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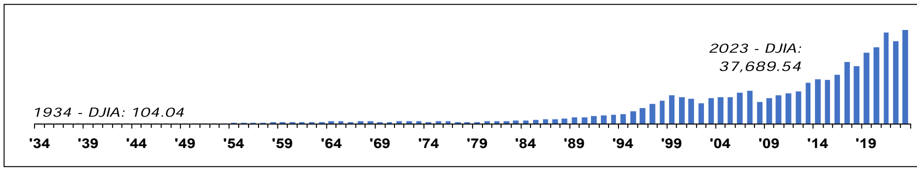
MARKET DIGEST



WEDNESDAY, OCTOBER 9, 2024

OCTOBER 8, DJIA: 42,080.37
UP 126.13

Good Morning. This is the Market Digest for Wednesday, October 9, 2024, with analysis of the financial markets and comments on **GE Vernova Inc. and Nvidia Corp., as well as an update on changes to the Argus Sector Ratings & Focus List.**

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* Focus List: GE Vernova Inc.: Raising target price (John Eade)
* Growth Stock: Nvidia Corp.: Exceptional product demand, positive signs from partners (Jim Kelleher)
* Monthly Review of Argus Sector Ratings & Focus List

MARKET REVIEW:

Talk about an undecided market. As of the close on Monday, October 7, in four of the past five days, the closing range of the S&P 500 (SPX) was 13.6 points. That is two-tenths of 1% based on the price of the index. For the Nasdaq, the range in four out of five days was 14.76 points or eight one-hundredths of 1%. The Nasdaq 100's (QQQ) range was 0.83 points or two-tenths of 1%. The Nasdaq and the QQQ tested their 21-day exponential a few times and remain perilously close to breaking that average, while the SPX has come close to the average on several occasions intraday.

Third-quarter EPS season is now underway and the next three weeks will be very heavy with earnings reports. Just prior to and just after earnings reports, companies are in a blackout period. During that time, a company cannot repurchase its stock. So in April/early May, July/early August, October/early November, and January/early February, there is an absence of demand that can create weakness in the overall market. First-quarter 2024 share buybacks on the S&P 500 were $237 billion and for the 12-months ending March 2024, buybacks were $817 billion. Currently, there is a 1% excise tax on buybacks — and that could go up as it is an attractive cash generator for the government.

We are in a seasonally weak period, with the VIX Volatility Index at 22.6% — up from 15% on September 26. This shows that option traders are betting on increased volatility by bidding-up option prices. This is common before a presidential election. (Mark Arbeter, CMT)

GE VERNOVA INC. (NYSE: GEV, $264.27).. BUY

GEV: Raising target price

* GE Vernova is a global leader in the electric power industry.
* This well-managed company appears poised to take advantage of megatrends such as energy transition, global electrification, and global decarbonization.
* The stock recently surpassed our 12-month target price of $190.
* We think that prospects are bright for GE Vernova and are raising our target price to $300.

ANALYSIS

INVESTMENT THESIS

Our rating on Focus List selection GE Vernova Inc. (NYSE: GEV) is BUY. GE Vernova, formerly part of General Electric Co., is a global leader in the electric power industry, with products and services that generate, transfer, orchestrate, convert, and store electricity. The company designs, manufactures, delivers, and services technologies to create a more reliable and sustainable electric power system, enabling electrification and decarbonization. The company's installed base generates approximately 30% of the world's electricity. We view GE Vernova as a well-run, financially strong company that appears well poised to take advantage of megatrends such as energy transition, global electrification, and global decarbonization. Though the recent profit record has been spotty, a turnaround is underway, and the outlook for near-term growth is promising. From a technical standpoint, the shares have been in a bullish pattern of higher highs and higher lows since debuting in April. On valuation metrics, the shares are trading at a low price/sales multiple compared with a group of industry peers. The price/sales ratio is 2.1, below the peer average of 3.0. We think that this valuation is attractive given the company's growth and profitability outlook. Our 12-month target price is $300.

RECENT DEVELOPMENTS

GE Vernova began operating as an independent company in April 2024, and all results for prior periods have been carved out from General Electric's accounting records. GE Vernova was spun off from GE on April 2, 2024. The spin-off of GE Vernova was achieved by GE's distribution of all shares of the common stock of GE Vernova. Each holder of record of GE common stock received one share of GE Vernova common stock for every four shares of GE common stock held on March 19, 2024.

GEV shares have outperformed the market since the launch, gaining 88%, while the S&P 500 is up 10%. Compared with the Industrials segment ETF IYJ, the shares have also outperformed since they were launched.

GEVernova is due to report 3Q EPS on October 23, 2024. The current consensus is organic adjusted EPS of $0.38. The revenue estimate is $8.8 billion. While estimates for 2024 have been declining in the past month, estimates for 2025 have been rising.

EARNINGS & GROWTH ANALYSIS

GE Vernova has three business segments: Power (52% of 2023 revenue), Wind (29%) and Electrification (19%). The company is global, with 47% of net sales in 2023 from the Americas, 37% in EMEA, and 16% in Asia Pacific.

The company's historical growth record is uneven. Total revenue has been flat over the past three years, despite a 10% increase in revenue in 2023. Adjusted EBITDA has increased 23% over the past three years, as the adjusted EBITDA margin ranged from 2.4% to negative 1.4%.

The company recently reported 2Q24 results that topped expectations. On July 24, GE Vernova reported that revenue increased 2% on an organic basis (1% overall) to $8.2 billion. The organic adjusted EBITDA margin widened 320 basis points (bps) from 2Q23 to 7.2%. Adjusted EPS was $1.13, which topped the consensus forecast for $0.73. Total orders of $11.8 billion exceeded revenue. During the first half, the company earned an estimated $0.72 on an adjusted basis. First-half adjusted organic EBITDA is $806 million.

Along with the 2Q results, management reaffirmed its 2024 guidance. It expects revenue of $34 billion-$35 billion, an adjusted EBITDA margin at the high end of mid-single digits, and free cash flow of $1.3 billion-$1.7 billion, up from its prior outlook for $700 million-$1.1 billion.

Turning to our EPS estimates, based on recent sales and margin trends, as well as management's guidance and long-term outlook, we are maintaining our 2024 adjusted EPS estimate of $3.50. We look for earnings to grow sharply in 2025 as margins improve and are boosting our preliminary EPS estimate to $6.10 from $5.65. Our long-term earnings growth rate projection is 8%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Vernova is Medium. The company receives mixed scores on our four main financial strength criteria of debt levels, fixed-cost coverage, profitability, and cash flow generation. Management is committed to an investment-grade rating.

Vernova had cash of $5.8 billion at the end of 2Q24. Total debt was less than $100 million. However, the company's EBITDA margins are in the low-single-digit range. Management is targeting a cash flow to net income ratio of 90%-110%.

The company at this time does not pay a dividend.

MANAGEMENT & RISKS

Scott L. Strazik is the CEO of Vernova. He has more than 20 years of finance, operations, and leadership experience with GE, including more than eight years in the company's power businesses. The CFO is Kenneth Parks. Before joining Vernova, Parks was CFO of Owens Corning. Stephen Angel, the former chairman of Linde plc, is chairman of the board of directors.

In a presentation to Wall Street, management set long-term financial goals, including:

— Mid-single-digit revenue growth

— A 10% adjusted EBTIDA margin by 2028

— 90%-100% free cash flow conversion

— 45% of total revenue coming from services

There are risks to owning the GE Vernova shares. The industry is highly competitive. The company has global operations and is thus subject to changes in global economic conditions and outlooks, as well as to negative currency effects. Supply chain disruptions could affect financial results. Changes in regulatory decisions or approaches could affect the recent trends toward decarbonization. As the company grows through mergers and acquisitions, management will have to make sure the new combinations work.

COMPANY DESCRIPTION

GE Vernova is a global leader in the electric power industry, with products and services that generate, transfer, orchestrate, convert, and store electricity. The company is poised to benefit from extended growth in the demand for its products and services as emerging economies focus on electrification and mature economies on further electrification and decarbonization.

The company has 80,000 employees. GEV shares are a component of the S&P 500 Index.

VALUATION

GEV shares appear attractively valued at current prices near $265, at the high end of the 52-week range of $119-$266. From a technical standpoint, the shares have been in a bullish pattern of higher highs and higher lows since debuting as a public company in April.

To value the stock on a fundamental basis, we typically use peer and historical multiple comparisons, as well as discounted cash flow analysis. GE Vernova is in a unique space, as the company (formerly part of General Electric) has a long operating history but has only recently begun trading as an independent company. As such, historical multiples are irrelevant for valuation purposes. On other metrics, the shares are trading at low multiples compared with a group of industry peers. The price/sales ratio is low at 2.1, below the peer average of 3.0. We think that this valuation is attractive given the company's growth and profitability outlook. Our 12-month target price is now $300.

On October 8, BUY-rated GEV closed at $264.27, up $1.73. (John Eade, 10/8/24)

NVIDIA CORP. (NGS: NVDA, $132.89) .... BUY

NVDA: Exceptional product demand, positive signs from partners

* Nvidia is seeing “insane” demand for its Blackwell chip, according to recent commentary from CEO Jensen Huang. Server partners such as Super Micro have also disclosed very strong demand
* Nvidia topped aggressive consensus estimates for fiscal 2Q25, with revenue and non-GAAP EPS rising in triple-digit percentages as data center revenue of $6.3 billion increased more than 150%.
* Management guided for fiscal 3Q25 midpoint revenue of $32.5 billion, about $750 million above the pre-reporting consensus estimate.
* Nvidia is delivering continued momentum in FY25. We look for growth beyond data center and AI, as the company’s other end-markets of gaming, professional visualization, and automotive also accelerate.

ANALYSIS

INVESTMENT THESIS

BUY-rated Nvidia Corp. (NGS: NVDA) is seeing “insane” demand for its Blackwell chip, according to recent commentary from CEO Jensen Huang. Exceptional demand is allowing Nvidia to increase capacity and throughput while lowering costs per revenue dollar. With the Fed now cutting interest rates, we believe demand could improve further in a strengthening economy in calendar 2025. Upcoming AI showcases and product launches from Meta, OpenAI, Tesla and others could further drive demand.

Recently, Super Micro CEO Charles Liang stated that the company is shipping more than 100,000 GPUs in its servers used for AI computing. The disclosure came as the company highlighted its latest liquid-based rack-cooling innovations; liquid cooling is essential for high-wattage GPUs such as Blackwell. Hewlett Packard Enterprise also recently highlighted its liquid cooling solutions.

The Nvidia B200 Tensor Core GPU, the world’s most-powerful chip, powers the HGX B200 server platform. Nvidia has had to redesign its Blackwell GPUs due to a minor flaw. Nvidia has changed the Blackwell “mask” to improve production yields, and production ramp is scheduled to begin in fiscal 4Q25 (ended January 2025) and continue into FY26. The company shipped samples of the chip in fiscal 2Q25. Blackwell orders are in the tens of billions of dollars, and the delay should be immaterial to most customers given AI cluster design timing and the need to upgrade to liquid-cooled data centers.

Nvidia appears uncommonly well-positioned in the fast-growing market for AI solutions, with dominant market share in providing GPUs to the AI market. Based on the company’s amazing traction in AI, Nvidia has become the global number-one semiconductor company by revenue, after barely making the top 10 a mere two years ago.

Although growth will inevitably slow due to the law of large numbers, the NVDA shares have much further to go, in our view. The company has unmatched positioning within transformational generative AI technology. We recommend establishing or adding to positions in this preeminent vehicle for participation in the AI economy. We believe that most technology investors should own NVDA in the age of deep learning, AI, and GPU-driven applications acceleration. We are reiterating our BUY rating and our 12-month target price of $150 (split-adjusted).

RECENT DEVELOPMENTS

NVDA is up 158% year to date in 2024, versus a 14% gain for peers. NVDA rose 239% in 2023, versus a 63% gain for the Argus-covered semiconductor peer group. NVDA declined 50% in 2022, versus a 33% decline for peers; rose 125% in 2021, versus a 34% gain for semiconductor peers; and advanced 122% in 2020, while peers rose 45%.

The NVDA stock price, which had entered into a downdraft over the summer amid sector rotation and profit taking, took off in early October following an interview on CNBC with Nvidia CEO Jensen Huang. The CEO stated that demand for its Blackwell chip has been “insane.” The Nvidia B200 Tensor Core GPU, the world’s most-powerful chip, powers the HGX B200 server platform.

Exceptional demand is allowing Nvidia to increase capacity and throughput while lowering costs per revenue dollar. The CEO stated that with AI technology moving so fast, development of and hugely positive response to Blackwell gives Nvidia the opportunity “to triple down, to really drive the innovation cycle.” That in turn enables Nvidia to increase capabilities, increase throughput, decrease costs, and decrease energy consumption. The CEO affirmed that the company is on a path to meet these goals and that “everything is on track.”

With the Fed now cutting interest rates, we believe the U.S. economy could improve further in calendar 2025. That in turn should heighten IT spending on AI solutions, which are the top of every CIO's wish list.

We believe that demand for Blackwell is being driven mainly by the industry leaders in the cloud service provider space (AWS, Microsoft, Alphabet) along with companies such as OpenAI, Meta Platforms, and Tesla. The CSPs are in the early stages of developing AI-as-a-service solutions to meet strengthening demand for AI from their enterprise customers.

The CSPs and other AI majors are developing new multi-modal large language models (LLMs) and rolling out new products that should further drive demand for Nvidia's chips. OpenAI recently conducted a new funding round that puts that value of that company above $150 billion. OpenAI also appears to be pivoting to a commercial focus from more of a pure research foundation.

Tesla, which faces intense competition in the sales of vehicles to individuals, is slated to host a robo-taxi event. Nvidia has for years cited robo-taxis as an enormous potential market around the world. Meta Platforms, though not a cloud service provider, has massive global reach with its social media platforms. Its new generative AI photo platform will thus have a huge audience.

Nvidia itself is hosting another AI event on 10/8/24 through 10/10/24. We believe the event will focus on software and applications to support Blackwell, and we will analyze the event once concluded.

Recently, Super Micro CEO Charles Liang stated that the company is shipping more than 100,000 GPUs in its servers used for AI computing. Super Micro and Nvidia have a long and deep relationship. The two companies' headquarters are about 10 miles apart, and as an established leader in GPU servers, Super Micro often has early access to new generation Nvidia GPUs.

The disclosure came as the company highlighted its latest liquid-based rack-cooling innovations; liquid cooling is essential for high-wattage GPUs such as Blackwell. In an accompanying chart related to the new rack-scale cooling solutions, Super Micro cited as ASP of $30,000. That suggests orders growth in billions of dollars, for already fast-growing Super Micro. Hewlett Packard Enterprise also recently highlighted its liquid cooling solutions.

Super Micro recently completed its 10-for-1 stock split. The company has delayed filing its latest 10K as it seeks to resolve internal accounting discrepancies. The short-seller firm Hindenburg recently issued serious allegations of misconduct against SMCI including a history of accounting misrepresentations, non-competitive bidding practices that favor family members of top management, and potential shipments in violation of restrictions on high-level technology exports to China and/or Russia.

In our SMCI note of 10/2/24, we stated that we take any such allegations seriously and will continue to monitor this situation closely. In descending order of importance, we would be most concerned if the allegations lead to the DoJ establishing a pattern of deliberate sales to sanctioned firms. And we will be monitoring the related-party situation to see if this prompts changes in the company's vendor-bidding practices. As regards revenue recognition practices, SMCI's conduct in 2018 under a different management team appears irrelevant to the current market environment.

The devastation caused by Hurricane Helene, particularly in North Carolina, could have an uncertain impact on global semiconductor production. Two facilities in Spruce Pines, NC, produce a significant amount of high-purity quartz vital to semiconductor production. In the days following intense flooding in the Mitchell County area, the two companies each issued statements regarding the storm's impact.

The two producers that are operating high-purity quartz mines in Spruce Pines are Belgium-based Sibelco and The Quartz Corp. Sibelco as of 10/3/24 stated that "initial assessment indicates that our operating facilities in Spruce Pines have sustained only minor damage." Sibelco had not yet resumed production as of 10/3/24. The challenge has been supporting infrastructure: roads, power lines, and rail. Repair of power lines leading to site has progressed significantly. Existing product stock (inventory) was not impacted, and the company intends to restart production as soon as possible.

The Quartz Corp.'s latest update from 10/2/24 stated that, following initial visual inspection, damage is mostly concentrated around ancillary units. The company had not issued a timeline as of 10/2/24 on when it would be possible to resume operations. Like Sibelco, the Quartz Corp. cited local infrastructure rather than its own operating equipment as the obstacle to restarting operations.

Thanks to resilience planning put in places during COVID-19 period, Quartz Corp. established strong levels of feed stock with its Norway operations. Coupled with safety stock of finished products (on-site and off-site inventory) and products throughout its supply chain, Quartz Corp. does not anticipate "any critical situation for our downstream industries in the short or medium term."

Additionally, high-quality quartz for semiconductor applications is also mined in Idaho, USA, in various sites in Australia, and elsewhere. Finally, Hurricane Milton appears to be moving west to east rather than south to north and does not at this time appear to pose a threat to NC similar to the damage created by Helene.

In summary, the situation at present suggests that neither company suffered meaningful damage to the Spruce Pines operating facilities but they are not yet able to resume production due to local infrastructure issues. However, local infrastructure restoration initiatives are making progress, and these companies have been able to draw on their inventories and supply chains to continue supplying customers during this challenging period.

Nvidia's top-of-the-line Blackwell GPUs for generative AI are reported to have a minor design flaw within the CoWoS-L packaging technology. That packaging was used by Taiwan Semiconductor Co. for the first time ever on these chips. The bridge dies connecting the two GPUs needs adjusting, and Nvidia is redesigning the chips to address this flaw. Nvidia shipped samples of the chip in 2Q25 and has changed the Blackwell "mask" to improve production yields.

As noted in the company's prepared remarks, Blackwell production ramp is scheduled to begin in fiscal 4Q25 (ended January 2025) and continue into FY26. The redesign is likely to push first Blackwell shipments into early calendar 2025 from late 2024; prior to results release, Street estimates of the delay varied from three months to one month.

The delay should be immaterial to most customers given design timing for massive AI clusters. Blackwell consumes up to 1,000 watts in operation versus 700 watts at most for predecessor Hopper chips. Data centers supporting Blackwell chips will need to install full liquid-cooled racks, and to do so will take time. Blackwell orders are in the tens of billions of dollars, and we do not expect this design flaw to cut into the voracious appetite for these leading-edge AI accelerators.

Nvidia again guided above pre-reporting consensus, which was already at nosebleed levels, for fiscal 3Q25. Following a highly successful FY24, Nvidia in our view is positioned for continued momentum in FY25, ending the year with the highly anticipated Blackwell production ramp.

NVDA shares have much further to go, in our view, given the company's positioning within transformational AI technology. We recommend establishing or adding to positions in this preeminent vehicle for participation in the AI economy. We believe that most technology investors should own NVDA in the age of deep learning, AI, and GPU-driven applications acceleration. We are reiterating our BUY rating and our 12-month target price of $150 (split-adjusted).

EARNINGS & GROWTH ANALYSIS

For fiscal 2Q25 (ended 7/28/24), Nvidia posted revenue of $30.04 billion, which was up 122% year over year and up 15% sequentially. Revenue exceeded the high end of management's $27.5-$28.6 billion guidance range by $1.4 billion, and was $1.3 billion above the consensus call of $28.7 billion.

The non-GAAP gross margin tightened to 75.7% in fiscal 2Q25 from 78.9% in 1Q25 and rose from 71.2% a year earlier. The non-GAAP operating margin was 66.4% in 2Q25, compared to 69.3% in 1Q25 and 57.6% a year earlier.

Non-GAAP earnings of $0.68 per diluted share for fiscal 2Q25 were up 153% from $0.27 (split-adjusted) for fiscal 2Q24 and up $0.07 sequentially from $0.61 for fiscal 1Q25. Non-GAAP EPS was well above the $0.57 consensus estimate. Nvidia provides line-item guidance, but does not furnish non-GAAP EPS forecasts. Line-item guidance pointed to fiscal 2Q25 adjusted EPS of $0.62-$0.65, or $0.63 at midpoint, by our calculation.

For all of FY24, revenue of $60.92 billion soared 126% from $26.97 billion in FY23, which was little-changed from FY22 levels. Non-GAAP earnings totaled $1.30 per diluted share in FY24, up 289% from $0.33 per diluted share for FY23. (All current and historical totals are split-adjusted.)

For fiscal 3Q25, Nvidia projected revenue of $31.9-$33.2 billion; at the $32.5 billion midpoint, revenue would be up 80% annually and up 8% sequentially. The pre-reporting consensus was $31.5 billion, so the Street missed by about $1 billion. At the revenue midpoint, management guided for a non-GAAP gross margin of 75%; non-GAAP operating costs of $3.0 billion; a tax rate of 17%; and non-GAAP other income of $350 million. Based on top-line and line-item guidance, we believe that Nvidia is positioned to earn about $0.68-$0.74 per share in fiscal 3Q25, which would up 75%-80% annually from the year-earlier quarter.

On a split-adjusted basis, our FY25 non-GAAP EPS estimate is $2.81 per diluted share. We are raising our non-GAAP EPS projection for FY26 to $3.91 per diluted share from $3.60. Our long-term EPS growth rate forecast is 14%.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength ranking on Nvidia is High. While Nvidia has issued some debt, its cash flow from operations, free cash flow, and cash and investments are all growing sharply.

Cash was $34.8 billion at the end of fiscal 2Q25. Cash, equivalents and investments were $26.0 billion at the end of fiscal 2024, $13.30 billion at the end of FY23, $21.2 billion at the end of FY22, and $11.56 billion at the end of FY21.

Debt was $8.5 billion at the end of fiscal 2Q25. Debt tripled as a result of the Mellanox deal, but is now below peak levels. Debt was $9.7 billion at the end of fiscal 2024, $10.95 billion at the end of FY23, $10.94 billion at the end of FY22, $6.96 billion at the end of FY21, and (prior to acquiring Mellanox) $1.99 billion at the end of FY20.

Cash flow from operations was $28.1 billion for fiscal 2024. Cash flow from operations was $6.05 billion in FY23, $9.12 billion in FY22, $5.82 billion in FY21, and $4.76 billion in FY20.

In terms of capital allocation, Nvidia returned $9.9 billion to shareholders in FY24 and $11.5 billion to shareholders in FY23. The company in August 2024 announced a new $50 billion share-buyback authorization, on top of the $7.5 billion remaining from the prior authorization.

Nvidia paid out about $400 million in dividends in FY24 and in FY23. Concurrent with the 10-for-1 stock split, Nvidia raised its dividend from $0.04 per quarter to a pre-split $0.10; the quarterly dividend is $0.01 post-split. The annualized dividend yields less than 0.1%. Our annual dividend estimates are $0.03 for FY25 and $0.04 for FY26.

MANAGEMENT & RISKS

Jen-Hsun Huang is co-founder, president, and CEO of Nvidia, as well as a board member. Chris Malachowsky, the other co-founder, is an Nvidia fellow. Colette Kress is CFO; Debra Shoquist is EVP of operations; and Jay Puri is EVP of world field operations.

The slowdown in consumer demand accelerated rapidly, and followed multiple years in which demand far outstripped supply. Nvidia responded by increasing its production capability; the company will now downscale production to better-match its immediate opportunity. Growth in gaming associated with the pandemic may never be seen again, but we expect this business to be a robust market leader for years or decades to come.

A main risk for Nvidia is M&A, and any major acquisition brings risks. We believe that Mellanox provides a worthwhile balance of opportunity that offsets risks, given that Nvidia and Mellanox offer complementary rather than overlapping assets; have a history of successful collaboration; and serve the fastest-growing and most-promising market in technology (AI data center). With the ARM deal terminated, we expect Nvidia to set its sights on smaller targets.

Other risks facing Nvidia include the possibility that CPU industry leaders such as AMD, Intel, or Qualcomm could incorporate advanced GPU functionality into their chipsets and SoCs. While these devices may have some level of graphics capability, we believe that Nvidia's expertise, market leadership, and continued investment in new technology puts it several generations ahead of rivals and gives it a sustainable advantage in its markets.

Nvidia is also at risk from downturns in the global economy, which would reduce consumer and enterprise spending on technology investments. Nvidia also risks investing extensively to support technologies (such as autonomous driving and VR gaming) that do not fully justify that spending. However, we believe that these two niches offer strong growth opportunities.

COMPANY DESCRIPTION

Nvidia Corp., based in Santa Clara, California, is a visual computing company with worldwide operations and markets. The company operates through two segments, Graphics and Compute & Networking. The company's four main markets are gaming, professional visualization, data center, and automotive. In calendar 2020, Nvidia completed the acquisition of data-center connectivity leader Mellanox.

VALUATION

NVDA trades at 45.4-times our FY25 non-GAAP EPS estimate and at 32.6-times our FY26 non-GAAP projection. The two-year forward average P/E of 39.0 is below the five-year (FY20-FY24) average of 42.0. The stock trades at 1.89-times the market P/E, below the five-year historical relative P/E of 2.3. NVDA is trading at premiums to its price-based metrics because it has become a company like no other, while its valuation metrics date from pre-AI times when gaming was the dominant price driver. Price-based metrics, including P/E, price/sales, and price/book, point to a comparable historical value in the low $140s — above current prices and in a rising trend.

Relative to the peer group, NVDA trades at premiums on P/E, price/sales, PEG, and EV/EBITDA. Peer-indicated value of about $150 is above current prices and steadily rising. Nvidia has become a much-faster-growing company than it was over the preceding five years, and in our view deserves to trade at very rich premiums to peers and to its own historical valuations.

On our forward-looking DFCF valuation, NVDA is valued in the $340s, well above current prices and in a rising trend. Our blended valuation is $300, also in a fast-rising trend.

NVDA shares are near peak prices, but have much further to go, in our view, given the company's positioning within transformational AI technology. We believe that most technology investors should own NVDA in the age of deep learning, AI, and GPU-driven applications acceleration. We are reiterating our BUY rating and our 12-month target price of $150.

On October 8, BUY-rated NVDA closed at $132.89, up $5.17. (Jim Kelleher, CFA, 10/8/24)

MONTHLY REVIEW OF ARGUS SECTOR RATINGS & FOCUS LIST

Sector Ratings:

The stock market wrapped a strong third quarter in which the S&P 500 rose 5.5%, but the focus now shifts. The 2024 presidential election is less than 30 days away. Neither the Trump-Biden debate nor the Harris-Trump debate had much of a lasting impact on the polls, most of which remain locked within a margin-of-error difference. The race will likely come down to a handful of in-play states. Depending on down-ticket Senate and House races, the winner may or may not have a mandate to enact his or her party's agenda.

The stock market is doing much better than it would normally do in a presidential election year. That's because the economy, corporate earnings, and even employment remain hale and hearty. The Fed has started cutting interest rates and may cut again in November. September nonfarm payrolls surprised to the upside, and third-quarter earnings season may deliver the strongest annual EPS growth in 10 quarters. All of that will take a back seat amid the intensifying atmosphere leading into the election.

The S&P 500 has risen about 10% annually since 1980, but the gains tend to be lumpy and uneven. On average, the S&P 500 has risen just 5.4% in the first nine months of the year. In the years since 1980 in which the S&P 500 is positive at the nine-month mark, by contrast, the average gain is 11.9%. For all years since 1980, the average fourth-quarter gain is 4.6%. For years in which the market is up at the nine-month market, the average fourth-quarter gain is 5.4%; and the average full-year gain on the S&P 500 is 17.0%.

This is a presidential election year, and uncertainty remains. Amid the uncertainty, we will continue to focus on the solid fundamentals in the economy and in corporate earnings.

Our recommended sector weightings are as follows:

* Over-Weight: Communication Services, Financial, Healthcare, Information Technology, Utilities
* Market-Weight: Consumer Discretionary, Energy, Industrial, Real Estate
* Under-Weight: Consumer Staples, Materials

Focus List:

The following stocks have been added to the Argus Focus List of Analysts' Best Ideas: Applied Materials Inc. (NGS: AMAT); Campbell Soup Co. (NGS: CPB); GE HealthCare Technologies Inc. (NGS: GEHC); TJX Companies Inc. (NYSE: TJX)

The above stocks replace the following stocks on the Argus Focus List: Domino's Pizza Inc. (NYSE: DPZ); Labcorp Holdings Inc. (NYSE: LH); Mondelez International Inc. (NGS: MDLZ); Oracle Corp. (NYSE: ORCL)