



NVIDIA Corporation (NVDA)

Updated November 21st, 2023 by Jonathan Weber

Key Metrics

Current Price:	\$484	5 Year CAGR Estimate:	3.4%	Market Cap:	\$1.2T
Fair Value Price:	\$324	5 Year Growth Estimate:	12.0%	Ex-Dividend Date:	12/08/23 ¹
% Fair Value:	149%	5 Year Valuation Multiple Estimate:	-7.7%	Dividend Payment Date:	01/01/24 ²
Dividend Yield:	0.0%	5 Year Price Target	\$571	Years Of Dividend Growth:	0
Dividend Risk Score:	A	Retirement Suitability Score:	D	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 third quarter earnings results on November 21. The company generated revenues of \$18.1 billion during the quarter, which was 206% more than the revenues that NVIDIA generated during the previous year's quarter. This was a huge surprise to the upside, as the analyst community had forecast a large, but not this large, revenue increase. The very strong revenue growth performance was primarily driven by higher revenues in the data center space, where NVIDIA was able to benefit from AI hardware investments by its customers.

NVIDIA generated earnings-per-share of \$4.02 in the third quarter, which was above what the analyst community had forecast, beating estimates by a sizeable \$0.63. For the fourth quarter of the current year, NVIDIA is forecasting revenues of \$20.0 billion, which implies a meaningful sequential improvement. On the back of strong data center sales, driven by the ongoing AI investments of many companies, NVIDIA will have its best year ever this year. Earnings-per-share are forecasted to hit a new record high and will rise by several hundred percent this year.

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	\$13.50	\$23.79
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, driven by AI investments of its customers.

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	35.9	24.0
Avg. Yld.	2.1%	1.8%	1.6%	0.8%	0.4%	0.5%	0.3%	0.1%	0.1%	0.1%	0.0%	0.0%

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 slightly since our last update, and they are now trading very close to the 52-week high. NVIDIA stock currently trades at a substantial premium relative to what we deem 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%	1.2%	0.7%

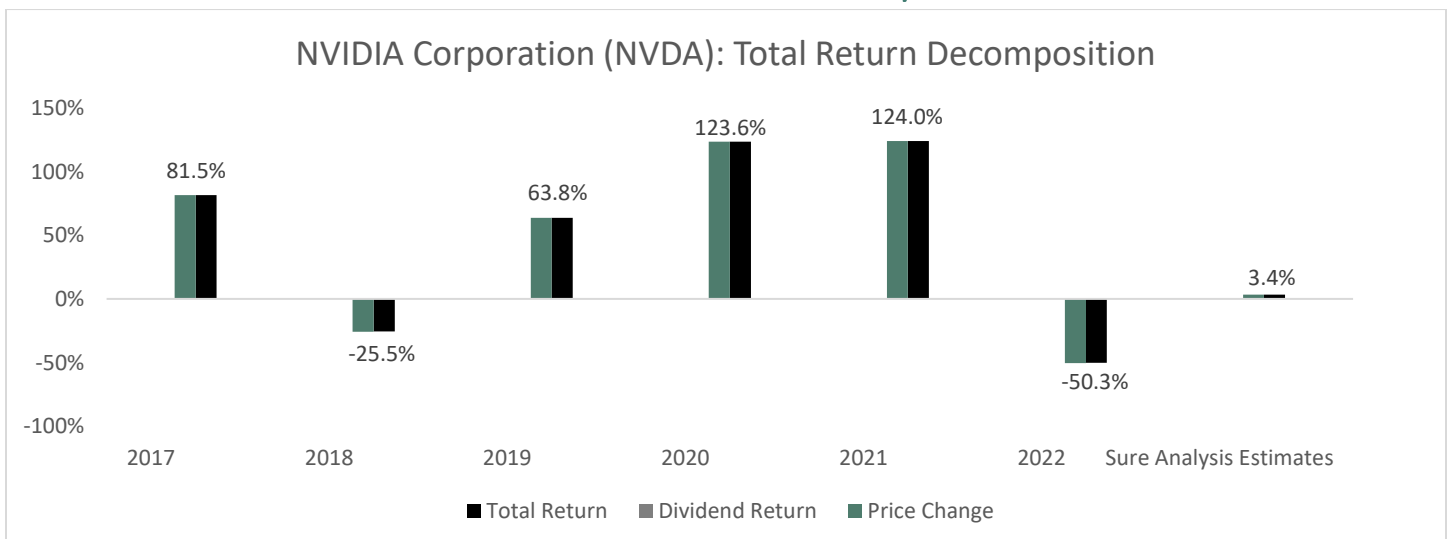
NVIDIA started paying dividends in 2012. The payout ratio has been very low throughout the majority of the years since, and there has not been any dividend raise in the recent past. So far, NVIDIA's management seems focused on other things, rather than ramping up dividend payments. The very low dividend 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 third quarter earnings results were strong and the forecast for the current quarter is very appealing as well. 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 overly compelling and since NVIDIA trades ahead of our fair value estimate.

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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