

US EQUITY RESEARCH

22 Nov 2024

NVIDIA Corp

Growth powered by market-leading, best-in-class GPUs

Company Overview

NVIDIA Corporation is a full-stack computing infrastructure company. The Company accelerates computing to help solve the computational problems. The Company's segments include Compute & Networking and Graphics. Compute & Networking segment includes its data center accelerated computing platform; networking; automotive artificial intelligence (AI), cockpit, autonomous driving development agreements and autonomous vehicle solutions; electric vehicle computing platforms; NVIDIA AI Enterprise and other software.

Investment Overview

Long-term, structural demand for AI applications becoming more critical. Nvidia commands a leading and dominant market share in the AI-chips. GPUs designed and built by Nvidia for the data centers are cutting edge and market leading and preferred to support high-powered computing and in the areas of artificial intelligence, analytics, machine learning and scientific computing. Nvidia's relentless pursuit towards high-powered computing is key to its growth; this is affirmed by its plan to upgrade its AI accelerators every year, as communicated in Computex 2024, with the upcoming Blackwell chips to replace the current Hopper generation.

Drivers in place to support elevated growth, going forward. Nvidia, the market leader for AI-chips, has and continues to break new heights with each passing quarter. Management's Q4FY25 guidance marks Nvidia's seventh consecutive quarter of >USD4bn incremental revenue guidance to USD37.5bn (consensus USD37.1bn), affirming the robust demand for AI-chips globally. Management believes that demand for its Hopper and Blackwell AI-chips would outstrip supply well in FY2026.

Strong fundamentals to support next phase of growth. Nvidia's market leading position is exhibited through its ability to maintain above-peers' margins for its offerings. Management expects gross margins to be around the mid-70s range in FY25. Its net cash position as well as diverse sources of revenue and earnings (i.e., across business segments, customers, geographical markets) are seen as further positives for the stock.

We rate Nvidia a BUY with a higher TP of USD175 per share. Our TP is derived on 26.5x blended 2-year forward P/BV, pegged to +1.75 SD above its 5-year average. We see Nvidia's rich valuations justified as it continues to benefit from the surging/growing AI demand – consensus currently ascribes a market-leading revenue and earnings growth of around 50% over the next twelve months. Technological strides in AI-chips (through H200 GPU, Blackwell chips, Blackwell Ultra in 2025, Rubin in 2026) only further cement Nvidia's leadership position in the AI-chips space and is clear in its exemplary financial performance. A lacklustre result and/or forward guidance that suggests slowdown in AI momentum is a key risk to watch.

Risks

Increased competition from other chipmakers eyeing the AI/ML space, geopolitical risks, and slowdown in AI growth momentum.

Analysts

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Key Financial Data

Bloomberg Ticker	NVDA US
Sector	Information Technology
Share Price (USD)	146.67
DBS Rating	BUY
12-mth Target Price (USD)	175.0
Market Cap (USDbn)	3,591.9
Volume (mn shares)	400.9
Free float (%)	96.0
Dividend yield (%)	-
Net Debt to Equity (%)	-34.7
Fwd. P/E (x)	50.4
P/Book (x)	54.5
ROE (%)	127.2

Closing Price as of 21 Nov 2024

Source: Bloomberg, DBS

Indexed Share Price vs Composite Index Performance



Source: Bloomberg

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Financial Summary

FY Jan (USDm)	FY2022(A)	FY2023(A)	FY2024(A)	FY2025(F)	FY2026(F)
Sales	26,914	26,974	60,922	125,735	182,203
% y/y	61.4	0.2	125.9	106.4	44.8
Gross Profit	17,968	15,965	44,958	94,886	135,160
% y/y	64.1	(11.2)	181.6	111.0	42.3
EBITDA	13,865	10,584	38,642	84,818	120,596
% y/y	75.5	(23.7)	265.1	121.3	42.3
Net Profit	11,259	8,366	32,312	70,556	101,307
% y/y	79.4	(25.7)	286.3	118.5	43.5
FCF	8,133	3,809	27,023	62,348	89,130
% y/y	73.3	(53.2)	609.5	131.1	44.9
CAPEX	976.0	1,833	1,068	2,859	3,396
% y/y	(13.5)	88.0	(41.7)	160.0	18.7
EBITDA Margin %	51.5	39.2	63.4	67.3	66.3
Net Margin %	41.8	31.0	53.0	56.1	55.5
ROA (%)	30.9	19.6	60.4	80.3	69.9
ROE (%)	51.8	34.3	99.3	113.7	89.8
Tax Rate %	9.9	7.5	14.4	16.4	16.3

Source: Visible Alpha

Valuation Metrics

FY Jan	FY2022(A)	FY2023(A)	FY2024(A)	FY2025(F)	FY2026(F)
P/E	55.1	58.5	47.5	48.1	33.5
P/B	23.3	22.2	35.7	41.3	22.8
Dividend Yield	0.1	0.1	0.0	0.0	0.0
EV/EBITDA (x)	43.6	45.4	39.1	39.2	27.5
FCF Yield %	1.3	0.8	1.8	1.8	2.6

Source: Visible Alpha

Credit & Cashflow Metrics

FY Jan	FY2022(A)	FY2023(A)	FY2024(A)	FY2025(F)	FY2026(F)
Debt / Equity	43.9	53.6	22.6	11.6	6.6
Net Debt / Equity	(0.4)	(0.1)	(0.4)	(0.5)	(0.6)
Debt / Assets	26.4	28.8	14.8	8.5	5.3
Net Debt / Assets	(0.2)	(0.0)	(0.2)	(0.4)	(0.5)
EBITDA / Int Exp	58.7	40.2	150.4	344.2	500.5
ST Debt / Total Debt	-	0.1	0.1	0.1	0.1
Debt / EBITDA	0.8	1.0	0.3	0.1	0.1
[Cash + CFO] / ST Debt	nm	15.1	43.3	114.0	157.6
Receivables Days	63.1	51.8	59.9	51.4	52.0
Days Payable	24.2	16.1	16.2	14.1	13.4
Inventory Days	35.3	69.8	31.6	24.8	24.8

Source: Visible Alpha

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Target Price & Ratings History



#	Date of Report	Closing Price	12-m Target Price	Rating
1	08 Feb'24	69.64	78.46	BUY
2	18 Mar'24	88.46	100.64	BUY
3	23 May'24	103.80	115.00	BUY
4	03 Jun'24	115.00	135.00	BUY
5	12 Jun'24	125.20	135.00	BUY
6	16 Oct'24	135.72	150.00	BUY

Source: DBS

Analysts: Fang Boon Foo

Ling Lee Keng

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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