



# NVIDIA Corporation (NVDA)

Updated September 22<sup>nd</sup>, 2022 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$124	<b>5 Year CAGR Estimate:</b>	3.1%	<b>Market Cap:</b>	\$312B
<b>Fair Value Price:</b>	\$82	<b>5 Year Growth Estimate:</b>	12.0%	<b>Ex-Dividend Date:</b>	12/08/22 <sup>1</sup>
<b>% Fair Value:</b>	152%	<b>5 Year Valuation Multiple Estimate:</b>	-8.0%	<b>Dividend Payment Date:</b>	01/01/23 <sup>2</sup>
<b>Dividend Yield:</b>	0.1%	<b>5 Year Price Target</b>	\$144	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	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 second quarter earnings results in late August. The company generated revenues of \$6.7 billion during the quarter, which was 3% more than the revenues that NVIDIA generated during the previous year's quarter. This was a surprise to the downside, as the analyst community had forecast a larger growth rate. The weak revenue growth performance followed several quite strong reports during previous quarters, the business environment for NVIDIA has thus deteriorated significantly in recent months. The weaker-than-expected revenue performance was primarily caused by lower demand for its graphics cards during the period, while demand for its data center chips was very strong, offsetting some of the weakness in other areas.

NVIDIA generated earnings-per-share of \$0.51 in the second quarter, which was below what the analyst community had forecast, missing estimates by \$0.01. For the third quarter of the current year, NVIDIA is forecasting revenues of \$5.9 billion, which implies a small sequential decline, which doesn't bode well for the company's near-term outlook.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$0.23	\$0.19	\$0.28	\$0.27	\$0.64	\$1.21	\$1.66	\$1.45	\$2.50	\$4.44	<b>\$3.40</b>	<b>\$5.99</b>
<b>DPS</b>	\$0.02	\$0.08	\$0.09	\$0.10	\$0.12	\$0.14	\$0.15	\$0.16	\$0.16	\$0.16	<b>\$0.16</b>	<b>\$0.16</b>
<b>Shares<sup>3</sup></b>	2.50	2.38	2.21	2.16	2.34	2.42	2.50	2.50	2.52	2.54	<b>2.55</b>	<b>2.60</b>

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 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.

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> 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	36.5	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 close to a 52-week low. But since NVIDIA's earnings outlook has deteriorated as well, the stock hasn't become cheap yet. It still trades at a substantial premium to our fair value estimate.

## 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%	4.7%	2.7%

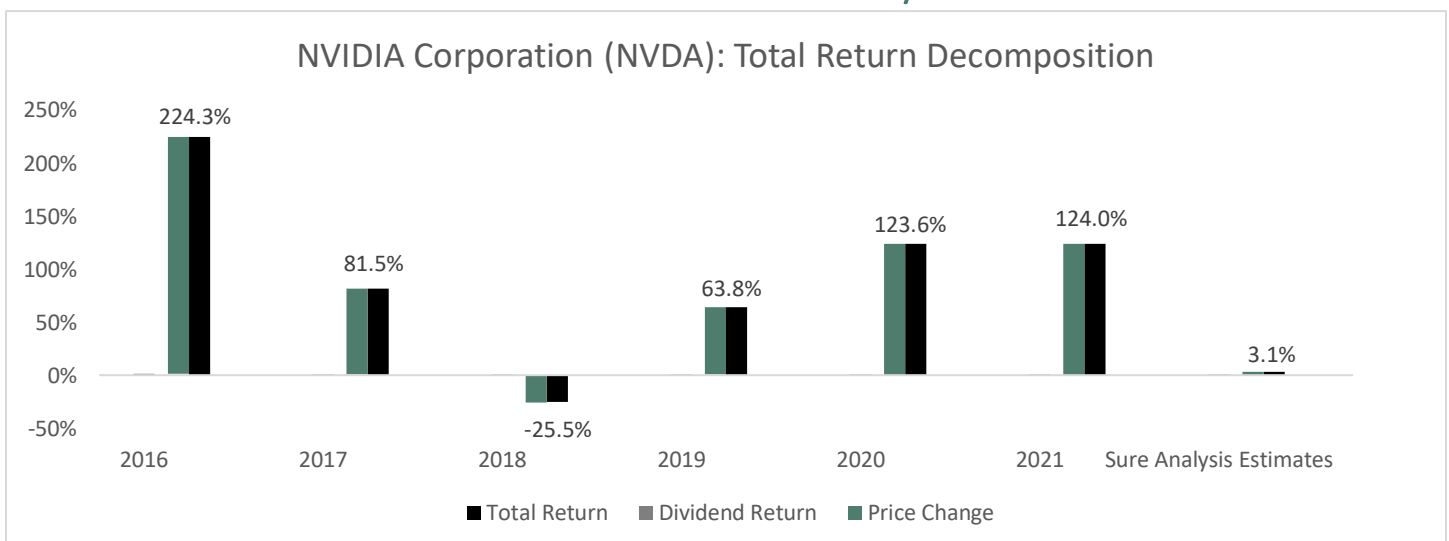
NVIDIA started paying dividends in 2012. The payout ratio has been very low throughout the majority of the years since, and there has not been any dividend raise in the recent past. So far, NVIDIA's management seems focused on other things, rather than ramping up dividend payments. The very low dividend 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 second quarter earnings results were weaker than expected, and the forecast for the second half implies a more pronounced slowdown. 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 not compelling and since NVIDIA trades ahead of fair value still.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	6,412	7,251	7,201	7,370	9,841	11,241	13,292	17,315	28,791	44,187
<b>Cash &amp; Equivalents</b>	733	1,152	497	596	1,766	4,002	782	10,896	847	1,990
<b>Accounts Receivable</b>	454	426	474	505	826	1,265	1,424	1,657	2,429	4,650
<b>Inventories</b>	412	388	483	418	794	796	1,575	979	1,826	2,605
<b>Goodwill &amp; Int. Ass.</b>	953	939	840	784	722	670	663	667	6,930	6,688
<b>Total Liabilities</b>	1,585	2,794	2,783	2,901	4,079	3,770	3,950	5,111	11,898	17,575
<b>Accounts Payable</b>	356	324	293	296	485	596	511	687	1,149	1,783
<b>Long-Term Debt</b>	-	1,356	1,384	1,500	2,810	2,000	1,988	1,991	6,963	10,946
<b>Shareholder's Equity</b>	4,828	4,456	4,418	4,469	5,762	7,471	9,342	12,204	16,893	26,612
<b>LTD/E Ratio</b>	-	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
<b>Return on Assets</b>	9.4%	6.4%	8.7%	8.4%	19.4%	28.9%	33.8%	18.3%	18.8%	26.7%
<b>Return on Equity</b>	12.5%	9.5%	14.2%	13.8%	32.6%	46.1%	49.3%	26.0%	29.8%	44.8%
<b>ROIC</b>	12.5%	8.3%	10.9%	10.4%	22.9%	33.8%	39.8%	21.9%	22.8%	31.8%
<b>Shares Out. (B)</b>	2.50	2.38	2.21	2.16	2.34	2.42	2.50	2.50	2.52	2.54
<b>Revenue/Share</b>	1.71	1.74	2.08	2.20	2.66	3.84	4.69	4.42	6.64	10.62
<b>FCF/Share</b>	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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