Nvidia has been a stunning investment, but Wall Street sees Super Micro Computer as a better AI stock to buy right now.

The **Nasdaq-100** tracks the 100 largest nonfinancial companies in the **Nasdaq Composite** (^IXIC 0.40%), a growth-focused index heavily weighted toward the technology sector. **Super Micro Computer** (SMCI -1.35%) will replace **Walgreens Boots Alliance** in the Nasdaq-100 before the market opens on Monday, July 22.

Supermicro has become popular with investors in recent months due to its role in the artificial intelligence (AI) economy. The company joined the **S&P 500** (SNPINDEX: ^GSPC) in March, and shares surged 188% during the first half of 2024, outpacing the 150% gain in **Nvidia** stock.

Wall Street thinks that outperformance will continue. Supermicro's median price target of $1,030 per share implies 16% upside from its current share price of $886. Meanwhile, Nvidia's median price of $133 per share implies 4% upside from its current share price of $128.

Super Micro Computer has a durable competitive advantage

Super Micro Computer designs and builds computing platforms for enterprise and cloud data centers. Its portfolio spans storage systems and servers, including single devices and full-rack solutions, optimized for AI and high-performance computing. The company has a deep relationship with Nvidia, but it also sources chips from suppliers like **AMD** and **Intel**.

Supermicro is the "leading company in the AI compute market," according to **JPMorgan Chase** analyst Samik Chatterjee. More importantly, it's quickly gaining market share due to engineering prowess and its unique building-block approach to product development. To elaborate, the company handles most research and development internally, and it builds preassembled servers that can quickly be outfitted with the latest chips and interconnects.

As a result, Supermicro can usually bring new technologies to market faster than competitors, often by two to six months. Additionally, because those server building blocks can be assembled in countless combinations, clients have a great deal of flexibility in buying custom computing platforms. In fact, Supermicro claims to offer the broadest product portfolio in the industry.

Earlier this year, Rosenblatt Securities analyst Hans Mosesmann highlighted those advantages in a note to clients, saying: "Super Micro has developed a model that is very, very quick to market. They usually have the widest portfolio of products when a new product comes out from Nvidia or AMD or Intel."

Supermicro has also developed building blocks for liquid-cooled AI servers, and it's one of the first companies to ship liquid-cooled racks at scale. That puts Supermicro in a good spot. Liquid cooling can reduce data center power usage by 40%, and Supermicro expects 15% to 30% of data center installations in the next two years to rely on liquid cooling, up from less than 1% historically.

Supermicro stock trades at a reasonable valuation compared to Wall Street's earnings forecast

Here's the big picture: Businesses want power-efficient AI servers equipped with the latest chips, especially Nvidia graphics processing units (GPUs), so they are turning to Supermicro. In turn, the company is gaining market share and extending its leadership.

Indeed, **Bank of America** analysts expect Supermicro to account for 17% of AI server sales by 2026, up from 10% in 2023. Even more bullish, **Keybanc** analyst Tom Blakely says Supermicro could capture 23% market share by 2025. He also says the company has "competitive moats that should sustain if not expand" its share in coming years.

Wall Street analysts expect Supermicro to grow adjusted earnings per share at 59% annually through fiscal 2025 (ends June 2025). That estimate makes its current valuation of 46 times adjusted earnings looks very reasonable.

In that context, Supermicro has a PEG ratio -- its price-to-earnings ratio divided by forecasted earnings growth -- of roughly 0.78. Using the same methodology, Nvidia currently has a PEG ratio of roughly 1.4, meaning the stock is (arguably) much more expensive.