



This Bitcoin Mining Company Could Be a Prosperity Bomb

Description

If Bitcoin is digital gold, as some say it is, investors may be better off looking for ways to mine it rather than buy it outright.

Traditional mining companies are excellent proxies for their underlying commodity. Oil drilling and lithium mining firms across the world have a simple business model: deploy cash to set up mining infrastructure, hire miners, extract, and ship. If the costs of mining plunge and the market price of the commodity increases, profits expand.

Savvy investors tend to pick out the biggest mining companies because these firms tend to have economies of scale (lowers costs). Meanwhile, the investment thesis for any miner is that demand for the commodity is likely to be higher in the near future.

This implies that a great way to bet on the rise and mass adoption of cryptocurrencies like Bitcoin, Ethereum, and various others is to bet on the firms that digitally create them.

So-called crypto miners are basically companies with industrial-scale server farms that constantly solve complex mathematical problems. By finding the solution to each problem, the computer gets a chance to verify the authenticity of each transaction on the blockchain. The blockchain rewards the miner by issuing a new coin for it.

The biggest miner in the world is a private Chinese company known as Bitmain. According to a TechCrunch article, the firm was on track to generate \$10 billion in revenue throughout 2018.

Another major firm is Iceland-based Genesis Mining. Last year, [Genesis created a Canadian firm called **HIVE Blockchain Technologies** \(TSXV:HIVE\)](#) to expand its operation across the world. HIVE is one of only a handful of pure-play cryptocurrency stocks listed in Canada.

HIVE's partnership with Genesis gives it access to cutting-edge intellectual property, the industry's best network, and back office infrastructure. The company already operates major mining facilities in Sweden and Iceland, which offer the perfect climate, political environment, and access to renewable energy required for intensive mining.

According to the company's investor presentation (published September 2018), it currently manages 24 megawatts of mining capacity, has fully funded expansion to 44 megawatts, has only sold the crypto it generates five times since 2017, and has stored the rest of it in anticipation of better market prices.

According to its quarterly report (December 2018), the company generated US\$8.45 million in revenue, lost \$0.12 per share, and holds digital currencies worth US\$10 million.

It's fair to say HIVE is a loss-making startup in a nascent industry with the potential for hyper-growth. If the market value of major cryptocurrencies bounces back this year, and if the company can successfully expand its production capacity, the payoff could be huge.

There are significant risks to this business model in this nascent field. Mining costs are fixed and relatively high. The protocol of major cryptocurrencies, like Ethereum, could be changed in the near future, making mining relevant. And there's always the looming threat of competition from companies based in countries with better technology or lower costs.

Bottom line

Investing in Bitcoin mining companies like HIVE is a fairly risky proposition. However, for investors with the right mix of optimism and risk appetite, betting on a regulated company with a physical location and publicly listed stock may be a better option than a decentralized digital currency created by a pseudonymous creator from an unknown location.

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