Better Buy: Nvidia or AMD Stock?

Description

Global semiconductor stocks have fallen in 2022 as pessimism rules the financial market. For growth-oriented investors with some cash on the side looking to buy the dips, they are spoilt with choice among tech stocks to buy today. However, they may find deciding which semiconductor stock is a better buy difficult. Investors may certainly be stymied choosing between **Nvidia** (NASDAQ:NVDA) and **Advanced Micro Devices** (NASDAQ:AMD) stock.

default watermark

Nvidia is a premium-priced graphics chip market leader with solid recovery potential. Still, Advanced Micro Devices stock looks cheaper, even undervalued, while handling the chip market fallout better in the short term. Let's have a closer look.

Nvidia

Nvidia is an industry leader in the artificial intelligence (AI) powered graphics processing chip market. What's more, the company is revolutionizing the quantum computing industry while defying the once-revered Moor's Law. The high end chipmaker has a leading market position that has been a blessing historically, but a curse during the market downturn in 2022.

Semiconductors will increasingly power our lives post any near-term recessions. Currently, Nvidia is receiving more than its fair share of gaming market losses. The chipmaker has reported worrying inventory build-ups, made painful write-downs, and risks increased unsold stock obsolescence. Market channel partners are reducing inventory levels and buyers delaying commitments in anticipation of a recession. Meanwhile, cryptocurrency industry customers are suffering bleeding losses.

Nvidia faces heightened geopolitical risks as the United States restricts some chip shipments to China in an attempt to stall the latter's military project advancements. The company could lose up to US$400 million in quarterly revenue from the ban. AMD, on the other hand, anticipates minimal impact from the development. In the near term, price discounts and extended credit terms may not be enough to save Nvidia's dwindling cash flow and shrinking bottom line.

Could AMD stock fare better than Nvidia?

Advanced Micro Devices is a semiconductor market challenger that has been gaining market share against industry giant **Intel Corporation**. At the same time, it's chipping into Nvidia's GPU market with cheaper-priced yet competitively efficient gaming, data center, and cloud computing offerings.

With broader revenue diversification and a Xilinx acquisition, AMD fared better than Nvidia. AMD reported slowing, but still impressive, quarterly revenue growth rates above 70% year over year during the first two quarters of 2022. Revenue growth slowed to around 30% in the third. In November, Nvidia could report an 18% year over year quarterly revenue decline.

AMD employs a light asset strategy as it outsources production to third-party foundries. Therefore, the company enjoys lower capital expenditures and overhead expenses. These operating efficiencies may help AMD preserve the most precious resource critical for business growth: its cash flow.

However, both companies have strong balance sheets, high liquidity, and expansive capacity to make strategic acquisitions during a down market**.**

Better priced growth play: AMD vs NVDA stock

default watermark

Evidently, the semiconductor market fallout has been worse on Nvidia than AMD in 2022. Nonetheless, Wall Street analysts project similar earnings growth rates for the two companies over the next five years.

According to *StockRover.com*, analysts have a five-year earnings growth estimate of 23.4% for Nvidia and 25.5% for AMD. The two companies may grow earnings at almost the same rates. However, the next-year revenue growth outlook for AMD at 8.4% appears weaker than Nvidia's projected 13% sales growth for the calendar year 2023.

That said, Wall Street's estimates should be taken with a lump of salt right now. They may significantly change given that 2023 analyst earnings estimates for AMD have declined by 23% over the past 90 days. For Nvidia, they have receded by 30.5% during the same period.

Most noteworthy, AMD stock looks cheaply priced with a forward PE multiple under 16 times its potential 2023 earnings. While NVDA stock offers a comparable multiple of 31. Investors are paying 31 times Nvidia's potential profits in 2023 at current stock prices, or nearly twice what one could pay for a stake in AMD.

Further, my favourite valuation multiple, the price-earnings-to-growth (PEG) ratio is tilted heavily in favour of buying more AMD stock today. The PEG ratio compares a stock's PE multiple to its future long-term growth rate. A PEG ratio above 1 implies a stock is richly valued relative to its growth potential.

AMD stock has a PEG ratio of 0.7 implying that shares are potentially undervalued at current levels. Meanwhile, NVDA stock has a PEG ratio of 1.9. Nvidia's shares could be significantly overvalued given the current fundamental outlook.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:AMD (Advanced Micro Devices)
2. NASDAQ:NVDA (NVIDIA Corporation)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. brianparadza
2. cleona

default watermark

Category

1. Investing
2. Tech Stocks

Date
2025/09/26
Date Created
2022/11/05
Author
brianparadza

default watermark