



Could This Blockchain Stock Be a Millionaire-Maker?

Description

Blockchain technology is still so nascent that most investors don't know where the value will eventually accrue. Like the early days of the internet, it's difficult to say if a search engine, internet service provider, or chain of web cafes is the best place to invest.

The industry is still in the shakeout phase, and many current business models are likely to fall by the wayside before creating the hyperbolic value investors expect. However, there have been tangible returns in one sector of the blockchain industry: mining.

Cryptocurrencies, of which there are now over 1600, rely on a mechanism known as Proof-of-Work, which essentially means that a network of computers try to solve a math puzzle to be rewarded in freshly created cryptocurrency. This network of computers is used to verify transactions and keep the blockchain secured.

Meanwhile, the freshly created cryptocurrency is an incentive for the users allocating their precious computing resources. These operators are known as miners, and mining has scaled up in recent years to industrial proportions.

Vancouver-based **HIVE Blockchain Technologies Ltd.** ([TSXV:HIVE](#)) is one such industrial miner. It recently listed on the **Toronto Venture Exchange**, becoming the first publicly-traded blockchain company in North America. For the moment, it's the only pure-play blockchain stock listed in Canada.

HIVE operates a network of industrial-scale mining centers in Iceland and Sweden. The company has partnered with one of the largest mining companies in the world, Genesis Mining, for intellectual property. Genesis was launched in 2013 and now offers mining as a service to users over the cloud.

For reference, the world's largest mining operation, Bitmain, also started off in 2013 as a pool of miners spread across China. Bitmain managed to generate \$2.5 billion in revenue in 2017, is funded by Sequoia Capital and International Data Corporation or IDG Ventures, and filed to go public in Hong Kong last year.

By comparison, HIVE reported US\$12.5 million in revenue in its latest quarter. Annualized, the company is on track to generate US\$50 million in sales this year. Most of the money is generated from mining the most popular and widely-adopted cryptocurrencies, including Bitcoin and Ethereum.

The company converts nearly all the coins it generates to Ether (ETH) and holds it on its corporate wallet. At the end of June 2018, this ether holding was worth US\$15 million. However, the price of all cryptocurrencies has declined significantly since then. So these assets could be worth only US\$3.75 million now.

HIVE also has 24 megawatts (MW) of production capacity split between its mining centres in Sweden and Iceland. The company claims to have fully funded further development that could take its capacity to 44.2 MWs.

HIVE's greatest risks are the volatility of the cryptocurrencies it mines, which determine the profitability of its operations. Deploying large mining centers is capital intensive, while the market price of crypto assets can easily dip below the cost of mining.

Another risk is the ongoing movement toward a more democratized coin minting process. Ethereum, for example, is likely to shift from proof-of-work (PoW) to a proof-of-stake architecture (PoS), which would make HIVE's mining operations redundant.

Bottom line

HIVE is the only publicly-listed pure play blockchain stock in Canada. However, the mining business is capital-intensive, unpredictable, and vulnerable to sudden disruption. While it could be a millionaire-maker if we have another boom in cryptocurrency prices, I don't think the risks justify the rewards with this model.

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