

CoinShares International

Q321 results

Maintaining robust earnings in Q321

CoinShares International (CS) continues to benefit from the overall benign environment for digital assets. While lower trading volumes in the broader market translated into more limited income/gains from its capital market infrastructure in Q321 compared to the particularly strong Q121 and Q221, the rebound in digital asset prices versus end-June 2021 assisted its management fee income. Moreover, net outflows from XBT Provider Trackers have eased lately and in October were offset by net inflows into its institutional-grade CoinShares Physical ETPs.

Year end	Revenue (£m)	Adjusted EBITDA* (£m)	Adjusted EPS** (£)	DPS (£)	P/E (x)	Yield (%)
12/19	11.3	11.2	N/A	0.0	N/A	N/A
12/20	18.4	22.1	0.28	0.0	26.9	N/A
12/21e	77.6	114.5	1.56	0.0	4.8	N/A
12/22e	100.1	107.0	1.39	0.0	5.4	N/A

Note: *Sum of revenue, income and gains from capital markets infrastructure and gains on principal investments less administrative expenses excluding D&A. **Total comprehensive income per share attributable to shareholders of the parent.

Q321 adj EBITDA at £26.0m, close to Q221 result

CS reported a total comprehensive income of £26.2m in Q321 (vs £2.7m in Q320 and £26.6m in Q221). Its fee revenue reached £18.4m (vs £4.5m in Q320 and £19.6m in Q221), with the rebound in digital asset prices from end-June 2021 partially offsetting the net outflows in the period. Capital market infrastructure (CSCM) generated income/gains of £8.4m versus £3.2m in Q320 and £14.7m in Q221, with the sequential decline mostly driven by lower gains on CS's delta neutral trading strategies (£2.6m vs £9.1m in Q221) amid more muted broad market activity. However, with gains from its principal investment portfolio at £4.8m in Q321 and more moderate administrative expenses (£5.7m in Q321 vs £9.7m in Q221), CS's adjusted EBITDA was £26.0m versus £28.6m in Q221 (and £4.7m in Q320).

Measures to further enhance its investment appeal

In the Q321 investor call management highlighted that it plans to communicate a roadmap for CS's development in the coming years to the market before the release of FY21 results (scheduled for March 2022). Any details on the launch of new products (CoinShares Physical ETPs in particular) will be something to look out for. Meanwhile, CS continues to explore new income sources as it started to engage in yield farming in the decentralised finance space. It is looking at uplisting to the regulated segment of Nasdaq Stockholm in Q2/Q322.

Valuation: 37% upside despite share price growth

Since our initiation of coverage on 15 October 2021, CS's share price has appreciated c 16% to SEK87.2, which leaves an upside potential of c 37% based on the updated value estimate in our base-case scenario of SEK119.8 (vs SEK120.3 previously). We have updated our 'Crypto Winter 2022' scenario (see our [initiation note](#) for details), which now implies a fair value per share of SEK72.9.

Financials

18 November 2021

Price **SEK87.2**
Market cap **SEK5,921m**

SEK11.5978/£

Gross cash (£m) at end-Q321 18.8

Shares in issue 67.9m

Free float 25.5%

Code CS

Primary exchange Nasdaq First North

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 5.1 31.7 N/A

Rel (local) (2.5) 26.6 N/A

52-week high/low SEK123 SEK61

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. It recently also acquired a blockchain equity index business.

Next events

Preliminary FY21 results 31 March 2022

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Q321 results: Digital asset prices up, but volume down

We consider CS's total comprehensive income and adjusted EBITDA as key financial performance indicators that are more relevant than its net income (see our [initiation note](#) for details). CS reported a solid total comprehensive income of £26.2m in Q321, significantly up from £2.7m in Q320 and close to £26.6m reported in Q221. Similarly, the company's adjusted EBITDA reached £26.0m compared to £4.7m in Q320 and £28.6m in Q221.

Exhibit 1: CoinShares International Q321 results highlights

£m, unless otherwise stated	Q321	Q221	Q121	Q320
Revenue, of which	18.4	19.6	17.1	4.5
Retail platform (XBT Provider)	17.5	N/A	N/A	N/A
Institutional platform (CoinShares Physical)	0.2	N/A	N/A	N/A
Index platform (Block index)	0.6	0.0	0.0	0.0
Capital market infrastructure income/gains, of which	8.4	14.7	22.8	3.2
Liquidity provisioning	1.7	3.3	6.3	0.7
Delta Neutral Trading Strategies	2.6	9.1	10.1	1.6
Fixed income activities	3.1	1.7	2.7	1.0
Other	1.0	0.5	3.6	(0.0)
Principal investment gains/(losses)	4.8	4.1	0.0	0.2
Adj. administrative expenses	(5.7)	(9.7)	(5.7)	(3.3)
Adj. EBITDA	26.0	28.6	34.2	4.7
Adj. EBITDA margin	82%	75%	86%	59%
Depreciation and amortisation	(0.5)	(0.1)	0.0	0.0
Finance expense	(1.5)	(1.6)	(0.7)	(0.3)
Income taxes	(0.4)	(0.3)	(0.9)	(0.2)
Currency translation differences	2.6	(0.1)	(0.4)	(1.5)
Total comprehensive income	26.2	26.6	32.1	2.7
Adj. EPS (£, basic)*	0.38	0.40	0.50	N/A
Adj. EPS (£, diluted)*	0.37	0.38	0.48	N/A

Source: CoinShares International, Edison Investment Research. Note: *Total comprehensive income per share.

Fee revenue slightly down versus Q221

CS's management fees were £18.4m in Q321, down c 6% versus £19.6m in Q221 (but still up 3x vs Q320). Consequently, Q321 fees represent the second-best result in CS's history after Q221. The sequential decline was a function of lower average digital asset prices, bitcoin (BTC) and ether in particular, as a result of the sell-off in May 2021 (despite the subsequent partial rebound that started in late July 2021). Moreover, CS's XBT Provider Trackers saw net outflows of c US\$330–340m in Q321 (according to our estimates, based on company data). This was partially offset by net inflows into the CoinShares Physical ETPs, which are still in a ramp-up phase and thus remain only a minor top-line contributor for now (£0.2m in Q321). After the acquisition of the ETF index business from Elwood Technologies in July 2021, CS started recognising management fees from the Invesco CoinShares Blockchain Global Equity UCITS ETF, which in Q321 amounted to c £0.6m. We note the index business has recently expanded through feeder funds in Japan and Thailand (with the launch of another feeder fund in India scheduled for November).

Capital markets income and gains visibly up vs Q320 but down sequentially amid more muted activity in the broader market

CS's CSCM operations posted income/gains of £8.4m in Q321, visibly up from £3.2m in Q320, but down from £14.7m in Q221. We note, however, that Q221 (and Q121) was characterised by particularly high market activity and volatility (which normally benefits CSCM), while Q321 has been a more muted period (eg BTC trading volumes went down by c 41% according to Arcane Crypto), which may be at least partially due to seasonality factors (summer holiday season). Consequently,

CSCM's delta neutral trading strategies delivered a £2.6m gain (vs £1.6m in Q320 and £9.1m in Q221). Meanwhile, fixed income activities generated a £3.1m income in Q321 (up from £1.0m in Q320 and £1.7m in Q221). CS's liquidity provisioning income (generated primarily on XBT Provider Trackers) stood at £1.7m vs £0.7m in Q320 and £3.3m in Q221. CS continues to explore new trading opportunities and management highlighted during the Q321 investor call that CSCM started to engage in yield farming (ie staking or locking up digital assets to generate tokenised rewards) on decentralised finance protocols such as Compound, Aave and Maple Finance. According to a [Glassnode analysis](#) from early September 2021, USDC lending rates on Compound and Aave stood at c 3–4% in late August and early September 2021, but were as high as 12% before the market sell-off in May 2021. CS has also started to participate in the governance of selected protocols (eg Aave).

Results assisted by gains from principal investment portfolio

CS also recognised c £4.8m gains on its principal investments, most notably from 3iQ (£2.0m), Solana tokens (£1.6m) and carried interest from CoinShares Fund II (£1.4m). The latter was mostly driven by the US\$155m series B funding round of the blockchain infrastructure-as-a-service company Blockdaemon (which is among others a node operator and staking infrastructure provider), carried out at a valuation of US\$1,255m. Management highlighted that the current carrying value of its stake in 3iQ is still below the valuation implied by its latest funding round. After balance sheet date, the company announced a US\$11.8m investment in a 9.02% stake in FlowBank, a Swiss-based online bank (see our [initiation note](#) for details).

Excess cash deployed into trading strategies

CS's administrative expenses fell from £9.8m in Q221 to £6.2m in Q321 (thus returning closer to the Q121 level of £5.8m), which the management considers a more appropriate run-rate going forward. CS continues to improve its tech infrastructure and has added a number of new engineering hires to the team (with the total number of employees at CS of 58 compared to 42 at end-2020).

CS's cash position at end-September 2021 was £18.8m, down from £53.3m at end-June 2021. Based on our discussion with the management, we understand that a significant part of the previous cash position has been deployed into CSCM's trading strategies, for example a cash and carry strategy as the digital asset futures markets moved from backwardation to contango in Q321. The latter was also an important driver of the net amounts due to brokers, which was £122.2m at end-September 2021 (including utilised credit lines CS has with its brokers) versus a net amount from brokers of £24.9m at end-June 2021. However, this movement was offset by increased digital asset holdings purchased to hedge these liabilities.

Guarantee for XBT Provider's activities transferred

XBT Provider is operating under an exemption granted by Nasdaq (which operates the exchange where the XBT Provider Trackers are listed) given it does not hold an EEA MiFiD-compliant regulated status. To take advantage of the exemption, it has been required to provide a guarantee for its activities (which so far was provided by a group subsidiary, CoinShares Jersey). CS's intention was to acquire Peak AM Securities (which holds an EEA MiFiD-compliant regulated status), but acquisition negotiations were terminated in August 2021 (as the Swedish regulator denied CS's application for the ownership suitability assessment in relation to the acquisition of Peak AM Securities). However, CS's legal and compliance team identified an alternative solution to transfer the guarantee internally to CoinShares Capital Markets Jersey. As this entity is responsible for hedging the liability under the programme, CS's clients are now offered a more transparent setup with the hedging and guarantee related to the XBT Provider products within a single entity.

This secures the continuity of the product platform while satisfying the requirements of the Jersey regulator.

Outlook: Growing investor interest in digital assets

Net outflows from XBT Provider Trackers more limited recently

The XBT Provider Trackers saw c US\$1.1bn of net outflows ytd to 29 October 2021 (which resulted in the release of c £11m accrued management fees, according to the management), which we believe has been primarily driven by earlier investors realising gains following the strong bull run in digital assets since March 2020. We note, however, that net outflows eased somewhat recently with c US\$171m between August and October. There were even a few weeks with net inflows recorded in late September and early October, while in November so far, the products reported a US\$3.3m net inflow, according to CS's weekly fund flow reports. Management also highlighted the number of individual holders of XBT Provider Trackers tripled from c 24k at the beginning of the year to 72k currently, suggesting these products continue to attract a considerable number of new investors.

Inflows into CoinShares Physical ETPs to be driven by institutional adoption

Meanwhile, net inflows to the CoinShares Physical ETPs continued with c US\$70m in October (c US\$180m ytd after excluding CS's seed assets), offsetting net outflows from XBT Provider Trackers during the month. According to the management, CoinShares Physical was the third-best ETP platform in Europe in terms of inflows in Q321 (up from fifth in Q121 and Q221) out of nine digital asset ETP issuers active in Europe. Inflows should be supported by listing on further exchanges (eg the Bitcoin and Ethereum ETPs were recently listed on Euronext Paris and Amsterdam). CoinShares Physical ETPs have been introduced to appeal to institutional investors and we believe growing institutional adoption should represent a positive driver for fund inflows. This seems to be confirmed by the [Institutional Investor Digital Assets Study](#) conducted by Fidelity Digital Assets between 2 December 2020 and 2 April 2021 (published in September 2021) on a group of financial advisers, high-net-worth Individuals, family offices, pension funds and defined benefit plans, crypto hedge funds and venture capital funds, and more traditional hedge funds and endowments and foundations. According to the study, the share of surveyed European investors who intend to purchase digital assets in the future increased from 60% a year earlier to 75% currently. Interestingly, the study showed a more progressive view towards digital assets of European investors compared to US investors. Also important is that 84% of US and European investors surveyed indicated they would be interested in institutional investment products that hold digital assets. Their allocations to such investment products increased from 14% to 29%, although the share of surveyed European investors holding digital assets directly has also increased versus the prior year, from 29% to 41%.

Forecast changes and valuation

On the back of the more limited net outflows from XBT Provider Trackers recently, we have reduced our assumed net outflows in FY21e and FY22e to c US\$1,178m and US\$1,023m, respectively (vs previous assumptions at US\$1,319m and US\$1,302m, respectively). We have also slightly raised our global digital asset allocation assumptions for FY21e to FY24e, supported by the recent solid inflows across the market, and recent strong performance of digital assets. Nevertheless, we keep our relatively conservative 2.0% and 2.5% allocation forecast for FY25e and FY30e unchanged. The above has translated into higher management fee forecasts for CS of £100.1m in FY22e (vs £72.0m previously) and £92.9m in FY23e (vs £66.5m previously), while our FY21e forecast remains

broadly unchanged (£77.6m vs £78.1m previously). That said, as fees generated on XBT Provider Trackers are accrued until investors redeem the certificates, the above had only a limited positive effect on our forecasted cash release of fees in the near term (although it assisted the expected cash fees in later years). Moreover, the reduced forecast outflows (together with an adjustment we made to the assumed average spread) translated into a lower expected income from liquidity provisioning in the near term.

Given the large swings between quarters in CS's amounts due from and to brokers, including the utilised proportion of credit lines with brokers, we are now reflecting the interest expense on these credit lines in our free cash flow calculations rather than adjusting CS's valuation for the last reported net amounts due from/to brokers. Moreover, we have reflected the lower cash position at end-September 2021 compared to end-June 2021 and updated our fx assumptions. As a result, our value estimate of CS in our base-case scenario is SEK119.8 per share (vs SEK120.3 previously). Since our initiation of coverage on 15 October 2021, CS's share price has appreciated c 16% to SEK87.2, which still leaves an upside potential of c 37% based on our fair value estimate. We have also updated our 'Crypto Winter 2022' scenario (see our [initiation note](#) for details), which now implies a fair value per share of SEK72.9.

Exhibit 2: CS's DCF valuation model

£m, unless otherwise stated	Q421e	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
Adjusted EBITDA*	25.9	107.8	104.1	107.8	115.7	120.6	125.7	131.0	134.6	140.8
Interest expense	(1.5)	(7.1)	(6.7)	(6.6)	(7.0)	(7.8)	(7.8)	(7.8)	(7.6)	(7.3)
CSCM income/gains adjustment	0.0	(1.6)	(7.5)	(13.4)	(19.6)	(25.9)	(33.8)	(42.6)	(52.3)	(63.1)
Income taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in working capital	(19.0)	(72.6)	(40.4)	(12.6)	8.6	17.2	27.1	44.4	40.9	41.8
Capex	(8.7)**	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
FCFF	(3.4)	26.3	49.3	75.0	97.6	104.0	111.0	124.9	115.3	112.0
DFCFF	(3.3)	22.8	38.2	51.9	60.3	57.4	54.7	54.9	45.3	39.3
WACC	12.0%									
Residual growth rate	2.0%									
Sum of DFCFF	421.3									
Residual value	236.0									
Principal investments	23.5**									
Digital assets/tokens	4.0									
Enterprise value	684.7									
Net debt/(cash) 30 September 2021	(18.8)									
Equity value	703.5									
Share count (fully diluted)	71.3									
Fair value per share (£)	9.9									
£/SEK	12.0									
Fair value per share (SEK)	119.8									
Current share price (SEK)	87.2									
Upside/(downside)	37%									

Source: CoinShares International data, Edison Investment Research. Note: *Adjusted for non-cash share-based payments. **Adjusted for the FlowBank deal.

Exhibit 3: Financial summary

Year ending December (FRS 102) £000s unless otherwise stated	2018	2019	2020	2021e	2022e	2023e	2024e	2025e
Income Statement								
Revenues	10,549	11,331	18,389	77,598	100,129	92,915	94,625	102,221
Administrative expenses	(10,927)	(9,284)	(14,312)	(28,893)	(35,632)	(37,047)	(40,266)	(44,674)
Other operating income	4,811	529	607	1,240	1,278	1,316	1,355	1,396
Intercompany collateral (expense)/income	557,896	(118,108)	(1,440,569)	(3,334,037)	(31,362)	(635,936)	(663,623)	(731,497)
Realised gain on digital assets/financial instruments	(37,907)	53,555	42,133	(132,283)	107,172	113,275	128,334	154,966
Realised gain/(loss) on investments	(1,074)	(405)	942	5,378	0	0	0	0
Adj. EBITDA	12,993	11,171	22,113	114,470	107,016	103,373	107,034	114,960
EBIT	523,347	(62,382)	(1,392,810)	(3,410,997)	141,584	(465,478)	(479,575)	(517,588)
Finance income	693	931	3,793	10,532	11,585	12,743	14,017	15,419
Finance expense	(148)	(404)	(1,191)	(5,402)	(7,148)	(6,725)	(6,629)	(6,969)
Pre-tax profit	523,892	(61,855)	(1,390,208)	(3,405,867)	146,020	(459,460)	(472,187)	(509,137)
Income taxes	(230)	(269)	(401)	(1,599)	0	0	0	0
Net income	523,662	(62,124)	(1,390,610)	(3,407,466)	146,020	(459,460)	(472,187)	(509,137)
Total comprehensive income	14,407	8,914	18,419	108,618	98,861	95,642	99,399	106,985
Reported EPS (diluted, £)	N/A	N/A	(21.68)	(49.83)	2.05	(6.44)	(6.62)	(7.14)
Adjusted EPS (diluted, £)*	N/A	N/A	0.28	1.56	1.39	1.34	1.39	1.50
DPS (£)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Balance Sheet								
Property, plant and equipment	214	376	223	163	163	168	177	192
Intangible assets	0	7	20	11,651	10,809	9,967	9,125	8,283
Investments	6,158	5,585	3,626	14,753	14,753	14,753	14,753	14,753
Long term receivables	15	323	329	53	53	53	53	53
Non-current assets	6,387	6,290	4,199	26,620	25,778	24,941	24,108	23,281
Trade and other receivables	9,350	27,011	62,274	1,314,438	1,251,705	1,350,628	1,534,247	1,829,767
Digital assets	217,521	427,524	1,826,695	3,703,220	3,412,731	3,630,024	4,099,922	4,907,485
Cash at bank	32,897	2,350	2,266	18,509	13,741	29,426	76,205	148,538
Amounts due from brokers	N/A	39,405	66,518	133,434	120,700	127,573	144,533	174,527
Current assets	259,767	496,290	1,957,752	5,169,600	4,798,877	5,137,652	5,854,906	7,060,318
Total assets	266,154	502,580	1,961,951	5,196,220	4,824,655	5,162,592	5,879,015	7,083,599
Share capital	2,214	2,215	31	34	34	34	34	34
Share premium	111	111	2,387	27,430	27,430	27,430	27,430	27,430
Other reserves	104,322	168,813	1,209,630	2,524,688	2,477,529	3,032,631	3,604,216	4,220,339
Retained earnings	(68,003)	(125,795)	(1,155,551)	(2,361,225)	(2,215,205)	(2,674,665)	(3,146,852)	(3,655,989)
Total equity	38,644	45,343	56,497	190,927	289,787	385,429	484,828	591,813
Trade payables and other liabilities	227,469	419,340	1,792,936	4,765,489	4,310,710	4,556,188	5,161,901	6,233,112
Amounts due to brokers	N/A	37,631	112,121	238,274	224,157	220,975	232,286	258,674
Current tax liabilities	42	266	398	1,531	0	0	0	0
Current liabilities	227,510	457,237	1,905,454	5,005,294	4,534,867	4,777,163	5,394,187	6,491,786
Non-current liabilities	0	0	0	0	0	0	0	0
Total equity and liabilities	266,154	502,580	1,961,951	5,196,220	4,824,655	5,162,592	5,879,015	7,083,599
Ratios								
Adj. EBITDA margin	52.1%	54.0%	62.8%	86.7%	75.6%	74.1%	73.2%	72.5%
Adj. net margin	59.4%	38.4%	47.6%	82.2%	69.8%	68.6%	67.9%	67.4%
ETP management fee (% of average AUM)	2.5%	2.5%	2.5%	2.3%	2.2%	2.1%	1.9%	1.7%

Source: Company accounts, Edison Investment Research. Note: *Total comprehensive income per share attributable to shareholders of the parent.

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