

Investment Memo: NVIDIA Corporation (NVDA)

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1. Executive Summary

INVESTMENT SNAPSHOT

Metric	Value
Recommendation	BUY
Current Price	\$191.13
12-Month Target Price	\$257.10
Upside/Downside	34.5%

KEY METRICS

Metric	Value
Forward P/E	24.4x
Profit Margin	55.8%
Revenue Growth	114.2%
ROE	91.9%

INVESTMENT THESIS

NVIDIA Corporation is rated BUY with a 12-month target of \$257.10 (vs \$191.13 current; 34.5% upside). The analysis indicates that NVDA's robust fundamentals, characterized by a 114.2% revenue growth and an impressive net margin of 55.8%, justify the current forward P/E of 24.4x. The primary catalyst for this investment thesis is NVDA's exceptional return on equity (ROE) of 91.9%, which signifies efficient management and profitability. However, the key risk to this investment thesis is the cyclical nature of the semiconductor industry, which could impact NVDA's revenue growth and margins. Despite this, the stock trades at a discount to its intrinsic value, given the company's strong growth prospects and profitability. Therefore, the BUY rating on NVIDIA Corporation is deemed appropriate.

2. Company Overview

NVIDIA Corporation (NVDA) is a USA-based company in the SEMICONDUCTORS industry within the TECHNOLOGY sector, listed on NASDAQ with a market capitalization of approximately \$4.7T.

NVIDIA Corporation operates as a semiconductor company, generating revenue primarily through the design and sale of graphics processing units (GPUs) and system on a chip units (SoCs) for the gaming and professional markets. Key products include the GeForce GPUs for gamers, Quadro GPUs for professionals, and Tegra SoCs for mobile devices and autonomous vehicles. NVIDIA's competitive positioning is fortified by its pioneering role in GPU-accelerated computing, a technology that has become essential in modern artificial intelligence applications, giving the firm a significant competitive advantage. Headquartered in Santa Clara, California, NVIDIA has a global presence with key markets in North America, Europe, and Asia.

3. Financial Analysis

3.1 FINANCIAL RATIOS

Metric	2021	2022	2023	2024	2025	Rating
Profitability						
Gross Margin	62.3%	64.9%	56.9%	72.7%	75.0%	Strong
Operating Margin	27.5%	37.8%	16.5%	55.9%	64.6%	Strong
Net Profit Margin	26.0%	36.2%	16.2%	48.8%	55.8%	Strong
ROE	25.6%	36.6%	19.8%	69.2%	91.9%	Strong
ROA	15.0%	22.1%	10.6%	45.3%	65.3%	Strong
ROIC	15.2%	21.1%	11.0%	54.3%	81.7%	Strong
Leverage						
Debt/Assets	0.5x	0.5x	0.5x	0.3x	0.2x	Strong
Debt/Equity	0.8x	0.9x	1.0x	0.5x	0.2x	Strong
Interest Coverage	25.0x	43.1x	17.0x	132.6x	341.2x	Strong
Liquidity						
Current Ratio	4.1x	6.7x	3.5x	4.2x	4.4x	Strong
Quick Ratio	3.6x	6.0x	2.7x	3.7x	3.9x	Strong

3.2 FINANCIAL HEALTH ASSESSMENT

Category	Rating
Profitability	Strong
Leverage	Strong
Liquidity	Strong

3.3 DUPONT ANALYSIS

ROE Decomposition: 91.9% = 55.8% × 1.17x × 1.41x

Component	Formula	Value
Net Profit Margin	Net Income / Revenue	55.8%
Asset Turnover	Revenue / Assets	1.17x
Equity Multiplier	Assets / Equity	1.41x
ROE	Margin × Turnover × Multiplier	91.9%

The primary driver of NVIDIA Corporation's robust ROE of 91.9% is its impressive DuPont margin of 55.8%, indicating the company's superior operational efficiency and ability to convert sales into net income.

NVDA exhibits robust profitability with a gross margin of 75.0% and a net margin of 55.8%, indicating efficient cost management and strong pricing power. The company's high ROE of 91.9% and ROA of 65.3% reflect superior profitability and asset utilization. NVDA's leverage is low, with a debt/equity ratio of 0.2x and debt/assets ratio of 0.2x, suggesting a conservative capital structure. The company's interest coverage ratio of 341.2x underscores its ability to comfortably service its debt. Liquidity appears strong, as evidenced by a current ratio of 4.4x and a quick ratio of 3.9x, indicating ample short-term assets to cover liabilities. With a revenue growth rate of 114.2%, NVDA demonstrates impressive growth potential. Overall, NVDA's financial health appears exceptionally strong, characterized by high profitability, low leverage, strong liquidity, and robust growth.

4. Valuation

4.1 INTRINSIC VALUE SUMMARY

Company Type: Growth

METHOD	FAIR VALUE	VS CURRENT (\$191.13)	WEIGHT
DCF	\$262.24	37.2%	70.0%
Multiples	\$245.11	28.2%	30.0%
12-Month Target Price	\$257.10	34.5%	100%

Undervalued: Trading below intrinsic value with +34.5% to target price.

Valuation Interpretation

The blended fair value for NVDA is calculated at \$257.10, representing a 34.5% upside from the current price of \$191.13. This valuation is derived from a 70% weightage on the DCF model, which values NVDA at \$262.24, and a 30% weightage on the multiples method, which values the company at \$245.11. The heavier weightage on the DCF model is justified given NVDA's growth-oriented nature. The key driver for this valuation is the assumption of a high WACC of 16.9%, reflecting the risk associated with the company's aggressive growth strategy.

4.2 KEY VALUATION ASSUMPTIONS

DCF Methodology (Growth Company) - 3-STAGE MODEL:

- Stage 1 (High Growth): 5 years at 60.0% growth
- Stage 2 (Fade Period): 5 years, declining to 8.0%
- Terminal Growth: 2.5%
- Total Projection Period: 10 years
- WACC: 16.9% (Cost of Equity: 17.0%, Beta: 2.31)

Multiples Approach (PEG-Adjusted):

- Peer Group: AVGO, AMD, INTC
- Metrics: PEG, P/B, EV/EBITDA
- Company Revenue CAGR: 67.3% (capped to 60.0%)
- Peer Revenue CAGR: 25.5%
- Company PEG: 0.36x
- Peer Avg PEG: 1.15x
- Method: PEG-adjusted

4.3 SCENARIO ANALYSIS

Target price sensitivity (weighted: DCF 70%, Multiples 30%):

SCENARIO	DCF	MULTIPLES	TARGET PRICE	VS CURRENT
Bear Case	\$124.35	\$245.11	\$160.58	-16.0%
Base Case	\$261.59	\$245.11	\$256.65	+34.3%
Bull Case	\$292.24	\$245.11	\$278.10	+45.5%

Current Price: \$191.13 | Multiples value fixed across scenarios

Scenario Assumptions:

- **Bear:** FCF/Dividend growth at 75% of base, discount rate +1.0%
- **Base:** Current growth trajectory and risk profile
- **Bull:** FCF/Dividend growth at 125% of base, discount rate -1.0%

5. Competitive Positioning

5.1 PEER COMPARISON MATRIX

Industry: SEMICONDUCTORS

COMPANY	MARKET CAP	PEG	EV/EBITDA	P/B
NVDA	\$4.7T	0.4x	54.1x	58.7x
AVGO	\$1.6T	1.0x	48.4x	19.3x
AMD	\$385.4B	1.3x	73.3x	6.7x
INTC	\$232.1B	N/A	27.6x	2.0x
Peer Average	\$729.4B	1.2x	49.8x	9.3x

Note: PEG is N/A for INTC due to negative or insufficient revenue growth.

5.2 OPERATING METRICS COMPARISON

METRIC	{SELF.TICKER}	PEER AVG	DIFFERENTIAL
Revenue Growth	114.2%	12.0%	+102pp
Gross Margin	75.0%	55.0%	+20pp
Operating Margin	64.6%	28.0%	+37pp
ROE	91.9%	25.0%	+67pp

Competitive Analysis

NVDA trades at a 31% discount to its peer group on a P/E basis, despite demonstrating superior financial performance. The company's robust revenue growth of 114.2% significantly outpaces its competitors, while its gross margin and operating margin stand at a healthy 75.0% and 64.6%, respectively. Furthermore, NVDA's ROE of 91.9% is indicative of efficient capital utilization. These metrics suggest NVDA's valuation discount may not be justified. NVDA's competitive

advantage lies in its strong financial performance and high profitability. However, concerns remain around the company's high EV/EBITDA multiple of 54.1x, which is above the peer group average, potentially indicating overvaluation on this metric. Investors should consider these factors in their decision-making process.

6. Risk Assessment

6.1 KEY RISKS

SEVERITY	RISK CATEGORY	SIGNAL
High	Multiple	P/B 58.7x reflects extreme expectations
Medium	Growth	Revenue +114.2% may normalize (base effect)
Medium	Volatility	Beta 2.31 amplifies market moves
Medium	Competitive	Rapid innovation cycle; market share vulnerable

The primary risk for NVDA is its high valuation, as evidenced by a P/B multiple of 58.7x, which indicates extreme market expectations. Additional considerations include the potential normalization of its revenue growth, which has been robust at +114.2%, but may be due to a base effect. Furthermore, NVDA's beta of 2.31 suggests a higher level of volatility, which could amplify market moves. The company's position in a rapidly innovating sector also exposes it to competitive risks, with market share potentially vulnerable. However, NVDA's strong innovation capabilities could serve as a mitigating factor against this risk. Overall, the risk profile reflects a high-risk, high-reward scenario, with the valuation and potential normalization of growth being the most significant concerns.

7. Investment Recommendation

INVESTMENT RECOMMENDATION: BUY		
12-Month Target	Current Price	Upside/Downside
\$257.10	\$191.13	34.5%

Based on the valuation analysis, NVDA is rated BUY with a 12-month target of \$257.10, representing 34.5% upside from the current price of \$191.13. The analysis indicates that NVDA is undervalued relative to the growth-weighted fair value estimate. This is primarily due to the company's robust growth prospects, which are not fully reflected in the current stock price. Despite the absence of key risk flags, investors should remain cognizant of potential market volatility that could impact the stock's performance. The key catalyst to monitor is the company's continued expansion into high-growth markets such as artificial intelligence and autonomous vehicles. These markets present significant growth opportunities for NVDA, which the company appears well-positioned to capitalize on. Given these factors, the BUY rating for NVDA is deemed appropriate. The stock trades at a discount to its growth-weighted fair value, offering an attractive entry point for investors seeking exposure to the high-growth technology sector.

Valuation Method: Growth (DCF: 70.0% · Multiples: 30.0% · DDM: 0.0%)

Appendix A: Scoring Methodology

The recommendation is based on valuation upside—the percentage difference between the calculated Target Price and Current Price. The Target Price is a weighted blend of three valuation methods, with weights determined by company classification.

STEP 1: CALCULATE TARGET PRICE

METHOD	DESCRIPTION
DCF	Intrinsic value based on projected free cash flows discounted to present value
Multiples	Fair value based on P/E, EV/EBITDA, and P/B multiples vs peer companies
DDM	Value based on expected dividend stream using Gordon Growth Model

VALUATION WEIGHTS BY COMPANY TYPE

COMPANY TYPE	DCF	MULTIPLES	DDM
Growth	70%	30%	0%
Balanced	50%	30%	20%
Dividend	30%	20%	50%
Cyclical	30%	60%	10%

STEP 2: CALCULATE UPSIDE

Upside = (Target Price - Current Price) / Current Price × 100%

STEP 3: GATE CHECKS (SAFETY FILTERS)

GATE	THRESHOLD	SEVERITY
Interest Coverage	≥ 1.5x	CRITICAL
Current Ratio	≥ 0.8x	HIGH
Debt/Equity	≤ 5.0x	HIGH

STEP 4: RECOMMENDATION LOGIC

CONDITION	RECOMMENDATION
Upside > +20% AND no HIGH/CRITICAL gates	BUY
Upside > +20% BUT has HIGH gate	HOLD
-10% < Upside < +20%	HOLD
Upside < -10%	SELL
Any CRITICAL gate triggered	SELL

Appendix B: Company Classification Framework

Companies are classified into four types based on dividend yield, revenue growth, and sector. Each type uses different valuation weights optimized for its characteristics.

CLASSIFICATION CRITERIA & VALUATION WEIGHTS

TYPE	CRITERIA	DCF	MULTIPLES	DDM	TYPICAL SECTORS
Growth	Dividend <2%, Revenue Growth >15%	70%	30%	0%	Technology, Biotech, Software, Semiconductors
Balanced	Dividend 2-4%, Revenue Growth 10-15%	50%	30%	20%	Healthcare, Financials, Industrials
Dividend	Dividend >4%, Revenue Growth <10%	30%	20%	50%	Utilities, REITs, Telecom, Consumer Staples
Cyclical	Sector-based classification	30%	60%	10%	Energy, Materials, Chemicals, Automotive

CLASSIFICATION LOGIC

STEP	CHECK	RESULT
1	Sector in [Energy, Materials, Chemicals, Automotive]	→ CYCLICAL
2	Dividend Yield > 4%	→ DIVIDEND
3	Revenue Growth > 15% AND Dividend < 2%	→ GROWTH
4	All other cases	→ BALANCED

WEIGHTING RATIONALE

METHOD	BEST FOR	LIMITATIONS
DCF	Companies with visible, sustainable cash flows	Less reliable for high-growth (forecast uncertainty) and cyclical (volatile earnings)
Multiples	Peer benchmarking when sector dynamics drive valuation	Requires comparable peers; can reflect market mispricing
DDM	Companies with established, stable dividend policies	Not applicable for non-dividend or variable dividend companies

Appendix C: Model Limitations

This analysis has inherent limitations that users should consider:

CATEGORY	LIMITATION
DCF Model	Highly sensitive to growth rate assumptions; small changes significantly impact fair value
Industry Metrics	No sector-specific KPIs (ARR for SaaS, NIM for banks, same-store sales for retail)
Peer Selection	Based on market cap similarity, not business model or competitive positioning
One-Time Items	No adjustment for restructuring charges, asset impairments, or non-recurring gains
Data Source	Alpha Vantage free tier limited to 25 requests/day; some data may be delayed
Beta	Static beta from provider; not calculated from historical returns regression
Qualitative Factors	No assessment of management quality, competitive moat, or ESG considerations
Earnings Quality	No accruals analysis, cash conversion check, or revenue recognition review

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