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COMPANY ANALYSIS | 06 Oct, 2026

Is Nvidia cheap as chips? Top-rated managers bet so

Nvidia's valuation is at a decade low despite it continuing to smash through growth forecasts. Is this a portent of doom or a copper-bottom buying opportunity? We speak to top-rated managers who have taken the plunge.

BY ALGY HALL

Over the last 10 years, Nvidia (US:NVDA) has transformed from a company focused on a niche cyclical consumer market to one that dominates the most valuable part of modern enterprise infrastructure: AI.

'Nvidia has the pole position in this growing market and will continue to capitalise on it going forward. Nvidia has been confounding sceptics about their growth for years, and we do not expect that to change anytime soon,' said Paul Meehan, A-rated manager of the Meehan Focus fund and one of the top 3% of portfolio managers globally whose investments are tracked by Citywire Elite Companies. Nvidia is a top 10 holding in his fund's concentrated portfolio.

Thanks to the foresight of founder and chief executive Jensen Huang, Nvidia today:

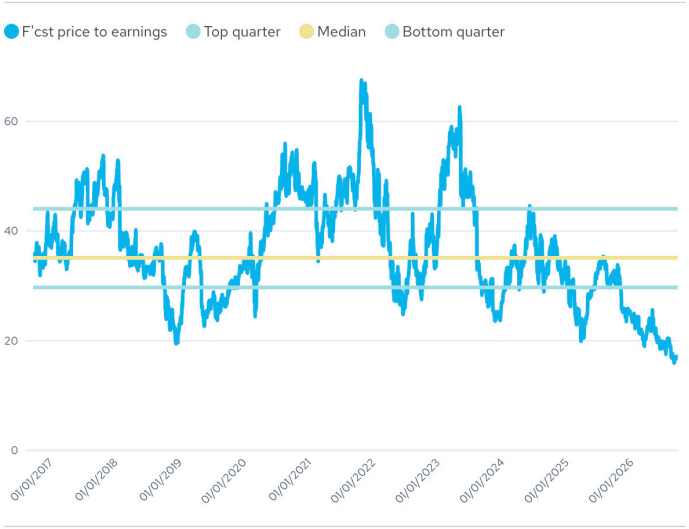
- boasts the highest market value in the world at $5.7tn;
- generates gross margins of over 70%, even as key input costs soar;
- is forecast to grow earnings per share at a compound rate of 58% in each of the next two years;
- and is making so much money that net cash, if left unchecked, is predicted to reach over $500bn in a little over two years' time at the January 2029 year-end.

Yet, despite these incredible credentials, based on a multiple of 17 times next-year forecast earnings, the shares have not been valued this lowly since October 2014.

'On a price-to-earnings-growth (PEG) ratio basis, Nvidia trades around 0.3 to 0.4 times, compared with approximately 1.0 for the S&P 500 and approximately 2.6 times for its Magnificent-7 peer average,' said AAA-rated Justin Carr, another top manager tracked by Citywire who holds Nvidia as the top holding in the Allspring Global Equity and Climate Transition funds.

'On that basis, Nvidia's valuation appears attractive relative to both the strength and visibility of its earnings growth.'

Nvidia's valuation has tumbled
Forecast price to earnings over 10 years



Source: FactSet, broker consensus forecasts for the next 12 months.

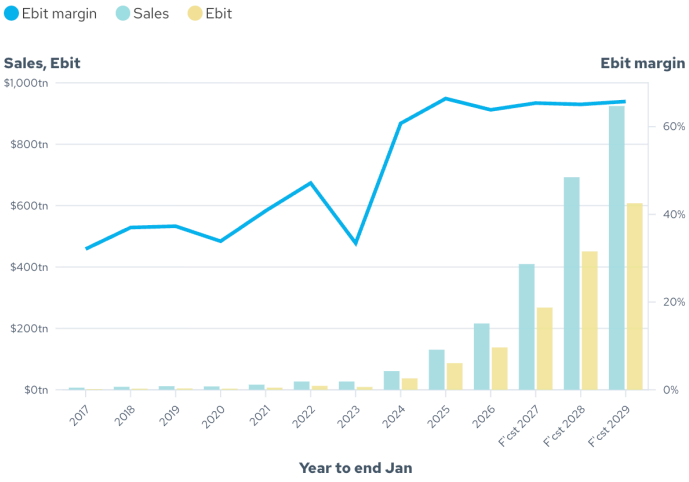
As well as Meehan and Carr, 72 more of the world's best portfolio managers have overweight positions in the shares, reflecting their view that the stock is undervalued and securing it Citywire's top AAA Elite Companies rating along with a spot in the Global Elite Companies index.

The company itself also sees value, having last week committed a further $150bn to buybacks to take total approved for repurchases to $235bn, equivalent to just over 4% of the current market capitalisation.

Big numbers

One of the key issues weighing on investor sentiment is simply Nvidia's size. Over the 10 years to the end of January 2026 – its last financial year-end – sales have increased 43-fold to $216bn while earnings before

Nvidia's growth has been astounding and is forecast to continue to be



Source: FactSet, consensus broker forecasts and adjustments • Ebit = earnings before interest and tax

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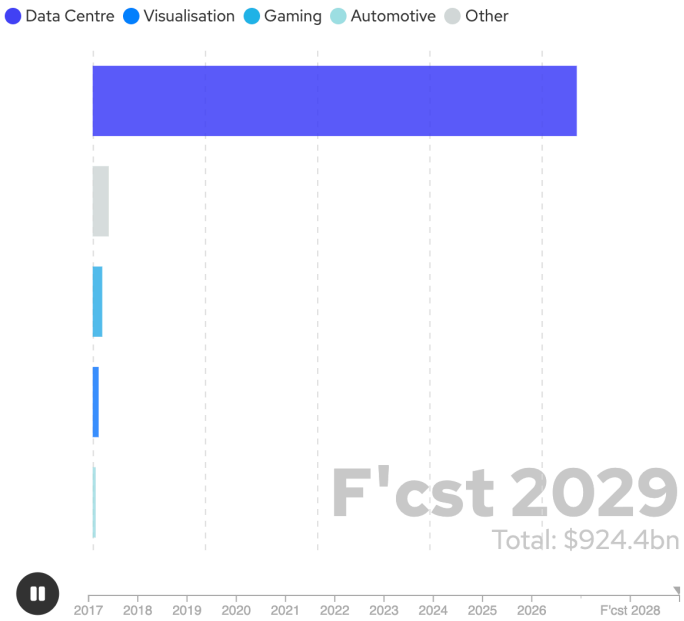
Data centres power sales growth



Source: FactSet, consensus forecasts and adjustments • Financial years to end Jan

interest and tax are up 122-fold to $138bn. At some point, surely it will run out of road, and the growth rate will inevitably slow.

'The current valuation implies an end to the AI build-out that the company's fundamentals do not yet support,' Carr said.

As incredible as it seems, analysts are still struggling to keep up with the rate of Nvidia's progress. Second-quarter results substantially beat expectations and, over the last 12 months, earnings per share (EPS) forecasts have been upgraded by 44% for the current financial year, 112% for the next, and 166% for the year after (see graph below).

The success has been built on the company's ability to seize on opportunities linked to the rapid evolution of computing over the last decade as the world has entered an AI age.

When Nvidia spotted that the chips it was designing for gaming, known as graphics processing units (GPUs), were being used by AI researchers due to their ability to rapidly process data, it pivoted aggressively into the market.

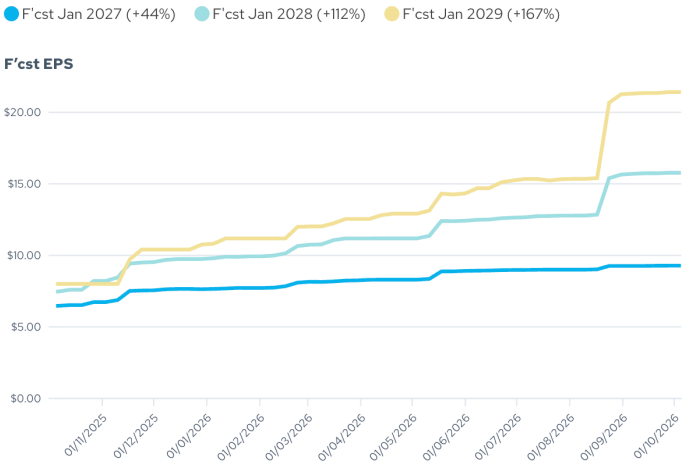
The data-centre business was only broken out as a separate line in the accounts in 2020, when its $3bn in revenue was just over half that from gaming and about a quarter of the total. In the current financial year, data-centre revenues are expected to reach $381bn, representing 93% of the total.

Pushing the advantage

Since Nvidia's breakout data-centre moment, it has not only used massive research and development (R&D) to strengthen its leading position in supplying the silicon workhorses of the AI boom,

Nvidia continues to experience huge forecast earnings upgrades

EPS forecasts over 12 months



Source: FactSet. EPS = earnings per share

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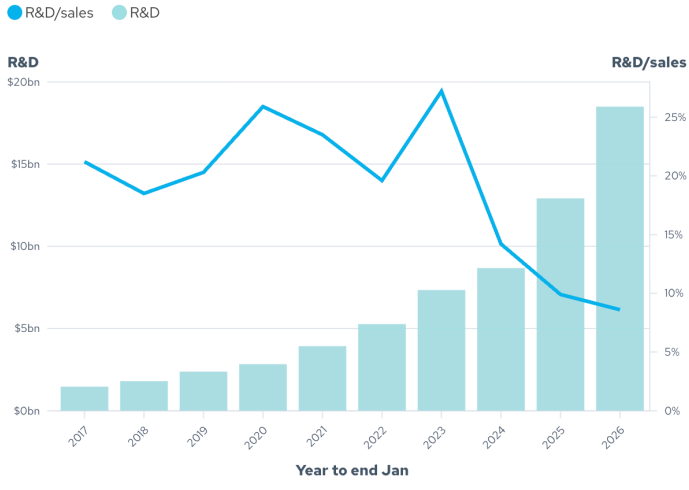
Nvidia's R&D has ballooned but has struggled to keep up with sales growth



Source: FactSet, consensus forecasts and adjustments • R&D = research and development

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but it has also branched ever further into AI architecture to make its products integral to data centres.

Development of its CUDA software, which dates to 2006, has locked developers into designing systems around its chips and other hardware. In 2020, the acquisition of Mellanox Technologies marked a strategic move into networking to support its market position.

The company has scaled up what it sells from individual chips to entire server racks optimised to get the most from an array of Nvidia-designed components, including CPUs and computer connections. It has involved itself in creating new power architecture for data centres as they suck in ever more electricity, and it has embedded its hardware into the pipework that allows massive clusters of servers to work together on tasks.

All the time, it is outmanoeuvring competitors by speeding up launches of new platforms (see graph).

'The estimated revenue opportunity per gigawatt increases from approximately $25bn with Blackwell to $40bn with Vera Rubin, with estimates of $50-$100bn with the Feynman generation,' Carr said.

'This progression reflects Nvidia's expanding role within the data centre. As AI clusters become larger and more complex, Nvidia's expanding platform allows it to participate in a growing portion of total data-centre spending.'

Meanwhile, Nvidia's software interests have expanded beyond its loss-leading CUDA product to paid-for AI deployment services. Plans to buy Hugging Face for $12.9bn, should regulators give this controversial purchase the green light, will also move it into model distribution, further tightening its grip on the industry.

'By extending Nvidia's presence into the model-distribution layer, the transaction would provide access to approximately 18 million developers and help keep developer tools and workflows closely aligned with Nvidia hardware,' Carr said.

A unifying aim behind these efforts is to ensure its hardware and software become ever more entrenched. So even as rivals, such as AMD, up their game and customers, such as Alphabet and Amazon, work to design their own bespoke, task-specific chips, Nvidia's competitive position looks immensely strong. At the same time, it continues to position itself to win in AI's new frontiers, such as physical AI.

Money problems

Despite its ability to overdeliver, Nvidia, which has a history of booking big inventory write-downs when markets turn, continues to climb a wall of worry.

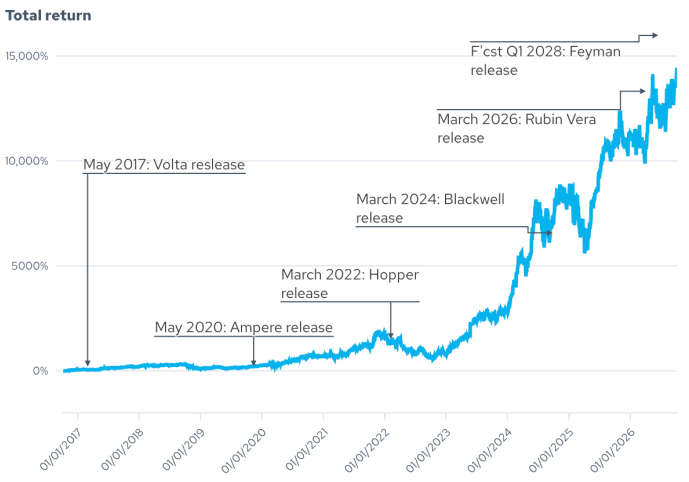
While enterprise IT infrastructure is traditionally a less cyclical market than consumer gaming, the huge amounts being spent on the data-centre build-out and Nvidia's reliance on a handful of giant customers present the possibility of a massive fallout should the music stop – or even should the beat just slow.

'We believe that the build-out and deployment of AI is still in its early phase, and that there remains significant growth potential going forward. At Edgemoor, we also own Microsoft, Google and Amazon and are keenly monitoring those companies' massive capital expenditures, which in turn are a significant portion of Nvidia's revenues,' Meehan said.

'Those three major hyper-scalers have made it clear that the revenue, free cashflow and return on invested capital earned from those investments are very attractive. Demand outstrips supply, and the current bottleneck is insufficient capacity.'

Still, given how high margins are, there is a long way down. The company has recently warned that rising memory costs will put pressure on profitability over coming quarters, although this is a product of excessive demand rather than a drop, which

Regular product launches have helped power Nvidia's returns
10-year total return



Source: Factset

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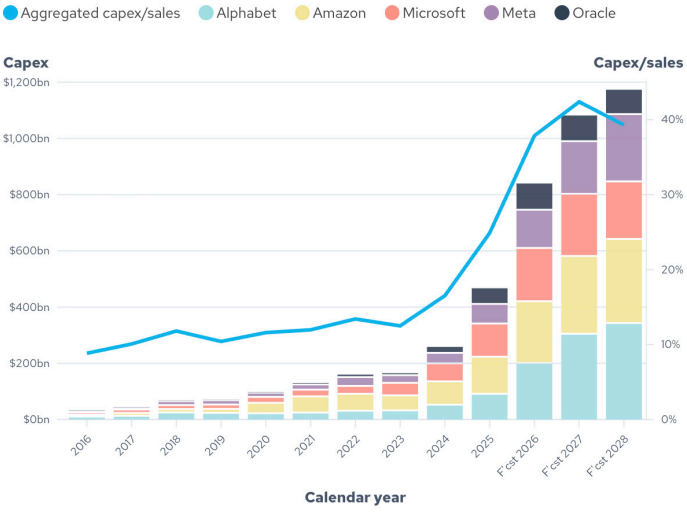
Hyperscaler spending plans are immense



Source: FactSet, consensus broker forecasts and adjustments • Capex = capital expenditure

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is what would cause real trouble.

'The question is how much further Nvidia can go from here,' said Raheel Altaf, AA-rated manager of the Artemis SmartGARP Global Equity fund, who has scaled back exposure to Nvidia this year.

'Nvidia remains an exceptional business... the valuation is much more reasonable and earnings are still growing, but recently its earnings and share-price momentum have become less exceptional relative to the wider technology sector. We are finding better opportunities elsewhere.'

Concerns about a potential slowdown are exacerbated by Nvidia's use of its own balance sheet to keep the wheels spinning. As a company that relies on third-party manufacturers, faced with capacity shortages as of the end of July, it has committed $279bn to secure long-term supply.

It has also bolstered the ability of many customers to access debt to buy its products through the purchase of their equity and by offering guarantees. At the end of July, equity stakes totalled $99bn, while the maximum value of guarantees stood at $109bn, which chiefly relates to $105bn linked to a massive OpenAI project.

While these financial commitments do not look large enough to endanger the company, they could seriously add to the pain of any downturn. They also raise questions about the viability of the AI boom in the long term: will the promise of the technology be matched by cashflows to justify the investment?

More prosaically, in a world of fast-rising yields, will investors and lenders have the patience to continue to bankroll the boom? History points to such periods of massive capital growth generally facing a day of reckoning, but serious cracks are yet to show.

'Even with the recent increase in interest rates, the return on investment from financing a new data centre is still attractive,' Meehan said.

'It is clear that Nvidia's goal is to expand the adoption of AI and support the growth of the AI ecosystem globally. We believe that the AI "pie" will continue to grow significantly, and there will be many companies that benefit.'

And for now, demand is only getting stronger at the data centres that run off Nvidia's technology, while signs of AI's ability to create value are becoming more evident. Given the extent of the derating of Nvidia's shares, unless disaster materialises soon, earnings growth could have a much more powerful influence on share-price performance from here.

'Currently, investors are pricing in prior cycles which have been shorter and more cyclical, and this suggests upside surprise as many think we are still early in the cycle,' Carr said.

'Investors are currently paying roughly a market multiple for one of the fastest-growing large-cap companies in the world... Nvidia's earnings have outpaced its share price, meaning continued earnings delivery alone could support returns, with any multiple re-rating providing additional upside.'

Key facts - NVIDIA Corporation

Market capitalisation	$5,757bn	Price	$239
Net cash	$51.1bn	Net debt/Ebitda	-
52-week high/low	$240/$164	Return on capital employed	100.7%
F'cst price to earnings	17.5	F'cst dividend yield	0.4%
F'cst EPS growth	58.2%	12-mth share price	27.3%

Source: FactSet, as of 6 Oct 2026. EPS = earnings per share. Ebitda = earnings before interest, tax, depreciation and amortisation. Forecasts based on next 12 months.

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