



NVIDIA (NVDA)

Updated November 16th, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$164	5 Year CAGR Estimate:	15.6%	Volatility Percentile:	94.4%
Fair Value Price:	\$166	5 Year Growth Estimate:	15.0%	Momentum Percentile:	8.3%
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.3%	Growth Percentile:	98.8%
Dividend Yield:	0.3%	5 Year Price Target	\$335	Valuation Percentile:	53.2%
Dividend Risk Score:	A	Retirement Suitability Score:	D	Total Return Percentile:	88.7%

Overview & Current Events

NVIDIA Corporation is a specialized semiconductor company that designs and manufactures graphics processors, chipsets and related software products. Its products include processors that are specialized for gaming, design, artificial intelligence, data science and big data research, as well as chips designed for autonomous vehicles and robots. NVIDIA was founded in 1993, is headquartered in Santa Clara, CA, and is valued at \$103 billion.

NVIDIA reported its third quarter results on November 15. The company recorded revenues of \$3.18 billion during the quarter, which represents a growth rate of 20.5% compared to the prior year's quarter. Growth was lower than expected. NVIDIA saw strong revenue gains in most of its divisions, including Professional Virtualization (up 28%), Datacenter (up 58%), and Automotive (up 19%). Gaming revenues rose by only 13%, which can be explained by lower demand from crypto-currency miners. NVIDIA's earnings-per-share rose by 38% year over year to \$1.84. This represented a small decline versus Q2, and NVIDIA's guidance for Q4 was not especially strong, either. The company forecasts revenues of \$2.7 billion, whereas the analyst consensus saw Q4 revenues of \$3.4 billion. Management explains this discrepancy by high inventory levels in its sales channels, which is why short-term revenue growth will be a bit low. The market reacted very negatively to NVIDIA's results. Shares declined by 19% on the day after the earnings release. NVIDIA has raised its dividend by 7%, to \$0.16 per share per quarter, in November. Its yield remains very low.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$0.29	\$0.40	\$0.65	\$0.94	\$0.90	\$0.74	\$1.12	\$1.08	\$2.57	\$4.82	\$7.24	\$14.56
DPS	-	-	-	-	\$0.08	\$0.31	\$0.34	\$0.40	\$0.49	\$0.57	\$0.61	\$1.25
Shares	531	568	589	616	625	594	552	539	585	606	610	620

In recent years NVIDIA's growth exploded. Cryptocurrency mining was one contributing factor, but demand from miners is cyclical. During times when the price of cryptocurrencies is lower, a lower amount of crypto-miners upgrade their GPUs. This was visible during Q3, when GPU sales grew much less than during Q1 and Q2 of the current fiscal year.

NVIDIA has discovered that its GPUs are very versatile in AI applications, which was an unintended benefit of the company's research and development efforts. The company has immediately started to capitalize on this trend by offering GPUs that are optimized for deep learning. These GPUs act as the brain of computers, robots and self-driving cars. Those GPUs are utilized in professional visualization, data centers and automotive markets. The markets NVIDIA supplies GPUs for have strong growth rates, which bodes well for NVIDIA's revenue outlook. Even without significant market share gains the company should easily be able to capitalize on growing demand from gamers, professionals, and scientists, although cryptocurrency mining will likely not be much of a tailwind over the foreseeable future.

NVIDIA has been able to grow its profits a lot faster than its revenues, which can be explained by operating leverage and improving economics of scale. Going forward this should help NVIDIA to achieve above-average earnings growth rates as well. NVIDIA's forecasts see a total addressable market of \$50 billion in data centers alone by 2023, which, compared with the company's trailing revenues of just \$10 billion (across all businesses), shows that NVIDIA has a lot of room to grow its revenues as well as its earnings-per-share over the coming years.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	49.8	31.3	21.3	17.4	14.8	19.6	16.9	22.6	23.5	33.3	22.7	23.0
Avg. Yld.	-	-	-	-	0.6%	2.1%	1.8%	1.6%	0.8%	0.4%	0.3%	0.6%

NVIDIA's valuation has risen substantially during 2017 and early 2018, but the share price decline in late 2018 has made the company's valuation decline considerably. Due to the positive outlook and the high growth rates in the markets that NVIDIA addresses shares will likely be valued with a PE multiple in the 20s for the coming years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	34.9%	32.3%	29.0%	36.8%	35.2%	31.7%	36.2%	38.1%	41.3%	51.8%	55.0%	50.0%
Debt/A	28.2%	25.7%	29.1%	25.3%	24.8%	38.5%	38.6%	39.2%	41.4%	33.5%	32.0%	28.0%
Payout	-	-	-	-	8.9%	41.9%	30.4%	37.0%	19.1%	11.8%	8.4%	8.6%
Std. Dev.	65.7%	54.0%	42.5%	56.1%	27.8%	17.6%	24.5%	29.4%	39.7%	44.2%	35.0%	30.0%

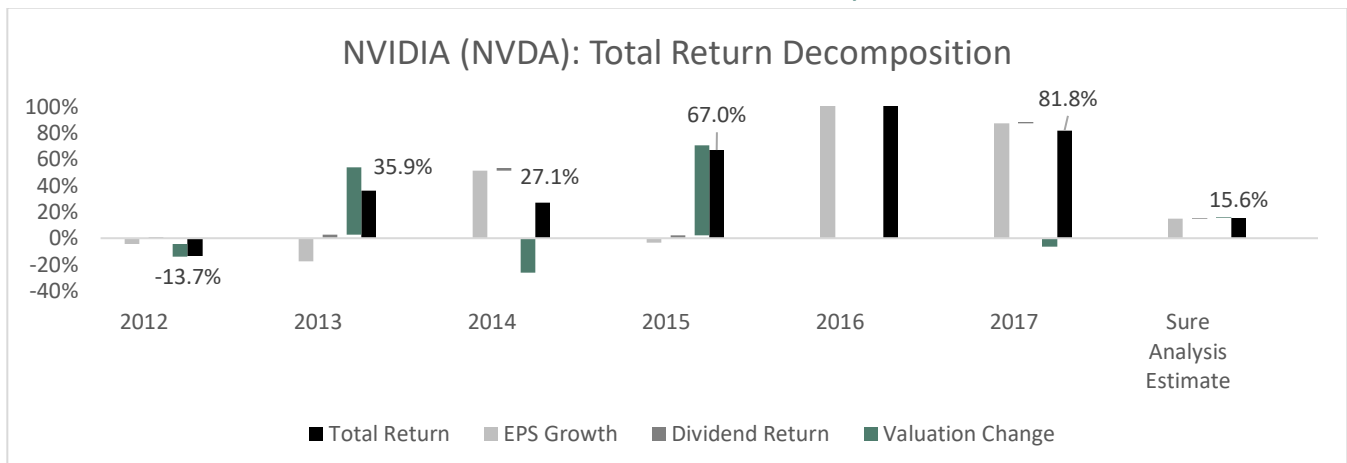
NVIDIA has a very strong balance sheet. Its total liabilities are about one third of its assets, and in eight of the last ten years its net interest expense was negative – the company earned more interest than it paid. When NVIDIA increasingly supplied chips to other markets than the gaming market (starting in 2015), its fundamentals improved further.

All of NVIDIA's business units are cyclical. The gaming market is impacted by disposable income, demand from crypto miners is dependent on cryptocurrency prices, and demand from businesses is dependent on the stage of the economy. NVIDIA was able to remain profitable during the last financial crisis, though. In the gaming market NVIDIA is the producer with the best tech, and it was NVIDIA who basically established the GPU-for-AI market. It is likely that NVIDIA will remain the market leader in these two growth markets.

Final Thoughts & Recommendation

NVIDIA is a tech producer whose products have found many new markets during the last couple of years. The company will not continue to grow at the tremendous pace from the last two years, but should nevertheless deliver solid earnings-per-share growth and respectable total returns. Because of strong expected returns, NVIDIA earns a buy recommendation from Sure Dividend at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	3425	3326	3543	3998	4280	4130	4682	5010	6910	9714
Gross Profit	1174	1177	1409	2057	2226	2268	2599	2811	4063	5822
Gross Margin	34.3%	35.4%	39.8%	51.4%	52.0%	54.9%	55.5%	56.1%	58.8%	59.9%
SG&A Exp.	362	367	362	406	431	436	480	602	663	815
D&A Exp.	185	197	187	204	226	239	220	197	187	199
Operating Profit	-44	-99	199	648	648	496	759	878	1937	3210
Operating Margin	-1.3%	-3.0%	5.6%	16.2%	15.1%	12.0%	16.2%	17.5%	28.0%	33.0%
Net Profit	-30	-68	253	581	563	440	631	614	1666	3047
Net Margin	-0.9%	-2.0%	7.1%	14.5%	13.1%	10.7%	13.5%	12.3%	24.1%	31.4%
Free Cash Flow	-158	410	578	770	641	580	784	1089	1496	2909
Income Tax	-13	-14	18	82	100	70	124	129	239	149

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	3351	3586	4495	5553	6412	7251	7201	7370	9841	11241
Cash & Equivalents	418	447	665	668	733	1152	497	596	1766	4002
Accounts Receivable	318	375	349	336	454	426	474	505	826	1265
Inventories	538	331	346	340	412	388	483	418	794	796
Goodwill & Int. Ass.	517	490	659	967	953	939	840	784	722	670
Total Liabilities	956	921	1314	1407	1585	2794	2783	2901	4079	3770
Accounts Payable	219	345	286	335	356	324	293	296	485	596
Long-Term Debt	0	0	0	0	0	1356	1384	1500	2810	2000
Shareholder's Equity	2395	2665	3181	4146	4828	4456	4418	4469	5762	7471
D/E Ratio	0.00	0.00	0.00	0.00	0.00	0.30	0.31	0.34	0.49	0.27

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	-0.8%	-2.0%	6.3%	11.6%	9.4%	6.4%	8.7%	8.4%	19.4%	28.9%
Return on Equity	-1.2%	-2.7%	8.7%	15.9%	12.5%	9.5%	14.2%	13.8%	32.6%	46.1%
ROIC	-1.2%	-2.7%	8.7%	15.9%	12.5%	8.3%	10.9%	10.4%	22.9%	33.8%
Shares Out.	531	568	589	616	625	594	552	539	585	606
Revenue/Share	6.25	6.05	6.02	6.49	6.85	6.94	8.32	8.80	10.65	15.37
FCF/Share	-0.29	0.75	0.98	1.25	1.03	0.97	1.39	1.91	2.31	4.60

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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