



Warren Buffett Just Bought 60 Million Shares of This Tech Stock

Description

Warren Buffett recently bought 60 million shares in a big tech company. The company's shares trade for US\$82, bringing the value of Buffett's position to US\$4.9 billion. Buffett's biggest tech buy in years, this company has a lot of potential. In fact, it may be the Oracle of Omaha's best bet since **Apple**.

Taiwan Semiconductor Manufacturing

Taiwan Semiconductor Manufacturing ([NYSE:TSM](#)) is a Taiwanese company that manufactures semiconductors (a term that has several meanings; in the tech world it's shorthand for "computer chip"). The company is best known for manufacturing computer chips for other companies. A customer like Apple will go to TSM with its chip design and then ask TSM to get all the components and build it. TSM will then build the chip and give it to the customer.

It's a pretty simple business model, but it's not easy to replicate. Semiconductor manufacturing is an equipment-heavy process, requiring machinery that costs hundreds of millions of dollars that's often in short supply. TSM has all the equipment and expertise needed to build chips, so it's the go-to manufacturer for most of the world's chip companies.

How much is TSM worth?

Having looked at what TSM does, it's time to get a sense of what it's worth. In past articles, I've approached valuation with ratios, this time I'll shake things up by using a different approach: the residual income valuation.

This is where you take each year's earnings and subtract the discount rate (the opportunity cost of the investment) times book value (assets minus liabilities).

In the most recent quarter, TSM earned \$1.76 per share. It had \$5.62 in book value per share. According to GuruFocus, TSM's appropriate discount rate is 8.75%. 8.75% times \$5.62 is \$0.49. Subtract that from earnings per share, and we're at \$1.26 in residual value per share. Multiply that by

four to get an estimate for the whole year (\$5.04). That would grow to \$10.58 over five years if TSM's historical growth rate (16%) continued.

If we add up all of the five years' worth of estimated "residual values" divided by opportunity cost, we end up with a fair value estimate around \$40. That's only half the current share price, but this residual income method is designed to be as "strict" as possible, removing opportunity cost from earnings. If we just added up all the cash flows, TSM would likely be fairly valued.

This could be bullish for Canadian chip stocks

The fact that Warren Buffett is buying chip stocks could be bullish for Canada's own chip industry. If you look at Canadian chip companies like **POET Technologies** ([TSXV:PTK](#)), you'll see that they're down for the year.

POET makes incredibly specialized semiconductor solutions for telecommunications. It's an ultra-specialized service useful in optical engines, data centres, [5G networks](#), and more. Obviously, a market exists for POET's products. It's even generating revenue and growing it on a year-over-year basis. But thanks to the sluggishness in [tech stocks](#) this year, it hasn't seen much interest from investors. This could change. With a big player like Warren Buffett buying chip stocks, you never know who will start buying them in big volume. That in itself is no reason to run out and buy POET, but it is cause for tentative optimism.

CATEGORY

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2. NYSE:TSM (Taiwan Semiconductor Manufacturing Company Limited)
3. TSXV:PTK (POET Technologies Inc.)

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