



NVIDIA Corporation (NVDA)

Updated March 8th, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$242	5 Year CAGR Estimate:	-4.8%	Market Cap:	\$600B
Fair Value Price:	\$107	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	06/08/23 ¹
% Fair Value:	227%	5 Year Valuation Multiple Estimate:	-15.1%	Dividend Payment Date:	07/01/23 ²
Dividend Yield:	0.1%	5 Year Price Target	\$188	Years Of Dividend Growth:	0
Dividend Risk Score:	A	Retirement Suitability Score:	D	Rating:	Sell

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 22. The company generated revenues of \$6.1 billion during the quarter, which was 21% less 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 an even bigger revenue decline. The weak revenue growth performance followed stronger reports during most of the last couple of quarters, the business environment for NVIDIA has thus deteriorated significantly over the last half year or so. The weaker revenue performance was primarily caused by lower demand for its graphics cards during the period, while demand for its data center chips was stronger, offsetting some of the weakness in other areas.

NVIDIA generated earnings-per-share of \$0.88 in the fourth quarter, which was above what the analyst community had forecast, beating estimates by \$0.08. For the first quarter of the current year, NVIDIA is forecasting revenues of \$6.5 billion, which implies a sequential improvement, but revenues will remain below peak levels seen during the pandemic.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$0.19	\$0.28	\$0.27	\$0.64	\$1.21	\$1.66	\$1.45	\$2.50	\$4.44	\$3.34	\$4.45	\$7.84
DPS	\$0.08	\$0.09	\$0.10	\$0.12	\$0.14	\$0.15	\$0.16	\$0.16	\$0.16	\$0.16	\$0.16	\$0.16
Shares³	2.38	2.21	2.16	2.34	2.42	2.50	2.50	2.52	2.54	2.48	2.45	2.40

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.

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	19.6	16.9	22.6	23.5	33.3	20.6	40.6	52.7	66.2	43.7	54.4	24.0
Avg. Yld.	2.1%	1.8%	1.6%	0.8%	0.4%	0.5%	0.3%	0.1%	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 risen meaningfully since our last update, and they are now trading close to the 52-week high. NVIDIA stock currently trades at a very substantial premium relative to what we deem a fair valuation, which will negatively impact total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	41.9%	30.4%	37.0%	19.1%	11.8%	9.2%	11.1%	6.4%	3.6%	4.8%	3.6%	2.0%

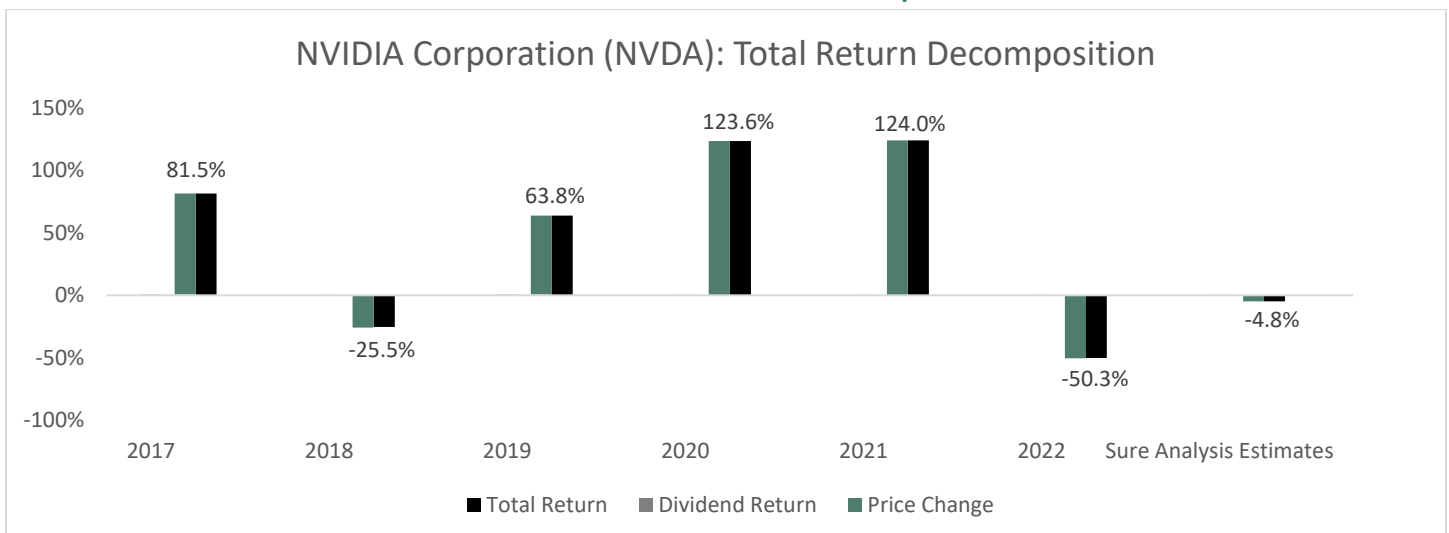
NVIDIA started paying dividends in 2012. The payout ratio has been very low throughout the majority of the years since, and there has not been any dividend raise in the recent past. So far, NVIDIA's management seems focused on other things, rather than ramping up dividend payments. The very low dividend 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 fourth quarter earnings results were weak, but the forecast for the current year is somewhat better. NVIDIA has a positive long-term growth outlook, mainly due to its potential in AI and data centers. We believe that shares are massively overvalued today, however. We rate NVIDIA's stock a sell at the current price, as the forecasted total returns are not compelling at all and since NVIDIA trades way ahead of fair value.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,130	4,682	5,010	6,910	9,714	11,716	10,918	16,675	26,914	26,974
Gross Profit	2,268	2,599	2,811	4,063	5,822	7,171	6,768	10,396	17,475	15,356
Gross Margin	54.9%	55.5%	56.1%	58.8%	59.9%	61.2%	62.0%	62.3%	64.9%	56.9%
SG&A Exp.	436	480	602	663	815	991	1,093	1,940	2,166	2,440
D&A Exp.	239	220	197	187	199	262	381	1,098	1,174	1,544
Operating Profit	496	759	878	1,937	3,210	3,804	2,846	4,532	10,041	5,577
Operating Margin	12.0%	16.2%	17.5%	28.0%	33.0%	32.5%	26.1%	27.2%	37.3%	20.7%
Net Profit	440	631	614	1,666	3,047	4,141	2,796	4,332	9,752	4,368
Net Margin	10.7%	13.5%	12.3%	24.1%	31.4%	35.3%	25.6%	26.0%	36.2%	16.2%
Free Cash Flow	580	784	1,089	1,496	2,909	3,143	4,272	4,694	8,132	3,808
Income Tax	70	124	129	239	149	(245)	174	77	189	(187)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	7,251	7,201	7,370	9,841	11,241	13,292	17,315	28,791	44,187	41,182
Cash & Equivalents	1,152	497	596	1,766	4,002	782	10,896	847	1,990	3,389
Accounts Receivable	426	474	505	826	1,265	1,424	1,657	2,429	4,650	3,827
Inventories	388	483	418	794	796	1,575	979	1,826	2,605	5,159
Goodwill & Int. Ass.	939	840	784	722	670	663	667	6,930	6,688	6,048
Total Liabilities	2,794	2,783	2,901	4,079	3,770	3,950	5,111	11,898	17,575	19,081
Accounts Payable	324	293	296	485	596	511	687	1,149	1,783	1,193
Long-Term Debt	1,356	1,384	1,500	2,810	2,000	1,988	1,991	6,963	10,946	10,953
Shareholder's Equity	4,456	4,418	4,469	5,762	7,471	9,342	12,204	16,893	26,612	22,101
LTD/E Ratio	0.30	0.31	0.34	0.49	0.27	0.21	0.16	0.41	0.41	0.50

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.4%	8.7%	8.4%	19.4%	28.9%	33.8%	18.3%	18.8%	26.7%	10.2%
Return on Equity	9.5%	14.2%	13.8%	32.6%	46.1%	49.3%	26.0%	29.8%	44.8%	17.9%
ROIC	8.3%	10.9%	10.4%	22.9%	33.8%	39.8%	21.9%	22.8%	31.8%	12.4%
Shares Out. (B)	2.38	2.21	2.16	2.34	2.42	2.50	2.50	2.52	2.54	2.48
Revenue/Share	1.74	2.08	2.20	2.66	3.84	4.69	4.42	6.64	10.62	10.76
FCF/Share	0.24	0.35	0.48	0.58	1.15	1.26	1.73	1.87	3.21	1.52

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

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