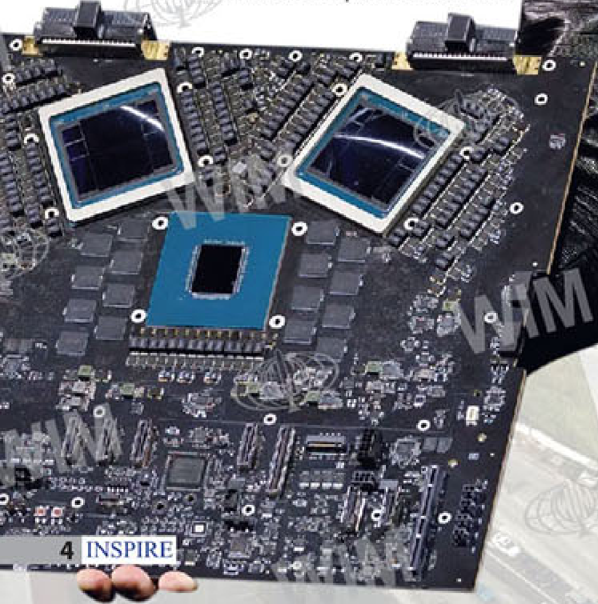
NVIDIA IS BEST PERFORMING STOCK IN THE LAST 25 YEARS

By Bloomberg

The year was 1999. Steve Jobs had recently returned to lead Apple. Intel was the dominant force in semiconductors. And a little-known chipmaker named Nvidia made its debut on the Nasdaq Stock Exchange. It took less than three years for Nvidia Corp. to ascend into the S&P 500, replacing the disgraced oil-trading conglomerate Enron, no less.

But even then, few people would have bet that the company would go on to become the best perform ing stock of the last quarter-century, posting a total return of 591,078% since its initial public offering (IPO), including reinvested dividends. It's a difficult number to comprehend and a testament, in part, to the financial mania brewing around artificial intelligence (AI) and how investors have come to see Nvidia, which makes the cutting-edge chips powering the technology, as the single -biggest winner of the boom.

On Tuesday, that run culminated in Nvidia unseating Microsoft Corp. as the world's most valuable company with a market capitalisation of



Jensen Huang

Curtis Priem
Co-Founder

Jensen Huang
Co-Founder,
President and CEO

Chris Malachowsky
Co-Founder

US$3.34 trillion. The company's rise was by no means assured, and neither is its staying power at the top of the S&P 500. Long-time investors in Nvidia have had to stomach three annual collapses of 50% or more in the stock. Sustaining the current rally will require customers to keep spending billions of dollars a quarter on AI equipment, whose returns on investment are so far relatively small.

What ultimately paved the way for Nvidia to climb to the top, though, was the company's big bet on graphics chips and the vision of Co-Founder and Chief Executive Officer Jensen Huang that the industry would shift to what he calls "accelerated computing", something his chips are inherently better at than the competition. "You have to give the management team, I think, an enormous amount of credit," said Brian Mulberry, client portfolio manager at Zacks Investment Management. "They have caught each wave of innovation in hardware perfectly well."

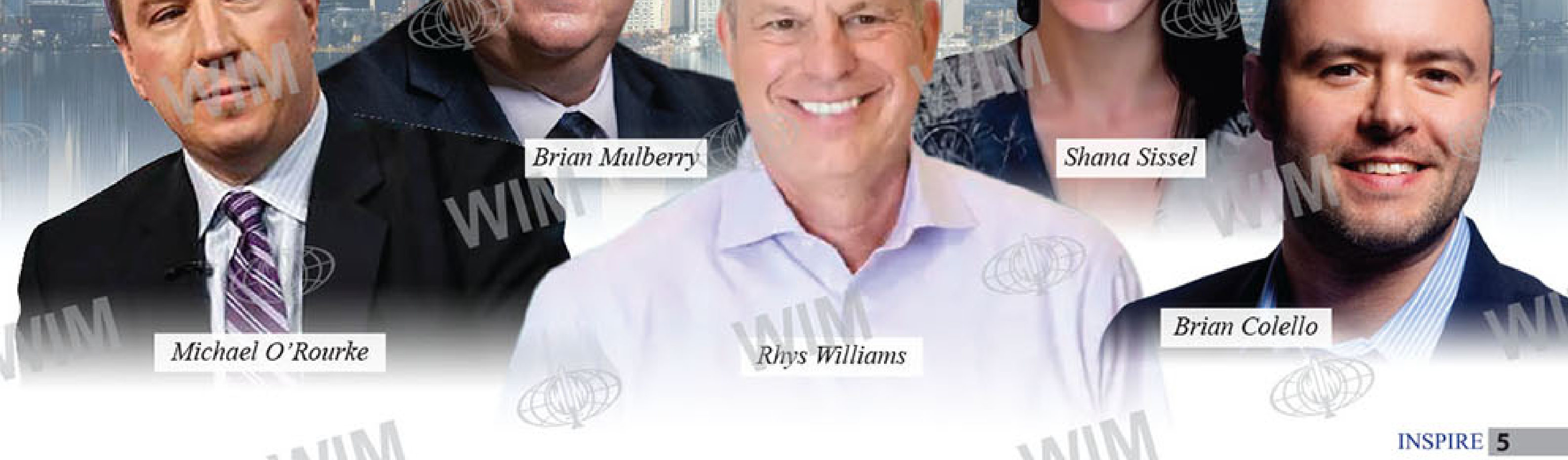
Here's a look at Nvidia from its IPO to now. Early Years: Nvidia got off to a hot start. Between its debut and the time, it entered the S&P 500, the stock gained more than 1,600%, giving it a market value of about US$8 billion. That rise came as many other technology stocks were cratering in the aftermath of the dot-com bubble, which peaked in March 2000. The company's key to early success was getting its technology in video game consoles like Microsoft's Xbox and Sony's PlayStation. Nvidia's GeForce graphics processing units (GPUs) became objects of desire among gamers because they consistently offered the most realistic experience.

"Jensen was always a great communicator, told a good story and clearly GPUs were becoming more important," said Rhys Williams, Chief Strategist at Wayve Capital Management, who was a buyer in the IPO. "Each successive generation of hardware gave a lot better performance; a lot of more realistic picture and then personal computer gaming really came into being."

Litigation and competition: The next six years weren't kind to Nvidia. The stock plunged in 2008 as the financial crisis weakened demand and long-struggling rival Advanced Micro Devices Inc. started turning things around. Meanwhile, an agreement between Nvidia and Intel that allowed the companies to use each other's capabilities went sour, forcing Nvidia out of one of its biggest markets. The two settled in 2011, with Intel agreeing to pay Nvidia US$1.5 billion.

The following year, Nvidia unveiled graphics chips for servers inside data centres. They could help sophisticated computing work such as oil and gas exploration and weather prediction, giving Nvidia a foothold in what would become a lucrative market. However, those chips did not immediately fly off the shelf. It would take nearly nine years for Nvidia shares to surpass their 2007 high.

Crypto and Covid: Nvidia shares took off again in 2015. During that period, the company's chips were becoming the foundation of emerging technologies, from advanced graphics interfaces to autonomous vehicles to a new wave of AI products. That's when Shana Sissel, Chief Executive Officer at Banrion Capital Management, first really took note of the company. She described a 2017 conference where Nvidia was



Michael O'Rourke

Brian Mulberry

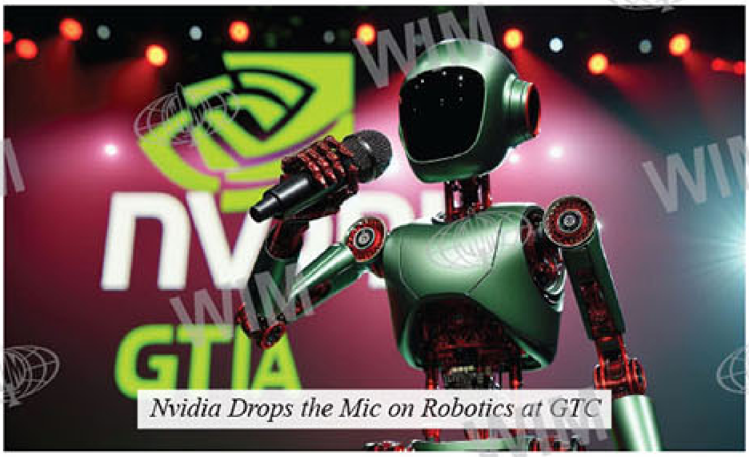
Rhys Williams

Shana Sissel

Brian Colello

more like a pageant winner than an investment idea. "Every single speaker talked about Nvidia being the most important company," Sissel said. "At that point, it was really on my radar."

Even after demand from cryptocurrency miners dried up, data-centre sales continued to grow. The Covid-19 pandemic boosted that business, as companies needed to purchase additional computing power to support remote work. Nvidia's data-centre revenue rose by a multiple of eight from the financial year 2017 to 2021.


Nvidia Drops the Mic on Robotics at GTC

AI sales explode: Nvidia's shares slumped in 2022 along with the rest of the technology sector, which was reeling from soaring interest rates and falling demand after the Covid-era boom. Open AI's release of ChatGPT in late-2022 made an instant splash but it took time for investors to realise how Nvidia might benefit. Eventually, interest in ChatGPT and other generative AI products exploded, triggering a frantic surge in orders for Nvidia's chips. When the company reported first quarter 2023 earnings, the scale of the jump in its business shocked nearly everyone on Wall Street.

Nvidia gave a forecast for quarterly sales that was more than 50% above the average projection. Nvidia's data centre sales eclipsed its gaming revenue for the first time in the financial year 2023. In Nvidia's current financial year, analysts expect those sales to top US$100 billion. "They have a very defensible place in the industry," said Williams, the strategist at Wayve Capital Management. "They're not gonna be 95% of market share forever, obviously, but it would be almost impossible for anybody to replace them."

Nvidia Corp. is the most expensive stock in the S&P 500 Index, with its shares trading for roughly 23 times the company's projected sales over the next 12 months. But there's a problem with that valuation. In the age of the artificial intelligence (AI) boom, no one can figure out what the chipmaker's revenues are actually going to be – not the Wall Street analysts covering Nvidia or Nvidia executives themselves.

So how are investors supposed to calculate whether the shares are expensive or not? For more than a year now, a surge in demand for Nvidia's chips sparked by the frenzy surrounding AI has made a mockery of Wall Street's quarterly financial estimates. Analysts aren't making up numbers, they take their cues from management like they do with every other company. However, even Nvidia's leadership is struggling to anticipate how much money the chipmaker will generate three months into the future.

Since Nvidia's sales began exploding in its fiscal quarter that ended in April 2023, revenue has exceeded the midpoint of the company's own forecast by an average of 13%, more than twice the average over the past decade. When Nvidia reported results in August, sales topped its projection by 23%,

NVIDIA PROJECT GROOT FOR HUMANOID ROBOTS

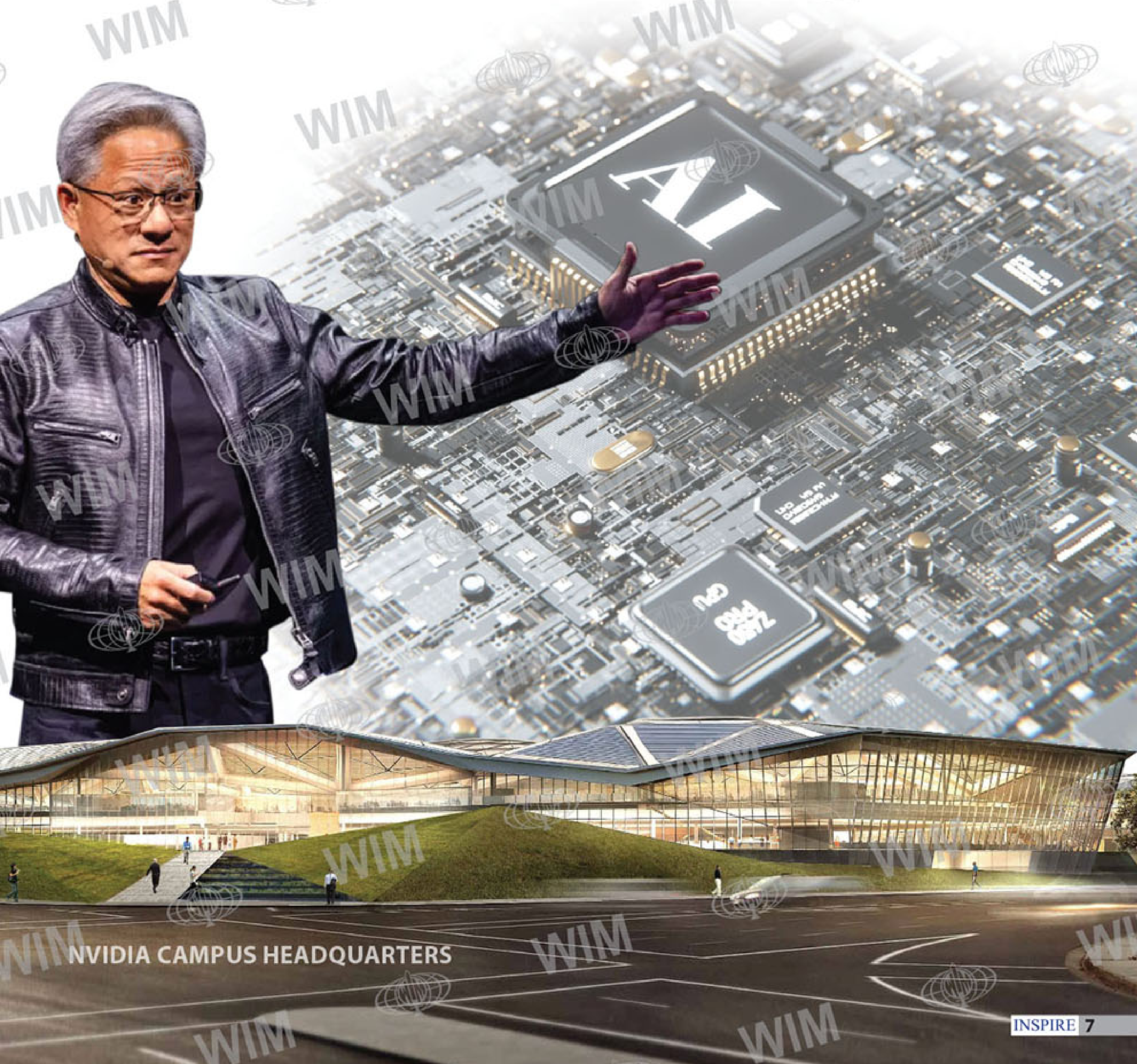
the biggest beat since at least 2013, according to data compiled by Bloomberg. A representative for Nvidia declined to comment.

Ballparking Sales

Part of what makes modeling for Nvidia so difficult is that supply is the most uncertain variable when demand is booming, making the chipmaker unique, according to Brian Colello, an analyst at Morningstar, who last month raised his price target for the shares to US$105 from US$91. They're currently trading at around US$127. Assuming steady improvement in Nvidia's ability to increase supply, Colello said he adds up to US$4 billion to Nvidia's quarterly revenue to ballpark the upcoming quarter's sales. "I'm not the first analyst to be raising my price target or fair value or being surprised that revenues are far ahead of what we thought a year ago," Colello said. "It's been interesting and rewarding but certainly challenging."

Colello isn't the only one raising his price estimate. Last Friday, Melius analyst Ben Reitzes raised his price target on Nvidia for the fifth time this year, to US$160 from US$125, implying a gain of 26% from last Friday's closing price. Of course, there are plenty of traders buying Nvidia solely based on momentum. Nvidia has gained 156% this year and overtook Microsoft Corp. last week to briefly become the world's most valuable company at US$3.34 trillion. That rally helped drive a record US$8.7 billion into tech funds last week through June 19, according to a Bank of America Corp.'s analysis of data from EPFR Global. Nvidia shares have since fallen 6.7%, erasing more than US$200 billion in market value.

For investors inclined to stare at discounted cash flow models that have more variability than they have in the past, the gap between estimates and actual results has created a conundrum. In the past five quarters, analyst estimates for Nvidia's sales have deviated from actual results by an average



NVIDIA CAMPUS HEADQUARTERS

Jensen Huang with his wife Lori, daughter Madison, and son Spencer

of 12%, according to data compiled by Bloomberg. That's the third-most among the S&P 500 companies that have posted average quarterly revenue of at least US$5 billion in the last five quarters and have at least 20 analysts covering them.

What Price?

With Nvidia's business booming and its biggest customers like Microsoft pledging to spend even more on computing hardware in coming quarters, the main question for investors is what's a reasonable price to pay for a stock whose profit and sales growth is far superior to its megacap peers. Based on current estimates, Nvidia is projected to deliver profit of US$14.7 billion on sales of US$28.4 billion in the current quarter, up 137% and 111%, respectively, from the same period a year ago. Meanwhile, Microsoft's sales are expected to rise 15% with Apple projections sitting around 3%.

While Nvidia's valuation multiples are rich, they look more reasonable given Nvidia's growth, especially considering the estimates keep coming in low. To Michael O'Rourke, Chief Market Strategist at JonesTrading, a bigger concern is that the degree to which Nvidia surpasses Wall Street's growth expectations will soon start subsiding, just due to the company's sheer size. That could make it harder to justify the shares' price tag. "That's where the risk comes in," O'Rourke said. "You're paying a high price for a large market cap company where the beats have been trending lower and that's likely to continue."

Source:
StarBiz
The Star 20.6.2024 & 25.6.2024

NVIDIA CEO JENSEN HUANG MEETS ANWAR