 | 1,060,955 | 1,215,730 |
| EBIT (NT\$ mn) | 566,784 | 635,443 | 718,730 |
| Net profit (NT\$ mn) | 518,158 | 583,530 | 654,772 |
| EPS (CS adj.) (NT\$) | 19.98 | 22.5 | 25.25 |
| Chg. from prev. EPS (%) | n.a. | 0.0 | 0.0 |
| Consensus EPS (NT\$) | n.a. | 22.84 | 26.24 |
| EPS growth (%) | 50.1 | 12.6 | 12.2 |
| P/E (x) | 30.7 | 27.3 | 24.3 |
| Dividend yield (%) | 1.6 | 1.7 | 1.8 |
| EV/EBITDA (x) | 17.2 | 14.6 | 12.9 |
| P/B (x) | 8.61 | 7.32 | 6.29 |
| ROE (%) | 29.9 | 29.0 | 27.8 |
| Net debt/equity (%) | (24.1) | (18.7) | (10.4) |

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



The price relative chart measures performance against the TAIWAN SE WEIGHTED INDEX which closed at 18,034.19 on 15/07/21. On 15/07/21 the spot exchange rate was NT\$27.91/US\$1

| Performance | 1M | 3M | 12M |
|--------------|-------|-------|------|
| Absolute (%) | 0.8 | 0.7 | 69.1 |
| Relative (%) | (3.0) | (4.4) | 21.4 |

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