

NVIDIA Corporation

Fear, greed and fundamentals ahead of earnings: a playbook

Reiterate Rating: BUY | PO: 800.00 USD | Price: 739.00 USD

The most important print (until the next one...)

We reiterate Buy/top pick ahead of NVDA Feb-21 earnings but won't be surprised to see a notable but brief pullback after the recent parabolic run-up in the stock - Bloomberg options indicate ~11% implied move post earnings. Expectations have been steadily moving up, with some bullish buy-side estimates for NVDA F4Q/1Q report/guided sales at \$21.7bn/\$23bn or 9%/7% above consensus, leaving less room for upside surprises. However, in our view, any potential mismatch versus bullish expectations is likely supply (memory, packaging) rather than demand or competition related. More importantly, we expect stock volatility to likely be short-lived especially as investors look ahead to NVDA's flagship GPU Tech Conference (GTC) scheduled for March 18-21, featuring important pipeline, partner, and AI TAM updates. As reference NVDA stock was on average 6% higher (vs. SPX up 1%) T+1 days following the last six annual GTC events.

And then there were two ...

NVDA's stock appreciation has been parabolic, with the current \$1.8Tn market cap putting it only behind Microsoft and Apple in the S&P 500 index. We think one interpretation of this NVDA move is a mix of fear and greed and indiscriminate investor chase for all things AI. We acknowledge those factors, but believe it understates the company's solid execution and EPS revisions. We also flag the recent company alignment with US Department of Commerce re shipments to China, removing a critical overhang. Meanwhile, NVDA stock valuation remains compelling at 35x CY24E PE, still below its 41x median and towards lower end of the 25x-67x range. Any post-earnings volatility should take the stock to no worse than 25x-30x NTM PE, in our view.

Four drivers taking AI TAM to \$250-\$500bn range

Similar to the early days of the internet, it's hard to pin down the exact applications that will eventually drive generative AI. However, similar to other tech deployments (4G/5G networking) we see ~2-3 year period of platform deployment, followed by more success-based spending. In our view we are at-worst in middle innings of that upfront 3yr spending cycle, with demand likely stretching out to at-least mid-late CY25. Four factors keep us bullish on sustainability of demand: 1) **No large hyperscale/internet service provider is likely to decrease spending** as it could missing out (to maybe even start-ups) on one of the biggest transformations of this generation. 2) State actors, aka **sovereign AI**, with regional large language models and data are creating a new layer of demand. 3) **Enterprise are trialing genAI today, but on-prem spending could take-off in CY25** and be an additional source of demand, with NVDA uniquely positioned versus its ASIC and merchant silicon rivals. 4) Finally, we see **pricing/content as another incremental lever** for NVDA, with upcoming B100 products likely to be at-least 10%-30% higher priced vs. current gen H100, partially driven by input cost inflation (foundry, memory, packaging). All-in if we take NVDA's assumption of \$1Tn of deployed infrastructure heading to \$2Tn over time, suggests annual spending could be \$250bn-\$500bn across compute, networking and storage hardware, well above our baseline \$160bn CY27E model.

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Timestamp: 15 February 2024 05:18PM EST

15 February 2024

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Stock Data

Price	739.00 USD
Price Objective	800.00 USD
Date Established	1-Feb-2024
Investment Opinion	C-1-7
52-Week Range	204.21 USD - 746.11 USD
Mrkt Val (mn) / Shares Out (mn)	1,838,632 USD / 2,488.0
Free Float	96.0%
Average Daily Value (mn)	35895.04 USD
BofA Ticker / Exchange	NVDA / NAS
Bloomberg / Reuters	NVDA US / NVDA.OQ
ROE (2024E)	97.3%
Net Dbt to Eqty (Jan-2023A)	34.2%
ESGMeter™	High

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Glossary

AI: Artificial Intelligence
GTC: GPU Tech Conference
GPU: Graphics Processor
NVDA: Nvidia
TAM: Total Addressable Market

Exhibit 1: NVDA stock valuation remains compelling at 35x CY24 PE, still below its 41x median and towards lower end of the 25x-67x

NVDA NTM P/E over the last 5 years



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk**NVIDIA Corporation (NVDA)**

Our \$800 PO is based on 31x CY25E PE ex cash, within NVDA's historical 26x-69x forward year PE range, justified given stronger growth opportunities ahead as gaming cycle troughs and data center demand potentially faces strong, long-term demand dynamics.

Downside risks to our price objective are: 1) weakness in consumer driven gaming market, 2) Competition with major public firms, internal cloud projects and other private companies in accelerated computing markets, 3) Larger than expected impact from restrictions on compute shipments to China, or additional restrictions placed on activity in the region, 4) Lumpy and unpredictable sales in new enterprise, data center, and autos markets, 5) Potential for decelerating capital returns.

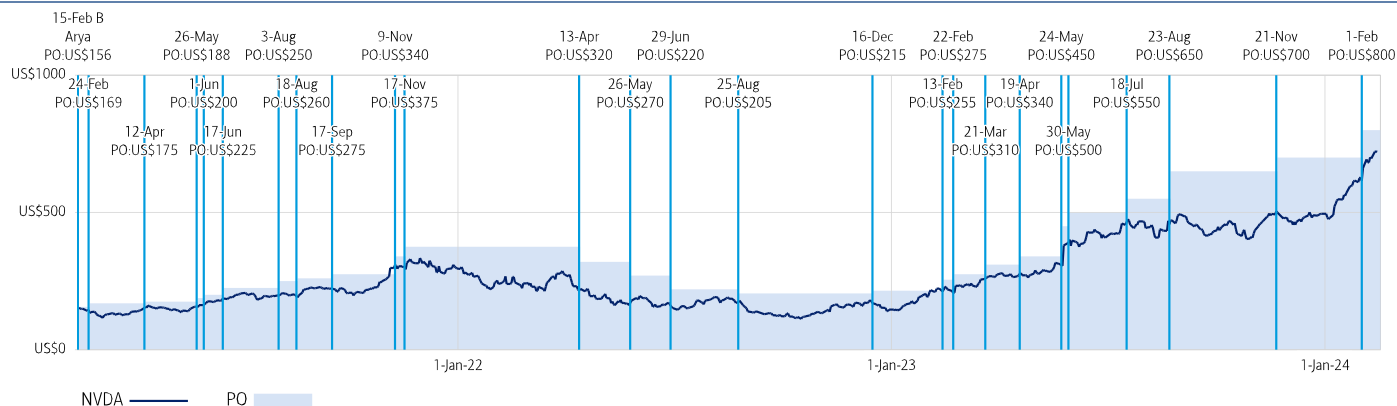
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NVIDIA (NVDA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
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Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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