

# Taiwan Semiconductor Manufacturing Co., ADR

Asia Satellite\*

Recommended since 18.11.2020

04.07.2022



Country TW	Market capitalization (bn) USD	395,1	Perf. since reco. (%)	
Sector Technology	Free float	100,0%	Taiwan Semiconductor MC., ADR	-20,6
Factset TSM-US	Closing price	USD 77,00	Sector	0,7
ISIN US8740391003	ESG Risk score*	13,1	Low risk	



## Profile

Since its inception in 1987, Taiwan Semiconductor Manufacturing Company (TSMC) has become one of the world's largest foundries with a 51.5% share of the global market by mid-2020. The Group is a pure player in the industry, serving a broad and diverse customer base with a wide range of applications in IT, communications, connected devices and wider industry segments. These products are used in a variety of end products such as smartphones, PCs, high-performance computing, automotive and Internet of Things (IoT). Head office: Hsinchu Science Park. 51,297 employees.

## Strengths/opportunities

- A leading technology company that has become the largest chip producer in the world. Increase in production capacity.
- Strong portfolio of high margin products (more than 10,000 products).
- Well positioned in the face of mega-trends (AI, IoT, 5G and AR).

## Weaknesses/threats

- Moderate exposure to the semiconductor cycle.
- Dependence on certain large customers (Apple).
- Strong competition from Samsung lately.

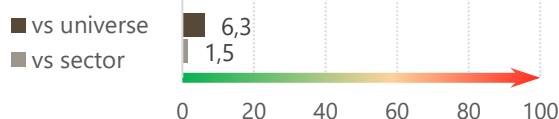
## Investment case

- 2021 continues to be a year of strong growth for TSMC, with turnover up 25%. This trend will continue over 2022-2023 with increasing production capacity (CapEx of \$28 billion in 2021 and >\$100 billion for 2021-2023), despite trade restrictions between China and the USA.
- With the rise of fabless companies and the few remaining foundries (Samsung, Intel, GloFo, UMC, SMIC) on the market, TSMC is well positioned with a technological advantage over competitors, better pricing power and expanding margins.
- TSMC has a diversified portfolio ranging from standard products to advanced manufacturing, including high-yield processes. In 2021, its 7nm process was used in several end products (smartphones, high-performance computing, IoT and automotive), accounting for 31% of its revenues. The Group has already prepared the next generation of processes with the 5 nm (19% of sales in 2021) and the 3 nm in deployment phase for 2022-2023, both with a higher selling price. These processes are only mastered by TSMC, but Samsung will soon control the 5nm process.
- Foundries will become more and more important with secular trends that are becoming increasingly visible (5G, hyper-connectivity, Big Data, IoT). For customers who want to remain competitive, TSMC is the number one player thanks to its know-how.
- Very stable balance sheet with very little debt, USD 42 billion in cash and equivalents, and an EBIT margin of ca. 42%.

## Valuation

The stock is trading at a forward P/E ratio of 13x. It is becoming relatively attractive and there is still a lot of potential for TSMC. HPC is growing strongly (37% of 2021 revenues vs. 33% in 2020 and 29% in 2019) and TSMC should receive a higher multiple due to this exposure.

## ESG risk vs. universe & sector (percentile)\*



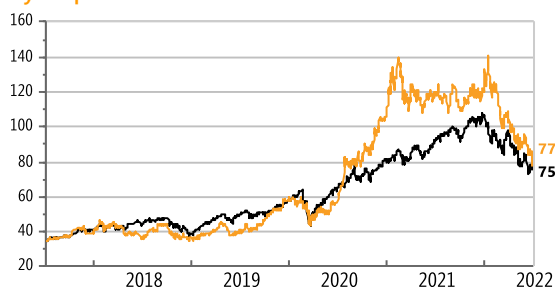
USD	12/2021	2022e	2023e
Sales revenue (mio)	56 832	71 726	82 504
Sales growth	25,0%	26,2%	15,0%
EBIT adjusted (mio)	23 277	33 038	36 123
% of sales	41,0%	46,1%	43,8%
Net income (mio)	21 357	29 655	32 466
Net income growth	21,4%	38,9%	9,5%
FCF/Sales	17,4%	7,7%	16,0%
Net debt/Ebitda	-0,4x	-0,2x	-0,2x
Dividend yield	2,0%	2,8%	2,9%
PE	29,2x	13,5x	12,3x
P/BV	5,1x	4,3x	3,5x

Factset estimates

## ESG - risks and key points

- TSMC is rated "Low-risk", no controversy.
- Moving towards green manufacturing and aligned with the United Nations Sustainable Development Goals (SDGs).
- Applications for greenhouse gas (CO2) emissions reduction programmes and energy and waste management.
- Product governance: controlling the production of chips enables the technological progress of the company in general.

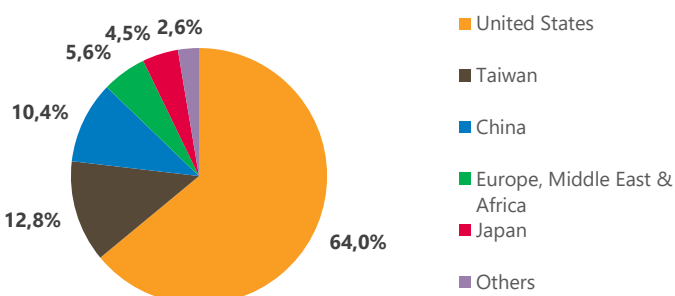
## 5-year performance vs sector



— MSCI World Index / Information Technology -SEC  
— Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR

Source: FactSet

## Sales breakdown - 12/2021



# Glossary

## Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

## b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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