# Why TSMC Isn't Beating the Market Despite Solid Q1 Earnings

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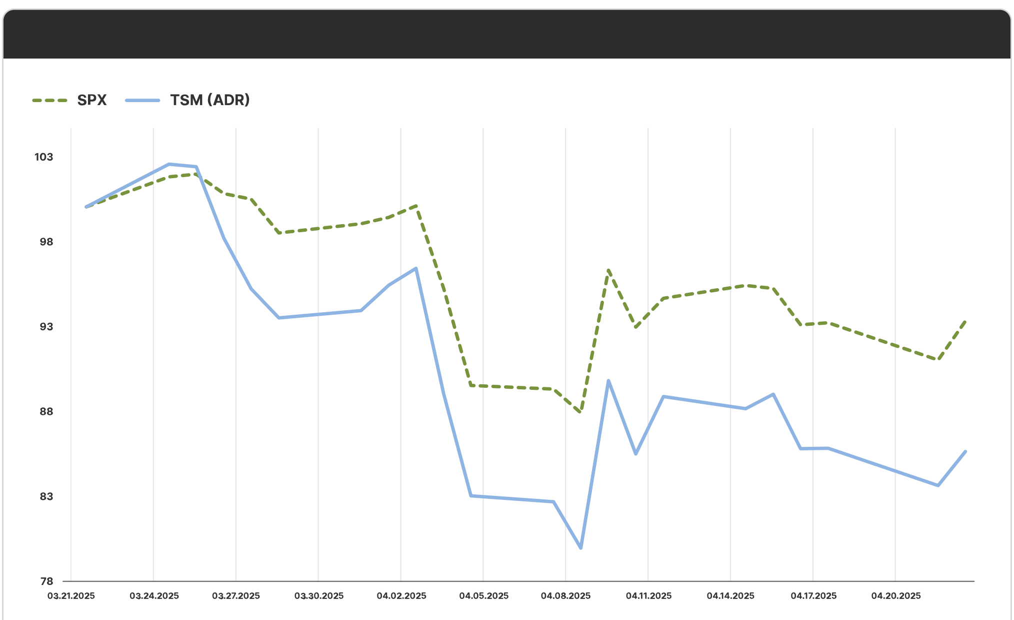
On the 17th of April, Taiwan Semiconductor Manufacturing Company (NYSE: TSM) – the principal foundry for both Nvidia and AMD chips – announced its Q1 results. By all accounts, the company did well with 839.25 billion New Taiwan dollars (NT$) in revenue versus expectations of NT$ 835.13 billion and a net income of NT$361.56 billion versus an expectation of NT$354.14 billion. However, the general investing public hasn't been very enthusiastic about the stock *over and above* general market sentiment despite these solid earnings.




Source: Created by author using data from Yahoo!, as of April 28, 2025

In fact, it displayed a near-constant underperformance relative to the broad market S&P 500 (SPX) both in the leadup to and after the earnings release.

## Trend Analysis

The first three months (3M) of its Fiscal Year (FY) 2025, the line-item trends somewhat validate the forward guidance the company provides:

| | 3M 2025 as % of 2024 | 2024 vs 2023 | 2023 vs 2022 | 2022 vs 2021 | 2021 vs 2020 |
|---|---|---|---|---|---|
| **Revenue** | 29% | 25% | -4% | 29% | 20% |
| **Cost of Revenue** | 27% | 20% | 8% | 8% | 24% |
| **Gross Profit** | 30% | 29% | -13% | 49% | 17% |
| **Operating Expenses** | 28% | 11% | 12% | 21% | 18% |
| *R&D Expenses* | 28% | 5% | 12% | 18% | 15% |
| **Operating Income** | 31% | 34% | -18% | 56% | 16% |
| **Net Income** | 31% | 27% | -14% | 51% | 17% |
| **Earnings per Share (Diluted)** | 31% | 27% | -14% | 52% | 17% |

Source: Company Financials; Themes ETFs analysis, as of April 28, 2025

If trends continue, FY 2025 will close out with a 16% increase in revenue and a 24% growth in diluted earnings per share. While it would be impressive in any other company in any other sector, this will be lower growth than in FY 2024, 2022 and – at least in revenue – 2021.

On the face of it, it seems that revenue pass-throughs to earnings is getting more and more efficient:

| | Q1 2025 | 2024 | 2023 | 2022 | 2021 | 2020 |
|---|---|---|---|---|---|---|
| | As a % of Total Revenue | | | | | |
| **Cost of Revenue** | 41% | 44% | 46% | 40% | 48% | 47% |
| **Gross Profit** | 59% | 56% | 54% | 60% | 52% | 53% |
| **Operating Expenses** | 10% | 10% | 12% | 10% | 11% | 11% |
| *R&D Expenses* | 7% | 3% | 9% | 7% | 8% | 8% |
| **Operating Income** | 49% | 46% | 43% | 50% | 41% | 42% |
| **Net Income** | 43% | 40% | 39% | 44% | 37% | 38% |
| **Earnings per Share (Diluted)** | $0.42 | $1.36 | $1.07 | $1.25 | $0.82 | $0.70 |

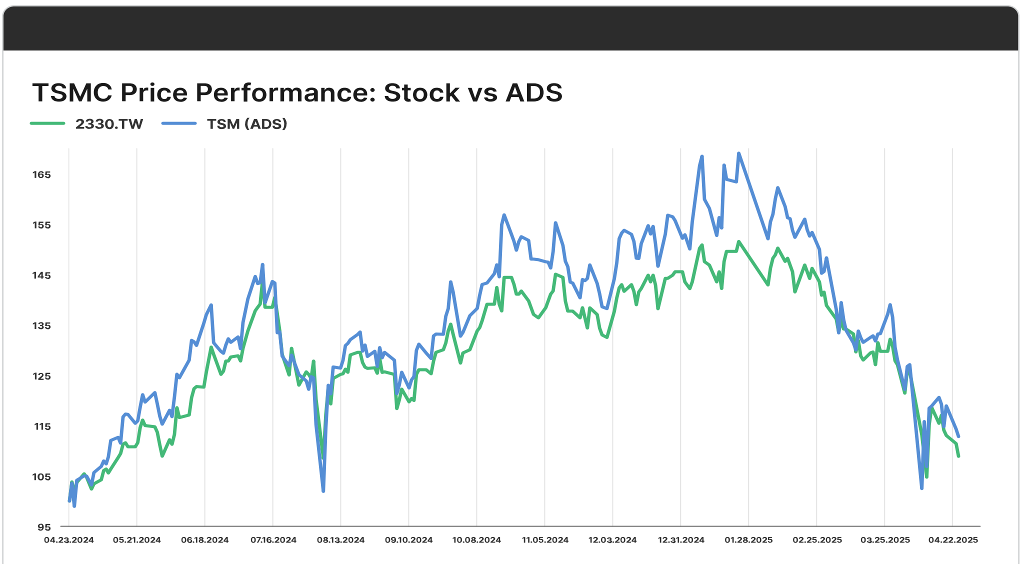
Source: Company Financials; Themes ETFs analysis, as of April 28, 2025

Cost of revenue as a percentage of revenue is close to being the low seen in 2022. As a result, gross profit is close to reaching the highs seen in 2022. Same goes for operating and net income.

Continued improvement may be *somewhat* impaired for a while going forward while the company builds out facilities in Dresden (Germany) and Arizona (U.S.) but it can be expected that workloads will be further balanced out between the different facilities it operates as these two come online.

## Market Conviction

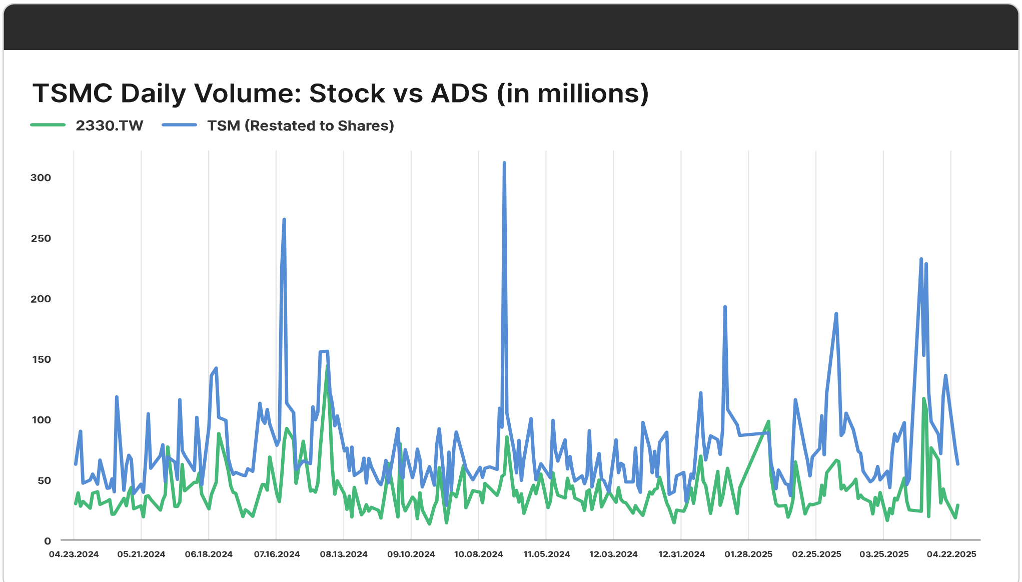
There's a rather interesting difference in conviction between the company's U.S.-listed ticker and the Taiwan ticker "2330":




Source: Created by author using data from Yahoo!, as of April 28, 2025

Overall, investor conviction has been stronger on any given day in the U.S. ticker over the Taiwan ticker. However, investors in both countries have been united in direction, which has had a bearish tilt in 2025.

Each U.S. tickers equals 5 Taiwanese stocks. When volumes are restated in Taiwanese stock terms, the difference in conviction becomes even more pronounced:




Source: Created by author using data from Yahoo!, as of April 28, 2025
***Note:*** *The data is adjusted for trading holidays across either or both bourses.*

On any given day, traded volume in the U.S. typically much stronger than in Taiwan – which lends a hand in the relatively enhanced valuation in the U.S. ticker.

## Root Causes and Conclusion

The largest factor influencing market trajectories have been the ongoing tariff war essentially between the U.S. and the world, with China lying square in the crosshairs. China has long been a matter of bipartisan consensus and is unlikely to escape continued censure.

In this regard, the company has expressed confidence that the tariff war is a matter of little concern; its exposure to China had declined to a single-digit percentage starting from Q4 2024.

| | 4Q18 | 4Q19 | 4Q20 | 4Q21 | 4Q22 | 4Q23 | 4Q24 | 1Q25 |
|---|---|---|---|---|---|---|---|---|
| **Net Revenue by Platform** | | | | | | | | |
| High Performance Computing | 29% | 29% | 31% | 37% | 42% | 43% | 53% | 59% |
| Smartphone | 53% | 53% | 51% | 44% | 38% | 43% | 35% | 28% |
| Internet of Things | 6% | 8% | 7% | 9% | 8% | 5% | 5% | 5% |
| Automotive | 4% | 4% | 3% | 4% | 6% | 5% | 4% | 5% |
| Digital Consumer Electronics | 4% | 3% | 4% | 3% | 2% | 2% | 1% | 1% |
| Others | 4% | 3% | 4% | 3% | 4% | 2% | 2% | 2% |
| **Net Revenue by Region** | | | | | | | | |
| North America | 69% | 59% | 73% | 66% | 69% | 72% | 75% | 77% |
| China | 13% | 22% | 6% | 12% | 12% | 11% | 9% | 7% |
| Asia Pacific | 7% | 8% | 12% | 12% | 7% | 8% | 9% | 9% |
| Japan | 5% | 5% | 4% | 5% | 6% | 5% | 4% | 4% |
| EMEA | 6% | 6% | 5% | 5% | 6% | 4% | 3% | 3% |

Source: Company Financials; Themes ETFs analysis, as of April 28, 2025

However, this is not the case with its prestigious client: Nvidia. With additional restrictions on the sales of its "slowed-down" China-specific H20 chips to Chinese buyers, Nvidia has stated that it will take a "quarterly charge"[1] of $5.5 billion as a result. However, in Nvidia's annual report for FY25 (ending January), it added a new region driving revenue: Singapore. While nearly every other region outside of the U.S. dipped as data centers spent more and more on buildouts centered on Nvidia products, Singapore is now reported to have emerged from within the blanket entry "Other Countries" as a progressively rising consumer of Nvidia's products, accounting for 18% of all revenue thus. The company explains this phenomenon thus:

> *Customers use Singapore to centralize invoicing while our products are **almost always** shipped elsewhere. Shipments to Singapore were less than 2% of fiscal year 2025 total revenue.*[2]

If China alone were to be the recipient of technology sold in Singapore in FY 2025 that wasn't utilized in Singapore's own data center and retail demand, then China's share of revenue of 29% makes it the second-largest source of Nvidia's revenue at nearly 30%. If export restrictions include closer scrutiny of such "re-export" scenarios, then Nvidia might be in trouble and the "quarterly charge" is likely to be much higher.

Early trends in revenue growth possibly indicate that this is the beginning of the end of the Great AI Hype: while AI is here to stay, it isn't necessarily translating to massive human labour substitutions while data center demand might be overstated, leading to possible corrections in the quarters to come. Plus, as the DeepSeek article published in March outlined, the successes of the "open-source" developers' community imply that the industry is on the cusp of realizing that it is entirely possible for high accuracy to be achieved with lesser computation power with more efficient algorithmic design. In this context, it is entirely possible for Nvidia to pivot to sales of H20 chips to other parties unrelated to China. But demand for high-computing products might sag over the long run.

Absent hype and explosive growth, well-established semiconductor stocks such as TSMC will lose conviction without necessarily losing their place in the greater global economy. However, as the tariff war is highlight, a move to "de-globalize" or "de-centralize" would be in order: numerous foundries will rise in various parts of the world, oligopolies will shatter, and chip designers will continue to blossom. The tariff war simply makes this a more pressing matter, so it might happen sooner rather than later. TSMC too recognizes this: despite stating that a "shortage of labour" in Arizona[3] is becoming a concern, it is pressing on with building out a $100 billion in capabilities square in the middle of its largest market: North America.

All in all, it may not be the best moment for "unexposed" investors to buy the stock. As recent trends indicate, it's currently somewhat unlikely to deliver market-beating performance. On the other hand, there really isn't a strong cause for long-term holders to divest just yet; the company pays a modest dividend while delivering essential products and services for the modern economy. The world is changing and so are the dynamics within; for now, the company is doing fine.

**Footnotes:**

[1]"Nvidia says it will record $5.5 billion charge tied to H20 processors exported to China", CNBC, as of April 15, 2025

[2]Nvidia Inc, Form 10-K for the fiscal year ended January 26, 2025

[3]"TSMC, unbothered by tariffs, holds 2025 outlook", ManufacturingDive, as of April 21, 2025

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