Intel (INTC) vs. Taiwan Semiconductor Manufacturing (TSM) – Determining the Profitability of Chip Stocks

With the extensive use of chips in multiple applications and favorable government initiatives, the semiconductor industry is poised for robust growth and expansion. Chip stocks Intel (INTC) and Taiwan Semiconductor Manufacturing (TSM) will likely benefit from the industry tailwinds. However, which of these stocks is a more profitable investment. Read on to find out….

In this article, I evaluated two chip stocks, Intel Corporation (INTC) and Taiwan Semiconductor Manufacturing Company Limited (TSM), to determine which has the potential for better returns. We believe TSM is the better investment for the reasons explained throughout this piece.

Semiconductors are a crucial component of electronic devices, enabling advances in computing, communications, medical devices and healthcare, transportation, military systems, clean energy, and other numerous applications. Moreover, the U.S. semiconductor industry is the worldwide industry leader, with nearly half of global market share and sales of $275 billion in 2022.

As per a report by Precedence Research, the global consumer electronics market is expected to reach $1.26 trillion by 2032, growing at a CAGR of 5.8%. Meanwhile, the U.S. consumer electronics market is projected to grow at a CAGR of 5.1% from 2023 to 2032. The market’s promising outlook reflects solid demand for advanced chips and processors.

Further, the growing adoption of emerging technologies,

including Artificial Intelligence (AI), Machine Learning (ML), cloud computing, the Internet of Things (IoT), and data analytics boosts the prospects of the chip industry.

The Semiconductor Industry Association (SIA) announced global semiconductor sales for September 2023 grew 1.9% compared to August 2023. During the third quarter of 2023, worldwide semiconductor sales stood at $134.70 billion, up 6.3% compared to the second quarter of this year.

“Global semiconductor sales increased on a month-to-month basis for the seventh consecutive time in September, reinforcing the positive momentum the chip market has experienced during the middle part of this year,” said John Neuffer, SIA president and CEO.

“The long-term outlook for semiconductor demand remains strong, with chips enabling countless products the world depends on and giving rise to new, transformative technologies of the future,” Neuffer added.

Supportive government policies and funding would also create ample growth opportunities for the industry players. In July 2022, President Biden signed the CHIPS and Science Act into law, which makes an approximately $53 billion investment in the U.S. for semiconductor manufacturing, research and development (R&D), and the workforce.

The global semiconductor market is estimated to reach around $1.88 trillion by 2032, expanding at a CAGR of 12.3% during the forecast period (2023-2032). The chip industry’s bright growth prospects should bode well for INTC and TSM.

INTC surged 4.5% over the past month, while TSM gained 2.6%. Also, INTC climbed 22.9% over the past six months compared to TSM’s 7.1% gain. However, INTC’s 32.7% gain over the past year is lower than TSM’s gain of 40.9%.

Here are the reasons why we think TSM could perform better in

the near term:

Latest Developments

On October 30, INTC announced its intent to operate Programmable Solutions Group (PSG) as a standalone business. This move will give PSG the flexibility and autonomy to fully accelerate its growth and effectively compete in the FPGA industry, which serves various markets like the data center, communications, industrial, automotive, aerospace and defense sectors.

“Our intention to establish PSG as a standalone business and pursue an IPO is another example of how we are consistently unlocking more value for our stakeholders. This will give PSG the independence it needs to keep growing share in the FPGA market, differentiating itself with capacity and supply resilience from IFS, and allowing Intel product teams to focus on our core business and long-term strategy,” said Pat Gelsinger.

On September 27, TSM announced breakthroughs to redefine the future of 3D IC. The company launched the new 3Dblox 2.0, enabling 3D architecture exploration with an innovative early design solution for power and thermal feasibility studies.

The designer can now put together power domain specifications and 3D physical constructs in a holistic environment and simulate power and thermal for the whole 3D system. Also, TSM launched the 3Dblox Committee, organized as an independent standard group, to create an industry-wide specification enabling system design with chiplets from any vendors.

Recent Financial Results

For the third quarter that ended September 30, 2023, INTC’s net revenue decreased 7.7% year-over-year to $14.16 billion. Its gross margin came in at $6.02 billion, a decline of 7.9% from the prior year’s quarter. However, non-GAAP net income

attributable to Intel was $1.74 billion or $0.41 per share, compared to $1.53 billion or $0.37 in the previous year's period, respectively.

TSM's net revenue increased 13.7% quarter-over-quarter to $17.28 billion in the third quarter that ended September 30, 2023. Its income from operations grew 12.9% from the prior quarter to $7.21 billion. The company's net income and earnings per share were $6.66 billion and $0.26, representing increases of 16% and 16.1% sequentially, respectively.

Past And Expected Financial Performance

Over the past three years, INTC's revenue has declined at a CAGR of 12.2%. Its EBITDA has decreased at a CAGR of 39.3% over the same period. However, the company's tangible book value and total assets have improved at CAGRs of 22.5% and 9.1%, respectively, over the same time frame.

Analysts expect INTC's revenue and EPS for the fiscal year (ending December 2023) to decline 14.6% and 98% year-over-year to $53.84 billion and $0.95, respectively. Likewise, the company's revenue and EPS for the fiscal year 2024 are expected to grow 13.1% and 98% from the previous year to $60.89 billion and $1.89, respectively.

TSM's revenue and EBITDA have grown at respective CAGRs of 18.6% and 20.9% over the past three years. Its net income has increased at a CAGR of 21.5%. Additionally, the company's total assets have grown at a CAGR of 27.8% over the same time frame, while its levered free cash flow has improved at 28.3% CAGR.

For the fiscal year ending December 2023, TSM's revenue and EPS are expected to decrease 10.8% and 22% year-over-year to $66.49 billion and $5.13, respectively. Also, analysts expect the company's revenue and EPS for the fiscal year 2024 to increase 21.2% and 18% year-over-year to $80.59 billion and $6.05, respectively.

Profitability

TSM’s trailing-12-month revenue is 1.3 times what INTC generates. Moreover, TSM is more profitable, with a trailing-12-month gross profit margin of 57.02% compared to INTC’s 38.14%. Also, TSM’s trailing-12-month EBIT margin and net income margin of 45.66% and 41.43% are higher than INTC’s negative 3.94% and negative 3.11%, respectively.

In addition, TSM’s trailing-12-month ROE, ROA, and ROTC of 29.23%, 18.14%, and 15.49% are higher than INTC’s negative 1.60%, 1.47%, and negative 0.89%, respectively. TSM’s trailing-12-month levered FCF margin of 5.63% compared to INTC’s negative 8.47%.

Valuation

In terms of non-GAAP P/E (FY1), TSM is currently trading at 17.94x, 54.8% lower than INTC, which is trading at 39.73x. TSM’s forward non-GAAP PEG multiple of 2.50 is lower than INTC’s 17.07. Also, TSM’s trailing-12-month EV/EBITDA and Price/Cash Flow of 9.39x and 10.82x are lower than INTC’s 22.92x and 10.99x, respectively.

Thus, TSM is relatively more affordable.

POWR Ratings

INTC has an overall rating of C, which equates to a Neutral in our proprietary POWR Ratings system. Conversely, TSM has an overall rating of B, translating to a Buy. The POWR Ratings are calculated considering 118 different factors, with each factor weighted to an optimal degree.

Our proprietary rating system also evaluates each stock based on eight distinct categories. INTC has a grade of F for Growth, in sync with its poor financial performance. On the other hand, TSM has a B grade for Growth, consistent with its solid financials.

In addition, INTC has a C grade for Quality, in sync with mixed profitability. The stock's trailing-12-month EBITDA margin of 15.69% is 71.4% higher than the industry average of 9.15%. However, its trailing-12-month net income margin of negative 3.11% compared to the industry average of 2.19%.

On the contrary, TSM has an A grade for Quality, justified by its higher-than-industry profitability. The stock's trailing-12-month EBITDA margin and net income margin of 68.19% and 41.43% are significantly higher than the industry averages of 9.15% and 2.19%, respectively.

Of the 91 stocks in the Semiconductor & Wireless Chip industry, INTC is ranked #37, while TSM is ranked #15.

Beyond what we've stated above, we have also rated both stocks for Sentiment, Stability, Momentum, and Value. Click here to view INTC Ratings. Get all TSM ratings here.

The Winner

Driven by growing demand for chips across several industries, such as consumer electronics, automobile, telecom, healthcare, and defense, the semiconductor industry is expected to witness significant growth in the long term. Further, the rapid adoption of cutting-edge technologies and supportive government policies and investments would propel the industry's prospects.

Therefore, chip stocks INTC and TSM are expected to benefit considerably from the industry's solid outlook. However, INTC's relatively poor financials, low profitability, elevated valuation, and bleak near-term prospects make its rival, TSM, the better buy now.

Our research shows that the odds of success increase when one invests in stocks with an Overall Rating of Strong Buy or Buy. View all the top-rated stocks in the Semiconductor & Wireless Chip industry here.

What To Do Next?

43 year investment veteran, Steve Reitmeister, has just released his 2024 market outlook along with trading plan and top 11 picks for the year ahead.

2024 Stock Market Outlook >

TSM shares rose $2.18 (+2.38%) in premarket trading Friday. Year-to-date, TSM has gained 24.42%, versus a 14.70% rise in the benchmark S&P 500 index during the same period.

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Mangeet’s keen interest in the stock market led her to become an investment researcher and financial journalist. Using her fundamental approach to analyzing stocks, Mangeet’s looks to help retail investors understand the underlying factors before making investment decisions.

More…

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