



NVIDIA Corporation (NVDA)

Updated December 3rd, 2021 by Jonathan Weber

Key Metrics

Current Price:	\$321	5 Year CAGR Estimate:	-7.3%	Market Cap:	\$810 B
Fair Value Price:	\$109	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	03/09/22 ¹
% Fair Value:	295%	5 Year Valuation Multiple Estimate:	-19.5%	Dividend Payment Date:	04/03/22 ²
Dividend Yield:	0.1%	5 Year Price Target	\$219	Years Of Dividend Growth:	-
Dividend Risk Score:	C	Retirement Suitability Score:	F	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 third quarter earnings results on November 17. The company generated revenues of \$7.1 billion during the quarter, which was 50% 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 smaller growth rate. The strong revenue growth performance followed a quite strong report during previous quarters, showcasing that NVIDIA has gotten back on its growth track. The better-than-expected revenue performance shows improving conditions for many of the end markets NVIDIA sells to, the coronavirus crisis is not hurting the company in a meaningful way. The Gaming segment saw sales increase by 42% and hitting a new record level, while Data Center growth was very strong as well, at 55%.

NVIDIA generated earnings-per-share of \$1.17 in the third quarter, which was ahead of what the analyst community had forecast. For the fourth quarter of 2021 NVIDIA forecasts revenues of roughly \$7.4 billion, which implies that revenues will continue to grow at an attractive pace, as they have done during the year so far.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$0.24	\$0.23	\$0.19	\$0.28	\$0.27	\$0.64	\$1.21	\$1.66	\$1.45	\$2.50	\$4.35	\$8.75
DPS	---	\$0.02	\$0.08	\$0.09	\$0.10	\$0.12	\$0.14	\$0.15	\$0.16	\$0.16	\$0.16	\$0.16
Shares³	2.46	2.50	2.38	2.21	2.16	2.34	2.42	2.50	2.50	2.52	2.52	2.55

Over the last five 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's 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 brains of computers, robots, and self-driving cars. Those GPUs are, among others, utilized in professional visualization and data centers. The markets NVIDIA supplies GPUs for have strong growth tailwinds, which bodes well for NVIDIA's long-term revenue outlook.

Even without any significant market share gains, the company should 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 continuously improving economics of scale. Going forward, this should help NVIDIA achieve above-average earnings growth rates as well. NVIDIA's forecasts see a lot of growth potential in the data centers market primarily over the coming years.

¹ Estimated date

² Estimated date

³ In Billions

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	17.4	14.8	19.6	16.9	22.6	23.5	33.3	20.6	40.6	52.7	73.8	25.0
Avg. Yld.	---	0.6%	2.1%	1.8%	1.6%	0.8%	0.4%	0.5%	0.3%	0.1%	0.1%	0.1%

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 a lot of growth potential, but we nevertheless believe that shares are overvalued at current prices, as shares are valued at more than 70 times this year's expected profits. NVIDIA is a quality growth stock, but we believe that shares have a huge downside risk from current valuation levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	8.9%	41.9%	30.4%	37.0%	19.1%	11.8%	9.2%	11.1%	6.4%	3.7%	1.8%

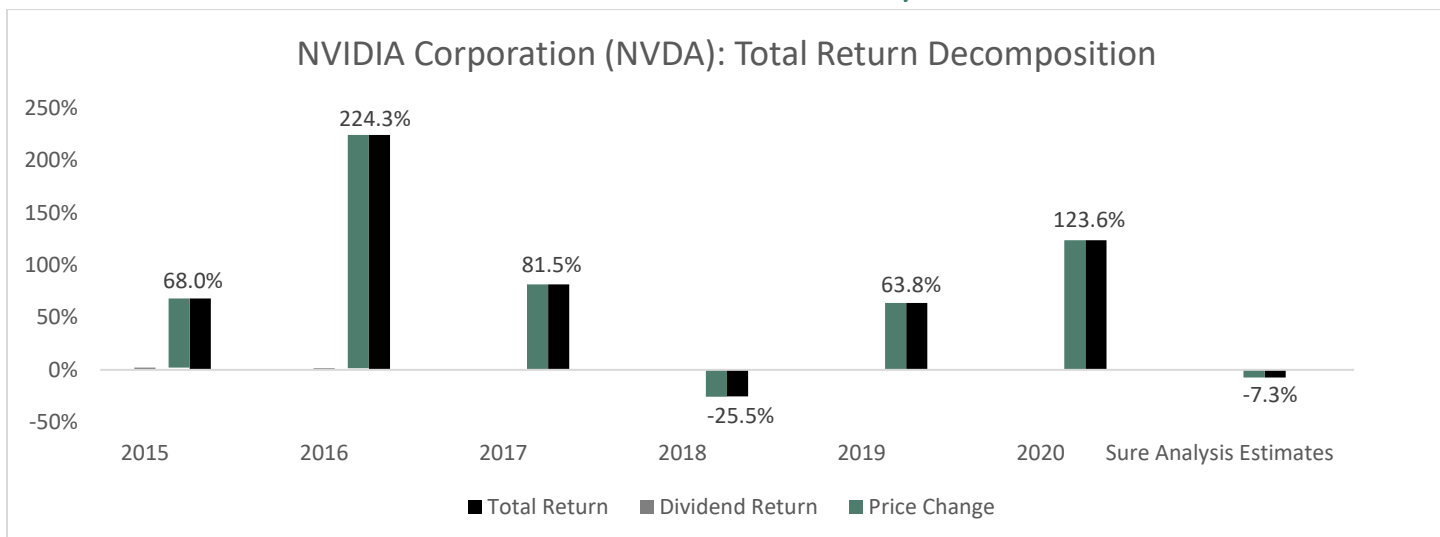
NVIDIA started paying dividends in 2012. The payout ratio has been very low throughout the majority of the years since, and there has not been any dividend raise in the recent past. So far, NVIDIA's management seems focused on other things, rather than ramping up dividend payments. The very low dividend yield, combined with a dividend growth rate that is not really high, means that NVIDIA does not look like an attractive pick for income-focused investors.

Many of NVIDIA's business units are cyclical. The gaming market is impacted by console cycles and game releases, while demand from crypto miners is dependent on cryptocurrency prices. NVIDIA nevertheless was able to remain profitable during the last financial crisis. During the current pandemic crisis, NVIDIA is also faring quite well. 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 third quarter earnings results were extraordinarily strong, as the company reported sizeable revenue and profit growth and easily beat estimates. NVIDIA has a positive long-term growth outlook, mainly due to its potential in AI and data centers. We believe that shares are significantly overvalued today, however, which weakens the total return outlook a lot. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3998	4280	4130	4682	5010	6910	9714	11716	10918	16675
Gross Profit	2057	2226	2268	2599	2811	4063	5822	7171	6768	10396
Gross Margin	51.4%	52.0%	54.9%	55.5%	56.1%	58.8%	59.9%	61.2%	62.0%	62.3%
SG&A Exp.	406	431	436	480	602	663	815	991	1093	1940
D&A Exp.	204	226	239	220	197	187	199	262	381	1098
Operating Profit	648	648	496	759	878	1937	3210	3804	2846	4532
Operating Margin	16.2%	15.1%	12.0%	16.2%	17.5%	28.0%	33.0%	32.5%	26.1%	27.2%
Net Profit	581	563	440	631	614	1666	3047	4141	2796	4332
Net Margin	14.5%	13.1%	10.7%	13.5%	12.3%	24.1%	31.4%	35.3%	25.6%	26.0%
Free Cash Flow	770	641	580	784	1089	1496	2909	3143	4272	4694
Income Tax	82	100	70	124	129	239	149	(245)	174	77

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5553	6412	7251	7201	7370	9841	11241	13292	17315	28791
Cash & Equivalents	668	733	1152	497	596	1766	4002	782	10896	847
Accounts Receivable	336	454	426	474	505	826	1265	1424	1657	2429
Inventories	340	412	388	483	418	794	796	1575	979	1826
Goodwill & Int. Ass.	967	953	939	840	784	722	670	663	667	6930
Total Liabilities	1407	1585	2794	2783	2901	4079	3770	3950	5111	11898
Accounts Payable	335	356	324	293	296	485	596	511	687	1201
Long-Term Debt	-	-	1356	1384	1500	2810	2000	1988	1991	6963
Shareholder's Equity	4146	4828	4456	4418	4469	5762	7471	9342	12204	16893
D/E Ratio	-	-	0.30	0.31	0.34	0.49	0.27	0.21	0.16	0.41

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	11.6%	9.4%	6.4%	8.7%	8.4%	19.4%	28.9%	33.8%	18.3%	18.8%
Return on Equity	15.9%	12.5%	9.5%	14.2%	13.8%	32.6%	46.1%	49.3%	26.0%	29.8%
ROIC	15.9%	12.5%	8.3%	10.9%	10.4%	22.9%	33.8%	39.8%	21.9%	22.8%
Shares Out.	616	625	594	552	539	585	606	625	621	631
Revenue/Share	6.49	6.85	6.94	8.32	8.80	10.65	15.37	18.75	17.67	26.55
FCF/Share	1.25	1.03	0.97	1.39	1.91	2.31	4.60	5.03	6.91	7.47

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

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