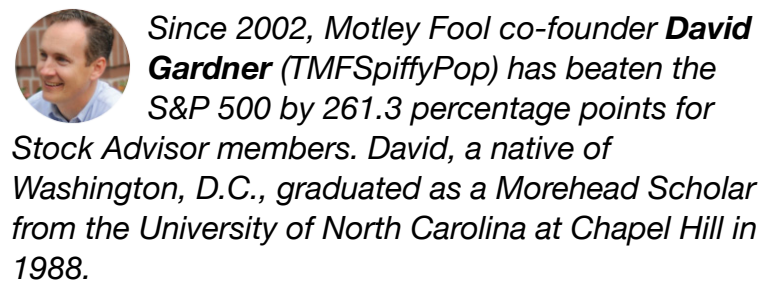


David Gardner | January 20, 2017 | [Buy Recommendation](#)**DAVID GARDNER'S JANUARY 2017
RECOMMENDATION:**

In the gaming world, **Nvidia** ([NASDAQ: NVDA](#)) is synonymous with graphics processing units (GPU) for PCs. Here in *Stock Advisor*, it's equally famous as a powerhouse investment. It's risen over 1,400% for members who bought when I first recommended it in 2005, and over 500% since my second nod in 2009. Last year, it was the best-performing stock in the S&P 500. And we see more big gains ahead as its core gaming market continues to grow and it exploits new opportunities for GPU computing in areas like self-driving cars and virtual reality.

The common link is GPU computing, which can be thought of as a huge collection of small processors working in parallel, as opposed to the large serial processing done by a typical CPU. This is vital for visual rendering — Nvidia's systems are used for everything from cinematic special effects to medical imaging and energy exploration. But GPU is also key to deep learning and artificial intelligence. The company's Drive PX 2 platform is already being used to

Nvidia deals in programmable graphics-processor technologies. Its major business segments are graphics processing units, media and communications processors, and handheld and consumer electronics.

- **Industry:** Semiconductors and Semiconductor Equipment
- **Asset Class:** Large
- **Region:** US

- **Headquarters:** Santa Clara, CA, US
- **Sector:** Technology
- **Market Cap:** \$56B
- **Annual Dividend:** \$0.48

$$Z|\hat{A}|Y|\hat{B}\approx\tilde{A}\tilde{O}\tilde{G}^{\prime\prime}\tilde{A}\tilde{u}\tilde{A}\tilde{u}\tilde{A}\tilde{u}$$

power **Tesla Motors'** ([NASDAQ: TSLA](#)) Autopilot system, and the company has partnered with manufacturers including Audi, **BMW** ([NASDAQOTH: BAMXF](#)), **Honda Motor** ([NYSE: HMC](#)), Mercedes, Volvo, and **Volkswagen** ([NASDAQOTH: VLKAY](#)).

Simultaneously processing the information coming from multiple sensors and systems and integrating it into decision-making on the fly is an ideal application for powerful GPUs. Nvidia's technical and market dominance in this area is a strong competitive moat.

See Why You Should Invest in Nvidia Now

In the third quarter, Nvidia's revenue topped \$2 billion for the first time. That's still coming mostly from gaming, with automotive representing just \$127 million. But as demand moves from infotainment systems to autonomous driving systems, the company's opportunity here could surpass its gaming business. At this month's Consumer Electronics Show in Las Vegas, Nvidia founder and CEO Jen-Hsun Huang said that the company plans to launch a fully autonomous vehicle with Audi by 2020.

If the PX 2 or a next-generation system goes for just \$1,000, getting in 1 million cars makes this a \$1 billion business (the development versions of the PX 2 — described as having "processing power ... equivalent to that of 150 MacBook Pros" — currently goes for \$15,000). In fact, analysts are predicting 5.5 million semi- and fully autonomous cars shipped in 2020, rising to 21 million by 2035. Altogether, Nvidia sees this as a \$6 billion to \$10 billion opportunity, which could more than double current revenue.

While it will take several years for this market to develop, the company's core gaming business can do the heavy lifting for now. Participants in e-sports compete for purses worth millions and command massive audiences, driving demand for cutting-edge hardware. Virtual reality will be another factor, since a powerful GPU is critical to a realistic experience. Right now, top-shelf VR headsets like the HTC Vive and Oculus Rift require a discrete GPU, and Nvidia is being careful to make sure all its gaming systems are "VR ready."

There are a few things you'll want to keep in mind before you buy. Nvidia's stock currently sports a premium valuation based on high expectations for the automotive market, but if that doesn't develop, it could take a fall. Additionally, Nvidia's Tegra business was a flop in smartphones because its peerless graphic performance wasn't matched by the best specs in other areas. That's one challenge of making an integrated system-on-a-chip. Intel's integrated GPUs haven't proven good enough for serious gamers, but if it focuses more on this market, it could undermine Nvidia's core business.

Bottom line: Both sales and earnings should grow at a double-digit pace over the next couple of years, driven to a large extent by the company's core gaming business. Indeed, over the past four reported quarters, revenue has climbed 26% and profits are up 83% year over year. But even if the gaming business starts to slow, Nvidia should be able to keep up an extraordinary pace of growth for a very long time as emerging opportunities come to fruition.

Recent Price: **\$101.11** | Website: [nvidia.com](#) | Market Cap: **\$54.5 billion**

Risk Tolerance

Nvidia's stock is more volatile than the market in general. It sports a premium valuation based on expectations for the automotive market; if that doesn't develop, it could fall.

Dividend

Nvidia began paying a dividend in 2012. The current annual dividend is \$0.56 per share, for a yield of about 0.54%.

Time Frame

Considering we've had Nvidia on the scorecard for 12 years, it's pretty clear we have a long-term mindset. We're looking for our thesis to play out over the next three to five years.

David's Latest Best Buys Now: [See why these five world-beaters are great ideas for new investments.](#)

Karl Thiel contributed to this report.

Nvidia’s stock is priced around \$101 at the time of our recommendation. We think it has great potential and is a good buy anywhere around this price. Consider buying in thirds to get a potentially better average price.

[See Tom's Recommendation »](#)

[Abi Malin](#) owns shares of Apple, Facebook, and Tesla Motors. [Andrew Fredrickson](#) owns shares of Tesla Motors. [Brendan Mathews](#) owns shares of Apple and Facebook. [David Gardner](#) owns shares of Apple, Facebook, and Tesla Motors. [Karl Thiel](#) owns shares of Apple, Facebook, and Nvidia. [Sara Hov](#) owns shares of Apple and Facebook. [Tom Gardner](#) owns shares of Facebook and Tesla Motors. The Motley Fool owns shares of Apple, Facebook, Nvidia, and Tesla Motors and has the following options: long January 2018 \$90 calls on Apple and short January 2018 \$95 calls on Apple.

Important Reminder! Access all of David Gardner's top stock recommendations

[In less than 60 seconds, you can DOUBLE the amount of stock picks](#) you currently receive from David Gardner! You see, *Motley Fool Stock Advisor* is not the **only** place where David shares his top stocks. David’s also the lead advisor for *Motley Fool Rule Breakers* -- the highly sought after growth-investing newsletter he founded in 2004. [Click here to access a special offer](#) -- and instantly upgrade your membership to include the market-thumping stock ideas of BOTH *Motley Fool Stock Advisor* and *Motley Fool Rule Breakers*.



© 1995 - 2020 The Motley Fool. All rights reserved.

Market data provided by FactSet and Web Financial Group.