# 3 Reasons Why Taiwan Semiconductor Is a Screaming Buy

By Keithen Drury – Apr 28, 2023 at 5:00AM

**KEY POINTS**

- Taiwan Semiconductor has designed the next generation of high-tech chips.
- The company is investing heavily in U.S.-based facilities.
- Right now, the stock trades at an attractive valuation.

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## The market is taking a shortsighted approach to this industry leader.

Few companies are as vital to the electronics industry as **Taiwan Semiconductor** (**TSM -0.99%**). Claiming the title as the largest contract chip manufacturer in the world, giants like **Apple**, **Nvidia**, and **AMD** depend on TSMC for their chips.

However, the chip industry is experiencing a downturn, causing Taiwan Semiconductor shares to come under fire. To me, this looks like a buying opportunity, as the chip industry may be down for the next year or so, but the long-term trajectory is still positive.

Here are my top three reasons why TSMC is an excellent addition to your portfolio.

## 1. Cutting-edge chip design

Taiwan Semiconductor has always been at the leading edge of chip design, and its latest iteration is a prime example. The most powerful semiconductors available are 3 nanometer (nm) chips, which offer 70% logic density gain, 15% speed improvement, and consume 30% less power than the previous 5-nm chips.

This new technology is how Apple and Nvidia keep pushing the edge of what's possible in terms of performance every year. It's also critical for Taiwan Semiconductor's financials. Just take a look at how the revenue mix shifted in two years.

| QUARTER | 5 NM REVENUE OF TOTAL REVENUE | 7 NM REVENUE OF TOTAL REVENUE |
|---|---|---|
| Q1 2021 | 14% | 35% |
| Q1 2022 | 20% | 30% |
| Q1 2023 | 31% | 20% |

DATA SOURCE: TAIWAN SEMICONDUCTOR.

As 7 nm chips become obsolete, 5 nm chips have taken their place, with 3 nm chips eventually becoming a massive part of this mix. While 3 nm chips are the next game-changing tech, TSMC is already working on 1-nm processes, which will become another revenue stream a few years in the future.

The technological innovation that Taiwan Semiconductor displays makes me confident that even if the market is currently down, it will maintain its market leadership status for years.

## 2. U.S. diversification

One of the most significant strikes against TSMC is its location: Taiwan. It's pretty evident that the relationship between China and Taiwan is strained, and with the threat of potential military action, its risk goes significantly up. In fact, this is the primary reason why Warren Buffett's **Berkshire Hathaway** sold its stake in the business.

NYSE: TSM
Taiwan Semiconductor Manufacturing

Today's Change
(-0.99%) -$0.99
Current Price
$99.33

TSM S&P

**KEY DATA POINTS**

| | |
|---|---|
| Market Cap | **$520B** |
| Day's Range | **$98.57 - $99.73** |
| 52wk Range | **$59.43 - $110.69** |
| Volume | **5,146,215** |
| Avg Vol | **11,917,466** |
| Gross Margin | **57.55%** |
| Dividend Yield | **1.54%** |

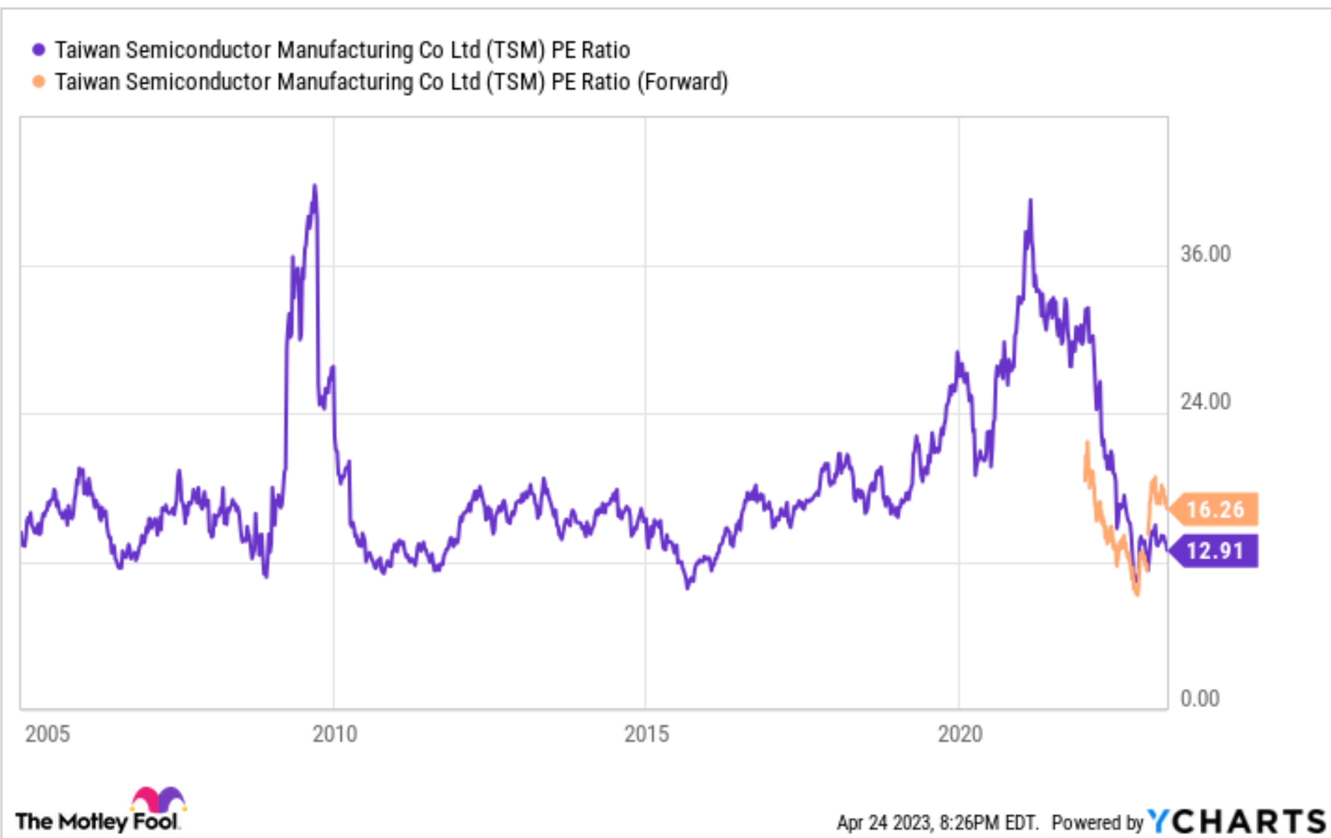
However, Taiwan Semiconductor is expanding its operations overseas to the U.S., capitalizing on funds available from the CHIPS Act. With TSMC investing $40 billion of its own money into facilities in Arizona, it's committed to diversifying its operations.

Although the China threat will always loom over the company, Taiwan Semiconductor is bringing that risk down by expanding into the U.S.

## 3. A bargain valuation

While I'm confident in TSMC's future, thanks to its U.S. moves and cutting-edge technology, my top reason for buying the stock now is its valuation.

Investors are concerned about how the current slowdown will affect TSMC and have sold the stock because they don't want to endure a few months of uncertainty. In the long run, the following year won't matter as much as its performance over the three-to-five-year time frame, so I think purchasing shares at its dirt cheap valuation makes sense.




TSM PE RATIO DATA BY YCHARTS

Over the past 18 years, Taiwan Semiconductor hasn't traded at 13 times earnings often. While the trailing earnings multiple doesn't factor in the effect of the slowdown, the forward price-to-earnings (P/E) ratio does. Even at 16 times earnings, the stock doesn't look all that expensive.

With the stock paying a handsome 2.1% dividend, I'll gladly wait out this current chip cycle in return for what will likely be another boom for Taiwan Semiconductor. Although the stock was cheaper a few months ago, I think investors can confidently buy the stock right now and expect to have market-beating returns over the next three to five years.

*Keithen Drury has positions in Nvidia and Taiwan Semiconductor Manufacturing. The Motley Fool has positions in and recommends Advanced Micro Devices, Apple, Berkshire Hathaway, Nvidia, and Taiwan Semiconductor Manufacturing. The Motley Fool has a disclosure policy.*