NVIDIA

U.S. | Outperform

August 23, 2023 | F2Q24 Review

At the Center of a New Computing Era; Another Blowout Quarter Is Just One Reason to Own NVDA

Ticker (local)	NVDA
Target Price (YE24)	USD 600.0

Release Date: Wed, Aug 23 (After Market)

In our initiation of coverage report on NVIDIA and in conversations with various stakeholders (investors, top tech management, Brazilian entrepreneurs, etc.) we have repeatedly stated how grateful we are to cover NVIDIA and to follow and listen to the company's founder and CEO, Jensen Huang, who we believe is the most visionary tech founder today. NVIDIA's F2Q24 earnings and conference call just strengthened this perception.

Many investors expressed concerns about NVIDIA's results throughout CY23, CY24, and particularly CY25. As such, everyone out there cross-checking NVIDIA's potential revenues with hyperscalers' + META's cloud capex, are finding it difficult to justify significant revisions beyond F1Q25 (C1Q24). And even great academics, like Aswath Damodaran, have had a hard time modeling very aggressive estimates. Notwithstanding, Jensen Huang brought his unique vision to challenge these bearish points.

When asked about demand, Jensen made two very interesting comments. First, he said that demand is very strong and visible for next year. Second, and most important, he said that the world is entering a "new computing era" in which "companies worldwide are transitioning from general-purpose to accelerated computing and generative AI."

The second point boosts our confidence in NVIDIA as a key long-term investment for global portfolios. Jensen's argument for the transition is that GPUs are much more efficient than CPUs, both in terms of cost and energy consumption. And the company is positioned to help clients on all fronts – from industrial edge devices to cloud hyperscalers – with an innovation machine that is unstoppable (just look at the L40S or Spectrum-X, for example).

So how to translate these qualitative points into numbers? Well, we believe that the best metric to estimate NVIDIA's potential revenues is not cloud capex but total server spend, which is around USD 150 billion per year to date. We estimate revenues of USD 78 billion for NVIDIA's Data Center in CY25, which would account for 52% of its current TAM. Although this may seem large to some investors, NVIDIA is at the center of this transformation, with its expansive product range, CUDA's footprint and unique GTM. This makes us confident in its ability to beat and raise estimates not only this year, but beyond C1Q24 (when, according to semi experts, GPUs will have sold out), which will play a key role in whether NVIDIA's multiple will hold or expand.

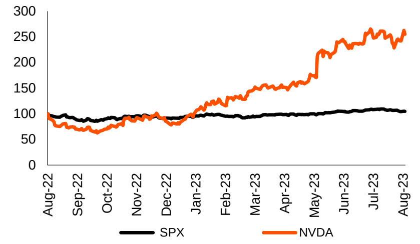
Last but not least, NVIDIA addressed short-term supply-chain concerns. According to management, supply is expected to improve every quarter until F4Q25, which will also play a key role in sustaining earnings beats over the next few quarters.

In conclusion, we reiterate our **outperform** rating on the stock, with a YE24 new target price of USD 600/share (YECY24). We forecast an EPS of USD 17 for CY25, which seems very conservative based on our channel checks with the buy-side, which has EPS approaching USD 20. We provide our full updated estimates on page 3.

Stock Data

Current price	USD	499.1
Upside (YE24)	%	20
52 Week high/low	USD	481.87/108.13
Shares outstanding	th	2,490,000
Market capitalization	USD m	1,138,627
3-mth avg daily vol.	USD m	21,161
Performance (%)	1m	12m
Absolute	6.0	163.4
Vs. SPX	9.3	153.1

Company x SPX



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- NVIDIA's revenue for the quarter was impressive at USD 13.5 billion, up 88% QoQ and 101% YoY, and beating the bogey of USD 12 billion.
- Data Center revenue was the highlight at USD 10.3 billion, up 171% YoY and 20% above Street estimates, underscoring the robust demand for AI – particularly across cloud service providers and large consumer internet companies – and NVIDIA's strong leadership position in the segment.
- Gaming revenues resumed YoY growth in 2Q23, up 22% YoY to USD 2.5 billion, reflecting the demand for GeForce RTX 40 series GPUs following the normalization of channel inventory levels.
- Non-GAAP gross margin for the quarter came in at 71.2% (in line with the Street and up 25 pp YoY and 440 bps QoQ), reflecting the strong data center performance driven by high GPU mark-ups.
- Non-GAAP operating income for the quarter stood at USD 7.8 billion (up by more than 400% YoY and 155% QoQ), showcasing the company's operational efficiency.
- The combination of strong revenue growth, solid profitability, and a YoY increase in financial expenses (driven by higher yields on investments) drove non-GAAP EPS to USD 2.7, up by more than 400% YoY and 148% QoQ.
- The company guided for a strong outlook for the coming quarter, with revenues of USD 16 billion (+/- 2%), beating the bogey of USD 14 billion. NVIDIA also guided for a non-GAAP gross margin of 72.5% (+/- 50 bps).
- On August 21, NVIDIA approved an additional USD 25 billion in share repurchases, with no expiration. This represents 2% of the market cap. The company plans to continue its share repurchases this fiscal year.
- NVIDIA announced new AI enterprise-ready servers featuring the new L40S GPU, a universal data center processor designed for compute-intensive applications. The H100 was designed for LLM and processing, while the L40S was designed for different types of applications.
- The company's GH200 Grace Hopper Superchip, which combines its ARM-based Grace CPU with Hopper's GPU, entered full production and will be available in 3Q23 at OEMs. The second generation of the superchips will be available in the second quarter of the next calendar year.
- According to management, it has excellent visibility on the demand for 2023 and 2024, which helps forecast the supply requirements, and supply is expected to increase every quarter throughout next year.
- Lastly, NVIDIA has partnered with a range of companies on AI initiatives –
  - Snowflake: to help businesses create customized generative AI applications using their own data.
  - Hugging Face: to give developers access to NVIDIA DGX™ Cloud AI supercomputing within the Hugging Face platform to train and tune advanced AI models.
  - SoftBank: to create a platform for generative AI and 5G/6G applications based on the GH200, which SoftBank plans to roll out at new AI data centers across Japan.

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NVIDIA – New vs. Old Estimates

Income statement (mln)	**2023**	**2024**	**2025**
Net Revenues			
Old	42,223	57,327	74,159
YoY Growth	*56.5%*	*35.8%*	*29.4%*
New	55,184	79,756	100,159
YoY Growth	*104.6%*	*44.5%*	*25.6%*
Dif. New vs Old	*30.7%*	*39.1%*	*35.1%*
Gross Income			
Old	28,764	38,983	51,170
Margin	*68.1%*	*68.0%*	*69.0%*
New	39,228	56,627	68,108
Margin	*71.1%*	*71.0%*	*68.0%*
Dif. New vs Old	*36.4%*	*45.3%*	*33.1%*
EBIT			
Old	17,914	24,078	31,888
Margin	*42.4%*	*42.0%*	*43.0%*
New	27,679	39,878	47,075
Margin	*50.2%*	*50.0%*	*47.0%*
Dif. New vs Old	*54.5%*	*65.6%*	*47.6%*
Net profit (reported)			
Old	15,892	21,323	28,542
New	24,698	35,253	41,692
Dif. New vs Old	*55.4%*	*65.3%*	*46.1%*
EPS			
Old	6.38	8.56	11.46
New	9.88	14.39	17.02
Dif. New vs Old	*54.9%*	*68.1%*	*48.5%*

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