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## Bitcoin rally gives fresh hope to two SGX-listed companies that pivoted to crypto

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During the height of the previous crypto bull market, several companies on the Singapore Exchange (SGX) mainboard and Catalyst joined the crypto frenzy, aiming to expand their business opportunities.

Mainboard-listed SMI Vantage and Catalyst-listed OIO Holdings had gone ahead to acquire mining machines and staking businesses, unaware of the looming crypto winter ahead.

By the time the world found itself in a deep crypto winter in 2022, both companies had suffered dramatic losses. SMI Vantage was put on the SGX watch list for posting pre-tax losses for three consecutive financial years while OIO saw straight years of net losses from 2021.

Aligned with the industry's shift towards a crypto resurgence, the recent Bitcoin rally brings renewed optimism for the two firms whose business fortunes are tethered to the volatile nature of cryptocurrencies.

#### A mining vantage

SMI Vantage could not be better poised to gain from the post-halving Bitcoin rally and following the approval of spot Bitcoin ETFs. Formally known as Singapore Myanmar Investco, it diversified into cryptocurrency mining in 2022 after the coup in Myanmar and the Covid-19 pandemic disrupted its incumbent businesses of retail outlets and auto services.

In FY2022 ended March 31, 2022, the firm reported negative revenues of US\$50,000 and US\$4.1 million in losses. After diversification, the group reported a narrower gap in losses of US\$2.5 million in FY2023 and a surge in revenue to US\$1.8 million. The mining income from the conversion of mined Bitcoins into cash accounted for US\$17,000 of FY2023 revenue.

SMI Vantage collaborated with Nasdaq-listed The9, which had dabbled in mining cryptocurrencies and building NFTs or non-fungible tokens. SMI acquired 6,000 crypto mining machines to install across Melaka and Brunei. Mining is the validation of transactions that takes place on each digital asset block to generate cryptocurrencies.

The company also acquired six high hash rate machines and in March last year announced its intention to make more acquisitions to take advantage of lower machine prices.

In September 2022, deep in the crypto winter, SMI Vantage paused its mining operations. The value of Bitcoin had dropped by over 50% since the start of the year to just over US\$20,000 apiece and SMI Vantage did not generate any mining income from the conversion of mined Bitcoins into cash in 1HFY2024 ended September 2023.

The group decided to switch off its machines in Melaka and Brunei to reduce costs and instead focus on looking for more "attractive crypto mining locations", SMI Vantage CEO Mark Bedingham tells *The Edge Singapore*.

Then, an opportunity in Sarawak surfaced. The company was able to secure an attractive lease and power price. In West Malaysia

where Tenaga Nasional is the only electricity provider, the commercial and industrial tariff starts at RM0.323 per kWh and RM0.38 per kWh respectively, whereas Sarawak Energy Bhd's commercial and industrial tariff starts at RM0.20 and RM0.24 per kWh respectively.

"Sarawak mainly relies on hydro energy, which is also attractive as it is a renewable energy source. We have also been working with partners in Sarawak, who have been very instrumental in helping us find a good location and receptive landlords. We see this as something that has future potential," says Bedingham.

Advised by its partner Sovereign Systemtechnik (Sarawak), which was formed through a joint venture between state government-owned Permodalan ASSAR and Sovereign Sengalang, SMI Vantage signed an offer-to-rent agreement for the setting up of the Bitcoin mining business there last September.

As the new site in Sarawak comes onstream, SMI Vantage has resumed its Bitcoin mining operations. As at the end of February, the company had two containerised mining facilities, with the capability to power more than double the amount of facilities at its location in Sarawak.

"We are now confident to move ahead. We think the Bitcoin price is on an upward trajectory, and the inflows into Bitcoin ETFs underscore the confidence in the digital asset as a unit of value. As a consequence of that, we have further expansion plans for this business," says Bedingham.

Taking advantage of the incoming bull market, SMI Vantage is actively ramping up its Bitcoin mining operations. Apart from the two new containerised mining facilities, the company also entered into an agreement with The9 to acquire 200 new machines for US\$200,000 on March 4.

Whether SMI Vantage's bet on Bitcoin will pay off remains to be seen. Meanwhile, the upcoming Bitcoin halving will have a material impact on SMI's business — this year, the Bitcoin block reward will drop from 6.25 bitcoin per block to 3.125 bitcoin per block.

But Bedingham is positive about the ensuing rally. He says the firm is still looking to acquire more machines, upbeat that it would be profitable even with the halving. "Of course, the expectation is that there will be another boost to the price post-halving, which is something we have seen historically. It's just that this time around, there is the support provided by inflows from Bitcoin ETFs," he adds.

Though the group has its head deep in the sand with its Bitcoin mining business in Sarawak, Bedingham has learnt the necessity of further diversifying his business lines. At present, discussions to expand its footprint to locations with renewable energy sources like Europe and the Middle East are underway.

Additionally, SMI Vantage is becoming increasingly active in another non-cryptocurrency-related business: the F&B industry. In October 2022, the company

launched a "Robochef" concept with Dutch Oriental Restaurant, part of Dubai-based mega yacht builder Dutch Oriental Group.

Two Robochefs are currently deployed in Raffles Place and Tampines Central and the company continues to seek franchising opportunities within and outside of Singapore. In 1HFY2024 ended Sept 30, 2023, revenues of its F&B business doubled year on year to US\$601,000.

Whether or not the Bitcoin rally can help SMI Vantage recoup all its losses from the crypto winter, one thing remains certain — the company has learnt not to put all its eggs into one basket.

Bedingham says the company's shareholders welcome SMI Vantage's diversified business approach, building on the expectation that it would look for new business following the disruptions of its business in Myanmar.

"We were looking for businesses that can be operated out of Singapore, which is true for Bitcoin mining and F&B-related businesses. It also excites investors that we have over two years of experience in Bitcoin mining and we are the only listed company here doing this seriously. The additional stability that we provide, which is a consequence of us developing our businesses in Singapore, is something shareholders appreciate as it underpins our presence here," he concludes.

#### Going to the stake for crypto

In mid-2021, the mechanical and electrical (M&E) engineering firm OIO Holdings acquired Moonstake, Asia's second-largest staking business at that time, to pursue a less "cost-intensive" business model.

Like SMI Vantage, OIO Holdings' previous M&E business had suffered from the economic downturn due to the Covid-19 pandemic and the group was experiencing a decline in revenue from weak order intakes in FY2019 and FY2020.

One major shareholder was convinced that blockchain technology was the future and persuaded Yusaku Mishima, the firm's current executive chairman, to join the company and establish new business lines.

However, given crypto's negative reputation, Mishima and shareholders of OIO Holdings believed that the easiest way to legitimise a blockchain technology business was to acquire a shell of an existing listed company. The group was renamed OIO Holdings in 2020 and had two new business segments — a staking-related wallet service and a blockchain consultancy business for enterprises. The firm later went on to dispose of its M&E business fully, and by FY2023, it no longer contributed to the group's revenue.

Staking, which Mishima likens to a fixed deposit, allows investors to earn a yield on their crypto assets by locking their tokens in a network for some time. OIO Holdings merely runs a validator that validates the new block on the blockchain, which,

in turn, results in compensation every time a proof of stake occurs, he explains. At present, OIO Holdings operates 14 to 15 validators.

According to Mishima, staking activity offers the lowest yields but is the most "stable" financial product on the blockchain. Up to 80% of OIO Holdings' revenue comes from blockchain validation while the remaining 20% comes from its B2B enterprise businesses.

Staking revenue, which is earned in the form of cryptocurrencies, suffered greatly during the bear market, says the executive chairman. "Simply put, when the price is high, our revenue is high."

In 2022, when the crypto market lost over US\$2 trillion and Bitcoin lost over 60% of its value, OIO Holdings saw its revenue drop from US\$3 million in 1HFY2022 to US\$656,000 in 2HFY2022.

One way OIO Holdings manages the volatility risk is to transfer its revenue earned in crypto to fiat as early as possible although Mishima says there are "a lot of things to consider", including predicting when crypto prices might next rise. "We do want to try to minimise the risk of holding cryptocurrencies," he says.

The other is to grow the company's enterprise business, in which it helps Web 2.0 customers incorporate Web 3.0 into their products. Because OIO Holdings' B2B business revenue is earned through fiat, Mishima believes it will provide a "stable revenue" for the group.

Yet, demand from companies to move into Web 3.0 is directly related to how well crypto markets perform. Over this bear market, there has been little interest, Mishima admits. At OIO Holdings' peak, the group was managing three to four projects at once, each lasting about four to six months.

The challenges for OIO Holdings keep mounting. In July 2023, the Monetary Authority of Singapore (MAS) implemented a ban on staking services that will take full effect in mid-2024.

But Mishima maintains that his customers hail from across the world although most are not from Singapore because of its tight regulatory environment. Meanwhile, the validating business for staking remains consistent in all markets, regardless of a bull or bear market.

In fact, he welcomes more customer protection from the authorities, which he believes will weed out bad actors and result in a healthier industry.

In the meantime, Mishima says that the company's ideal situation is to expand the non-crypto revenue business "as much as possible" to hold it together should a bear market arrive. "Fortunately or unfortunately, the gap between the bull and bear market is extremely large," says Mishima, who looks ahead to signs of an emerging crypto spring. "Fortunately, because there's no other asset [in the world] that goes up over 200% in three or four months."