



## ANALYST QUICK NOTES

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**Nvidia Corp. (NGS: NVDA: BUY)**

**Target Price: \$130**

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### Overview

- Graphics processing industry leader:
  - One of fastest growing names in coverage.
  - More than just a play on PC gaming.
  - Strongest growth is in data center, automotive; traditional PC gaming also doing well.
  - NVDA is a future play on VR gaming, autonomous cars, AI, robotics, IoT, and HPC.
- BUY for long-term positioning in the digital new-age economy.

### Huge outperformance for year, quarter, month

- Past month: up 11%.
- Trailing 3-month: up 67%.
- Trailing 1-year: up 367%.
- To justify this performance, NVDA must continue delivering huge numbers.

### Fiscal 4Q17: What the Street wants to see

- Street: Revenue of \$2.11 billion, would be up 50%.
- Street: Non-GAAP EPS of \$0.83, would be up 137%.
- Argus: Revenue of \$2.10 billion, would be up 49%.
- Street: Non-GAAP EPS of \$0.96, would be up 92%

### Guidance for fiscal 1Q18: High expectations

- Historically a sequentially down quarter.
- Street: Revenue of \$1.88 billion, would be up 44%.
- Street: Non-GAAP EPS of \$0.64, would be up 93%.

### **Brave new world of AI, autonomous driving, & powerful computing:**

- NVidia believes that the immense complexity of graphics processing can provide a more powerful computing platform than the traditional CPU-based approach.
- NVDA has developed its GPU Accelerated Computing platform, which can use techniques such as inferencing, repetition and recognition to enhance cognitive computing.
- World's leading computer, supercomputer and hyperscale customers are exploring how GPU computing can enhance cloud services.

### **More than just a play on PC gaming**

- NVDA has ceded console gaming to AMD-Radeon; instead focusing on PC gaming for purists, where graphics card can cost \$200-\$2,000.
- GPU (83% of total) includes GeForce for PC gaming, Quadro for design professionals, Tesla for deep learning, and GRID for cloud-based applications.
  - Tesla deep learning: NVDA GPUs are in IBM Watson and Facebook Big Sur server for AI.
  - Quadro now moving over from media & animation (Pixar) to Roche, which is using for gene sequencing.
- Tegra (17% of total) provides processors that integrate a computer on a single chip under the Tegra brand, along with DRIVE automotive computers and SHIELD mobile gaming chips.
  - Already a leader in driver assistance (auto braking, etc.), NVDA working with multiple partners on autonomous driving.

### **Conclusion**

- Street had been modeling flattish FY18 after strong growth FY17; estimates for both years now rising.
    - Street now at \$2.71 for FY18, up from \$2.41 for FY17 (12% growth).
  - Trading at 41-times FY17, 37-times FY18.
  - However, PEGs in the 2.5-times range not high for technology stocks.
  - Premium valuation vs. historical trends; but NVDA has reinvented itself and is like a new company.
  - NVDA attractive on future cash flow growth and valuation.
  - BUY to \$130.
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