

Hilbert Group AB (publ)

Hilbert Group continues build-up during crypto bear market

Andreas Eriksson | 2022-06-01 09:30

Hilbert Group's revenue number for Q1 has now revealed the extent of the long-biased nature of the Hilbert Digital Asset Fund. During the rather turbulent conditions of the first five months, Hilbert is preparing to capitalize once the markets turn around again by upping the intensity of raising AUM with several new employees. But as the crypto market headwinds hamper near term outlook, we've revised our estimates and now find support for a fair value of SEK 14-17 (SEK 20-24) per share.

Turbulence going into 2022

Despite having had great success in 2021, where Hilbert Groups Digital Asset Fund (HDAF) outclassed Bitcoin (+203% vs +46%), the start of 2022 has been quite different. While most asset classes have shifted into bear market territory in response to higher interest rates, rampant inflation and Russia's war in Ukraine, digital assets have been hit the hardest with Bitcoin down almost 60% from the all-time high in 2021 and the complete collapse of Terra's crypto currency, Luna, that's down 99,9% from ATH in early April. So, while Hilbert's Q1 revenue of SEK 3,8m came in a bit below our estimate of SEK 5,4m, is not all that bad considering the challenging environment.

Attractive valuations of analytics websites

The progress of analytics website Coin360 has continued in a rapid pace. Employee count is up from two a year ago (when Hilbert invested) to 25 today, including sales, product owners and developers. We expect this number to reach 30 before year end. Monthly visits are at around 5 million and the building of a strong community paves the way for becoming the Bloomberg for digital assets, offering both retail and professional subscriptions. We estimate revenue potential to be over SEK 50m after full service launch in 2023. Similar websites, like Dune Analytics and Nansen enjoy valuations of USD 1 billion and USD 750m respectively, despite having lower traffic numbers than Coin360.

Long term value intact despite short term setbacks

As the second quarter has seen its own setbacks, where Bitcoin and Ethereum has continued downwards (Bitcoin traded at around USD 40,000 in early May and now just over USD 29,000), we find it likely that this will show in the performance and inflow to the asset management business in Q2 as well. With the launch of the third fund, with a market neutral strategy, the appointment of a CEO of asset management, as well as business developers fully focussed on increasing AUM, we believe the AUM will see a boost in the second half of 2022, provided that market conditions stabilize. All in all, our revised estimates for full-year fund performance and inflows where EBIT 2023E drops to MSEK 63 (MSEK 93), now motivate a fair value of SEK 14-17 (SEK 20-24) per share, which hinges upon an expectation of a long term recovery in the crypto market. Although it is difficult to assess the short term price development, Bitcoin has a proven track record of bouncing, as it is currently trading at 6x the levels of the low in March 2020.



NAV		Fair Value	
MSEK	Multiple		in Base Case
Asset Management	2x AUM 2022	9,3x EBIT 2023	585
Venture Capital	-	-	47
Data & Analytics	-	3x Sales 2023	111
Prop. Trading	-	-	20
NAV			762
Number of shares (M)			48,8
Per share			15,6

Source: Emergers

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Fair Value, SEK (18 months)	14-17
Current Price, SEK	3,8
Shares (M)	48,8
Mkt Cap (MSEK)	185
Net debt	-24
Enterprise Value (MSEK)	162
Market	First North

Wide exposure towards crypto boom on four verticals

Hilbert Group was founded in 2018 under the name Hilbert Capital as a pure asset manager in cryptocurrencies with quantitative methods as a strategy. The name change to Hilbert Group aims to show that it is now a full-blooded investment company with four verticals, all of which are exposed to digital assets and the market around them. The name Hilbert is a tribute to one of history's greatest mathematicians, David Hilbert. The business is divided into four business verticals.

Asset management

Hilbert Group currently manages two funds, the first (HDAF) focused on altcoins and the second (HSBF) mainly focused on Bitcoin and Ethereum. All are crypto funds and assets under management (AUM) currently amount to approximately SEK 128 million with earmarked seed financing of the two new funds, which will soon start at an additional approximately SEK 100 million. The company aims to reach SEK 870 million (USD 100 million) in AUM by the end of 2022.

Venture Capital

Hilbert Group intends to invest directly in blockchain and crypto-related companies in mainly four sectors; DeFI (decentralized finance), Blockchain / Smart contract services, Blockchain E-sports and services in general crypto infrastructure. So far, two investments have been made, the site Coin360.com which is 60% owned and overlaps operationally with Data & Analysis, as well as in the crypto investment bank HAYVN and the blockchain company Capchap.

Data & Analytics

The data collected in the asset management's day-to-day operations will be repackaged and resold in a SaaS model, including on the majority-owned site Coin360.com. The goal is to become a Bloomberg for digital assets and the estimated start is by the end of 2022.

Prop. trading

In proprietary trading, the company will manage its own funds through, above all, larger long-term positions in cryptocurrencies. 30-50% of the net profit from asset management is planned to be allocated to the company's proprietary trading.

Prognosis and valuation

Low costs compared to revenue potential

We estimate that total costs will amount to approximately SEK 30 million in 2022. At the same time, we have an expectation of income only from fund fees of SEK 57 million, provided that the market recovers during the year. In addition, there are revenues and expenses in the other operating legs, which at present are still difficult to estimate. Overall, we still see good conditions for double-digit profitability for the 2022 group.

In addition to the price development of the crypto market, the most important triggers for Hilbert will be the inflow of capital to asset management, as well as how quickly they can launch the Data & Analysis service and the new funds. Overall, we expect the company is positioned well to capitalize once the market turn around.

In addition, it is worth mentioning that the crypto market can be difficult to enter as a private investor as the assets are not traded on the most common trading venues. Hilbert now packages this in an easily accessible way and makes it possible for private investors to take part in the company and thus also expose themselves to the crypto market, without owning the digital assets directly.

Sum of the Parts

Key Model Assumptions	in Base Case
Bitcoin price forecast, 3Y annual change	50%
AUM 2022	293

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Risks

Regulatory risks: There is a risk that regulations may change the playing field for the open and decentralized systems on which the blockchains are based, or similar to the measures implemented in China; a prohibition. However, it does not feel very likely with strong regulations given how developed and widespread the technology has become. Regulations to protect individuals within, for example, DeFi feel more likely, but on the other hand it should not mean bumps in the road for the serious players.

Market risk: The company aims to only trade in liquid assets and also without any leverage. In this way, market risks are limited to the extent that they should not be stuck in an undesirable position while they will never have to sell positions to cover margin calls.

Money laundering: One of the biggest risks that critics of cryptocurrencies usually cite is that it is not possible to trace the transactions that are made, but it is rather the exact opposite. All transactions are stored in the blockchain and it is possible to identify who has sent how much money to whom, at what time. Hilbert Group also has a dedicated AML Compliance Officer, Money Laundering Reporting Officer and a Deputy Money Laundering Reporting Officer who continuously reviews all deposits to Hilbert Group's funds.

Governance

Frode Foss-Skiftesvik is Chairman of the Board of Hilbert Capital. With over 35 years of experience in building successful companies in alternative investments and the banking system where he has managed capital for investors such as Goldman Sachs, Blackstone, New York State, IKEA, SEB, Ericsson, etc. Foss-Skiftesvik comes most recently from a chairmanship at Fitzroy Capital, an investment company that invests in both listed and unlisted companies.

Erik Nerpin is Chairman of the Board of Hilbert Group. Nerpin is a lawyer from Uppsala University with solid experience in IPOs, M&A and new issues and has been a legal advisor to Pzifer Inc when they bought Pharmacia Group for USD 60 billion, to Ford when they bought Volvo Cars for SEK 50 billion and to several others. large companies.

Dr. Niclas Sandström is CEO of Hilbert Group and has over 16 years of experience from investment banking and hedge funds. He has a doctorate in theoretical physics from Chalmers in Gothenburg and has worked at Barclays Capital with financial risk management and at Credit-Suisse First Boston as a quantum analyst.

Dr. Magnus Holm is the CIO (chief investment officer) and co-founder of Hilbert Capital. Holm has created the company's algorithmic trading platform and is an expert in algorithmic trading, statistical models and sentiment analysis. Like Sandström, he also has a doctorate in theoretical physics from Chalmers in Gothenburg.

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