



NVIDIA Corporation (NVDA)

Updated May 25th, 2022 by Jonathan Weber

Key Metrics

Current Price:	\$170	5 Year CAGR Estimate:	6.5%	Market Cap:	\$423 B
Fair Value Price:	\$132	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	06/08/22 ¹
% Fair Value:	129%	5 Year Valuation Multiple Estimate:	-4.9%	Dividend Payment Date:	07/01/22 ²
Dividend Yield:	0.1%	5 Year Price Target	\$233	Years Of Dividend Growth:	0
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Hold

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 first quarter earnings results on May 25. The company generated revenues of \$8.3 billion during the quarter, which was 46% 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 several quite strong reports during previous quarters, as the environment for semiconductor companies remains strong. The better-than-expected revenue performance shows healthy conditions for many of the end markets NVIDIA sells to. The Gaming segment saw sales increase by 31%, while Data Center growth was even stronger, coming in at 83% year over year.

NVIDIA generated earnings-per-share of \$1.36 in the first quarter, which was ahead of what the analyst community had forecast, beating estimates by \$0.07. For the second quarter of the current year, NVIDIA is forecasting revenues of \$8.1 billion, which implies a small sequential decline and which was below the consensus revenue estimate for the quarter.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.23	\$0.19	\$0.28	\$0.27	\$0.64	\$1.21	\$1.66	\$1.45	\$2.50	\$4.44	\$5.50	\$9.69
DPS	\$0.02	\$0.08	\$0.09	\$0.10	\$0.12	\$0.14	\$0.15	\$0.16	\$0.16	\$0.16	\$0.16	\$0.16
Shares³	2.50	2.38	2.21	2.16	2.34	2.42	2.50	2.50	2.52	2.54	2.55	2.60

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.8	19.6	16.9	22.6	23.5	33.3	20.6	40.6	52.7	66.2	30.9	24.0
Avg. Yld.	0.6%	2.1%	1.8%	1.6%	0.8%	0.4%	0.5%	0.3%	0.1%	0.1%	0.1%	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's shares have pulled back quite a lot since our last update, and they are now trading at just half of the 52-week high. The valuation has become way more reasonable as a result of that sell-off, but we nevertheless believe that NVIDIA is not yet fairly valued, at the current earnings multiple of 31.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	8.9%	41.9%	30.4%	37.0%	19.1%	11.8%	9.2%	11.1%	6.4%	3.6%	2.9%	1.7%

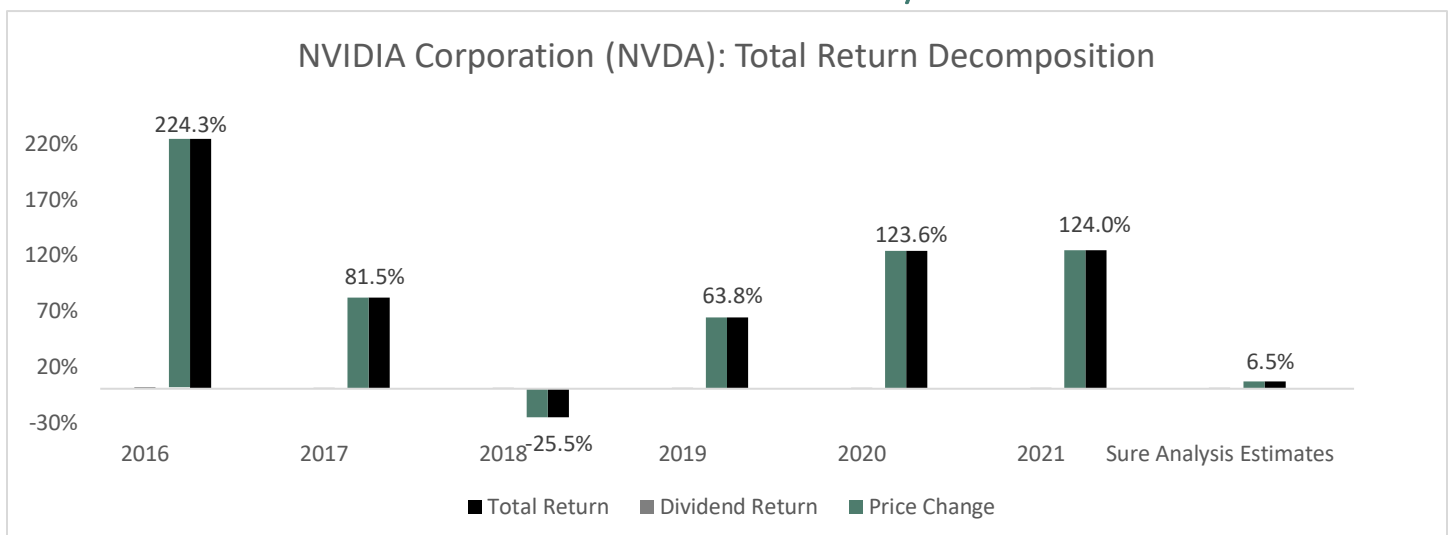
NVIDIA started paying dividends in 2012. The payout ratio has been very low throughout the majority of the years since, and there has not been any dividend raise in the recent past. So far, NVIDIA's management seems focused on other things, rather than ramping up dividend payments. The very low dividend yield, combined with no regular dividend increases, means that NVIDIA is not 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 first quarter earnings results were strong, but the forecast for the second quarter implies a slowdown, partially due to the current Ukraine war. NVIDIA has a positive long-term growth outlook, mainly due to its potential in AI and data centers. We believe that shares are overvalued today, however. We rate NVIDIA's stock a hold at the current price, as the forecasted total returns are far from bad, while, on the other hand, shares still trade above fair value.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4,280	4,130	4,682	5,010	6,910	9,714	11,716	10,918	16,675	26,914
Gross Profit	2,226	2,268	2,599	2,811	4,063	5,822	7,171	6,768	10,396	17,475
Gross Margin	52.0%	54.9%	55.5%	56.1%	58.8%	59.9%	61.2%	62.0%	62.3%	64.9%
SG&A Exp.	431	436	480	602	663	815	991	1,093	1,940	2,166
D&A Exp.	226	239	220	197	187	199	262	381	1,098	1,174
Operating Profit	648	496	759	878	1,937	3,210	3,804	2,846	4,532	10,041
Operating Margin	15.1%	12.0%	16.2%	17.5%	28.0%	33.0%	32.5%	26.1%	27.2%	37.3%
Net Profit	563	440	631	614	1,666	3,047	4,141	2,796	4,332	9,752
Net Margin	13.1%	10.7%	13.5%	12.3%	24.1%	31.4%	35.3%	25.6%	26.0%	36.2%
Free Cash Flow	641	580	784	1,089	1,496	2,909	3,143	4,272	4,694	8,132
Income Tax	100	70	124	129	239	149	(245)	174	77	189

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6,412	7,251	7,201	7,370	9,841	11,241	13,292	17,315	28,791	44,187
Cash & Equivalents	733	1,152	497	596	1,766	4,002	782	10,896	847	1,990
Accounts Receivable	454	426	474	505	826	1,265	1,424	1,657	2,429	4,650
Inventories	412	388	483	418	794	796	1,575	979	1,826	2,605
Goodwill & Int. Ass.	953	939	840	784	722	670	663	667	6,930	6,688
Total Liabilities	1,585	2,794	2,783	2,901	4,079	3,770	3,950	5,111	11,898	17,575
Accounts Payable	356	324	293	296	485	596	511	687	1,149	1,783
Long-Term Debt	-	1,356	1,384	1,500	2,810	2,000	1,988	1,991	6,963	10,946
Shareholder's Equity	4,828	4,456	4,418	4,469	5,762	7,471	9,342	12,204	16,893	26,612
LTD/E Ratio	-	0.30	0.31	0.34	0.49	0.27	0.21	0.16	0.41	0.41

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	9.4%	6.4%	8.7%	8.4%	19.4%	28.9%	33.8%	18.3%	18.8%	26.7%
Return on Equity	12.5%	9.5%	14.2%	13.8%	32.6%	46.1%	49.3%	26.0%	29.8%	44.8%
ROIC	12.5%	8.3%	10.9%	10.4%	22.9%	33.8%	39.8%	21.9%	22.8%	31.8%
Shares Out. (B)	2.50	2.38	2.21	2.16	2.34	2.42	2.50	2.50	2.52	2.54
Revenue/Share	1.71	1.74	2.08	2.20	2.66	3.84	4.69	4.42	6.64	10.62
FCF/Share	0.26	0.24	0.35	0.48	0.58	1.15	1.26	1.73	1.87	3.21

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

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