Top Canadian Semiconductor Stocks of 2023

Description

Semiconductors are small chips used to manufacture nearly every consumer electronic. From computer chips to medical equipment, and smartphones to 5G mobile networks, our modern lives depend on these tiny silicon wafers. Most of them could easily fit on the tip of your finger.

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Canada's semiconductor industry isn't nearly as large as those of the United States or Taiwan. That said, the Canadian government did allocate $240 million for research and development in the field. This comes as global demand for semiconductors has surged at the same time supply has dwindled. Chip shortages have made semiconductor companies especially optimistic on production.

Despite the recent slowdown in semiconductor growth stocks, which have been hurt lower consumer spending, these companies are still an investment you might want to consider. If you're looking to invest in future microchip technology, here's what you should know about investing in semiconductor stocks.

What are semiconductor stocks?

Semiconductor stocks can fall into a variety of market sectors, ranging from companies that mine silicon to chemical plants that turn it into materials. However, we typically associate them with the tech sector.

And, like other tech stocks, semiconductor stocks can be especially volatile. Companies that perform well in this sector are those that can generate sustainable revenues, keep costs low, and reinvest capital in research and new technology.

Top semiconductor stocks for Canadian investors

Many of the largest semiconductor companies are headquartered in the United States. That said, Canada has some exciting growth stocks in this industry. It would be foolish to overlook up-and-coming tech companies trading on the Canadian stock market.

For diversity, let's look at three big U.S. semiconductor stocks and one growth Canadian company.

Semiconductor Stock	Description
Nvidia (NASDAQ: NVDA)	A leader in the development and design of GPUs
Intel (NASDAQ: INTC)	The world's largest logic chipmaker and key developer of new technologies
Texas Instruments (NASDAQ: TXN)	The world's largest manufacturer of analog chips
POET Technologies (TSXV: PTK)	Toronto-based company that's integrating photonics and electronic devices into one chip

Nvidia

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Gamers across the world know Nvidia by its iconic memory chips and gaming cards. As such, Nvidia is a global leader in producing a certain kind of semiconductor, the "graphics processing unit" or GPU.

But video game graphics is only one segment of Nvidia's semiconductor operations. The other segment, Compute & Networking, uses semiconductors for a mind-numbing amount of operations. For instance, it has developed a cloud computing platform that helps accelerate a number of data centre tasks, from artificial intelligence to high-performance computing (HPC). It also develops GPUs for high-level cryptocurrency mining.

During the pandemic, consumers rushed to video games for entertainment, and Nvidia's market cap exploded. At one point, the company's stock was so high, it came close to joining the trillion dollar club.

Since then, the stock has lost some momentum, though the underlying business remains strong. Given that much of the future of semiconductors depends on the chips Nvidia is an expert in producing, this is a growth stock worth considering.

Intel

Intel is one of the world's largest semiconductor manufacturers. It is also a key developer in the x86 series of microprocessors, the central unit found in almost all personal computers.

For much of the early 2010s, Intel enjoyed an unrivalled position in the semiconductor industry. But Intel became relatively complacent, and did very little to beat back the competition that was gradually gaining momentum.

With the arrival of new chip-producing giants—such as Nvidia and Taiwan Semiconductor Manufacturing—as well as manufacturing blunders, Intel fell behind. It has been struggling to keep up ever since.

That said, Intel's new CEO, Pat Gelsinger (the third CEO in the last four years) has a turnaround plan that includes redoubling the company's chip production, building more chip foundries, and spending billions of dollars to develop key fabrication complexes in the United States and Europe.

It's a bold plan. But if it works, Intel could restore its position as the dominant semiconductor company in a far more crowded industry. Investors should keep watch Intel's development over the next few years. It could become a solid investment if all this spending leads to meaningful production.

Texas Instruments

Texas Instruments (TI) is well-known across the world for its high-computing calculators. It is also a major manufacturer and seller of semiconductors, especially analog chips.

Though these chips aren't as powerful as GPUs, they're less expensive to produce. Not only that, but the automotive and industrial sector depend heavily on analog chips, which together make up around 62% of TI's revenue.

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TI is also an integrated device manufacturer (IDM), which means it makes most of its chips in-house. This has helped insulate TI from the global chip shortage, as it doesn't depend on a third-party for chip production.

That said, with the company's performance tied to the automotive and industrial sectors, it can be fairly cyclical. For instance, during the pandemic, TI struggled to grow, as low demand for cars and consumer electronics left it selling fewer chips.

With the demand for smarter cars and industrial machines surging once more, TI has done exceptionally well since 2021. The semiconductor company also pays out a dividend, which it has raised for 18 consecutive years.

POET Technologies

POET Technologies is a growth company based in Toronto. It designs and develops a special kind of semiconductor that integrates electronics and photonics into a wafer-level device.

According to the company, this integrated chip will cut assembly and component costs for its clients. It will also provide them with a flexible platform that could have far-reaching applications from data centre solutions to consumer product development.

So far, the company has done surprisingly well. It has cash on hand and has managed to keep its operating costs low. As the Canadian government has recently allocated money for the development of the semiconductor sector, POET is certainly a growth stock to keep your eye on.

Are semiconductor stocks right for you?

Semiconductors can certainly be a good investment. Given that future technology—such as self-driving cars and artificial intelligence—depend on the advancement of these little chips, the demand for them isn't going away anytime soon.

That said, investors should keep in mind that semiconductors aren't the easiest investment to understand. From mining silicon to manufacturing chips, there's a lot for the average investor to know.

Semiconductor stocks are also cyclical and unpredictable, as their growth depends on consumer spending, and during hard economic times these stocks can perform poorly.

As we saw in 2022, semiconductor companies aren't immune to economic downturns, as a slowdown in smartphone and laptop demand has clobbered major semiconductor producers.

For long-term investors, however, these short-term losses shouldn't be a cause for concern. Though semiconductor stocks have fallen from their all-time highs in 2021, the industry still has immense potential.

If you're looking for solid investments that you'll hold for the next decade or so, semiconductors could be a worthwhile pick.

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1. NASDAQ:INTC (Intel Corporation)
2. NASDAQ:NVDA (NVIDIA Corporation)
3. NASDAQ:TXN (Texas Instruments Incorporated)
4. TSXV:PTK (POET Technologies Inc.)

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