

# CoinShares International

Q123 results

Leaving 2022 turmoil behind

CoinShares International (CS) has moved on from the turmoil in digital asset markets in 2022 and has delivered Q123 EBITDA of £8.4m, with a meaningfully positive revenue and income contribution from both its passive asset management services (£9.4m) and its proprietary trading activities (£6.7m). It maintains a prudent cost management approach, with administrative expenses (incl. D&A and direct costs) of £7.6m in Q123, down c 22% y-o-y and broadly comparable with £7.9m in Q422 (excluding a goodwill write-down). It now trades at 0.8x its end-March 2023 book value.

Year end	Revenue (£m)	Other gains and income (£m)	Adjusted EBITDA* (£m)	Adjusted EPS (£)	DPS (£)	P/E (x)	Yield (%)
12/21	80.8	70.9	121.1	1.62	0.0	1.4	N/A
12/22	51.5	(19.6)	(6.5)	0.04	0.0	57.4	N/A
12/23e	37.5	25.5	31.8	0.26	0.0	9.0	N/A
12/24e	48.2	30.5	41.1	0.45	0.0	5.1	N/A

Note: \*Sum of revenue, other gains and income (income and gains from capital markets infrastructure and gains on principal investments) less administrative expenses excl. D&A.

## Investor sentiment towards digital assets warms up

CS's passive management fee income benefited from a partial price recovery in digital assets and blockchain equities ytd, with fee revenue up by 7% versus Q422 (but still down 48% y-o-y). Digital assets were supported by (1) an improving risk appetite; (2) greater confidence that a peak in the Fed rate is near; (3) higher demand for bitcoin (BTC) as a hedge against turmoil in the traditional banking system; and (4) technological advancements, most notably Ethereum's successful Shanghai upgrade. The impact of regulations on digital assets differs by jurisdiction; the US looks less encouraging with the multiple enforcement actions of the Securities and Exchange Commission (SEC) and the dispute over regulatory oversight between the SEC and the Commodity Futures Trading Commission, while in the EU the recent Markets in Cryptoassets regulation provided more clarity.

## CS launched two index ETPs recently

With withdrawals of staked Ether (ETH) now enabled, CS is charging a 0% fee on its CoinShares Physical Ethereum ETP to accumulate further AUM while it seeks to introduce a mechanism to pass on some of the staking rewards to unit holders. CS recently introduced two multi-asset CoinShares Physical ETPs, which are also subject to a 0% management fee. Overall, the CoinShares Physical platform and CS's blockchain equities platform attracted US\$29.3m and US\$20.8m of net inflows in Q123, respectively. Meanwhile, net outflows from XBT Provider Tracker moderated significantly year-on-year, at just US\$40.5m versus more than US\$200m in Q122. CS is aiming to complement its passive products with active asset management services and plans to announce its first investment strategy in Q223.

## Valuation: Share price still looks undemanding

Assuming continued digital asset adoption, we value CS at SEK79.0 per share (vs SEK77.4 [previously](#)). Using a more cautious scenario with digital asset price growth of only 2% pa, we value CS at SEK34.6.

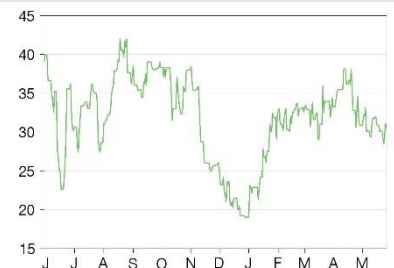
### Financials

30 May 2023

**Price** **SEK30.50**  
**Market cap** **SEK2,078m**  
 SEK13.3560£  
 US\$1.2355/£

Total equity at end March 2023	£205.8m
Shares in issue	68.1m
Free float	28.5%
Code	CS
Primary exchange	Nasdaq Stockholm
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(1.1)	(6.3)	(24.5)
Rel (local)	1.2	(4.8)	(24.8)
52-week high/low	SEK42	SEK19	

### Business description

CoinShares International develops innovative infrastructure, financial products and services for the digital asset class. It manages and provides liquidity for exchange traded products and undertakes proprietary trading in digital assets.

### Next events

AGM	31 May 2023
Q223 results	1 August 2023

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## Q123 results: Profitable amid no external shocks

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CS's revenues still come largely from management fees charged on its legacy XBT Provider products (see our latest [outlook note](#) for details). The company accrued £8.3m in fees from this product range in Q123 (vs £16.3m in Q122, see Exhibit 1). While these fees are charged on a daily basis, corresponding cash inflow for CS occurs only on redemption by an investor (in Q123, c US\$3m in cash was released to CS in that way). Fees from CoinShares Physical and blockchain equities products (which are collected in cash on CS's request) amounted to £0.6m and £0.3m in Q123, respectively.

CS introduced two multi-asset ETPs earlier this year. The CoinShares Physical Top 10 Crypto Market ETP aims to provide investors with direct exposure to the CoinShares – Compass Top 10 Crypto Market Index, which measures the performance of the largest digital assets (with current BTC and ETH weighted at 35% each, supplemented by Ripple, Cardano, Polygon, Solana, Polkadot, Litecoin, Tron and Avalanche). The CoinShares Physical Smart Contract Platform tracks the CoinShares – Compass Smart Contract Platform Index, measuring performance of the largest native tokens of smart contract-enabled platforms, led by Ether (35% weight), followed by Cardano, Polygon, Polkadot, Tron, Solana, Avalanche, Chainlink, Stellar and Algorand. We believe the introduction of multi-asset ETPs by CS is a good move, as we expect more sophisticated products to attract a considerable share of the total crypto ETP market in the long term. That said, we acknowledge that the products have been launched at quite difficult times for the industry and for now have negligible assets under management.

Management highlighted during the Q123 earnings call that it plans to establish an active asset management business in 2023, seeding several strategies from its own balance sheet. It plans to recruit professionals who will help it transform its pure proprietary business model to a traditional active asset manager platform. In terms of marketing, we understand that CS also plans to leverage its existing sales team, which is responsible for passive products. More details will be communicated during the Q223 earnings call, but management indicated that its first strategy should have capacity of at least US\$200–300m.

A moderate level of XBT Provider inflows and outflows resulted in liquidity provisioning income of £0.7m in Q123 (vs £2.0m in Q122). At the same time, in Q123 CS saw an encouraging pick-up in income from delta neutral strategies (£1.4m vs £0.6m in Q122) and fixed income activities (£2.2m vs £1.2m in Q122), despite the reduced number of counterparties CS now trades with. The company's decentralised finance (DeFi) gains of £3.0m (vs £6.3m in Q122) came largely from ETH staking. According to [etherscan.io](https://etherscan.io), the current staking yield stands at c 5.6% pa.

**Exhibit 1: Q123 results highlights**

£m, unless otherwise stated	Q123	Q122	change y-o-y
<b>Revenue, of which:</b>	<b>9.4</b>	<b>18.0</b>	<b>-48.0%</b>
XBT Provider	8.3	16.3	-48.9%
CoinShares Physical	0.6	0.4	49.9%
Equities platform	0.3	0.5	-37.2%
B2C	-	0.7	N/M
Other	0.1	0.1	77.3%
<b>Capital market infrastructure income/gains, of which:</b>	<b>6.7</b>	<b>10.2</b>	<b>-34.2%</b>
Liquidity provisioning	0.7	2.0	-65.1%
Delta Neutral Trading Strategies	1.4	0.6	138.9%
Fixed income activities	2.2	1.2	85.3%
Decentralised Finance (DeFi)	3.0	6.3	-51.8%
Other	(0.6)	0.2	N/M
<b>Principal investment gains/(losses)</b>	<b>(0.6)</b>	<b>(0.1)</b>	<b>N/M</b>
Administrative expenses excluding D&A	(6.9)	(9.2)	-25.4%
<b>Adjusted EBITDA</b>	<b>8.4</b>	<b>18.7</b>	<b>-54.9%</b>
<i>Adjusted EBITDA margin</i>	<i>54.7%</i>	<i>66.9%</i>	<i>-18.3%</i>
Depreciation and amortization	(0.8)	(0.6)	35.8%
Finance expense	(1.3)	(2.2)	-41.6%
Income taxes	(0.1)	0.1	N/M
Currency translation differences	(3.4)	4.1	N/M
<b>Total comprehensive income</b>	<b>2.9</b>	<b>20.2</b>	<b>-85.5%</b>

Source: CoinShares International

## Forecast revisions

We have raised our FY23 adjusted EBITDA forecast to £31.8m from £25.2m previously on the back of increased expectations in terms of capital market infrastructure income and gains. We have also changed our forecast income/gains split, assuming a higher proportion from staking rewards following the successful implementation of the Shanghai upgrade. That said, our total comprehensive income forecast remains broadly unchanged due to negative currency translation effects. Our FY24 and FY25 adjusted EBITDA forecasts remain largely unchanged.

**Exhibit 2: Summary of forecast revisions**

£m, unless otherwise stated	FY22		FY23e		FY24e			FY25e		
	Actual	Old	New	diff (%)	Old	New	diff (%)	Old	New	diff (%)
<b>Revenue, of which:</b>	<b>51.5</b>	<b>37.8</b>	<b>37.5</b>	<b>(0.7)</b>	<b>50.0</b>	<b>48.2</b>	<b>(3.6)</b>	<b>73.9</b>	<b>71.1</b>	<b>(3.9)</b>
XBT Provider	46.0	31.7	31.9	0.6	35.2	34.2	(3.0)	46.4	44.9	(3.2)
CoinShares Physical and other*	2.3	4.2	3.8	(10.5)	12.0	11.3	(5.6)	23.3	22.1	(5.3)
Block index	1.9	1.5	1.5	(3.1)	2.2	2.1	(3.2)	3.0	2.9	(3.2)
B2C	0.9	0.0	0.0	N/A	0.0	0.0	N/A	0.0	0.0	N/A
<b>Capital market infrastructure income/gains, of which:</b>	<b>(17.4)</b>	<b>20.9</b>	<b>26.3</b>	<b>25.9</b>	<b>32.1</b>	<b>30.5</b>	<b>(5.1)</b>	<b>41.0</b>	<b>40.9</b>	<b>(0.2)</b>
Liquidity provisioning	4.5	2.6	3.0	13.2	6.6	4.6	(29.9)	5.1	4.3	(15.1)
Delta Neutral Trading Strategies	2.6	7.6	4.6	(39.6)	11.7	5.4	(54.1)	16.6	12.0	(27.6)
Fixed income activities	5.0	5.0	6.7	33.7	5.1	8.0	58.8	5.1	9.6	88.7
DeFi	13.9	4.6	12.0	163.6	7.7	12.5	61.2	13.2	15.0	13.8
Other	(43.3)	1.1	0.0	(100.0)	1.1	0.0	(100.0)	1.1	0.0	(100.0)
<b>Principal investment gains/(losses)</b>	<b>(4.9)</b>	<b>0.0</b>	<b>(0.7)</b>	<b>N/A</b>	<b>0.0</b>	<b>0.0</b>	<b>N/A</b>	<b>0.0</b>	<b>0.0</b>	<b>N/A</b>
Administrative expenses excluding D&A	(35.3)	(33.4)	(30.9)	(7.6)	(41.2)	(37.0)	(10.2)	(50.9)	(45.7)	(10.3)
<b>Adjusted EBITDA</b>	<b>(6.5)</b>	<b>25.2</b>	<b>31.8</b>	<b>26.3</b>	<b>41.0</b>	<b>41.1</b>	<b>0.4</b>	<b>64.0</b>	<b>65.1</b>	<b>1.7</b>
<b>Total comprehensive income</b>	<b>3.0</b>	<b>17.4</b>	<b>17.4</b>	<b>(0.2)</b>	<b>29.3</b>	<b>30.4</b>	<b>3.4</b>	<b>51.4</b>	<b>53.6</b>	<b>4.1</b>

Source: CoinShares data, Edison Investment Research. Note: \*Includes fees from CoinShares Physical, 3iQ and Invesco.

**Exhibit 3: Financial summary**

Year end 31 December £'000s unless otherwise stated	FY18	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e	FY26e	FY27e
<b>Income Statement</b>										
<b>Revenues</b>	<b>10,549</b>	<b>11,331</b>	<b>18,389</b>	<b>80,755</b>	<b>51,484</b>	<b>37,550</b>	<b>48,183</b>	<b>71,060</b>	<b>88,182</b>	<b>96,280</b>
Administrative expenses	(10,927)	(9,284)	(14,312)	(32,059)	(38,166)	(33,932)	(40,007)	(48,735)	(56,774)	(62,308)
Other operating income	4,811	529	607	14,665	16,599	14,000	14,700	15,435	16,207	17,017
Profit/(loss) on financial instruments	519,988	(64,553)	(1,398,436)	(2,483,773)	2,001,602	(803,715)	(1,022,696)	(1,749,689)	(629,959)	(635,019)
Realised gain/(loss) on investments	(1,074)	(405)	942	5,287	(2,800)	0	0	0	0	0
<b>Adjusted EBITDA</b>	<b>12,993</b>	<b>11,171</b>	<b>22,113</b>	<b>121,059</b>	<b>(6,521)</b>	<b>31,844</b>	<b>41,108</b>	<b>65,076</b>	<b>72,927</b>	<b>75,797</b>
EBIT	523,347	(62,382)	(1,392,810)	(2,415,125)	506,719	19,541	27,533	49,396	57,161	59,523
Finance income	693	931	3,793	10,905	12,964	9,093	10,527	12,632	12,717	13,226
Finance expense	(148)	(404)	(1,191)	(7,045)	(6,373)	(5,538)	(7,137)	(7,546)	(7,598)	(8,728)
Pre-tax profit	523,892	(61,855)	(1,390,208)	(2,411,265)	513,310	23,095	30,923	54,481	62,281	64,021
Income taxes	(230)	(269)	(401)	(1,056)	(500)	(443)	(568)	(920)	(1,028)	(1,059)
Net income	523,662	(62,124)	(1,390,610)	(2,412,322)	512,810	22,652	30,355	53,562	61,253	62,962
<b>Total comprehensive income</b>	<b>14,407</b>	<b>8,914</b>	<b>18,419</b>	<b>113,443</b>	<b>3,046</b>	<b>17,394</b>	<b>30,355</b>	<b>53,562</b>	<b>61,253</b>	<b>62,962</b>
Adjusted EPS (diluted, £)*	N/A	N/A	0.28	1.62	0.04	0.26	0.45	0.79	0.90	0.92
DPS (£)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Balance Sheet</b>										
Property, plant and equipment	214	376	223	510	1,936	1,200	534	(61)	(583)	(1,028)
Digital assets	N/A	N/A	N/A	N/A	112	112	112	112	112	112
Intangible assets	0	7	20	19,781	11,992	11,119	10,246	9,373	8,500	7,627
Investments	6,158	5,585	3,626	24,501	45,020	44,389	44,389	44,389	44,389	44,389
Long term receivables and other	15	323	329	581	1,360	1,360	1,360	1,360	1,360	1,360
Non-current assets	6,387	6,290	4,199	45,372	60,420	58,180	56,641	55,173	53,779	52,460
Trade and other receivables	9,350	27,011	62,274	1,075,971	199,045	540,479	739,466	1,073,650	1,229,584	1,416,763
Digital assets	217,521	427,524	1,826,695	2,736,481	868,944	1,505,838	2,268,180	3,649,609	4,174,710	4,850,721
Cash at bank	32,897	2,350	2,266	11,088	26,565	16,952	32,710	48,460	99,242	164,837
Amounts due from brokers	N/A	39,405	66,518	118,976	233,507	179,772	269,113	440,300	505,801	590,422
Current assets	259,767	496,290	1,957,752	3,942,516	1,328,061	2,243,041	3,309,469	5,212,019	6,009,338	7,022,743
<b>Total assets</b>	<b>266,154</b>	<b>502,580</b>	<b>1,961,951</b>	<b>3,987,888</b>	<b>1,388,480</b>	<b>2,301,221</b>	<b>3,366,110</b>	<b>5,267,192</b>	<b>6,063,116</b>	<b>7,075,203</b>
Share capital	2,214	2,215	31	34	34	34	34	34	34	34
Share premium	111	111	2,387	30,781	30,781	30,781	30,781	30,781	30,781	30,781
Other reserves	104,322	168,813	1,209,630	667,846	(22,500)	(27,758)	(27,758)	(27,758)	(27,758)	(27,758)
Retained earnings	(68,003)	(125,795)	(1,155,551)	(497,727)	195,644	218,296	248,651	302,213	363,466	426,428
<b>Total equity</b>	<b>38,644</b>	<b>45,343</b>	<b>56,497</b>	<b>200,934</b>	<b>203,959</b>	<b>221,353</b>	<b>251,708</b>	<b>305,270</b>	<b>366,523</b>	<b>429,485</b>
Trade payables and other liabilities	227,469	419,340	1,792,936	3,491,612	1,025,734	1,878,051	2,902,347	4,748,577	5,454,992	6,367,612
Amounts due to brokers	N/A	37,631	112,121	292,708	135,385	178,415	188,653	189,943	218,200	254,704
Lease liabilities	0	0	0	0	581	581	581	581	581	581
Current tax liabilities	42	266	398	2,635	236	236	236	236	236	236
Current liabilities	227,510	457,237	1,905,454	3,786,955	1,161,937	2,057,283	3,091,817	4,939,338	5,674,009	6,623,134
Non-current liabilities	0	0	0	0	22,584	22,584	22,584	22,584	22,584	22,584
<b>Total equity and liabilities</b>	<b>266,154</b>	<b>502,580</b>	<b>1,961,951</b>	<b>3,987,888</b>	<b>1,388,480</b>	<b>2,301,221</b>	<b>3,366,110</b>	<b>5,267,192</b>	<b>6,063,116</b>	<b>7,075,203</b>
<b>Ratios</b>										
Adjusted EBITDA margin	52.1%	54.0%	62.8%	85.3%	-19.1%	49.9%	52.3%	58.1%	57.2%	55.6%
Adjusted net margin	59.4%	38.4%	47.6%	79.9%	8.9%	27.3%	38.6%	47.8%	48.0%	46.2%

Source: Company data, Edison Investment Research. Note: \*Total comprehensive income per share.

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