

Media Release:

# Taiwan Semiconductor Manufacturing Co. Ltd. Liquidity Revised To Exceptional; Ratings Affirmed; Outlook Stable

September 19, 2023

## Rating Action Overview

- **Taiwan Semiconductor Manufacturing Co. Ltd.** (TSMC) now has less need for capex and limited debt maturities in 2023 and 2024 than under our previous assumption. We have therefore revised our liquidity assessment on TSMC to exceptional from strong.
- We have affirmed our 'twAAA/twA-1+' issuer credit ratings on the company.
- At the same time, we affirmed our 'twAAA' issue rating on TSMC's unsecured corporate bonds.
- The stable rating outlook reflects our expectation that TSMC's very strong market position, strengthened leadership in process technologies, and more diversified end-market applications will support resumed growth in revenue and profitability over the next two years.

## Rating Action Rationale

**TSMC has less need for capex and limited debt maturities in 2023 and 2024.** We therefore revised our liquidity assessment for the company to exceptional from strong. We now expect the company's ratio of liquidity sources to uses will be 2.2x-2.4x over the 24 months through June 30, 2025.

**TSMC has strong banking relationships and can absorb high-impact, low-probability events without refinancing.** This is partly thanks to its persistent net cash position. The company's credit standing in local capital markets is very strong, as evidenced by the interest rate of 1.76% on its 10-year local bonds issued in August 2023. TSMC's borrowings carry no financial covenants.

**The ratings on TSMC continue to reflect our view that the company could maintain relatively strong performance with quite a sufficient financial buffer over the next one to two years.** We expect TSMC's entrenched leadership in both advanced and specialty technologies to ensure the company sustains its strong profitability. This will help TSMC to meet its capital expenditure (capex) needs while enabling the company to generate positive free operating cash flow through business cycles. This could in turn sustain a very strong balance sheet for TSMC with a persistent net cash position under the company's prudent shareholder return policy relative to that of its peers.

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#### Principal liquidity sources

- Cash and short-term investment of about new Taiwan dollar (NT\$) 1.49 trillion at the end of June 2023.
- Fund from operations of NT\$1.4 trillion-NT\$1.7 trillion per year over the 24 months ending June 2025.

#### Principal liquidity uses

- Long-term debt due in one year plus short-term debt of about NT\$15.5 billion as the end of June 2023.
- Annual capital expenditure of NT\$0.95 trillion-NT\$1.05 trillion annually over the 24 months ending June 2025.
- Cash dividend payout at NT\$300 billion-NT\$340 billion annually.

## Outlook

The stable rating outlook reflects our view that TSMC's very strong market position, strengthened leadership in process technologies, and more diversified end-market applications will support resumed growth in revenue and profitability over the next two years. This follows a cyclical downturn in 2023. The company's still-strong operating cash flow could support its downward adjusted capex and growing cash dividend payouts over the same period and help TSMC to maintain a net cash position on an adjusted basis.

#### Downside scenario

We could lower our rating on TSMC if:

- The company fails to maintain its leading technology position and loses market share particularly in most advanced products, resulting in significant deterioration in its profitability and cash flow, or
- TSMC changes its prudent financial policy through more aggressive shareholder distributions or mergers and acquisitions and takes on high leverage. A ratio of debt to EBITDA exceeding 1.0x for an extended period, increased cash flow volatility due to mergers and acquisitions, or a weakening competitive position could indicate such a change.

#### Upside scenario

Higher volatility and competition in the global semiconductor foundry industry and still-significant customer and asset concentration constrain the potential for an upgrade over the next two years.

## Company Description

TSMC was the world's first dedicated semiconductor foundry and remains the largest, with NT\$2.264 trillion sales and an EBITDA margin of 69% in 2022. The company offers a comprehensive set of integrated circuit fab processes to manufacture a full range of semiconductors and has one 6-inch wafer fab, four 8-inch wafer fabs, and four 12-inch wafer fabs in Taiwan, as well as fabs in the U.S. and China. In the second quarter of 2023, revenue from 7 nanometer (nm) and 5nm process technologies accounted for 53% of the company's total revenue. TSMC's ownership structure is highly diversified with no single shareholder possessing more than 10% of its shares.

## Ratings Score Snapshot

Issuer credit rating	twAAA/Stable/twA-1+
Business risk	Strong
Country risk	Intermediate
Industry risk	Moderately High
Competitive position	Excellent
Financial risk	Minimal
Cash flow/leverage	Minimal
Anchor	twaaa
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Exceptional (no impact)
Management and governance	Strong (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	twaaa

## Related Criteria & Research

### Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - Oct 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings - March 28, 2018
- General Criteria: Guarantee Criteria - Oct 21, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - Dec 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions - Nov 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- Criteria | Corporates | General: Corporate Methodology - Nov 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities - Nov 13, 2012
- General Criteria: Principles Of Credit Ratings – Feb 16, 2011

### Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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## Ratings List

### Ratings Affirmed

#### Taiwan Semiconductor Manufacturing Co. Ltd.

Issuer Credit Rating	twAAA/Stable/twA-1+
Issue Credit Rating	twAAA

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