NVIDIA (NVDA)

Updated February 15th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$155	**5 Year CAGR Estimate:**	11.4%	**Volatility Percentile:**	96.6%
Fair Value Price:	$126	**5 Year Growth Estimate:**	15.0%	**Momentum Percentile:**	3.3%
% Fair Value:	123%	**5 Year Valuation Multiple Estimate:**	-4.0%	**Growth Percentile:**	99.5%
Dividend Yield:	0.4%	**5 Year Price Target**	$254	**Valuation Percentile:**	18.4%
Dividend Risk Score:	A	**Retirement Suitability Score:**	D	**Total Return Percentile:**	67.0%

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 $94 billion.

NVIDIA reported its fourth quarter earnings results on February 14. The company generated revenues of $2.2 billion during the quarter, which was 24% less than the revenues that NVIDIA generated during the previous year's quarter. This steep decline was slightly worse than what the analyst community had feared, as analysts had forecasted a top line decline of 19%. The revenue decline was the result of several factors, one of them being the decline in cryptocurrency mining. Lower prices for cryptocurrencies have lowered demand for mining-specific chips, which has resulted in lower sales for NVIDIA. Other factors played a role as well, though, such as lower gaming chip sales, which declined by 45% year over year, and which could not be balanced out by growth in other segments, such as datacenters and professional visualization.

NVIDIA has generated earnings-per-share of $0.80 in the fourth quarter, which was better than what the analyst community had forecasted, despite the fact that NVIDIA missed the analysts' revenue estimate. This nevertheless represents a decline of more than 50% from the previous year's Q4 earnings-per-share of $1.72.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$0.40	$0.65	$0.94	$0.90	$0.74	$1.12	$1.08	$2.57	$4.82	$6.64	***$5.75***	***$11.56***
DPS	-	-	-	$0.08	$0.31	$0.34	$0.40	$0.49	$0.57	$0.61	***$0.65***	***$1.15***
Shares	568	589	616	625	594	552	539	585	606	625	***630***	***670***

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 recent quarters, when GPU sales were down from the previous year's levels.

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 long-term revenue outlook. Even without significant market share gains the company should easily be able to capitalize on growing demand from gamers, professionals, and scientists. It looks like cryptocurrency revenues will not be a growth driver going forward any longer. 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 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 less than $12 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.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	31.3	21.3	17.4	14.8	19.6	16.9	22.6	23.5	33.3	20.6	***27.0***	***22.0***
Avg. Yld.	-	-	-	0.6%	2.1%	1.8%	1.6%	0.8%	0.4%	0.5%	***0.4%***	***0.5%***

NVIDIA's valuation has risen substantially once the company's potential in datacenters, automotive driving, and other growth areas became recognized by the market. Shares trade at 27 times this year's expected earnings. NVIDIA has tremendous growth potential, but we nevertheless believe that shares are overvalued at current prices, and that a fair earnings multiple would be in the low-20s range. NVIDIA's dividend yield is not a meaningful factor for its total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	-	-	-	8.9%	41.9%	30.4%	37.0%	19.1%	11.8%	9.2%	***11.3%***	***9.9%***

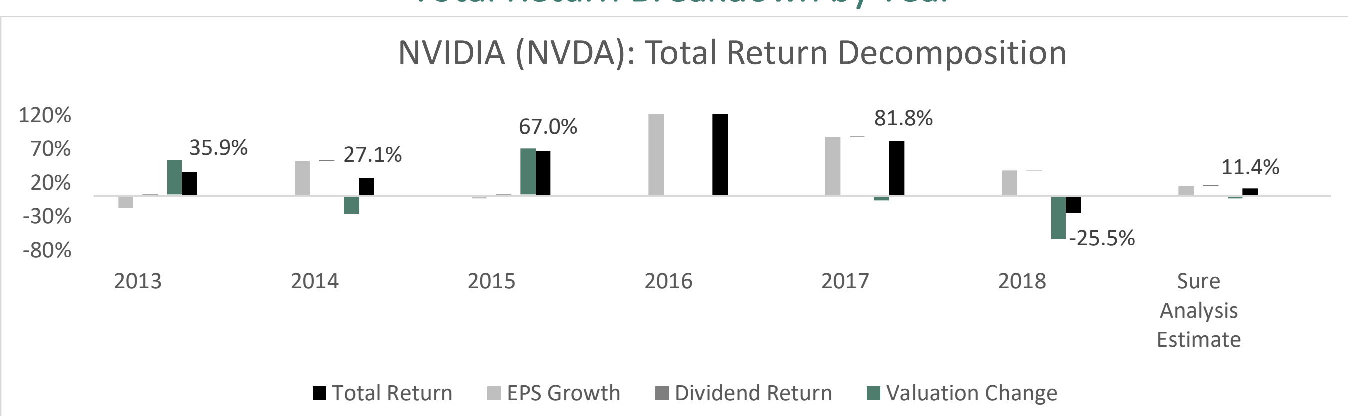
NVIDIA started to pay a dividend in 2012. The payout ratio has been very low throughout the majority of the years since. This means that NVIDIA has a lot of room to grow its dividend, but so far NVIDIA's management seems focused on other things. The very low dividend yield, combined with a dividend growth rate that is not especially high, means that NVIDIA does not like an attractive pick for income-oriented investors.

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. With that was NVIDIA was able to remain profitable during the last financial crisis. 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's Q4 was not strong at all, but excess inventory levels will not be a headwind forever. It is likely that NVIDIA will grow its profits meaningfully in the long run due to the strong outlook for key markets that the company addresses. Shares of NVIDIA look overvalued at current prices, which cause them to earn a hold recommendation from Sure Dividend today.

Total Return Breakdown by Year



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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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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.