



NVIDIA Corporation (NVDA)

Updated March 1st, 2020 by Jonathan Weber

Key Metrics

Current Price:	\$270	5 Year CAGR Estimate:	5.4%	Market Cap:	\$165B
Fair Value Price:	\$173	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	05/30/20 ¹
% Fair Value:	156%	5 Year Valuation Multiple Estimate:	-8.5%	Dividend Payment Date:	06/21/20 ²
Dividend Yield:	0.2%	5 Year Price Target	\$347	Years Of Dividend Growth:	7
Dividend Risk Score:	A	Retirement Suitability Score:	D	Last Dividend Increase:	6.7%

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.

NVIDIA reported its fourth quarter earnings results on February 13. The company generated revenues of \$3.11 billion during the quarter, which was 40.7% more than the revenues that NVIDIA generated during the previous year's quarter. This was a surprise to the upside, as the analyst community had forecast a slightly smaller growth rate. The strong revenue growth performance followed a couple of quarters during which NVIDIA's revenues had been declining. The better than expected revenue performance from the fourth quarter thus shows improving conditions for many of the end markets NVIDIA sells to. The Gaming segment saw sales increase by 56% year over year, and most other segments grew at least slightly as well, with Data Center growth of 43% being another huge positive.

NVIDIA generated earnings-per-share of \$1.89 in the fourth quarter, which was easily ahead of what the analyst community had forecast. For the first quarter NVIDIA forecasts revenues of roughly \$3.0 billion, which was well ahead of the consensus estimate, although this implies that revenues could decline slightly on a sequential basis.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.65	\$0.94	\$0.90	\$0.74	\$1.12	\$1.08	\$2.57	\$4.82	\$6.64	\$5.79	\$7.85	\$15.79
DPS	---	---	\$0.08	\$0.31	\$0.34	\$0.40	\$0.49	\$0.57	\$0.61	\$0.64	\$0.64	\$0.64
Shares³	589	616	625	594	552	539	585	606	625	621	615	600

In recent years, NVIDIA's growth exploded. This growth was partially driven by cryptocurrency mining, although that has mostly ceased to be a tailwind, and future growth will be centered on other growth drivers.

NVIDIA has also 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 and other specialized applications. These GPUs act as the brain of computers, robots, and self-driving cars. Those GPUs are, among others, utilized in professional visualization, data centers. 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.

NVIDIA has been able to grow its profits a lot more quickly 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

¹ Estimated date

² Estimated date

³ In Millions

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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growth rates as well. NVIDIA's forecasts see a total addressable market of \$50 billion in data centers alone by 2023, which compares very favorably to the company's total revenues of ~\$11 billion during the last twelve months.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	21.3	17.4	14.8	19.6	16.9	22.6	23.5	33.3	20.6	40.6	34.4	22.0
Avg. Yld.	---	---	0.6%	2.1%	1.8%	1.6%	0.8%	0.4%	0.5%	0.3%	0.2%	0.2%

NVIDIA's valuation rose substantially once the company's potential in datacenters, self-driving cars, and other growth areas became recognized by the market. 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, compared to the mid-30s multiple shares are trading at today.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	8.9%	41.9%	30.4%	37.0%	19.1%	11.8%	9.2%	11.1%	8.2%	4.1%

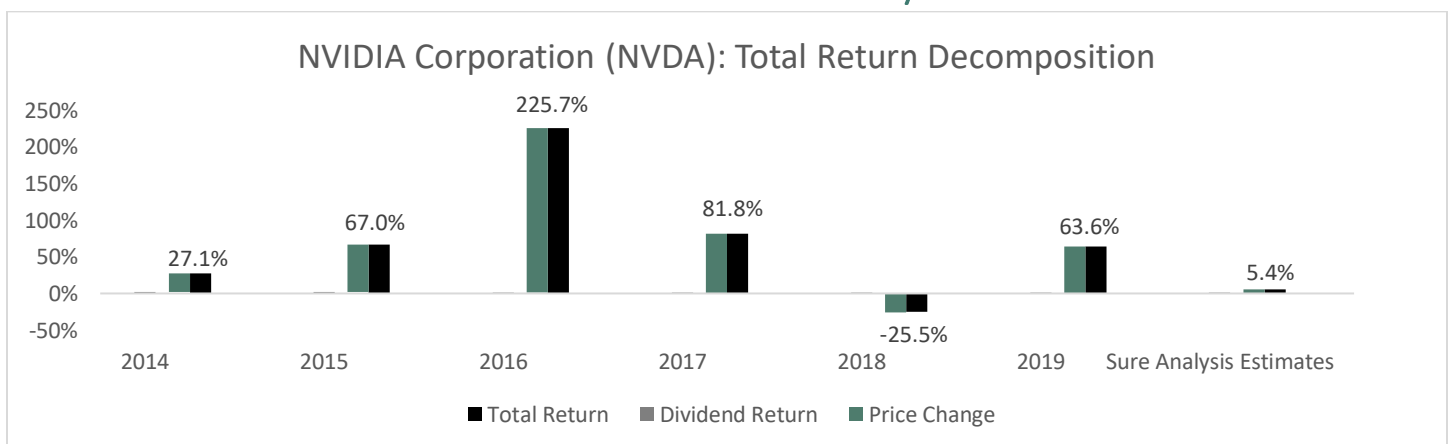
NVIDIA started paying dividends in 2012. The payout ratio has been very low throughout the majority of the years since, and there has not been any dividend raise in more than a year. So far, NVIDIA's management seems focused on other things, rather than ramping up dividend payments. The very low dividend yield, combined with a dividend growth rate that is not especially high, means that NVIDIA does not look like an attractive pick for income-focused 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 state of the economy. NVIDIA nevertheless 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 essentially established the GPU-for-AI market. It is likely that NVIDIA will remain the market leader in these two important growth markets for the foreseeable future.

Final Thoughts & Recommendation

NVIDIA's fourth quarter earnings results represented a meaningful improvement versus what we saw during the first nine months of 2019. NVIDIA has a very positive long-term growth outlook, mainly due to its potential in AI and data centers. We believe that shares are overvalued today, though, which weakens the total return outlook massively. We rate NVIDIA's volatile stock a sell at the current price, mainly due to its high valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3,543	3,998	4,280	4,130	4,682	5,010	6,910	9,714	11,716	10,918
Gross Profit	1,409	2,057	2,226	2,268	2,599	2,811	4,063	5,822	7,171	6,768
Gross Margin	39.8%	51.4%	52.0%	54.9%	55.5%	56.1%	58.8%	59.9%	61.2%	62.0%
SG&A Exp.	362	406	431	436	480	602	663	815	991	1,093
D&A Exp.	187	204	226	239	220	197	187	199	262	381
Operating Profit	199	648	648	496	759	878	1,937	3,210	3,804	2,846
Operating Margin	5.6%	16.2%	15.1%	12.0%	16.2%	17.5%	28.0%	33.0%	32.5%	26.1%
Net Profit	253	581	563	440	631	614	1,666	3,047	4,141	2,796
Net Margin	7.1%	14.5%	13.1%	10.7%	13.5%	12.3%	24.1%	31.4%	35.3%	25.6%
Free Cash Flow	578	770	641	580	784	1,089	1,496	2,909	3,143	4,272
Income Tax	18	82	100	70	124	129	239	149	(245)	174

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	4,495	5,553	6,412	7,251	7,201	7,370	9,841			
								11,241	13,292	17,315
Cash & Equivalents	665	668	733	1,152	497	596	1,766	4,002	782	
										10,896
Accounts Receivable	349	336	454	426	474	505	826	1,265	1,424	1,657
Inventories	346	340	412	388	483	418	794	796	1,575	979
Goodwill & Int. Ass.	659	967	953	939	840	784	722	670	663	667
Total Liabilities	1,314	1,407	1,585	2,794	2,783	2,901	4,079	3,770	3,950	5,111
Accounts Payable	286	335	356	324	293	296	485	596	511	687
Long-Term Debt	-	-	-	1,356	1,384	1,500	2,810	2,000	1,988	1,991
Shareholder's Equity	3,181	4,146	4,828	4,456	4,418	4,469	5,762	7,471	9,342	
										12,204
D/E Ratio	-	-	-	0.30	0.31	0.34	0.49	0.27	0.21	0.16

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	6.3%	11.6%	9.4%	6.4%	8.7%	8.4%	19.4%	28.9%	33.8%	18.3%
Return on Equity	8.7%	15.9%	12.5%	9.5%	14.2%	13.8%	32.6%	46.1%	49.3%	26.0%
ROIC	8.7%	15.9%	12.5%	8.3%	10.9%	10.4%	22.9%	33.8%	39.8%	21.9%
Shares Out.	589	616	625	594	552	539	585	606	625	621

Disclaimer

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Revenue/Share	6.02	6.49	6.85	6.94	8.32	8.80	10.65	15.37	18.75	17.67
FCF/Share	0.98	1.25	1.03	0.97	1.39	1.91	2.31	4.60	5.03	6.91

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

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