

TSMC

Oct monthly sales strong; we don't expect much change to 4Q23 guidance

TSMC reported strong Oct-23 revenues of NT\$243bn, up 35% mom and 14% yoy, the first month of strong positive yoy growth since Jan-Feb '23. Oct revenues represented 39% of the 4Q23 JPM estimate. The strong yoy growth is likely due to a few factors (1) Strong and smoother iPhone processor ramp (esp. for A17 Pro) with higher mix and higher ASPs due to N3 adoption, (2) Ramp-up of supply of newly launched M3 application processor based Macs after significant destocking of M2 processor based Macs through 2023 due to persistent weak demand and (3) Some pull-in of N3B based iPhone and Mac processor inventory since TSMC is likely to convert most of the 3nm capacity to N3E from 2Q24. That said, we are not expecting any significant upside to 4Q23 revenues due to the following factors: (1) Oct-Nov is usually the peak month for iPhone processor builds, and should decline into December and 1Q after that, (2) Demand recovery in other nodes is still quite tepid and any sudden change in orders is unlikely to be reflected in TSMC's 4Q23 revenues due to long cycle times.

We expect 4Q23 revenue to grow 14% qoq, while we also expect 1Q24 revenues to decline 7% qoq due to Apple seasonality. A frequently asked question from investors is whether this is indicative of a sudden improvement in demand. By and large, we believe it's NOT, since TSMC's wafer cycle times are long (3-4 months) and any demand uptick (in the form of better wafer starts) will only reflect in revenues in 1Q24. In other words, much of the October revenues are likely to be reflecting wafers that were started in the Jul-Aug time frame. There could be small volume of wafers which could have seen some "hot-lot" or expedited processing, but this is usually not significant. Given, weak end-demand and anticipation from the supply chain for an iPhone order cut, we do not expect near-term upside to N3 wafer orders either.

We remain OW on the stock.

Overweight

2330.TW, 2330.TT

Price (10 Nov 23): NT\$557.0

Price Target (Jun-24): NT\$700.0

Technology

Gokul Hariharan ^{AC}

(852) 2800-8564

gokul.hariharan@jpmorgan.com

Bloomberg JPMA HARIHARAN <GO>

J.P. Morgan Securities (Asia Pacific) Limited/ J.P. Morgan Broking (Hong Kong) Limited

Robert Hsu

(886-2) 2725-9864

robert.hsu@jpmorgan.com

J.P. Morgan Securities (Taiwan) Limited

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Investment Thesis, Valuation and Risks

TSMC (*Overweight; Price Target: NT\$700.0*)

Investment Thesis

With attractive valuations (highest PE discount to SOX index in the last 10 years), high utilizations (~80%) and inventory levels almost bottoming out, the focus of medium- to long-term investors should be on TSMC's continued growth in HPC, strong GM expansion, pole-position in AI chips and reaffirmation of novel tech leadership vs Intel, all of which should also support our constructive view on TSMC's future outlook. We retain our OW stance on the stock.

Valuation

Our Jun-24 PT of NT\$700 is based on 16x 12-month forward EPS, in line with the 10-year average multiple.

Risks to Rating and Price Target

Key downside risks include: 1) Market share losses to Samsung/Intel Foundry; and 2) a worse-than-expected foundry competitive landscape in 2024.

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TSMC (2330.TW, 2330 TT) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Apr 28, 2002. All share prices are as of market close on the previous business day.

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