Nvidia hails AI boom's 'tipping point'

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Highlight: Chipmaker Nvidia has declared the "tipping point" of an artificial intelligence boom that began just over a year ago has arrived, tripling its revenue as tech giants flock to buy its specialised semiconductors.

Body

Chipmaker *Nvidia* has declared the "tipping point" of an artificial intelligence boom that began just over a year ago has arrived, tripling its revenue as tech giants flock to buy its specialised semiconductors.

The Silicon Valley company, long known for making gaming chips, is now the dominant manufacturer of AI processors that Microsoft, Amazon and Google are buying in huge volumes to power popular services like OpenAI's chatbot.

Installed in massive data centres, Nvidia's technology ultimately runs consumer applications including ChatGPT and the AI tools now embedded in everything from social media to image editing.

Its share price is up more than 400 per cent since 2021 as a result, placing Nvidia among the world's biggest companies, and sparking *fears of a bubble* amid concerns that faith in AI is outpacing utility.

But the company's quarterly earnings on Thursday (AEDT) answered its critics and revived hopes that *the AI darling's meteoric 12-month rally on Wall Street has further to run*.

The results confirm Nvidia as the world's most valuable chipmaker, far ahead of rivals, such as Intel, that fumbled the transition from PC chips to smartphones, and remain behind on artificial intelligence.

Nvidia reported fourth-quarter revenue of $US22.1 billion, up 22 per cent from the previous three-month period and 265 per cent from a year ago.

It also said revenue in the current period would be about $US24 billion, topping analysts' average estimate of $US21.9 billion.

Nick Griffin, Munro Partners' chief investment officer, saw the potential for Nvidia to become the "largest company in the world", echoing the bullish call he made on the stock back in January 2022.

"Accelerated computing and *generative AI have hit the tipping point,"* Nvidia chief executive Jensen Huang said in a statement. "Demand is surging worldwide across companies, industries and nations."

On a conference call with analysts, Mr Huang said demand for Nvidia's newest products would continue to outstrip supply for the rest of the year.

The chipmaker's share price has already more than tripled over the past year, rallying alongside the other so-called Magnificent Seven stocks - which include fellow US tech giants Alphabet, Amazon, Apple, Meta, Microsoft and Tesla.

But the surge in Nvidia's shares alone has also been responsible for a third of the Nasdaq 100's gains this year, according to Bloomberg.

Such is Nvidia's importance for the broader sharemarket, the earnings release had been dubbed "more important" than the US Federal Reserve by Citi's equity strategists.

'Fairly wild ride'

Australian funds with large stakes in the stock include *Loftus Peak, Munro Partners and Yarra Capital Management.*

Munro's Mr Griffin said Nvidia had become the largest weighting in the firm's global growth fund. It first bought the stock in 2019 when the shares were trading under $US60. He said it had been a "fairly wild ride" ever since.

The shares closed at $US674.72 on Wednesday in New York.

"We see Nvidia as the key winner from the adoption of AI technologies ... history suggests you want to own the key winners and run them for long periods of time," he said.

"History also suggests you shouldn't trade them too much, so we will probably continue to hold the same weight from here."

Nvidia is widely seen as a barometer of expectations for the shift to AI as a method of computing. Craig Blair, founding partner at Australian venture capital fund AirTree, said it ranked alongside the internet, smartphones and cloud computing.

"This one feels more profound and possibly a game-breaking platform shift," Mr Blair said. "But history says we are probably overestimating the short-term impacts and underestimating the long-term consequences that can flow from a platform shift."

No 'dotcom bubble'

Mr Blair, whose fund does not invest in listed stocks such as Nvidia, said there would be substantial returns generated by infrastructure makers like the US chipmaker, cloud computing providers and foundational AI model creators.

But he predicted that most of the value for start-up companies would go to those making tools to aid AI models and applications for end users.

Speaking before Nvidia's results, Alan Pullen, portfolio manager at Magellan Financial Group, said the AI-driven rise of the Magnificent Seven was here to stay.

"Generative AI is here, and the markets are getting pretty excited ... this is not the dotcom bubble," he said at the Portfolio Construction Forum in Sydney.

"These valuations are justified by the earnings these companies are going to deliver ... Nvidia is powering the rise of machine learning with its GPU chips that underpin generative AI."

That sentiment was echoed by investment specialist Jonathan Pain, who also dismissed claims by Nvidia sceptics that the stock's rise mirrored that of US multinational ***Cisco*** Systems before the dotcom crash in the early 2000s.

"***Cisco***'s two-year forward earnings multiple in March 2000 was 100. The trailing PE was 400. Nvidia is selling on a two-year forward PE of 28 times," he said.

"I don't think [Nvidia] is a flash in the pan. It's the real deal - the picks and shovels of the AI revolution."

Saxo head of equity strategy Peter Garnry said the earnings result was "insane", noting that its earnings guidance was also strong.

"The wording 'tipping point' is the strongest forward-looking indication the company has provided so far since generative artificial intelligence took off," he said.

"I have never seen anything like this in my career. However, it will be increasingly difficult for Nvidia to exceed expectations, and this could be the last insane quarter."

With reporting from Jonathan Shapiro, Timothy Moore and Bloomberg

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