

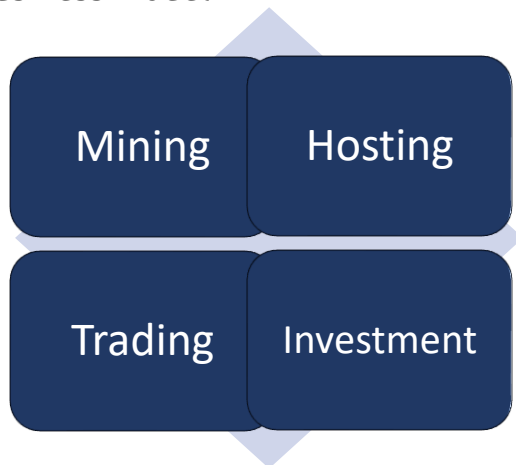
PHOENIX GROUP PLC

Overview

Phoenix was established in 2017, PHOENIX GROUP PLC has developed into a multi-billion-dollar enterprise, positioning itself as a global authority in the development, operation, and management of crypto data centres. The company specializes in a diverse array of services, including high-performance computing, crypto and cloud mining, data centre hosting, crypto trading, and the supply of crypto mining products and equipment. Expanding its reach across the UAE, Oman, Canada, USA, and CIS countries through its four verticals, Phoenix Group has solidified its global presence. Furthermore, the inauguration of the UAE's premier fully regulated digital asset exchange, M2, underscores the company's dedication to pioneering advancements within the industry.

In this report, we're taking a close look at how Phoenix operates and its business model drivers, and how it stands among its peers.

Phoenix's Business Model



Mining

Bitcoin self-mining refers to the process of investing in specialized hardware that is designed specifically for Bitcoin mining and offers high computational power efficiency called miners to validate and process transactions on the Bitcoin blockchain. These miners solve complex mathematical problems to confirm and add new transactions to the blockchain, thus securing the network and earning rewards in the form of Bitcoin. Miners need to set up their hardware in a suitable location with access to competitive electricity to ensure profitability, as energy costs constitute 80% - 85% of mining expenses.

According to Phoenix's Investor Relations presentation, the company currently consumes 89 MW of power for self-mining operations, *resulting in an average production of 6.2 Bitcoin per day. With a recent agreement securing access to an additional 150 MW of power capacity in Oman for mining activities*, Phoenix aims to bolster its market position. Benefitting from favorable electricity costs on a global scale, Phoenix boasts a competitive total cost of \$23,000 per 1 Bitcoin as shown in chart 1, positioning it favorably against industry peers. Notably, this cost aligns closely with major peer like Marathon Digital Holdings Inc. (MARA US), a leading BTC mining company, which incurs an average cost of ca. \$22,000 per 1 Bitcoin despite its substantial computing power of over 25 EH/S vs 16.63 EH/s for Phoenix. Moreover, Phoenix ranked the second in the market share of BTC production over BTC total block reward while MARA came first with 5.05%.

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Stock Summary Data

Bloomberg Ticker	PHX UH
Current Market Price (AED)	2.06
52w k High/Low (AED)	2.56/1.93
Mkt. Cap (AED bn)	12.46
Shares Outstanding (mn)	6048.82
Free Float (%)	15%
3m Avg Turnover (AED, mn)	24.70
6m Avg Turnover (AED, mn)	25.80
EV/EBITDA	24.01x

KPIs

Revenue Growth (Y oY)	323.19%
EBITDA Growth (Y oY)	209.44%
Profit Margin	18.39%
EBITDA Margin	18.72%
EBIT Margin	18.53%

Stock Performance

5 Day Price Change (%)	-1.09%
1 Month Price Change (%)	-3.23%
3 Month Price Change (%)	-7.08%
Month-to-Date (MTD) (%)	4.48%
Quarter-to-Date (QTD) (%)	-6.25%
Year-to-Date (YTD) (%)	-6.25%

Chart 1: Cost Of Mining – (USD/BTC)

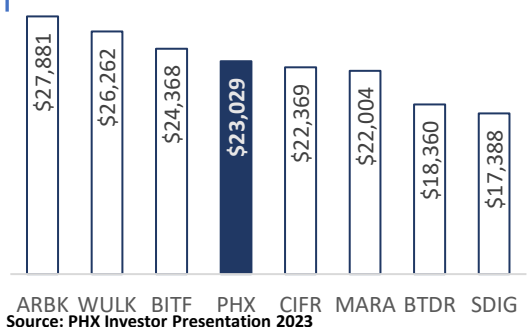
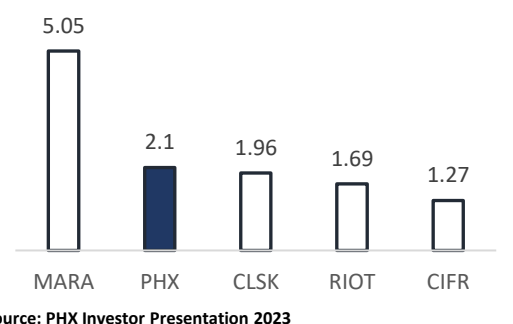


Chart 2: % share of a company BTC production

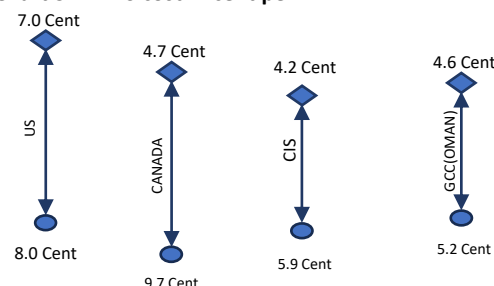


Hosting

Hosting services for Bitcoin mining businesses offer facilities and support for deploying mining hardware. They provide secure and well-equipped data center facilities with reliable power and cooling systems, negotiate favorable electricity rates, offer maintenance and technical support to ensure optimal performance of mining equipment, implement robust security measures, and provide remote monitoring and management tools.

Phoenix operates multiple data centers worldwide, with Citadel being the largest mining farm in the Middle East. The company charges clients a fixed rate based on power consumption, while also retaining a portion of the total power to mine Bitcoin for themselves. As shown in chart 3, *Phoenix has a favorable power cost and an average of 5.45 cents per KWhr compared with the average industrial electricity cost. Moreover, Phoenix mine an average of 9.4 BTC per day on behalf of clients, with Phoenix's share amounting to an average of 2.7 BTC per day.* This arrangement allows Phoenix to generate revenue both through hosting services and through its mining activities, providing a diversified income stream for the company.

Chart 3: PHX'S cost in cent per KWH



Source: PHX Investor Presentation 2023

Trading

Phoenix holds exclusive distribution and sales rights from Bitman and MicroBT for mining hardware, equipment, and accessories across the MENA region. This business pillar was a key revenue driver in 2022 as Phoenix secured a one-off contract valued at approximately USD\$500 million.

Investment

Phoenix's investment arm is pursuing strategic expansion through the acquisition of profitable businesses to enhance synergies within its core operations and diversify its revenue streams. Recently, the company invested in M2, securing a 30% ownership stake. M2 operates as a cryptocurrency exchange licensed by ADGM, offering various services including Virtual Asset Custodian and cryptocurrency trading. Moreover, M2 is poised to introduce trading capabilities for AED paired with leading cryptocurrencies like Bitcoin (BTC) and Ethereum (ETH). The company also provides a comprehensive range of products such as spot, margin, futures, and earn, offering attractive yields of up to 10.5% on select currencies. One of M2 key competitors is Coinbase which is a leading crypto exchange that boasts similar features and product offerings. Furthermore, Phoenix has made a strategic investment equivalent to a 25% stake in Lyvely, a platform specialized in monetizing content creation and freelance work. This investment is anticipated to have a notable impact on Phoenix's profitability.

sources of trading opportunities and volatility

Bitcoin, the leading cryptocurrency, implements a unique scarcity mechanism called "halving" to regulate the creation of new coins. This process involves reducing miner rewards by 50% at regular intervals, typically every four years. The blockchain technology underlying Bitcoin enables decentralized transaction recording across a peer-to-peer network, with miners playing a vital role in verifying transactions and securing the blockchain. In exchange for their computational work, miners receive newly generated Bitcoins as rewards.

Table 4: Bitcoin Halving Effect

Halving Dates	Pre-Halving Price (USD)	Pre-Halving Peak (USD)	Peak Dates	% change (Peak)	1 Month change %	1 Quarter change %	1 Year change %	Days to Peak
Nov 28, 2012	\$12.35	\$1,163.00	Nov 28, 2013	9352.6%	9%	926%	8374%	367
July 9, 2016	\$657.54	\$19,783.00	Dec 17, 2017	2915.0%	1%	12%	184%	526
May 11, 2020	\$8,842.00	\$64,863.00	April 14, 2021	633.7%	10%	32.8%	552.0%	338

Source: Bloomberg

Examining the data surrounding Bitcoin's halving events reveals key insights into the cryptocurrency's market dynamics and investor sentiment. Each halving has been correlated with a significant uptick in Bitcoin's price, indicating the asset's scarcity and the impact of supply-side dynamics on its perceived value. [BHM Capital Report about BTC halving](#)

As Bitcoin is expected to rally, Phoenix's profitability is forecasted to see significant growth across all verticals, particularly in mining. As the company evolves and the number of self-mined Bitcoins increases, coupled with competitive costs. Furthermore, with the overall cryptocurrency market experiencing a rally, M2 stands to benefit from increasing trading volumes. Additionally, the rally may drive up the value of the M2 token (MMX), which is poised to become a major contributor to Phoenix's profitability.

Analyst(s) Certification(s):

We, Ahmad Dwaikat, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report

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Important Disclosures

Client/Non-Investment Banking, Securities-Related: BHM Capital currently has, or had within the past 12 months, Phoenix as client, and the services provided were non-investment-banking, securities-related.

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