

Banxa Holdings Inc.

(TSXV: BNXA)

N/A

Current Price: \$3.68

Fair Value: N/A

Risk*: 4

Cryptocurrency Payment Solution Company's Share Price up 2.5x After Going Public Yesterday – Introductory Note

Sector/Industry: Cryptocurrency

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In this note, we are introducing Banxa Holdings Inc. ("company", "Banxa"), a Payment Service Provider (fiat-to-crypto and vice versa) (PSP) company based in Australia. **Banxa went public yesterday through a reverse-takeover of a TSXV listed capital pool company.** Prior to going public, the company raised US\$5M. As part of the listing, the company raised an additional \$4M, and these funds will be allocated to product development and geographic expansion (40%), marketing and branding (30%), working capital (20%), and listing fees (10%). The company has **41M shares outstanding, implying a current market capitalization of \$151M. Shares are up 268% in under two days, from its listing price of \$1.** Management and board own 27% of the outstanding shares.

Company Overview

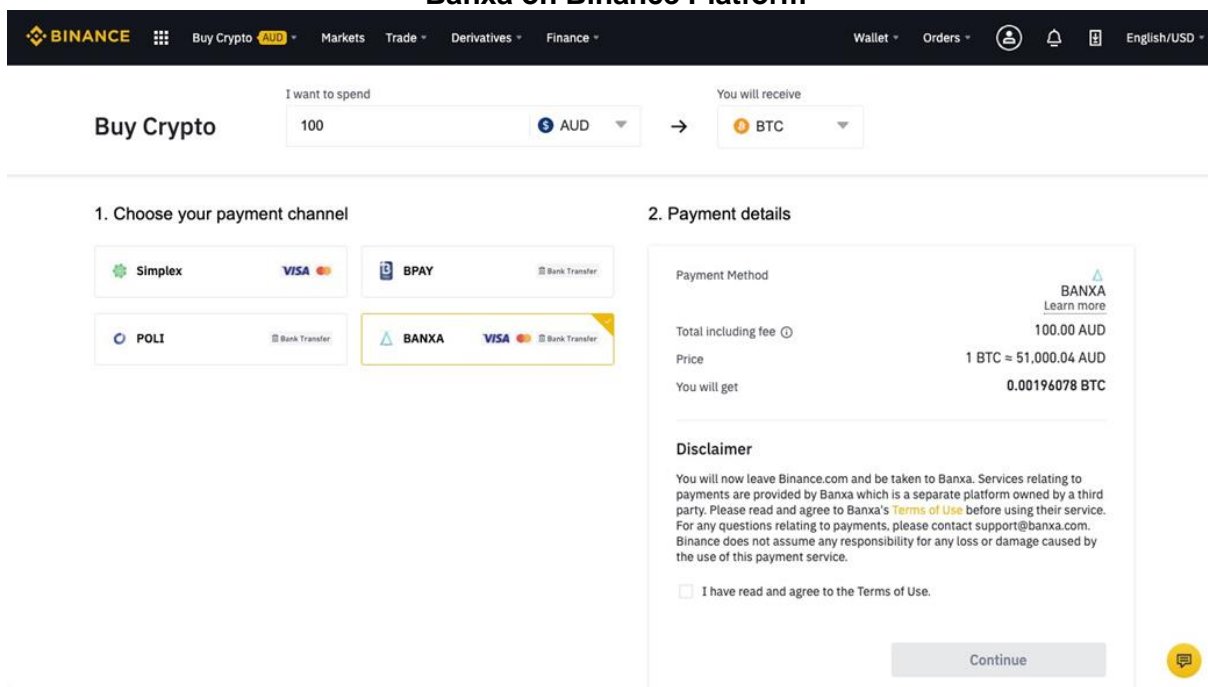
Banxa provides an international compliant solution enabling customers to engage in fiat-to-crypto as well as crypto-to-fiat transactions. The company targets both consumers ("B2C") and businesses ("B2B") in over 130 countries. Its solution permits the exchange of fiat currencies into bitcoin and other cryptocurrencies, and vice versa. **Notably, Banxa is a gateway partner for top cryptocurrency exchanges like Binance (one of the largest cryptocurrency exchanges in the world), OKex and Huobi.** Banxa's solution allows exchanges to offer conversion options to their customers.

How Banxa Works on a B2B Platform



Source: Company

Banxa on Binance Platform



Source: Company

Banxa’s payment service can be accessed through banxa.com, B2B customers (exchanges), and/or company-owned domain names. A significant benefit of Banxa’s platform is that, unlike most competitors, fiat-currencies can be accepted via a wide range of payment methods.

Customers			Company-Owned Domain Names				
<p>Exchanges</p> <ul style="list-style-type: none"> BINANCE bitfioneon bithumb bybit changelly Huobi KUCOIN LATOKEN MINE MXC OCEAN EX Phemex ShapeShift tokens 	<p>Wallets</p> <ul style="list-style-type: none"> edge CoolBitX Dove Wallet 	<ul style="list-style-type: none"> Australia: bitcoin.com.au UK: bitcoin.co.uk Canada: bitcoin.ca World: bitcoin.world Europe: bitcoin.eu Turkey: bitcoin.com.tr* Libya: bitcoin.ly Mexico: bitcoins.mx India: bitcoin.co.in Niger: bitcoin.ne Ireland: bitcoin.ie Chad: bitcoin.td Kenya: bitcoin.co.ke Philippines: bitcoin.net.ph Angola: bitcoin.it.ao Kenya: bitcoin.ke Colombia: bitcoins.co Senegal: bitcoin.sn Congo: bitcoin.cg Australia: bitcoin.net.au <p>* = launched</p>					

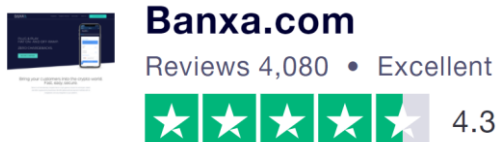
Permitted Payment Methods

Global*	Australia	Europe	Canada
<ul style="list-style-type: none"> VISA mastercard Apple Pay 	<ul style="list-style-type: none"> POLI Pay ID Post Billpay iPAY flexepin Newsagent 	<ul style="list-style-type: none"> Faster Payments SEPA Sofort 	<ul style="list-style-type: none"> Interac e-Transfer

Source: Company

According to the company, its flagship B2B product reaches over 1.2M users via its partners. We note that, other than Banxa, there are several alternative payment gateway providers, and the sector is highly competitive. **Banxa’s fee structure is similar to other operators. We believe Banxa’s major advantage is that it offers a wide range of local payment options.**

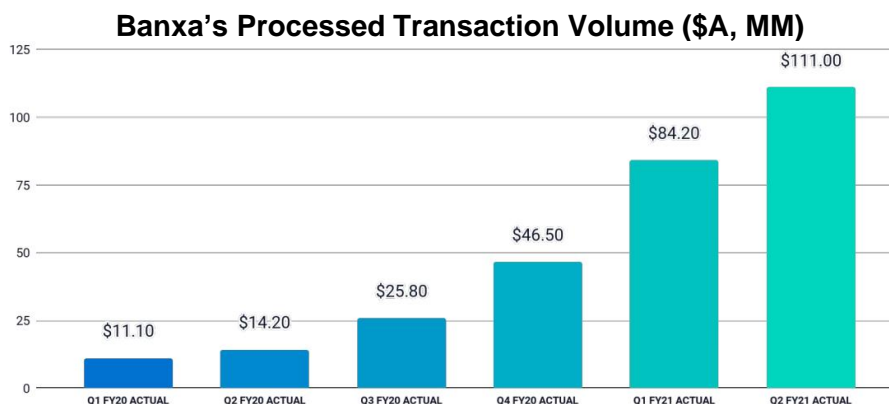
We found that Banxa’s service has high ratings on Trustpilot – 4.3 / 5 based on 4,080 reviews. The vast majority of reviews cited a very efficient and trustworthy process.



Source: Trustpilot

Business Model and Financials

Banxa generates revenue by charging up to 5% commission on the transaction value (similar to other operators). According to the company, their transaction volume has increased from \$11M in Q1-FY2020 (quarter ended September 30, 2019), to \$111M in Q2-FY2021 (quarter ended December 31, 2020). At a 2.5% commission, we believe this reflects a growth in quarterly revenue from \$275k to \$2.78M.



Source: Company

Management has indicated that they have a strong pipeline of new customers waiting to be onboarded. Going forward, Banxa plans to become a fintech platform offering financial services such as borrowing, lending, interest bearing accounts, and trading, subject to receipt of licenses.

Q1-FY2021 (quarter ended September 30, 2020) revenue was up 50% YoY to \$3M (includes commission and other revenue). The company had a healthy balance sheet at the end of the quarter, with \$3M in cash.

Financial Year End June 30 (\$A)	Q1-FY2020	Q1-FY2021	YoY%
Total Revenues per Financial Statements	\$1,937,057	\$2,902,901	50%
Buy transactions	\$7,874,490	\$79,765,327	913%
Sell transactions	\$1,440,251	\$1,236,037	-14%
Total Transaction Volume	\$9,314,741	\$81,001,364	770%
Gross Profit	\$204,676	\$611,038	199%
Gross Margin	10.57%	21.05%	
Gross Profit / Total Transaction Volume	2.20%	0.75%	
Net Income	-\$609,405	-\$1,160,987	-91%
EPS	-\$36.80	-\$57.20	-55%

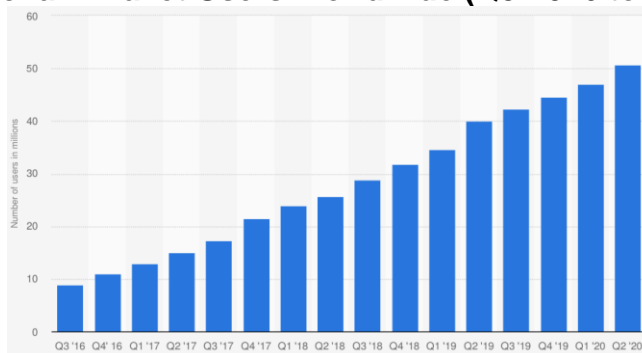
As at September 30, 2020 (\$A)	Q1-FY2021
Cash	\$3,108,283
Working Capital	\$894,754
L/T Debt	\$446,599
Total Assets	\$6,458,739

Source: Company Filings, FRC

Market Overview

According to Coinmarketmap, the total market capitalization of cryptocurrencies is currently **US\$957B**; this is less than 1% of the global fiat market. The number of blockchain wallet users has grown from under 10M in Q3-2016, to over 63M by Q4-2020, reflecting the sector’s rapid growth. **Bitcoin is currently trading at \$49k, an increase of 339% YoY, which indicates investors’ appetite for cryptocurrencies, especially in the current environment of uncertainties and high inflationary expectations.** We believe the popularity of cryptocurrency stems from a number of factors, such as fast execution of international transactions, ability to bypass certain fees associated with conventional banking systems, and protection of privacy through anonymity. We expect these factors to drive demand and cryptocurrency usage going forward.

Number of Blockchain Wallet Users Worldwide (Q3-2016 to Q2-2020, Millions)



Source: Statista

Valuation Metrics

The following table shows the Enterprise Value to Revenue (EV/R) ratios of a few Canadian listed stocks in the crypto space. We note that none of the companies are directly comparable to Banxa.

Name	Ticker	Focus	Market Cap	EV/R	Revenue TTM	EV
Galaxy Digital Holdings Ltd.	TSX: GLXY	Digital Assets	\$1.12B	N/A	No Revenue	\$776.16M
Netcents Technology Inc.	CSE: NC	Payment Gateway	\$97.46M	N/A		\$104.25M
Voyager Digital Canada	CSE: VYGR	Digital Assets	\$594.64M	236.6x	\$2.41M	\$570.28M
HIVE Blockchain Technologies Ltd.	TSXV: HIVE	Digital Assets	\$1.01B	33.73x	\$27.66M	\$932.96M
Blockchain Foundry Inc.	CSE: BCFN	Blockchain Solutions	\$35.95M	28.8x	\$1.28M	\$36.83M
Banxa Holdings Inc	TSXV: BNXA	Payment Gateway	\$150.88M	21.7x	\$6.79M	\$147.32M
			Min	21.7x		
			Max	236.6x		

Source: Company Filings, Yahoo! Finance, FRC

Even with the wide range of EV/R ratios in a fairly small set, we notice that Banxa is trading significantly below other companies in the space. **Our initiating report will include a fair value estimate and rating.**

Risks

We believe the company is exposed to the following risks (list is non-exhaustive):

- The cryptocurrency market is likely to be subject to government intervention.
- The company operates in a highly competitive landscape.
- Risk of technology failure.
- Cybersecurity risk.
- Cryptocurrency has been a highly volatile asset in recent years.

We are assigning a risk rating of 4 (Speculative).

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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The distribution of FRC's ratings are as follows: BUY (69%), HOLD (7%), SELL / SUSPEND (24%).

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