

NVIDIA - Navigating Volatility with Intelligent Data and Analysis Equity Insights August 2024

Can Nvidia live up to the hype?

With one of the most critical set of earnings of this reporting season set to be released next week, we believe it is worth taking a look at what is currently being priced in.

Expectations have steadily moved higher over the course of the last 4 weeks, with EPS expectations being revised higher by 1% and revenue expectations being revised higher by 0.6%. As of this point of time, the expectations stand at 64.5 cents and \$28.706 Billion respectively.

Based on the capex plans of the mega cap Tech names such as Microsoft, Google, Amazon & Meta (refer to the capex table below) **we believe that the demand for GPUs continues to be robust and there is no real indication of this slowing down in the coming 6 months at this point of time.**

However, **stocks like Nvidia, derive much of their value from their future earnings expectations** and that is where we expect the focus of the Street to be. When you are priced to perfection you need to deliver just that and **any disappointment on future guidance would be good enough to overshadow a better-than-expected earnings print, this time around.**

How to Position

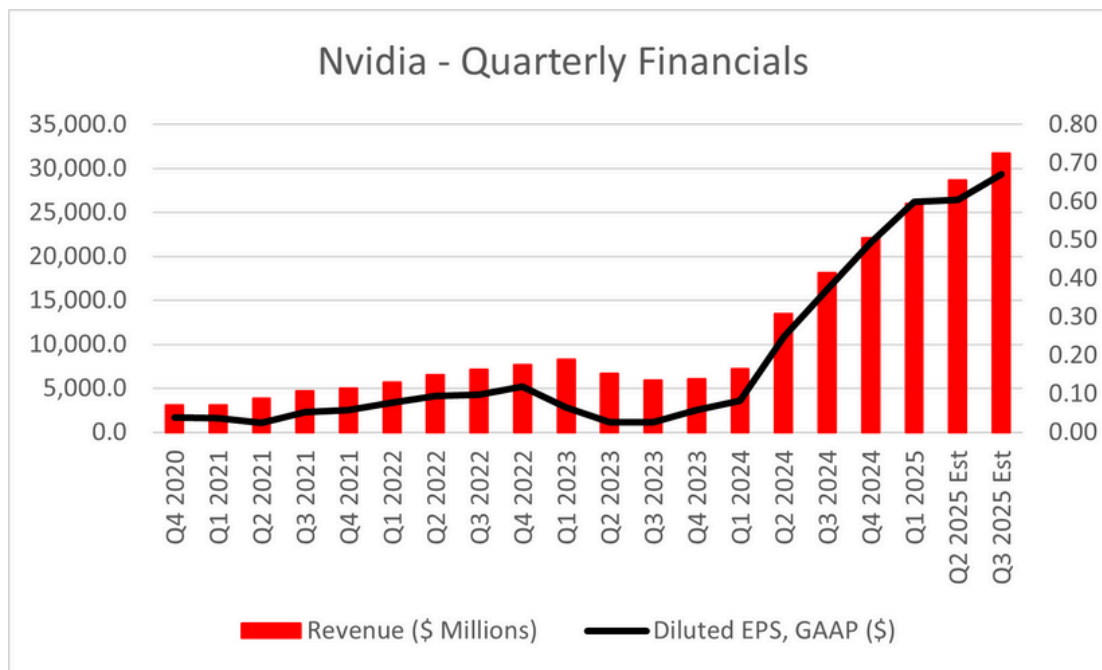
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Current positioning	How to position
No current exposure	Writing put <u>options</u> :- 1) 20 th Sep 24 14% OTM : pays 2.3% (28.1% annualized) 2) 20 th Sep 24 18% <u>OTM</u> : pays 1.6% (19.7% annualized)
Have exposure, but want to hedge	Writing call <u>options</u> :- 1) 15 th Aug 25 18% ITM : Breakeven of -32% & max upside of 20% 2) 15 th Aug 25 7% ITM : Breakeven of -26% & max upside of 26%
Have exposure, want to hedge but maintain upside participation	Utilizing a deep ITM call spread 1 st Leg: Sell 20 th Sep 24 30% ITM Call (-95 Delta) 2 nd Leg: Buy 20 th Sep 24 ATM Call (52 Delta) Reduces position level delta to 57%, while providing downside protection against the initial 30% drop while maintaining near 100% upside participation



Q3 expectations for Nvidia are currently at about \$31.7billion, essentially a **QoQ addition of another \$3 billion in revenue, which is higher than the \$2 billion in incremental revenue that was being priced in for the last 3 quarters**. We believe that this would have easily been achievable in case there were no design related issues reported for the Blackwell, which was likely to contribute a significant amount of revenue in the back half of the year, as mentioned by Jensen Huang during the Q1 earnings call. What analysts would be looking to get further insights on, is how much of a delay has this design issue caused and what kind of revenue impact is it likely to have if at all any, given that such issues are quite common when introducing a new chip platform and usually do not cause a delay of more than 3-4 weeks (Nvidia has however issued no clarification regarding the potential delay in shipping Blackwell chips).

Capex Table

Company	Capex guide issued	Additional Comments
Microsoft	FY25 capex > FY24 capex Q4 FY24 capex was \$13.9B	
Amazon	H1 2024 capex was \$30.5B and expects H2 2024 capex to be higher than H1.	
Google	H1 2024 capex was \$25B and expects H2 2024 capex to be similar to that of H1.	Management acknowledged that it is far riskier to underinvest in AI and risk falling behind its competitors than to overinvest.
Meta Platforms	Increased midpoint of its 2024 capex guide from \$37.5B to \$38.5B	

Of this capex chalked out for datacenter investments, about 70-80% will go directly towards the purchase of GPUs and this is a market where Nvidia enjoys a market share of nearly 85%.

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