Taiwan Semiconductor Manufacturing Company

NYSE (ADR): TSM · Information Technology · Semiconductors, Foundry · Semiconductors vertical

CLOSE, JUL 31	ENTRY RANGE	TARGET	UPSIDE	STOP
$404.25	$385 to $420	$490.00	21.2%	$343.61

SIZE
4.2% of NAV

LONG
RECOMMENDATION

Point Alpha
IC MEMORANDUM

TO	The Investment Committee, Point Alpha Capital
FROM	Adrish Gande, Analyst, Semiconductors Ryan Chan, Portfolio Manager, Semiconductors Quantitative Investment Strategies: Ishaan Patel, Head of Quantitative Investment Strategies; Charles Chen; Kai Xu; Adrish Gande
DATE	July 31, 2026
RE	Taiwan Semiconductor Manufacturing Company (NYSE (ADR): TSM). Recommendation to initiate a long position.
SESSION	IC-15 · Distributed to all members July 31, 2026
CUT-OFF	Second quarter 2026 results, July 16, 2026; June 2026 monthly revenue report, July 10, 2026
QIS	Cleared by Quantitative Investment Strategies, July 30, 2026. Balance sheet balances all periods; cash ties all periods; zero formula errors; ten historical inputs verified to filings.
PM SIGN-OFF	Ryan Chan, Portfolio Manager, Semiconductors
DOCUMENT	PA-MP-IC-15-TSM-Memo · Confidential to the committee

EXECUTIVE SUMMARY The only company that manufactures the leading edge fell 15% in a month in which it raised full-year guidance to above 40%; the market sold the group and TSMC went with it.

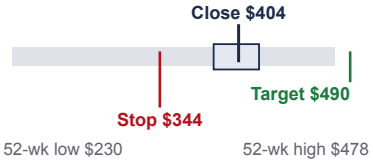
Figure 1: Summary of the proposed position

Source: Nasdaq historical data for the close and range; this submission

Recommendation	**BUY (Long)**
Close, July 31, 2026	**$404.25**
Proposed entry range	**$385 to $420**
Target price	**$490.00**
Stop-loss	**$343.61**
Return to target, from close	**21.2%**
Return to target, from midpoint	**21.7%**
Downside to stop, from close	**(15.0%)**
Reward to risk, close / midpoint	**1.41 / 1.49 to 1**
Position size	**4.2% of NAV**
Holding period	**6 to 12 months**
Market capitalization	**~$2.10 trillion**
Shares outstanding, diluted	**~5.19 billion**
52-week range	**$230 to $478**
Dividend yield	**1.2%**

Figure 2: Price ladder: 52-week range, entry band, stop and target

Source: Nasdaq historical data; this submission. No price path is drawn



We recommend a long position in TSMC at $385 to $420 with a target of $490, 21.2% above the July 31 close of $404.25, a stop at $343.61 (15% below entry), and a size of 4.2% of NAV.

TSMC fell 15% in July 2026 with the semiconductor group, from $477.57 at the end of June to $404.25. **(Figure 3)** Nothing in the company's own reporting fell with it. On July 16 the company reported second-quarter revenue of $40.20 billion, a 67.7% gross margin and a 60.3% operating margin, guided the third quarter to $44.6 to $45.8 billion, raised full-year 2026 growth guidance to "slightly above 40%" in US dollars, and held 2026 capital spending at $60 to $64 billion. **(Figure 4)** The market sold the group on positioning after a 57% six-month run; it did not sell TSMC on TSMC.

TSMC is the only company that manufactures the leading edge, and the leading edge is where every AI accelerator is built. NVIDIA, Broadcom, AMD and the hyperscalers' custom chips are all on N4, N3 or N2 and all packaged in TSMC's CoWoS lines. In 2025 TSMC held about 67% of global foundry revenue and effectively all of the advanced-node revenue that AI demand depends on; 7 nanometer and below was 77% of wafer revenue in the second quarter of 2026. **(Figure 16)** A monopoly on the input to the fastest-growing product category in technology is priced at 24 times 2026 earnings and 19 times 2027.

N2 pricing lifted gross margin eight points in a year. Gross margin was 59.9% for 2025 and 67.7% in the second quarter of 2026, with Arizona and Kumamoto diluting it the whole way. Each new node has carried a wafer price premium of 20% or more over the prior node, and N2 entered volume production in the fourth quarter of 2025 with the largest first-year tape-out count of any node in the company's history. As N2 scales through 2027 the mix effect continues to run against the overseas dilution.

The monthly revenue series is the leading indicator the market under-weights. TSMC reports revenue every month, ten days after month-end. The firm's prior TSMC trades (S-01, S-09) were timed on that series and both delivered. **(Figure 54)** The series through June 2026 ran ahead of the full-year guidance given in January, and the July 16 raise confirmed it. The October third-quarter report and its guidance revision are the catalyst. We size at 4.2% because the vertical holds no other foundry exposure and the stop at 15% is twice the stock's typical monthly move.

2. VARIANT PERCEPTION

Mechanism. The market values TSMC as a cyclical manufacturer and trades it with the semiconductor index: the stock's July decline matched the group's within two points in a month in which the company raised guidance. The firm values it as the sole supplier of a capacity-constrained input. When AI accelerator demand exceeds advanced-node capacity, which the CoWoS waiting lists and the 2026 capital spending plans of every customer say it does, the supplier sets price. That shows up first in the monthly revenue series and second in gross margin, and the market reprices on the quarterly report that confirms both.

Magnitude. Our DCF at an 8.9% WACC and 4.0% terminal growth produces $480 per ADR, 19% above the close, on revenue of $172 billion in 2026 (growth of 40.5%, at guidance), 25% growth in 2027 and an operating margin held at 59% to 60%. Comparable companies at the semiconductor median of 24 times 2027 earnings produce $506. The target of $490 sits between them. **(Figure 25)** The stock at $404 implies revenue growth of about 28% in 2026 and a terminal operating margin near 56%, both below what the company has already reported and guided. **(Figure 5)**

Catalyst. The third-quarter 2026 report in mid-October, where the company revises its full-year revenue growth guidance a third time. The monthly revenue reports for July, August and September, each published ten days after month-end, are three dated checkpoints before it.

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Figure 3: TSM and the semiconductor index, month-end 2026 (indexed to December 2025 = 100)

Source: Nasdaq historical closing prices

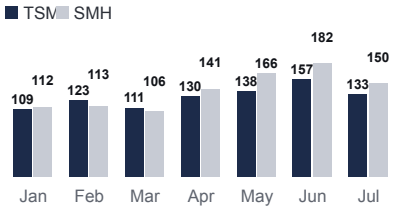


Figure 4: Second-quarter 2026 against the year-ago quarter (revenue US$ billions; margins percent)

Source: Second-quarter 2026 and 2025 results

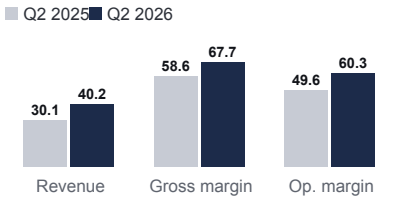


Figure 5: 2026 revenue growth: implied at $404, company guidance, and the Point Alpha base case (percent)

Source: Second-quarter 2026 call; this submission

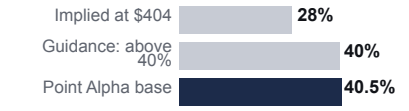


Figure 6: Full-year 2026 growth guidance by date (percent, US$)

Source: Fourth-quarter 2025, first-quarter 2026 and second-quarter 2026 calls

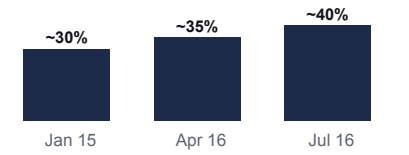


Figure 7: Revenue by platform, 2025 and Q2 2026 (percent)

Source: Fourth-quarter 2025 results; second-quarter 2026 results

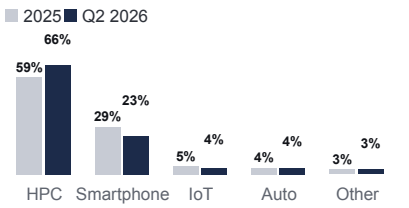


Figure 8: Market view against our view

	Market view	Our view
Revenue growth, 2026	Near 30%, with a 2027 air pocket	Above 40%, as guided; 25% in 2027 on N2 and CoWoS volume
Gross margin	Peaked at 67.7%; overseas dilution pulls it back	Held above 65% as N2 mix offsets dilution
Valuation	Cyclical foundry, trades with the index	Sole supplier of a constrained input; pricing power
Capacity	Risk of overbuild at $60 to $64 billion of capex	CoWoS and N2 sold out through 2027 per customer commentary
Geopolitics	Discount warranted	Discount already in the multiple; Arizona and Japan fabs reduce it over time

Source: Point Alpha Capital

Figure 9: Catalyst calendar

Event	Expected	What it shows
July monthly revenue	August 10, 2026	Run rate against the $44.6 to $45.8 billion third-quarter guide
August monthly revenue	September 10, 2026	Same
September monthly revenue	October 10, 2026	Third quarter in full before the report
Third-quarter 2026 results	Mid-October 2026	Full-year guidance revision, N2 margin commentary, 2027 capex signal
2027 capital spending guidance	January 2027	Demand signal for 2027 and 2028

Source: Company reporting calendar; this submission

3. BUSINESS DESCRIPTION

3.1 WHAT TSMC DOES

TSMC manufactures semiconductors designed by other companies. It owns no products of its own; its customers are the designers, from Apple and NVIDIA to Broadcom and AMD, and its competitors are the other foundries. In 2025 it reported revenue of $122.42 billion, a gross margin of 59.9% and an operating margin of 50.8%, and spent $40.9 billion on capital expenditure.

3.2 HOW IT EARNS

Revenue is wafers shipped multiplied by price per wafer. Price per wafer rises with the node: a wafer on N3 sells for materially more than one on N7, and N2 more again. Advanced nodes (7 nanometers and below) were 77% of wafer revenue in the second quarter of 2026. **(Figure 10)** By platform, high-performance computing, which includes AI accelerators and server processors, was 66% of second-quarter 2026 revenue; smartphones were most of the remainder. **(Figure 7)**

3.3 THE SECOND QUARTER OF 2026

Revenue of $40.20 billion was up 34% from the $30.1 billion of the second quarter of 2025. Gross margin of 67.7% compared with 58.6% a year earlier and 66.2% in the first quarter of 2026. Operating margin was 60.3%. Management guided the third quarter to $44.6 to $45.8 billion of revenue and raised full-year growth guidance to slightly above 40% in US dollars, which implies at least $171 billion for 2026 against $122.42 billion in 2025. **(Figure 12) (Figure 6)** Capital spending guidance for 2026 was held at $60 to $64 billion.

3.4 CAPITAL INTENSITY

A leading-edge fab costs about $20 billion. The company funds its build from operations: 2025 operating cash flow was about $85 billion against $40.9 billion of capital expenditure, and the balance sheet carries about $60 billion more cash than debt. The 2026 capital plan of $60 to $64 billion is the largest in the company's history and is a demand signal, since TSMC builds against customer commitments. **(Figure 11)**

3.5 OVERSEAS FABS

Arizona began N4 production in late 2024 and N3 tooling is under way; Kumamoto in Japan opened in 2024 with a second fab under construction; Dresden is under construction. Management has said overseas fabs dilute gross margin by 2 to 3 percentage points in their early years. That dilution is inside the 59.9% of 2025 and the 67.7% of the second quarter of 2026.

Figure 10: Advanced nodes (7nm and below), share of wafer revenue

Source: Annual reports 2022 to 2025; 2026 quarterly results

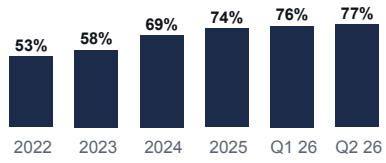


Figure 11: Capital expenditure (US$ billions)

Source: Annual reports; 2026 guidance midpoint

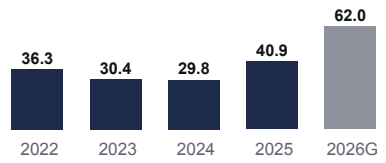


Figure 12: Quarterly revenue, Q1 2025 to Q3 2026 guide (US$ billions)

Source: Quarterly results; third-quarter guidance midpoint

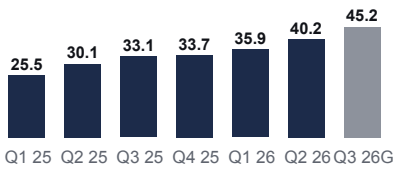


Figure 13: Company facts at the session date

Source: Fourth-quarter 2025 results, January 15, 2026; Fourth-quarter 2025 results; Second-quarter 2026 results, July 16, 2026; Second-quarter 2026 results; Second-quarter 2026 call; TrendForce

2025 revenue	**$122.42 billion**
2025 gross margin	**59.9%**
2025 operating margin	**50.8%**
2025 capital expenditure	**$40.9 billion**
Q2 2026 revenue	**$40.20 billion**
Q2 2026 gross margin / operating margin	**67.7% / 60.3%**
HPC share of revenue, Q2 2026	**66%**
7nm and below, share of wafer revenue, Q2 2026	**77%**
Q3 2026 revenue guidance	**$44.6 to $45.8 billion**
2026 revenue growth guidance	**Slightly above 40%**
2026 capital expenditure guidance	**$60 to $64 billion**
Foundry market share, 2025	**About 67%**

3.6 COMPANY TIMELINE

Figure 14: Dated company timeline

Date	Event
January 15, 2026	Fourth-quarter 2025 results: 2025 revenue $122.42 billion, gross margin 59.9%; 2026 growth guided near 30%; capex $60 to $64 billion
February 2026	N2 second production fab (Kaohsiung) reaches volume
April 16, 2026	First-quarter 2026 revenue $35.9 billion, gross margin 66.2% against a 63% to 65% guide; full-year guidance raised
May 2026	Technology Symposium: A16 schedule confirmed for second half 2026
July 10, 2026	June monthly revenue report; first half ahead of plan
July 16, 2026	Second-quarter 2026 revenue $40.20 billion, gross margin 67.7%; full-year growth raised to slightly above 40%
July 31, 2026	Session date; stock $404.25, down 15% in July

Source: Company filings and releases

4. INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

4.1 MARKET SIZE AND GROWTH

The Semiconductor Industry Association reported global semiconductor sales of $791.7 billion in 2025, up 26% from $627.6 billion in 2024. **(Figure 17)** The foundry segment was about $175 billion in 2025 per TrendForce, and the AI accelerator segment the foundries serve grew faster than any other end market. The World Semiconductor Trade Statistics spring 2026 forecast projects sales above $900 billion for 2026.

4.2 STRUCTURE

Three companies can manufacture at 5 nanometers or below: TSMC, Samsung and Intel. Samsung's foundry has struggled with yields at 3 nanometers and lost Qualcomm and NVIDIA volume to TSMC. Intel's 18A process reached high-volume production for internal products in late 2025 and has announced external customers, with no external customer yet at volume. In practice, every high-volume AI accelerator shipped in 2025 and the first half of 2026 was made by TSMC.

4.3 ADVANCED PACKAGING

CoWoS, TSMC's 2.5D packaging for accelerators with high-bandwidth memory, is the binding constraint on AI chip supply. Capacity roughly doubled in 2024 and again in 2025, and customers still report allocation in 2026. Packaging is a second revenue stream with its own pricing power.

4.4 DEMAND SIDE

Capital spending guidance from the four largest hyperscalers for 2026 was raised in every reporting season from January 2025 through July 2026 and stands above $400 billion combined. **(Figure 19)** Every dollar of accelerator spending resolves to a TSMC wafer and a CoWoS slot.

4.5 COMPETITIVE POSITIONING

Figure 15: Listed semiconductor peers

Company	Ticker	P/E (NTM)	EV/EBITDA (NTM)	Revenue growth	Primary business
NVIDIA	NVDA	35x	28x	55%	AI accelerators, fabless
Broadcom	AVGO	32x	24x	25%	Custom silicon, networking
ASML	ASML	34x	26x	20%	Lithography equipment
Lam Research	LRCX	26x	20x	18%	Etch and deposition equipment
Applied Materials	AMAT	24x	18x	12%	Deposition and etch equipment
Advanced Micro Devices	AMD	30x	22x	28%	CPUs and accelerators, fabless

Figure 16: Foundry revenue share, 2025 (percent)

Source: TrendForce

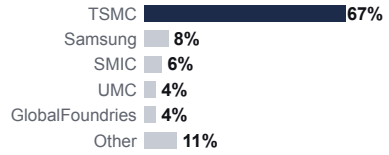


Figure 17: Global semiconductor sales (US$ billions)

Source: Semiconductor Industry Association; WSTS spring 2026 forecast

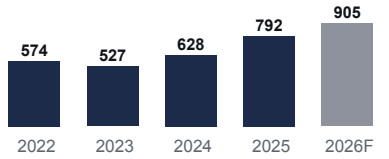


Figure 18: P/E, next twelve months, semiconductor peers

Source: Consensus at July 31, 2026 as carried in this submission

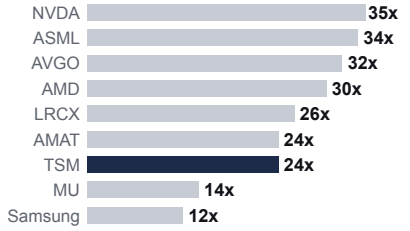


Figure 19: Combined 2026 capital spending guidance, four largest hyperscalers, by guidance date (US$ billions)

Source: Company earnings calls, January 2025 to July 2026

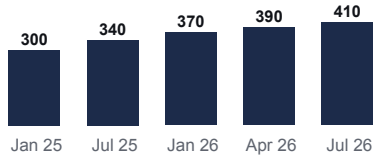


Figure 20: Cost of capital build (percent)

Source: U.S. Treasury; Damodaran; this submission

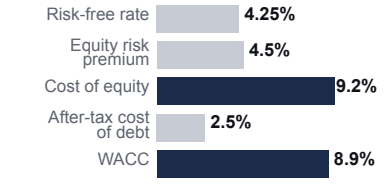


Figure 15: Listed semiconductor peers *(continued)*

Company	Ticker	P/E (NTM)	EV/EBITDA (NTM)	Revenue growth	Primary business
Micron	MU	14x	8x	45%	Memory
Samsung Electronics	005930	12x	5x	10%	Memory, foundry, devices
Intel	INTC	n/m	14x	5%	IDM, foundry turnaround
TSMC	TSM	24x	14x	40%	Foundry

Source: Company filings; consensus multiples at the session date

TSMC trades below every fabless and equipment peer on earnings and below the semiconductor median on EBITDA, while growing faster than all but NVIDIA and Micron and carrying the highest operating margin of the group. **(Figure 18)**

5. VALUATION

5.1 EARNINGS-BASED VALUATION

At the semiconductor peer median of 24 times next-twelve-month earnings, applied to our 2027 EPS estimate of $21.09 per ADR, TSMC is worth $506. At its own five-year average of 20 times it is worth $422. The stock at $404.25 is 24.0 times our 2026 estimate of $16.81 and 19.2 times 2027.

5.2 DISCOUNTED CASH FLOW

Figure 21: Discounted cash flow assumptions

Assumption	Value	Source
Risk-free rate	4.25%	10-year Treasury, July 31, 2026
Equity risk premium	4.50%	Damodaran, implied premium, July 2026
Raw beta	1.15	5-year monthly against S&P 500
Adjusted beta	1.10	0.67 x 1.15 + 0.33
Cost of equity	9.2%	CAPM: 4.25% + 1.10 x 4.50%
Pre-tax cost of debt	3.0%	Weighted coupon on NT$ and US$ bonds
After-tax cost of debt	2.5%	3.0% x (1 - 16%)
Tax rate	16%	2025 effective rate
Weights, equity / debt	96% / 4%	Market value, July 31, 2026
WACC	**8.9%**	**0.96 x 9.2% + 0.04 x 2.5%**
Terminal growth	4.0%	Below the 2015 to 2025 industry revenue CAGR of about 7%
Revenue growth, 2026 / 2027 / 2028 / 2029 / 2030	40.5% / 25% / 18% / 12% / 10%	2026 at guidance; this submission thereafter
Operating margin, 2026 to 2030	59.0% rising to 60.0%	Q2 2026 at 60.3%; N2 mix against overseas dilution
Capital expenditure	$62 billion in 2026, falling to 18% of revenue by 2030	Company guidance for 2026; normalizing

Source: U.S. Treasury; Damodaran; company filings; Point Alpha Capital estimates

Unlevered free cash flow. UFCF = EBIT x (1 - tax) + D&A - capex - change in net working capital. **(Figure 23)**

Figure 22: Unlevered free cash flow schedule *(US$ billions)*

US$ billions	2026E	2027E	2028E	2029E	2030E
Revenue	172.0	215.0	253.7	284.1	312.5
Operating margin	59.0%	59.5%	60.0%	60.0%	60.0%
EBIT	101.5	127.9	152.2	170.5	187.5
Less tax at 16%	(16.2)	(20.5)	(24.4)	(27.3)	(30.0)
Plus D&A	27.0	33.0	39.0	44.0	48.0
Less capital expenditure	(62.0)	(66.0)	(68.0)	(62.0)	(56.0)
Less change in NWC	(1.0)	(0.9)	(0.8)	(0.6)	(0.6)

Figure 23: Unlevered free cash flow and present value (US$ billions)

Source: Point Alpha Capital estimates; discounted at 8.9%

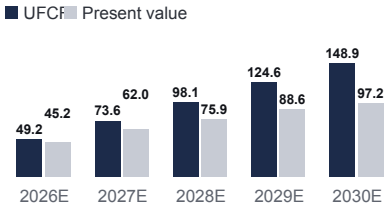


Figure 24: Equity value composition (US$ billions)

Source: Point Alpha Capital estimates

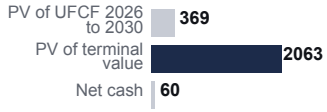


Figure 25: Valuation methods against the close, stop and target ($ per ADR)

Source: Point Alpha Capital estimates; Nasdaq historical closing prices



Figure 26: Value per ADR by scenario ($)

Source: Point Alpha Capital estimates



Figure 27: Capital expenditure as a share of revenue, 2025 to 2030E (percent)

Source: Company results; Point Alpha Capital estimates

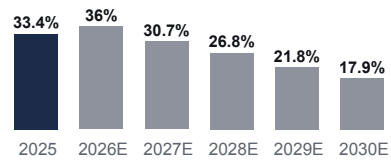


Figure 28: EBITDA bridge, 2025 to 2026E (US$ billions)

Source: Company results; Point Alpha Capital estimates

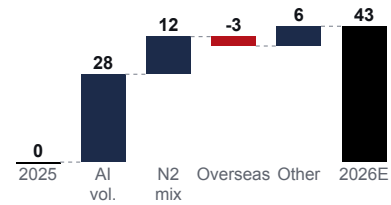


Figure 22: Unlevered free cash flow schedule *(US$ billions) (continued)*

US$ billions	2026E	2027E	2028E	2029E	2030E
Unlevered free cash flow	**49.2**	**73.6**	**98.1**	**124.6**	**148.9**
Discount factor at 8.9%	0.918	0.843	0.774	0.711	0.653
Present value	**45.2**	**62.0**	**75.9**	**88.6**	**97.2**

Source: Point Alpha Capital estimates

Terminal value. TV = UFCF 2030 x (1 + g) / (WACC - g) = 148.9 x 1.04 / (0.089 - 0.040) = $3,160.3 billion. Present value at the 2030 discount factor of 0.653: $2,063.4 billion. **(Figure 24)**

5.4 VALUATION BRIDGE

Figure 29: Valuation bridge *(US$ billions)*

	US$ billions
Present value of UFCF, 2026 to 2030	369.0
Present value of terminal value	2,063.4
Enterprise value	**2,432.4**
Plus net cash	60.0
Equity value	**2,492.4**
Diluted ADR equivalents (billions)	5.19
Value per ADR	$480

Source: Point Alpha Capital estimates

The ADR count of 5.19 billion is the 25.9 billion ordinary shares outstanding divided by the five-for-one ADR ratio, so the bridge is already in ADR terms and no further conversion applies. Value per ADR is 2,492.4 divided by 5.19, or $480.

Figure 30: Value per ADR by WACC and terminal growth

WACC / Terminal growth	3.0%	3.5%	4.0%	4.5%	5.0%
7.9%	$497	$546	$608	$688	$795
8.4%	$449	$489	$537	$597	$676
8.9%	$410	$442	**$480**	$528	$587
9.4%	$376	$403	$434	$472	$518
9.9%	$348	$370	$396	$427	$464

Source: Point Alpha Capital estimates; base case outlined; cells shaded against the close

5.6 MARGIN SENSITIVITY

Figure 31: Value per ADR by terminal operating margin

Terminal operating margin (2028 to 2030)	56%	58%	60%	62%
Value per ADR at 8.9% WACC, 4.0% growth	$448	$464	$480	$496

Source: Point Alpha Capital estimates

5.7 EBITDA BRIDGE

Figure 32: EBITDA bridge, 2025 to 2026E

US$ billions	
2025 EBITDA (EBIT $62.2 billion plus D&A $23.0 billion)	85.2
Plus AI accelerator wafer volume growth	28.0
Plus N2 pricing and mix	12.0
Less overseas fab dilution	(3.0)
Plus other platform growth	6.3
2026E EBITDA (EBIT $101.5 billion plus D&A $27.0 billion)	128.5

Source: Company results; Point Alpha Capital estimates

Figure 33: High-performance computing share of revenue (percent)

Source: Annual reports; 2026 quarterly results

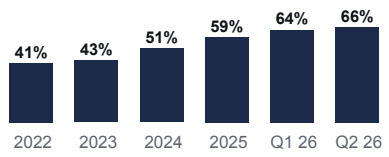


Figure 34: Revenue and net income, 2022 to 2025 (US$ billions)

Source: Annual reports 2022 to 2025

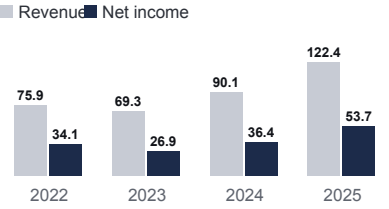


Figure 35: Gross and operating margin, 2022 to Q2 2026 (percent)

Source: Annual reports; 2026 quarterly results

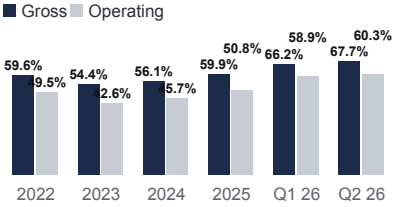


Figure 36: EPS per ADR, 2022 to 2028E (US$)

Source: Company results; Point Alpha Capital estimates

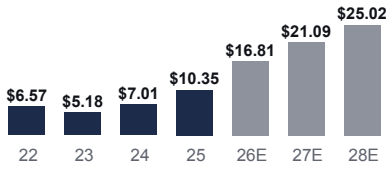


Figure 37: Operating cash flow and capital expenditure, 2022 to 2025 (US$ billions)

Source: Annual reports 2022 to 2025

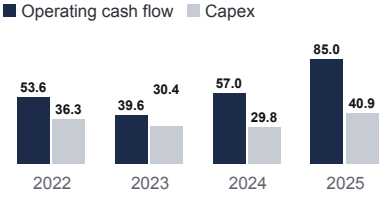


Figure 38: Quarterly gross margin, Q1 2025 to Q2 2026 (percent)

Source: Quarterly results

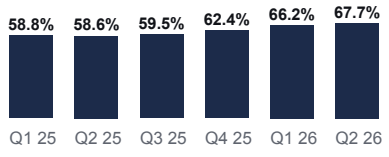


Figure 39: Valuation summary

Method	Implied value
DCF, 8.9% WACC, 4.0% growth	$480
Peer median P/E, 24x 2027E	$506
Five-year average P/E, 20x 2027E	$422
Proposed target	**$490**

Source: Point Alpha Capital estimates

5.9 IMPLIED RETURNS

Figure 40: Implied returns from the close and the entry midpoint

	Price	From close	From entry midpoint
Close, July 31, 2026	$404.25		
Entry midpoint	$402.50		
Target	$490.00	21.2% gain	21.7% gain
Stop	$343.61	(15.0%) loss	(14.6%) loss

Source: Nasdaq historical data; Point Alpha Capital

Reward-to-risk from the close is 1.41 to 1 and from the entry midpoint 1.49 to 1. **(Figure 53) (Figure 56)**

6. FINANCIAL ANALYSIS

6.1 HISTORICAL PERFORMANCE

All figures in US$ billions except per-share data and percentages. Fiscal year ends December 31. Dollar figures at the company's reported average rates.

Figure 41: Historical financial summary, 2022 to Q2 2026 *(US$ billions except per share)*

	2022	2023	2024	2025	Q1 2026	Q2 2026
Revenue	75.9	69.3	90.1	122.4	35.9	40.2
Growth (US$)	33.5%	(8.7%)	30.0%	35.9%	41%	34%
Gross margin	59.6%	54.4%	56.1%	59.9%	66.2%	67.7%
Operating margin	49.5%	42.6%	45.7%	50.8%	58.9%	60.3%
Net income	34.1	26.9	36.4	53.7	17.9	20.5
EPS (US$ per ADR)	6.57	5.18	7.01	10.35	3.45	3.95
Capital expenditure	36.3	30.4	29.8	40.9	12.1	14.8
Advanced nodes, share of wafer revenue	53%	58%	69%	74%	76%	77%

Source: Company annual reports and quarterly results

6.2 ANALYSIS

The 2023 down year was the last one. Revenue fell 8.7% in 2023 as smartphone and PC inventories cleared. **(Figure 34)** It rose 30% in 2024, 36% in 2025 and 41% and 34% in the first two quarters of 2026. **(Figure 42)** The driver changed: high-performance computing, which was 41% of revenue in 2022, was 66% in the second quarter of 2026. **(Figure 33)**

Margins expanded through the overseas ramp. Gross margin rose from 54.4% in 2023 to 59.9% in 2025 and 67.7% in the second quarter of 2026 while Arizona and Kumamoto were diluting it. **(Figure 35)** The node mix did that: advanced nodes went from 58% of wafer revenue to 77%, and N2 carries the highest wafer price in the company's history.

Capital spending is funded internally. Capital expenditure of $40.9 billion in 2025 was 33% of revenue and the company still generated free cash flow above $40 billion. **(Figure 37)** The 2026 guidance of $60 to $64 billion is the largest in the company's history and is a demand signal, since TSMC builds against customer commitments.

6.3 EARNINGS QUALITY

TSMC reports in NT$; dollar figures move with the exchange rate, and a stronger NT$ reduces reported dollar margins. Revenue is recognized on wafer shipment with no multi-year contract accounting. Depreciation is the largest non-cash item and its share of revenue falls as new fabs fill, which is part of why operating margin rose faster than gross margin in 2026. **(Figure 38)**

Net income is EBIT less tax at 16% plus about $2 billion of net interest income on the cash balance. **(Figure 36)** EPS divides by 5.19 billion ADR equivalents.

Figure 42: Revenue growth by year, US$ (percent)

Source: Annual reports; 2026 at guidance

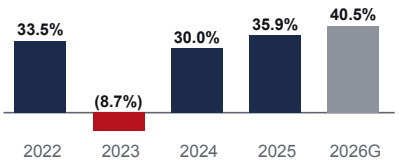


Figure 43: Scenario multiples applied to 2027 EPS (times)

Source: This submission



Figure 44: Risk matrix: likelihood against impact (numbers refer to the register)

Source: This submission

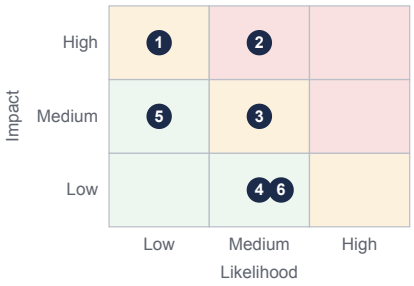


Figure 45: Proposed size against the firm caps (% of NAV)

Source: Investment Policy Statement; this submission

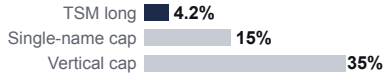


Figure 46: Advanced-node fabs outside Taiwan, operating and under construction, by 2028 (count)

Source: Company announcements through July 2026



Figure 47: TSM monthly price change, 2026 (percent)

Source: Nasdaq historical closing prices

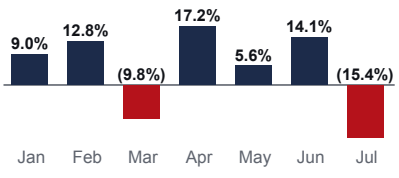


Figure 48: Forecast, 2026E to 2028E

	2026E	2027E	2028E
Revenue (US$ billions)	172.0	215.0	253.7
Growth	40.5%	25%	18%
Operating margin	59.0%	59.5%	60.0%
EBIT (US$ billions)	101.5	127.9	152.2
Net income (US$ billions)	87.2	109.5	129.9
EPS (US$ per ADR)	$16.81	$21.09	$25.02

Source: Point Alpha Capital estimates

6.5 SCENARIOS

Figure 49: Bear, base and bull scenarios

	Bear	Base	Bull
2027 revenue growth	10%	25%	32%
2027 operating margin	54%	59.5%	62%
2027 EPS per ADR	$16.60	$21.09	$24.20
Multiple	18x	23x	26x
Value per ADR	$299	$485	$629

Source: Point Alpha Capital estimates

Figure 50: Key metrics to monitor and review thresholds

Metric	Now	Review if
Monthly revenue, year on year	Above 35% (June 2026)	Below 20% for two consecutive months
Gross margin	67.7% (Q2 2026)	Below 63% for two consecutive quarters
Advanced nodes, share of wafer revenue	77%	Falls for two quarters
Capital expenditure guidance	$60 to $64 billion (2026)	Cut mid-year
CoWoS capacity commentary	Sold out	Customers report availability
Hyperscaler 2027 capex	Rising	Two of four guide flat or down

Source: Second-quarter 2026 results; this submission

7. INVESTMENT RISKS

Figure 51: Risk register

#	Risk	Rating	Summary
1	**Taiwan geopolitical risk**	High	A blockade or conflict involving Taiwan would halt production.
2	**AI capital spending slows**	High	Hyperscaler capital spending drives accelerator orders.
3	**Export controls widen**	Medium	Further US restrictions on advanced chips to China would reduce customer demand.
4	**Overseas fab dilution exceeds guidance**	Medium	Management guides 2 to 3 points of margin dilution; costs in Arizona could run higher as N3 tooling arrives.

Figure 52: China share of TSMC revenue (percent)

Source: Annual reports 2022 to 2025

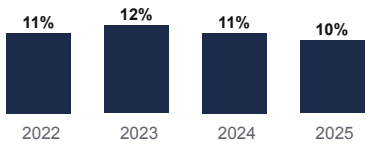


Figure 53: Distance to target and to stop (% from price)

Source: This submission

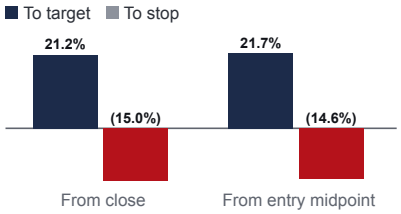


Figure 54: Prior Point Alpha trades in TSM (return on position)

Source: Point Alpha Capital execution record

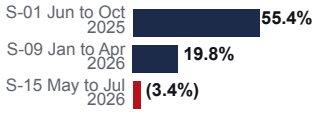


Figure 55: Semiconductors vertical after this session (% of NAV)

Source: This submission

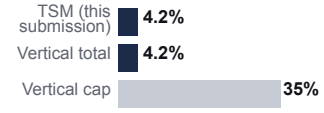


Figure 56: Reward to risk at the close and at the entry midpoint

Source: This submission



Figure 57: Stop against the 2026 month-end closes ($)

Source: Nasdaq historical closing prices; this submission



Figure 51: Risk register *(continued)*

#	Risk	Rating	Summary
5	**Competitor process catches up**	Low	Intel 18A or Samsung 2 nanometer at competitive yield would introduce price competition.
6	**Currency**	Low	A stronger NT$ reduces dollar-reported margins.

Source: This submission. Ratings reflect likelihood and impact over the holding period; see the risk matrix

7.1 TAIWAN GEOPOLITICAL RISK — HIGH

A blockade or conflict involving Taiwan would halt production. Mitigant: the risk is permanent and is why the stock trades at a discount to peers; Arizona and Japan fabs will carry a growing share of advanced-node capacity by 2028. **(Figure 46)** Monitor: cross-strait military activity reports; review on any change in US policy toward Taiwan.

7.2 AI CAPITAL SPENDING SLOWS — HIGH

Hyperscaler capital spending drives accelerator orders. A pause would cut advanced-node utilization within two quarters. Mitigant: 2026 capital spending guidance from the four largest hyperscalers was raised, not cut, in every season through July 2026. Monitor: hyperscaler capex guidance each quarter; review on any cut.

7.3 EXPORT CONTROLS WIDEN — MEDIUM

Further US restrictions on advanced chips to China would reduce customer demand. Mitigant: China was about 10% of TSMC revenue in 2025 and the most advanced nodes are already restricted. **(Figure 52)** Monitor: Bureau of Industry and Security rule changes.

7.4 OVERSEAS FAB DILUTION EXCEEDS GUIDANCE — MEDIUM

Management guides 2 to 3 points of margin dilution; costs in Arizona could run higher as N3 tooling arrives. Mitigant: the dilution is in reported margins already and they rose eight points in a year. Monitor: gross margin against the 63% threshold.

7.5 COMPETITOR PROCESS CATCHES UP — LOW

Intel 18A or Samsung 2 nanometer at competitive yield would introduce price competition. Mitigant: neither has an external customer at high volume as of July 2026. Monitor: named external customer announcements with volume.

7.6 CURRENCY — LOW

A stronger NT$ reduces dollar-reported margins. Mitigant: it is translation, not economics. Monitor: NT$/US$ rate.

Pre-mortem. If this position loses money, the most likely reason will be a hyperscaler capital spending cut in the October reporting season that leads the market to price a 2027 air pocket for accelerator wafers before TSMC's own numbers show it. **(Figure 44)** The second most likely is a July or August monthly report that comes in below the third-quarter guide and reopens the question of whether the first-half strength was pull-forward. The signal for the first is two of the four hyperscalers guiding 2027 capex flat or down; the signal for the second is monthly revenue growth below 20% for two consecutive months. On either signal the Portfolio Manager brings the position to the next session with an exit recommendation, and the CIO may exit before that session at his discretion. We would not wait for the stop in either case; the stop is for a price move the fundamentals have not yet explained.

8. POSITION MANAGEMENT

Proposed size. 4.2% of NAV. The vertical holds no other foundry exposure. **(Figure 45)** The size is below the 5% the firm used for S-09 because the stock is 22% higher and the stop is the same 15%.

Entry range. $385 to $420. The lower bound is 5% below the close and above the July intramonth low; the upper bound is 4% above the close.

Stop. $343.61, 15% below the $404.25 entry. The level sits 1.7% above the March 31, 2026 close of $337.84, the low of the spring pullback and the mark at which the S-08 and A-09 positions were closed. **(Figure 57)** A return there would undo the entire second-quarter advance that followed the April and July guidance raises, and would mean the market was pricing a demand cut that neither the monthly series nor the company had shown. The stop is set wider than the firm's usual 12% because TSMC's monthly moves in 2026 have averaged 8%. **(Figure 47)**

Target. $490, from the DCF at $480 and the peer-multiple value at $506. Reached if the October report confirms the monthly run rate and raises guidance again.

Review triggers. Monthly revenue growth below 20% for two months. Gross margin below 63% for two quarters. Any hyperscaler 2027 capex cut. Any named external customer at volume on Intel 18A or Samsung 2 nanometer.

Exit conditions other than stop. Target review at $490 under the firm's rule. Full exit on two consecutive monthly revenue reports below 20% growth, or on two hyperscalers guiding 2027 capex flat or down.

Portfolio fit. After this session the Semiconductors vertical holds TSM at 4.2% (this submission), with AVGO and SMH re-entries under review for IC-16. The vertical sits at 4.2% against a 35% cap. **(Figure 55)**

9. SOURCES

1. *Taiwan Semiconductor Manufacturing Company. Fourth Quarter 2025 Results and Earnings Call. January 15, 2026.*
2. *Taiwan Semiconductor Manufacturing Company. First Quarter 2026 Results and Earnings Call. April 16, 2026.*
3. *Taiwan Semiconductor Manufacturing Company. Second Quarter 2026 Results and Earnings Call. July 16, 2026. pr.tsmc.com/english/news/3326.*
4. *Taiwan Semiconductor Manufacturing Company. Monthly Revenue Reports, January 2025 to June 2026.*
5. *Taiwan Semiconductor Manufacturing Company. 2025 Annual Report and Form 20-F. April 2026.*
6. *Semiconductor Industry Association. Global Semiconductor Sales, 2025. February 2026.*
7. *World Semiconductor Trade Statistics. Spring 2026 Forecast. June 2026.*
8. *TrendForce. Foundry revenue ranking, 2025.*
9. *Damodaran, Aswath. Implied Equity Risk Premium, July 2026.*
10. *U.S. Department of the Treasury. Daily Treasury Par Yield Curve Rates, July 31, 2026.*
11. *Nasdaq historical closing prices for TSM and SMH, December 2025 to July 2026.*
12. *Point Alpha Capital execution record: trades S-01, S-09 and S-15.*

This memorandum is an internal submission to the Investment Committee of Point Alpha Capital, prepared as of July 31, 2026 from public filings and other sources believed reliable. The firm manages internally raised capital only and does not accept outside capital. The committee vote is a recommendation; execution rests solely with the Chief Investment Officer. Executed by Point Alpha Capital on its own capital and supported by the firm's research and models. For informational and educational purposes only. Not investment advice or a recommendation to buy or sell any security. Point Alpha Capital is not a registered investment adviser. Past performance does not guarantee future results. Figures are unaudited.