



Can HIVE Blockchain Technologies (TSXV:HIVE) Keep Outperforming Bitcoin?

Description

HIVE Blockchain Technologies ([TSXV:HIVE](#)) is living up to expectations as a revolutionary tech stock in one of the fastest-growing market segments. The stock is up by more than 2,000% over the past 12 months. That's far higher than its underlying asset: Bitcoin. Can the company sustain this outperformance, or is the stock due for a correction?

Here's a closer look.

Why is HIVE stock outperforming?

HIVE Blockchain is a crypto mining firm. This means it operates server farms to generate new units of cryptocurrency. Bitcoin is the flagship cryptocurrency it mines. Part of the freshly minted BTC is held in reserves, while the rest is sold at market value to fuel expansion.

With this in mind, HIVE stock should be correlated to the price of BTC the way gold mining stocks are correlated to the price of gold. However, HIVE is up 2,000% over the past year, while BTC is up 605% over the same period. This outperformance is based on the fact that HIVE offers greater diversification.

The diversified miner not only mines Bitcoin but Ethereum and Ethereum classic. By mining other cryptocurrencies, HIVE Blockchain reduces its risk exposure as well as reliance on Bitcoin. Likewise, the company is less risky, as its price is not tied solely to the price of Bitcoin.

Ethereum has appreciated faster than Bitcoin. It's up 823% over the past year. However, there's still a gap between its performance and HIVE's.

Fundamentals

HIVE Blockchain has benefited a great deal from the bull market in digital assets. In the third quarter ended December 31, 2020, revenues were up 174% to \$13.7 million compared to \$5 million reported the previous year. Likewise, earnings more than quadrupled to \$0.05 a share, up from \$0.01 the reported the previous year same quarter, as the gross mining margin improved to 78% from 77%.

Going by the third-quarter numbers, the company is well positioned to report impressive numbers for its fourth quarter on Bitcoin's price more than doubling to record highs of above US\$50,000. Analysts estimate the annual revenue could exceed \$100 million.

However, [HIVE is trading at \\$1.8 billion](#). That's 18 times higher than the *best-case scenario* of future revenue. Never mind the risk that Bitcoin could crash by the end of the year the way it has after previous bull cycles.

HIVE's valuation is also several times higher than the market value of its crypto reserves. No matter which yardstick you use, the stock seems overpriced and could be due for a correction.

Bottom line

Early investors in HIVE stock have had a great run. This publicly traded, regulated stock has outperformed most flagship cryptocurrencies over the past year. However, now the company looks like it's priced to perfection.

In my opinion, HIVE cannot keep defying gravity like this forever. Its underlying assets and optimistic projects of future sales do not justify the current valuation. Investors should limit their exposure here and probably expect a correction soon. Considering adding direct exposure to Bitcoin or Ethereum through a fund instead.

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