



## Nvidia Research

Description: NVIDIA Corporation operates as a visual computing company worldwide. It operates through two segments, GPU and Tegra Processor. The GPU segment offers processors, which include GeForce for PC gaming and mainstream PCs; GeForce NOW for cloud-based game-streaming service; Quadro for design professionals working in computer-aided design, video editing, special effects, and other creative applications; Tesla for AI utilizing deep learning, accelerated computing, and general purpose computing; GRID provides power of NVIDIA graphics through the cloud and datacenters; DGX for AI scientists, researchers, and developers; and cryptocurrency-specific graphics processing units. The Tegra Processor segment provides processors designed to enable branded platforms - DRIVE and SHIELD; DRIVE automotive computers and software stacks, which offer self-driving capabilities; SHIELD devices and services designed for mobile-cloud in home entertainment, AI, and gaming applications; and Jetson TX 2, an AI computing platform for embedded use. The company's products are used in gaming, professional visualization, datacenter, and automotive markets. NVIDIA Corporation sells its products to original equipment manufacturers, original device manufacturers, system builders, add-in board manufacturers, retailers/distributors, Internet and cloud service providers, automotive manufacturers and tier-1 automotive suppliers, mapping companies, start-ups, and other ecosystem participants. The company has a strategic partnership with XPENG Motors to develop Level 3 autonomous driving technology for the driving environment in China. NVIDIA Corporation was founded in 1993 and is headquartered in Santa Clara, California.

Ticker: NVDA

Price: \$145.00

Market Cap: \$92B

Performance: -25.10% YTD

So let me share some thoughts. Rev growth in Q3 slowed to 20% growth, down from the 40% growth seen in Q2 and the 66% growth seen in Q1. Not only is this a serious slowdown they also guided revs for \$2.7B in Q4, which would be down from \$2.9B in Q4 last year - marking a drop in revs Y/Y around 7% for Q4 but would still end up being growth of around 24% in 2019 vs. 2018.

Shares right now trade at \$145 on the button, down from highs of \$292.

We think long-term the growth story is still intact but near-term we can see shares falling to \$120-125. We say this for a few reasons. One, there are still a lot of firms coming out lowering their price targets. I mean Evercore still has a \$400 price target for example. Shares are teetering oversold but aren't fully there yet. It is worth noting that shares were scooped pretty hard around \$133 recently last week. We did some digging on fundamentals and noticed that in the last 5 years the lowest trailing P/E NVDA traded at was 17.2x and right now it sits at 19.9x. Thus, if it were to fall to 17.2x you'd end up around \$120-125. We like doing this kind of research but at the same time the story does not hold true for other metrics like P/S or forward P/E. The price to earnings to growth (PEG) is now back within the 1-2 range which generally means the stock is "fairly valued" (always take with a grain of salt) as the PEG is now 1.6x vs. high of 3.6x made in the early part of 2017. It is also worth talking about that the lowest PEG NVDA has ever traded at in the last 5 years was 1.2x and that is also where shares caught a bounce near at \$133 (PEG was 1.3x at that price).

Something that gets us real mad is that NVDA mgmt was saying that crypto won't be an issue and that inventory and everything is fine but that's what was being blamed in their most recent quarter and the further fall in bitcoin and other alt coins are only making it worse. The crazier thing is that while this is hurting revs a bit it's not even that large of revenue segment (OEM & IP) which came in at \$148M for the quarter down 23% Y/Y. This slowdown is hurting revs and margins but the other side of this is that NVDA is still positioned extremely well to grow revs and earnings substantially through the increased demand that will occur from gaming and more so autonomous vehicles and data centers - which both saw growth of 58% and 19% Y/Y, respectively. Also with regard to their Turing chip all we kept finding is that people are holding

off purchasing it because they don't have anything that can even handle that kind of power - hopefully this adjusts in their fiscal 2020 year (2019 calendar year).

Overall, you have a stock trading here around 22.7x forward earnings and 7.5x forward sales. In comparison,

- AMD trades at 36.2x F P/E and 2.9x F P/S
- MU trades at 3.5x F P/E and 1.3x F P/S

A lot of the price action will also be dependent on a deal with China. If we get something at the G20 summit these will most likely be the ones to explode the most. In addition, NVDA approved an additional \$7B share repurchase program thru 2022 so that could def help out considering the company is valued at \$90B.

Put simply, short-term bearish but long-term bullish. If your time horizon is greater than a year look to add dips slowly but like we always say don't rush. Perhaps you can point out some near term company specific catalysts. Right now we're having trouble finding solid ones but the long-term catalysts are plenty as crypto adoption could rise as we're seeing the International Monetary Fund consider using it, the first ever ETF being released by the Swiss, and even companies like IDEX starting to make digital products based off it. In addition if you look at autonomous vehicles and the tons of research we have already done on data centers it looks like their main rev streams can continue to grow big time for years to come. But for now inventory issues, margin pressure, and a weak guidance is weighing heavy.