



Why Hut 8 Mining (TSX:HUT) Stock Soared 75% in August

Description

It has been a terrible year for growth stocks so far. Consider small-cap cryptocurrency miner **Hut 8 Mining** ([TSX:HUT](#))([NASDAQ:HUT](#)). The stock has fallen from about \$20 in December last year to \$1.6 per share in June and jumped to \$4.5 apiece last week. So, just in August, Hut 8 Mining stock has soared a massive 75%. Even seasoned market participants got badly burned in such [brutal volatility](#). The company's large correlation with **Bitcoin** ([CRYPTO:BTC](#)) is bound for such large swings.

What's next for HUT stock?

Hut 8 is an \$877 million vertically integrated, industrial-scale Bitcoin mining company. At the end of the second quarter (Q2) 2022, it held 7,406 Bitcoins. The difference between Bitcoin's market price and its cost to manufacture those is its gross profit, popularly called mining profit.

The company reported its Q2 earnings on August 11. It reported \$44 million in revenues for the quarter that ended on June 30, 2022. This was only 31% growth year over year. Last year brought in epic growth for the digital asset miner, where its revenues increased by a jaw-dropping 384% compared to 2020. The company kept holding on to its Bitcoin reserve recently when peers were seen selling. This indicates its commitment to Bitcoin's bull price setting in the future.

Bitcoin's massive rally last year was mainly behind its superior financial growth. However, a host of challenges like rising interest rates and investors moving to safer assets weighed on the leading cryptocurrency this year.

Hut 8 Mining company mined 946 Bitcoin during the second quarter, which was an increase of 71% from the last year. However, despite the higher mining and decent revenue growth, its net loss widened to \$88 million in Q2 2022. Apart from Bitcoin's price, power prices notably drive the company's earnings. As a result, higher power prices during the quarter also pulled down its bottom line.

A strong correlation with Bitcoin

Especially when Bitcoin prices are on the rise, Hut 8 Mining's large digital asset reserve put it on a firm footing. Moreover, its little debt and strong liquidity position will likely help it remain resilient in a weak price environment.

However, the company has issued more common shares in the last few quarters, which has led to severe equity dilution. For example, at the end of 2020, the total number of outstanding shares in Hut 8 were 99.3 million, which expanded to 178 million at the end of Q2 2022. Existing shareholders' stakes become less valuable when the company issues new shares.

Bottom line

With recession fears easing, investors might again turn to risky assets like crypto. Though Bitcoin gained 20% only in August, it is still trading much lower than its March 2022 levels. The same momentum will likely be seen in miner stocks like Hut 8. Bitcoin's moderate to strong correlation with HUT stock makes it a relatively risky bet. While the short term could be bullish for miner stocks, what the long term holds is anybody's guess.

CATEGORY

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