Bulletin:

TSMC's Growing U.S. Investments Offset Trade Risks

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This report does not constitute a rating action.

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Taiwan Ratings Corp. said today that **Taiwan Semiconductor Manufacturing Co. Ltd.'s** (TSMC's) plan to significantly increase its expansion in the U.S. will bring long-term strategic benefits, including enhanced supply chain resilience and closer proximity to its key customers, thereby offsetting some of the geopolitical and trade uncertainties facing the company. That's despite the likelihood of weakened profitability and free operating cash flow during the construction period and initial production ramp up.

TSMC (twAAA/Stable/twA-1+) announced on March 4, 2025, that it intends to increase its investments in the U.S. to US$165 billion, which is US$100 billion more than its previous announcement. This additional investment will include the construction of three new fabrication plants, two advanced packaging facilities, and a major R&D center, in addition to the three previously announced advanced technology fabrication plants.

The new investment plan could benefit TSMC by reducing long-term asset concentration risk in Taiwan, which should in turn help to mitigate geopolitical and trade policy risks, provided the execution goes smoothly. However, we acknowledge that this substantial increase in the scale of TSMC's investments in the U.S. will lengthen the time frame for the company to achieve a level of profitability from its new manufacturing facilities that is on par with its production capacity in Taiwan. TSMC previously provided guidance of a 2%-3% dilution in its gross margin over the next five years. We now believe that a longer timeline is inevitable, given the greater time needed to establish a robust local supply chain for broader manufacturing facilities and to offset the higher operating costs in the U.S.

In our view, TSMC's strong capital structure and cash flow can absorb the increase in capital expenditure without materially weakening the company's capital structure, despite the still-unclear timeline. We base this on our expectation that TSMC will remain prudent in the pace of its overseas capacity expansion and tie this to market demand. Under our scenario analysis for TSMC, we assume the company will spend US$50 billion-US$55 billion annually over 2025-2027, while still maintaining a net cash position supported by strong profitability and operating cash flow. In addition, we forecast that the bulk of its spending will be on capacity using advanced technology nodes to meet strong market demand in the U.S. from fast-growing high-performance computing applications such as AI over the next few years.