

## Growth Stock: Nvidia

A great stock pick for a growth investor could be Nvidia (NASDAQ:NVDA). Nvidia Corporation is an American semiconductor company, headquartered in Santa Clara, California, which manufactures Graphics Processing Units (GPUs) and SOC's for personal computers (PCs) and mobile computing. "The company was founded in 1993 by three American computer scientists, Jen-Hsun Huang, Curtis Priem, and Christopher Malachowsky" (*NVIDIA Corp*). This report looks at various criteria such as market potential of Nvidia, finances of the company etc to provide a clearer picture as to why it is a great pick for a growth investor.

Firstly, the tech industry has seen a massive upturn in revenue across the board due to an increase in work-from-home situations as a consequence of COVID-19. This includes Nvidia whose "...revenue from the gaming business shot up 37% year over year to \$2.27 billion during the third quarter of fiscal 2021, which ended on Oct. 25, 2020. The segment accounted for 48% of the company's total revenue during the quarter." (Chauhan). In addition to this, Nvidia graphics cards now account for 80% of the discrete PC GPU market after it took 5% of the GPU market from AMD since the beginning of 2020 (Ridley). Also speaking of anecdotal experience being a PC gamer myself, Nvidia has always been the first choice when it comes to graphical performance. Furthermore, there are other semiconductor companies in the industry such as Advanced Micro Devices (NASDAQ:AMD) and Intel (NASDAQ:INTC) leading to competition in the GPU market. While Intel mainly focuses on their integrated GPUs, AMD has improved their GPU lineup to provide more raw value compared to Nvidia. However, we can conclude that despite the competition Nvidia faces from both ends, they have managed to have a large market share and are considered to be a significant player in the industry.

While growth stocks do not require as many benchmarks as value investing, they look at different ratios with different thresholds. Firstly, Nvidia has both a trailing and annual dividend yield of 0.12% and payout ratio of 10.46% (*NVIDIA Corporation (NVDA) Valuation*). Secondly, it has a Price to Earnings (P/E) ratio of 87.07 which is much higher than the both the US Semiconductor industry average at 38.82 and the US market at 19.69. In addition, it has Price to Earnings Growth (PEG) ratio of 4.7x and Price to Book (P/B) ratio of 21.41 compared to the US Semiconductor industry average at 3.43 (*Nvidia*). Moving on to the more important benchmarks for growth stocks, Nvidia has a return on Equity (ROE) of 28.44% (*NVIDIA Corporation (NVDA) Valuation*), more than double the industry average of 11.3% while it has a Return on Assets (ROA) of 12.31% (*NVIDIA Corporation (NVDA) Valuation*). In addition, Nvidia has a Return on Capital Employed of 18.1%. From these

Return ratios, we can deduce that Nvidia is a company that uses its management effectively to generate profits from its equity and assets.

One of the most important things for a growing company are large profit margins so they can re-invest it into the company to fuel future growth. Nvidia is a perfect candidate for this as it boasts a Gross Profit Margin of 62.60%, above the recommended 40%, an Operating Profit margin of 27.20% and a Net Profit Margin of 25.90% over the recommended 25.90% (“NVDA,” 2020). Furthermore, we can see here that Nvidia is a very profitable company and with its low dividend yield, puts it back into the company to promote growth. In addition to big profit margins, a growing company needs to have high turnover and liquidity ratios. Nvidia boasts an inventory turnover ratio of 4.35 along with a quick and current ratio of 3.50 and 3.90 respectively. These liquidity ratios are much higher than the general benchmark set for a growth company. Quantitatively, Nvidia’s financials look great in the eyes of a growth investor with huge profit margins and returns and while its price ratios may not be great, its stock price is forecasted to quadruple in the next 5 years.

In addition, Nvidia has a very sizable research and development group. Firstly, Nvidia has 57 office locations across 28 countries. In addition, Nvidia has had the same CEO since their birth and have a very experienced management team. Though Nvidia designs their own chips, TSMC and Samsung manufacture these chips such as the ones used in Nvidia’s RTX 30- series cards. In addition, one of the major things that can fuel Nvidia’s growth is their merger with ARM, (a British semiconductor company) “ which is the chipmaker for 95% of the world’s smartphones” (Contributor and Divya, 2020). As a result, Nvidia will almost have the whole market share of worldwide smartphones and this increase in market share may lead to a large rise in their stock price.

Another major fuel for growth is Nvidia’s technology innovation and artificial intelligence (AI). Today it was announced that Veritone Inc, the creator of the world’s first operating system for AI that it now supports the Nvidia CUDA platform (“Veritone aiWARE,” 2020). This is a potential game changer for Nvidia as it accelerates their growth in cloud computing, data centers and AI. In addition, “Nvidia also announced that the Tegra processor would be used in all Tesla Motors (TSLA) vehicles.” (Erokhina 2019) and developed NVIDIA DRIVE, which further cements their role in the autonomous vehicle sector. This is a huge factor as the growth potential for Electric Vehicles (EVs) are immense due to the world moving towards green energy and governments placing more incentives to buy them. Lastly, Nvidia has also made major strides with its latest

innovation of realtime ray-tracing in GPUs with its launch of Ampere RTX 30-series cards in October 2020. A huge upturn in performance and value will provide many gamers and data centers with enough reasons to enter their upgrade cycles which could result in more revenue for Nvidia.

In conclusion, despite Nvidia's high stock-price of \$536.06, it meets all the benchmarks for a great growth stock and can still provide immense long-term growth for any investor.

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