



Is Coinbase Stock a Good Bet for Cryptocurrency Investors?

Description

In the last two years, [cryptocurrencies](#) have taken investors on a roller-coaster ride. Led by **Bitcoin**, the crypto market touched record highs in November 2021 before pulling back significantly in 2022.

Despite the volatility associated with these digital assets, cryptocurrencies have always returned with a bang to touch record highs after an elongated bear market. While you can buy and hold Bitcoin and other cryptos on centralized exchanges, there are several other ways to gain exposure to this highly disruptive asset class.

For example, you can look to buy shares of **Coinbase** ([NASDAQ:COIN](#)), one of the world's leading cryptocurrency exchanges. Valued at a [market cap](#) of US\$17 billion, Coinbase stock is currently trading 81% below all-time highs. Let's see if Coinbase is the ultimate contrarian bet or a value trap for equity investors right now.

Coinbase stock will remain volatile

The performance of Coinbase stock is closely tied to the performance of cryptocurrencies. Coinbase generates a majority of sales through exchange fees and commissions, which, in turn, are related to trading volumes. Typically, trading volumes are significantly lower during bear markets and gain pace when crypto prices move higher.

So, Coinbase managed to increase its sales from US\$1.27 billion in 2020 to US\$7.83 billion in 2021. Analysts now expect sales to fall by 56.7% to US\$3.39 billion in 2022. Comparatively, its bottom line is forecast to decline from adjusted earnings of US\$14.5 per share in 2021 to a loss of US\$11.68 per share in 2022.

Coinbase announced its second-quarter (Q2) earnings last month and reported revenue of US\$803 million, down 61% year over year. Its net losses swung to US\$1.1 billion compared to a profit of US\$1.6 billion in the year-ago period.

The total assets on Coinbase also fell to 9.9% in Q2 from 11.2% in Q1, indicating the company is

losing market share to peers such as Binance and FTX. Comparatively, Coinbase managed to improve its market share from 4.5% in 2018 to 11.5% in 2021.

Coinbase needs a diversified revenue base

It's imperative for brokerage and exchanges such as Coinbase to at least maintain the assets on their platform, as it may lead to revenue-generation opportunities over time. In Q2, around 82% of Coinbase revenue was derived via transaction fees. But the company is now looking to diversify its revenue base by expanding its suite of products and services.

It is focused on accelerating revenue from subscriptions and services, which include custodial fees and even blockchain rewards. In Q2, this segment increased sales by 44% year over year.

Coinbase continues to introduce new features that include **Ethereum** staking and an enhanced application for retail investors in addition to developer tools.

Coinbase recently disclosed that it is also expanding its cloud-based services. Over the years, cloud computing solutions have allowed enterprises to take advantage of hardware and software platforms without having to build their own infrastructure.

One of Coinbase's cloud products is called Node, which is available for those operating in the Web3 space. In order to drive adoption of Coinbase cloud higher, Node is now available for free, with the option of upgrading to an enterprise account.

Subscription sales for Coinbase stood at US\$21.8 million in Q2, accounting for 3% of total sales. But this number should continue to move higher in the upcoming months.

The Foolish takeaway

Coinbase is a high-risk, high-reward bet. If you are bullish on the future of cryptocurrencies, it makes sense to buy and hold COIN stock in your equity portfolio. Right now, Coinbase stock is also trading at a discount of 50%, given consensus price target estimates.

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