



Nvidia Stock Is Down 60%: Should You Buy?

Description

Nvidia ([NASDAQ:NVDA](#)) was among the [semiconductor stocks](#) that felt the pain of the tech stock meltdown this year. Its stock price fell 63% from its November 2021 high, underperforming the Nasdaq Composite index, which fell 30%. The 60% dip comes, as several headwinds materially impact Nvidia's 2022 revenue and profit margins. If you can put up with another 15-30% dip through the year and hold the stock, you could be a part of the recovery rally.

About Nvidia

Before I jump onto the bears and bulls, it is important to know Nvidia's business. Graphics processing units (GPUs) are in almost every electronic device, PC, game console, car, server, and Internet of Things (IoT) device. Nvidia leads the discrete GPU market and keeps upgrading.

Nvidia focuses on technology development and outsources GPU manufacturing to third-party foundries. Nvidia's products enjoy strong demand in gaming, data centre, automotive, professional visualization, and PC verticals. But tight supply and demand weakness impact Nvidia's revenue and stock price. It happened in 2018, and it is happening now.

Why is Nvidia's stock falling?

The 60% dip has wiped out gains from the November 2020 crypto bubble and put the stock back to the pre-crypto levels. But [the crypto](#) bubble burst is just one of the many worries for Nvidia in the short term. The gaming and PC demand has slowed as high inflation, supply chain disruption, and geopolitical tensions reduce consumer demand worldwide. Gartner [forecasts](#) worldwide PC shipments to fall 9.5% in 2022.

While PC shipments remain weak, growing tensions between the United States and China are hurting Nvidia's revenue from one of its largest markets: China. The United States has banned the export of artificial intelligence (AI) GPUs to China. It will directly impact the sale of Nvidia's next-generation H100 data centre GPUs to China. The company expects to take a US\$400 million hit in third-quarter sales.

Moreover, the automotive industry is taking a setback as supply chain issues and rising inflation impact auto sales.

All these headwinds slowed Nvidia's second-quarter revenue growth to 3%. The company expects its third-quarter revenue to fall 17% year over year. Susquehanna analyst Christopher Rolland cut NVDA estimates to reflect weakness in the PC industry and the U.S. ban on AI GPUs.

The stock market is pricing the supply and demand weakness and its impact on Nvidia's revenue. Hence, I expect the stock to fall another 30% to slightly above the pre-pandemic levels. But there is a silver lining amid these headwinds.

Should you buy it?

While the short-term headwinds will reduce Nvidia's 2022 revenue, they won't push the tech giant into losses. Nvidia's management will continue with its share buyback, which means it can buy more shares as the stock price falls. The company has US\$17 billion in cash reserves that can help it continue its research and development.

Nvidia tackled a similar situation in 2018 when the crypto bubble burst and the United States restricted chip exports to China. The company might reduce GPU supply to allow channel partners to offload second-hand GPUs. PC shipments have declined, but they will return, as PC upgrades happen every five years. This is just the mid-term recovery.

Nvidia's strength is its advanced technology that powers AI applications and autonomous vehicles (AV). These long-term prospects revived Nvidia's revenue in 2019 and drove its stock price up 87%.

Your Tax-Free Savings Account allows you to invest in U.S. stocks. You can invest \$2,000 in Nvidia and could convert it into \$4,000 or more in three to five years. It can be a good addition to your growth portfolio.

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