

Madison Holdings Group Limited (8057.HK) Internet Cryptocurrency and Blockchain Technology Company

Summary

- **Transforming from fine wine trading company to a cryptocurrency and blockchain technology company:** Madison Holdings previously focused on the fine wine trading business, but announced a number of acquisitions (to be implemented) in April and May this year, including acquiring 1) 20% equity interest of a company (Remixpoint's (3825.JP) subsidiary) that operates a cryptocurrency trading platform in Japan with JPY5 billion (approximately HK\$360 million); 2) 100% equity interest of a company engaged in mobile internet and blockchain application software production (commenced business with self-developed mobile games) in China with HK\$1.13 billion; and 3) 51% equity interest of a cryptocurrency mining company (mainly Ethereum) with US\$60 million (approximately HK\$470 million).
- **Strong performance of financial related business segment of Remixpoint:** Among the 16 (as of March) cryptocurrency trading platform licenses issued by the Japan authority, Remixpoint owns one of them. The company started its operation in September 2017 and recorded a JPY3.53 billion revenue and a JPY3.13 billion operating profit in the fourth quarter of 2018 (as of 31 March), representing a 5.9 time and 10.8 times increase in revenue and operating profit respectively compared to the last period. The independent valuation report predicts the income and net profit of FY2019 will reach 21.6 billion yen and 13.9 billion yen, respectively. The forecasted net profit is about 5% higher than the annualized net profit of January-February 2018. Assuming the net profit forecast target can be achieved and the acquisition can be completed by the end of March 2018, the acquisition would be equivalent to only 1.8x 2019F P/E. Assuming no increase in operating profit in FY2019 and annualizing the 4th quarter operating profit in 2018, the operating profit in FY2019 would be JPY12.5 billion.
- **Invest in blockchain technology to match with new business plans:** The main business of Three Bears includes card and board mobile games, blockchain and information business. The turnover and after-tax profit of the company in 2017 were RMB110 million and RMB70.65 million, respectively. The acquisition of Three Bears contained a profit guarantee of RMB70 million in 2018 and the acquisition consideration of HK\$1.13 billion (80% will be paid by new shares) is equivalent to 13.3x 2018F P/E. If we solely determine Three Bears as a pure mobile game company, the consideration is not particularly low-priced, however the company values the potential synergies the blockchain technology that Three Bears brings to the existing businesses and businesses that will be acquired by the company. For instance, the company can foster its understanding of blockchain technology and its associated commercial applications, as well as a readily available team of technical experts to develop blockchain applications in Japan or any other regulated markets.
- **Ethereum mining:** The company intends to acquire 51% equity interest of Diginex, a cryptocurrency mining company that owns a 2.2 Megawatt data center. Diginex has recorded a HK\$1.25 million loss (commenced business on 1 June 2017) in FY2018 (as of 31 March). It is believed Diginex can create more Megawatt with a rented data center in Sweden by utilizing low cost and renewable power.
- **More capital is demanded albeit the increased share capital after share placing:** The company has already issued HK\$150 million of convertible bonds in July 2017, yet the company still needs to issue 720 million new shares and pay HK\$660 million to complete the upcoming 3 acquisitions. If all the acquisitions are completed and the convertible bonds are converted into shares, the share capital of company will increase by 20.9%. Although the company has raised HK\$120 million through shares placement, it is undoubtedly that the company needs more funds to complete the acquisitions.

Indicators/FY	FY14A	FY15A	FY16A	FY17A
Revenue (HK\$'mn)	70.0	145.7	126.7	139.6
Growth rate (%)	n.a.	108.0	(13.0)	10.2
Net profit (HK\$'mn)	7.2	14.2	(9.4)	(14.6)
Growth rate (%)	n.a.	96.5	n.a.	n.a.
Earning per share (HK\$)	0.002	0.005	(0.003)	(0.004)
P/E	687.1	349.6	n.a.	n.a.

Source: Madison Holdings

8 June 2018

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Rating	Non rated
Target price	-
Current price	1.65
Potential increase	-

Main Data

52-week Low/High (HKD)	1.350/2.500
3-month average trading volume (mn)	13.59
Outstanding shares (mn)	4,070
Market capitalization (mn)	6,716
Major shareholder(s) (%)	Raymond Ting Wan Pang and Zhu Huixin (48.4%)
Auditor	ShineWing
Announcement date	2018-06

Company introduction

Madison Holdings focuses on developing fine wine trading business previously. The company commenced its business in 2011 and listed on the GEM of HKEx in 2015. Since April 2018, the company has already announced several acquisitions of cryptocurrency and blockchain-related business.

Stock performance

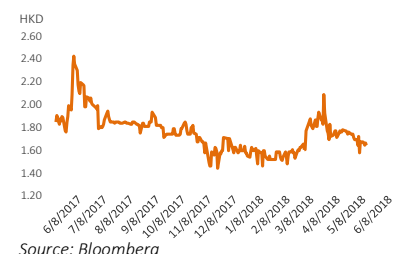


Table 1 : Remixpoint (3825.JP) performance

In JPY million	1QFY18	2QFY18	3QFY18	4QFY18
Financial related business segment income	287	218	510	3,533
Financial related business segment operating profit	219	116	265	3,132
Operating profit from other business segments	254	239	367	3,015
Operating profit of Remixpoint	174	152	257	2,829
Profit attributable to Remixpoint shareholders	117	129	558 **	1,489

Source: Madison Holdings

* Without deducting company expense

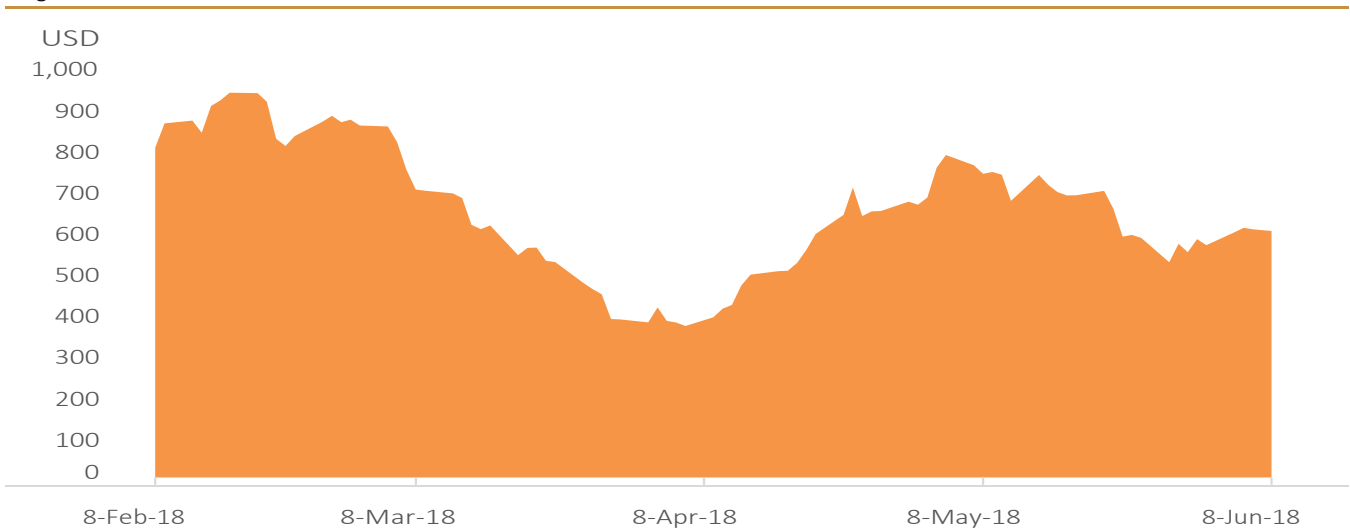
** Net non-operating profit is JPY360 million.

Table 2: Performance of the PRC project (Shenzhen Three Bears Technology)

In RMB million	2016	2017
Revenue	18.2	109.7
Profit before tax	7.7	70.6
Profit after tax	5.8	70.7
Net profit	n.a.	6.0

Source: Madison Holdings

Figure 1 : Price of Ethereum



Source : Bloomberg

Table 3: Changes in share capital

	Shares
Number of shares as of 31 March	4,000,000,000
Share placing on 23 April at HK\$1.7 per share	70,056,000
Current shares outstanding	4,070,056,000
Issue shares at HK\$1.8 to acquire Three Bears Technology	502,844,440
Issue shares at HK\$1.84 to acquire Diginex	213,252,717
Convertible bond matured in July 2022 (conversion price HK\$1.10)	136,363,636
Total number of shares after the completion of the acquisitions	4,922,516,793

Source: Madison Holdings, Southwest securities

Table 4: Financial information

Financial Statement						Balance Sheet				
As of 31 March (HK\$'mn)	FY14A	FY15A	FY16A	FY17A	9MFY18A	As of 31 March (HK\$'mn)	FY14A	FY15A	FY16A *	FY17A *
Revenue	70.0	145.7	126.7	139.6	125.2	Plant and equipment	3	4.2	5.6	7.6
Cost of sales	(45.4)	(105.6)	(93.7)	(111.6)	(95.3)	Other	3.1	3.7	0.9	2.4
Gross profit	24.7	40.1	33	28	29.9	Non current asset	6.1	8	6.6	10
Other income	0	1.4	12.7	1.5	2.1	Inventories	31.3	24.2	41.5	51.4
Selling and distribution expenses	(10.3)	(13)	(13.5)	(14.4)	(12.5)	Trade and other receivables	6.6	15.7	34.9	47.4
Administrative cost	(5.8)	(10.5)	(39.2)	(30.3)	(30.5)	Bank balances and cash	13.2	28	46.4	52.4
Change in fair value of exchangeable bonds	0	0	0	0	(151.1)	Others	0	0	1.2	1.7
Finance costs	0	(0.7)	0	0	(4.1)	Current asset	51.2	67.9	124	153
Profit/(Loss) before tax	8.7	17.3	(7.1)	(15.2)	(166.2)	Trade and other payables	4.2	11.6	5.1	8.7
Income tax	(1.5)	(3.0)	(2.2)	0.4	0.3	Others	15.7	12.5	0.5	0
Profit after tax	7.2	14.3	(9.3)	(14.8)	(165.9)	Current liabilities	19.8	24.1	5.5	8.7
Non-controlling interests	0	(0.2)	(0.1)	0.2	20.1	Non current liabilities	0	0	0	0
Profit attribute to the owners of the company	7.2	14.2	(9.4)	(14.6)	(145.8)	Equity attributable to owners of the Company	37.5	51.7	124.5	148.8
Earning per share (HK\$)	0.002	0.005	(0.003)	(0.004)	(0.036)	Non-controlling interests	0	0.2	0.5	5.4
Dividend per share (HK\$)	0	0	0	0	0	Total equity	37.5	51.8	125	154.2
						Face value of share (HK\$)	0.013	0.017	0.031	0.037

Cashflow Statement					Financial ratio				
As of 31 March (HK\$'mn)	FY14A	FY15A	FY16A	FY17A		FY14A	FY15A	FY16A	FY17A
Profit before tax	8.7	17.3	(7.1)	(15.2)	Revenue growth (%)	n.a.	108	(13.0)	10.2
Depreciation	1.6	2.5	3	3.4	Gross profit growth (%)	n.a.	62.4	(17.8)	(15.2)
Others	0	0.6	7.1	4.8	Growth on profit before tax (%)	n.a.	99.8	n.a.	114.5
Change in working capital	5.1	(0.9)	(42.6)	(19.9)	Growth on net profit (%)	n.a.	96.5	n.a.	54.7
Tax	0	(1.6)	(6.2)	(0.5)	Gross profit margin (%)	35.3	27.5	26	20
Operating cashflow	15.4	17.8	(45.8)	(27.4)	Profit margin before tax (%)	12.4	11.9	(5.6)	(10.9)
Purchases of working capital	(1.5)	(2.2)	(2.7)	(5.4)	Net profit margin (%)	10.3	9.7	(7.5)	(10.5)
Others	(0.2)	(4.1)	0	0	ROA (%)	12.6	18.9	(7.1)	(9.1)
Cashflow from investment activities	(1.7)	(6.3)	(2.7)	(5.4)	ROE (%)	19.2	27.4	(7.6)	(9.8)
Proceeds from issue of shares	0	0	74.7	0	Inventory turnover	n.a.	96	127.9	151.8
Others	(1.9)	3.3	(9.3)	40	Account receivable turnover	n.a.	27.9	72.9	107.7
Financing activities cashflow	(1.9)	3.3	65.4	40	Current ratio	2.6	2.8	22.4	17.6
Net (decrease) increase in cash	11.8	14.8	17	7.2	Quick ratio	1	1.8	14.9	11.7
Cash at the beginning of the year	1.4	13.2	28	45	Net debt to asset ratio (%)	Net Cash	Net cash	Net cash	Net cash
Cash at the end of the year	13.2	28.0	45.0	52.2	Interest coverage ratio	Net interest income	24.2	Net interest income	Net interest income

Source: Madison Holdings

* Reconstructed

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Guide to rating

Company rating	BUY: Based on a current 12-month view of total shareholder return (change in share price from current price + projected dividend yield), we expect a positive return of over 20%. HOLD: Based on a current 12-month view of total shareholder return, we expect the return to range between +20% to -20%. SELL: Based on a current 12-month view of total shareholder return we expect a negative return of over 20%.
Industry rating	BUY: Based on a current 12-month view of total industry return, we expect a positive return of over 20%. HOLD: Based on a current 12-month view of total industry return, we expect the return to range between +20% to -20%. SELL: Based on a current 12-month view of total industry return we expect a negative return of over 20%.

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