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OUR TWO CENTS

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The Spy Who Loved Nvidia

There are some risks that even the most sophisticated financial models struggle to account for. A change in interest rates? Easily modelled. A slowdown in AI spending? There are scenarios for that. Your CEO having an alleged affair with a woman suspected of being a Chinese spy? That's more likely to feature in a James Bond movie than your spreadsheet.

Nvidia has found itself at the centre of a corporate scandal following the resignation of its CEO and co-founder, Jensen Huang. After more than three decades in charge, his departure came amidst reports of three alleged affairs: one involving a woman suspected by US intelligence of having links to Chinese intelligence, and two others involving Nvidia employees. The developments have raised questions around corporate governance, national security and the company's future leadership.

The headlines have been dramatic, but for investors, the key question remains: Has anything fundamentally changed about Nvidia's business?

In our view, the answer is no.

Huang's contribution to Nvidia should not be understated. He has been instrumental in building the company into one of the most important players in the global technology industry. Given his influence over the company's strategy, culture, and relationships, one can argue that it is fair to ask questions about key-person risk.

That said, Nvidia's success has not been built on Huang alone. The company has an experienced management team, with CFO Colette Kress stepping in as interim CEO, alongside deep engineering capabilities, long-standing customer relationships and an established pipeline of innovation.

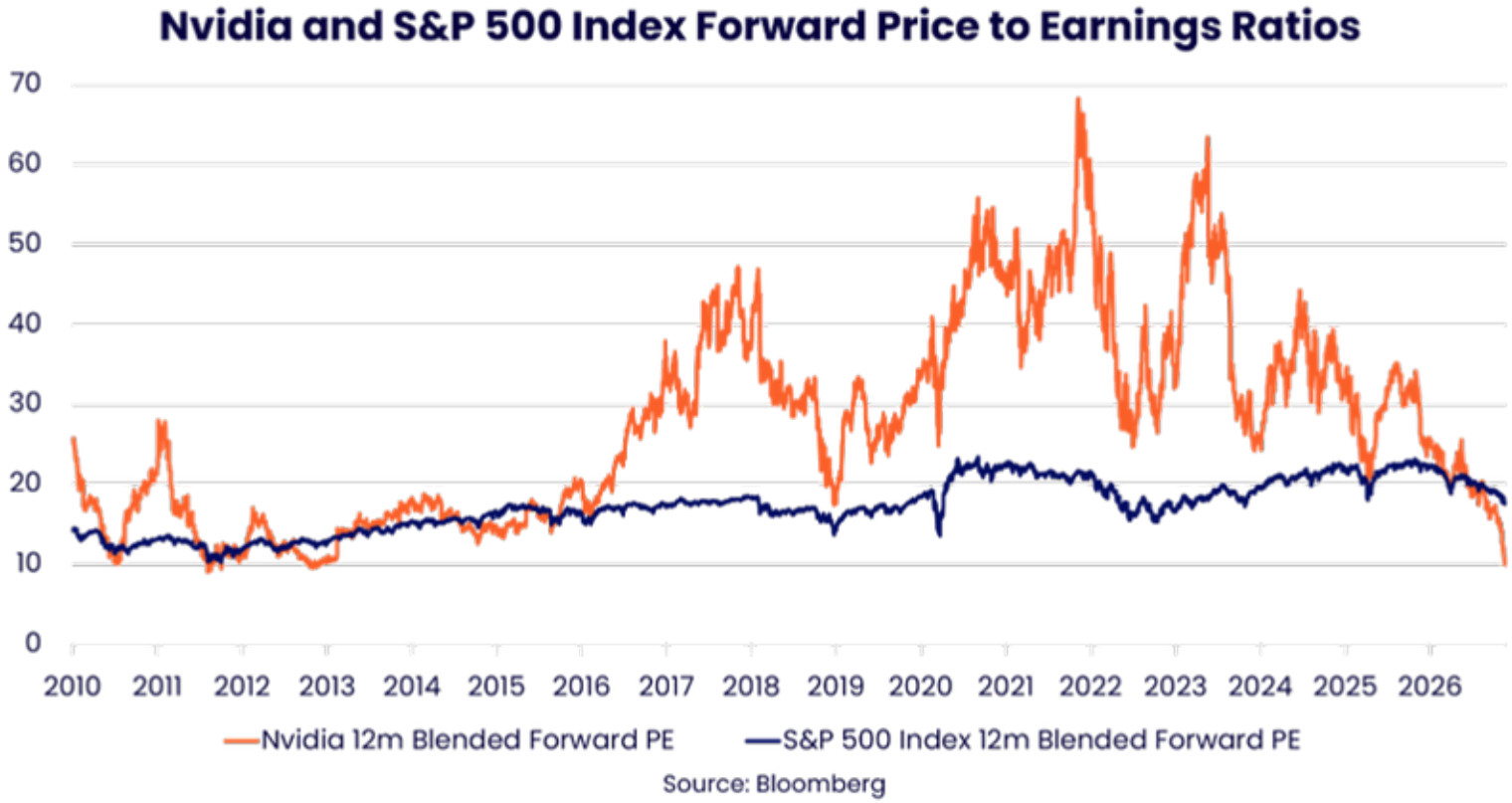
More importantly, the underlying investment thesis remains intact. Demand for AI computing power continues to drive significant investment in data centres and advanced semiconductors. Nvidia's competitive advantages, including its GPU architecture, CUDA software ecosystem and networking capabilities, have not suddenly disappeared because of a corporate scandal.

There are, of course, risks worth monitoring. Leadership uncertainty, potential reputational damage and the implications of the allegations for Nvidia's relationship with China could all have consequences. These should not be dismissed. But they should also not automatically be confused with a deterioration in the underlying business.

Nvidia's latest results provide further support for this view. In its third quarter results, released on 17 November, the company reported headline earnings that beat analyst expectations by 8.5%. Revenue increased by 103% year-on-year, driven by continued demand for AI infrastructure. Looking ahead, Nvidia raised its guidance for quarter 4 with revenue expected to achieve $130 billion (compared to analyst expectations of $109 billion prior to the earnings call). Management also raised its FY2028 revenue growth expectations to approximately 75%, from an earlier estimate of around 70%. Despite this rapid expansion, profitability remains strong, with gross margins holding at 74.8%. These results suggest that, despite the leadership turmoil, the business continues to deliver exceptional growth.

Historically, Nvidia has traded at a significant premium to the broader market, reflecting high expectations for its future earnings. However, as the graph below illustrates, this premium has compressed considerably, with Nvidia's forward PE ratio now sitting well below that of the S&P 500 at 10x compared to 17.5x.

This is particularly interesting given the company's latest results and strong growth outlook. While Nvidia continues to deliver exceptional earnings growth, investors are now paying less for each dollar of expected earnings than they are for the broader US market. In our view, this combination of strong fundamentals and a more attractive relative valuation makes Nvidia an increasingly interesting opportunity for long-term investors.



Valuation models are built around assumptions: revenue growth, margins, capital expenditure and discount rates, to name a few. A discounted cash flow (DCF) model values a company on the cash it is expected to generate over many years, not on the headlines of a single week. Much of Nvidia's value rests on long-term growth in AI infrastructure, a secular trend driven by global demand rather than by any one individual in the boardroom.

For investors, the important thing is to separate the noise from the numbers. Until there is evidence of a meaningful change in Nvidia's moat, earnings outlook or long-term growth prospects, the scandal alone is not a reason to abandon the investment case. The affairs may have broken a few hearts, but it has not broken the investment thesis.



Ansonette Neethling
Investment Analyst
BCom (Hons) Investment Management (SU) | Passed CFA Level I

Ansonette's role as an investment analyst at New Road Capital captures her passion for finance and people which aligns with our mission to prioritise the end client's needs. She obtained her BCom Honours degree in Investment Management at Stellenbosch University during which she received the first New Road Capital Academic Excellence Award. She is busy pursuing her CFA charter. Before joining our team, she gained experience as a fixed income analyst. She has a deep appreciation for academic research and is curious about human behaviour and relationships. Outside of work, Ansonette enjoys spending time with her family around the braai, appreciates good food, and is a self-proclaimed wine connoisseur.