

Thanks for your support in the Asiamoney Brokers Poll. Please click here for our voting matrix.



Patrick Chen

patrick.chen@cl-sec.com
+886 2 2326 8151

Sam Kao

+886 2 2326 8164

Brian Chen

+886 2 2326 8145

Josh Tseng

+886 2 2326 8142

15 July 2021

Taiwan Technology

TSMC 2330 TT
Rec **BUY**
Market cap US\$561.2bn
3M ADV US\$707.8m
Price NT\$614
Target NT\$825
Up/downside 34.36%

KYEC 2449 TT
Rec **BUY**
Market cap US\$1.91bn
3M ADV US\$27.1m
Price NT\$44.9
Target NT\$56
Up/downside 24.72%

Unimicron 3037 TT
Rec **BUY**
Market cap US\$7.30bn
3M ADV US\$190.6m
Price NT\$143.5
Target NT\$150
Up/downside 4.53%

Aspeed 5274 TT
Rec **BUY**
Market cap US\$2.76bn
3M ADV US\$15.8m
Price NT\$2,200
Target NT\$2,600
Up/downside 18.18%

TSMC results implications

Solid 2Q results; possible component adjustments on foundry tightness

There was little upside surprise from the 2Q results/3Q guidance, but higher growth expectations for the non-memory semi industry and a reaffirmed outgrowth target by the company should support investor confidence. Also, expected foundry tightness into 2022 may cause further supply chain disruption and potential order adjustment for downstream components, while improved auto chip supplies should benefit backend testers and the auto supply chain. Maintain BUY on TSMC alongside supply chain beneficiaries KYEC, Unimicron, and Aspeed.

2Q GM headwinds from FX; 3Q revenue in line with lower margin guidance

- 2Q GM of 50.0% was at the lower end of 49.5-51.5% guidance due to unfavourable USD/TWD FX, which caused GM to be 50bps lower than what it would have been at the guided FX and 1/1.1ppts below CL/consensus forecasts. Higher Opex QoQ saw OP profit/net profit come in at 4%/3% and 2%/1% below CL/consensus, which is still a set of solid results.
- HPC and automotive applications fuelled 2Q revenue momentum with 12% QoQ growth for each, and the company also sees strong demand from IoT applications in 2Q. The company reallocated capacities towards MCUs in 1H and continues into 2H21, with 60% YoY growth in expected MCU output in 2021, and 30% growth compared to pre-Covid levels, so supply tightness could be alleviated from 3Q.
- The company guided for 3Q revenue to grow 9.5-11.7% QoQ with 10.6% QoQ growth at the mid-point, and this is in line with consensus 3Q forecasts of 11% QoQ growth. Nonetheless, GM and OPM guidance of 49.5-51.5% and 38.5-40.5% are a tad lower than consensus 3Q estimates of 52.1% and 41.5%, likely due to FX and lower gross margin for N5 node.

Stronger industry growth/reaffirmed outgrowth target

- The CEO indicated non-memory semi industry growth will be 17% in 2021 and 20% growth for foundries, while TSMC expects to outgrow the industry, and for longer-term growth the company raises 2020-25 revenue Cagr to the higher end of the 10-15% guided previously, which we believe is attributed to the its accurate capacity planning to cater to strong HPC and automotive demand ahead.
- The company also expects its back-end packaging profitability to improve into 3Q on seasonal factors, and also on a long-term basis. The back-end service could account for 8% of 2021 revenue and is expected to grow above the corporate average over the next five years.

Foundry tightness into 2022; potential risks to downstream components

- The company sees healthy inventory levels at its fabless customers exiting 2Q, with above-seasonal pull-in activities into 2H21. This short-term supply chain imbalance coupled with long-term demand drivers at HPC/IoT/automotive lead the company to expect tight foundry capacities into 2022.
- We believe foundry capacity constraints into 2022 will likely lead to more component mismatch at system assemblers, resulting in more order adjustment/deferrals for most downstream components like camera modules, PCB, passive components, power supply etc.

Reiterate BUY on TSMC, KYEC, Unimicron and Aspeed

- We expect the reaffirmed long-term growth target alongside the company's prudent client/capacity planning strategy to boost investors' confidence despite a lack of upside from 2Q results/3Q guidance, and we retain a BUY rating on TSMC.
- Meanwhile, as TSMC allocates more capacity to automotive applications (eg, MCU), we believe this implies growing demand from global IDMs and also increasing output. KYEC is the key beneficiary as an auto MCU testing house.
- Lastly, above corporate-average growth from backend service will benefit TSMC's dedicated substrate supplier Unimicron, and we continue to like Aspeed for the proliferating HPC opportunities.