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NVDA: On a slippery slope

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The stock has been battling a slippery slope it has been on for nearly half-year as the once-strong narrative weakened, managing at best to move sideways even as AI semis further upstream gained ground. The earnings event may be a catalyst, a clearing event, for the stock to catch with up the likes of MSFT, a key customer, on the downside. NVDA management has been insistent at recent outings that demand for Blackwell and Rubin is strong as ever. Management is unlikely to change that message at the upcoming earnings event. However, the markets are in a sour mood; it may be less responsive to assurances from management vs prior earnings events.

A substantial raise of revenue outlook could shock the stock out of its 6-month funk. We don't mean the Apr Q outlook for Blackwell. Rather, we mean the 2CH outlook for Rubin. Three months ago, NVDA management stated that the company was on track to deliver ~$350 billion in combined revenue for Blackwell and Rubin in the 14-month stretch Nov'25 thru Dec'26. Consensus estimates are in line with this outlook. A substantial raise of this figure could do the job.

However, our checks into the supply chain suggest that there are bottlenecks in Rubin manufacturing, arising in part from as-yet unresolved issues with backend packaging. Even if the demand for Rubin is strong, issues with the ***interposer*** *stage of GPU/HBM processing could prevent the management from expressing enthusiasm for upside to Rubin ramp in 2CH, until manufacturing issues are resolved.*

And then comes the harder part for investors to digest. What really is the incremental demand for NVDA's AI gear vs 3 months ago? Why is NVDA having to fund infrastructure spending by its end customers, small and large alike? Why are NVDA's key customers running into difficulties funding their infrastructure spending? And when customers do raise financing from capital markets, why are their bonds trading at a discount? In contrast to the NVDA ecosystem, the non-GPU hyperscalers such as GOOG and AMZN have had little difficulty raising capex funding from capital markets. The debt markets appear to signal a preference for non-GPU players as having a better line of sight to revenue and profitability.

Given muted expectations on the Street for an uptick, the stock may yet surprise investors to the upside in the immediate aftermath of the earnings report. However, in the days and weeks ahead we expect the stock to fade as investors price in 1) reduced ambitions at OpenAI, 2) key customer MSFT appearing to hedge its bets via internally developed silicon, 3) the finances of the neoclouds coming under increased scrutiny, 4) China firmly in the 'no' camp for NVDA's latest offerings and 5) NVDA having to fall back on less reliable players in sovereign AI. Investors deserve a reset of expectations from management, rather than hyperbole. A pullback is needed to price in the swirling negative narrative, in our view. We maintain our ***$160PT****, last raised 3 quarters ago, into the Apr'25 quarter earnings report (link).*

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Interposer yield issues: Our checks show that interposer yield for Rubin could be lower than the previous generation Blackwell. Lower yield of Rubin interposer should not come as a surprise. The issues with Blackwell interposer, in our view, may not have been completely resolved. With rising GPU die size (Rubin vs. Blackwell) and higher HBM content comes larger interposer die size and higher thermal issues. These effects could be causing lower yield.

But aren't component suppliers calling out higher demand for Rubin? Sure, but higher intake of components by NVDA and its ODM partners may be in part to offset yield loses at the packaging stage. The higher demand reported for Rubin's CoWoS capacity could be to offset higher yield loses at Rubin packaging vs. Blackwell.

Doesn't hyperscale capex growth bode well for NVDA? Not really. More than half of the cloud capex from the Big 4 plus Oracle comes from Google and Amazon, CSPs who prefer internally developed non-GPU ASICs. Whereas the overcall capex in 2026 is up ~60%, the non-GPU duo is up ~80% y/y vs. the GPU CSPs up only ~50%. Besides, there is little granularity disclosed by the CSPs at to how much is spent on server gear. According to our checks, at least at one hyperscale CSP, capex for 2026 contains up to five years of **pre-payment for power**. Obviously, this leaves less for spending on servers and related hardware this year.

Diminished narrative needs to be addressed:

- **OpenAI**: The $500bn Stargate initiative appears to have fallen by the wayside. The company appears to be settling for a smaller $100bn funding private rounding and an IPO later in the year.
- **OpenAI**: NVDA's 'not-a-commitment' of $100bn to OpenAI appears to have fallen by the wayside, to be replaced by a smaller investment of $30bn
- **OpenAI**'s chief backer until recently, Microsoft, does not appear to be involved in OpenAI $100bn funding deal. Why not?
- **Amazon**: Meanwhile, AMZN/AWS, thus far not a customer of OpenAI now appears willing to pony up $50bn towards OpenAI's private funding deal. Why? Would AMZN be willing to allows OpenAI procure NVDA gear with this investment, or AMZN's internally developed Trainium gear.
- **OpenAI**'s relationship with NVDA appears to have weakened as OpenAI diversifies its silicon partnerships into players such as AMD, AVGO and Cerebras
- **Microsoft** announced the deployment of its 2nd generation internal silicon, with a 3rd generation chip in design. Is NVDA on the way out at MSFT in say 3 years?
- **Three-way**: After 2-3 years of one of the most successful partnerships between engineering companies, what is the status of the relationship today between NVDA, OpenAI and MSFT?
- **China** appears to be uninterested in NVDA's Blackwell and Rubin; China's hyperscale players appear to have adapted to domestically designed/manufactured AI silicon, from Huawei and smaller upstarts. How does NVDA offset loss of one of its most important non-US geo?

Net/net: After turning positive on NVDA during the worst of the tariff-related sell-off in April'25 (link) we remained positive into the earnings event in May (link). However, into the next two earnings events in Aug (link) and Nov (link) we were negative into print. The stock performance has been in line with our view; the stock has gone sideways since Aug; it underperformed the SOX index and key CSPs such as GOOG. We maintain our negative stance.

Even though EPS estimates have come a long way since May'25, we maintain our $160PT, as we think the diminished narrative surrounding the stock deserves a lower multiple. We think expectations need to reset and the stock needs to pull back and consolidate at a lower level before another run up can be justified. We do not doubt that the inference AI cycle stretches out multiple years into the future. However, medium-terms concerns need to be addressed and priced in. No matter the immediate reaction to the earnings report, we are looking for the stock to **trade down**.

Disclosures and Disclaimers