ALIGN
RESEARCH

Argo Blockchain

26th November 2020

Bitcoin price surge and further expansion of infrastructure provide significant opportunities for 2021

CONVICTION BUY – Target price 21.14p

Argo Blockchain plc is a global leader in cryptocurrency mining with one of the largest and most efficient operations powered by clean energy.

Infrastructure expansion boosts results in 2020

Numbers for the six months to 30th June 2020 reported that Argo mined 1,669 Bitcoin equivalent in the first half of its financial year, up from 306 in H1 2019 mainly due to the expansion of the mining estate. Revenues for the period were up by 280% at £11.1m, with EBITDA up 96% to £3.23m.

Well placed to benefit from surge in the Bitcoin price

After falling to a low of c.$4,900 in March amidst the coronavirus inspired sell off, following a significant rally from the $10,000 level in September, the Bitcoin price has gone on to reach a three year high of c.$19,400 as we write. The Bitcoin price is the key driver of Argo's revenues, with every $1 increase all falling through to gross margins as there are no additional direct costs incurred.

Infrastructure expansion adds to attractions

Argo's total mining capacity currently stands at 16,000 machines and 645 petahash in addition to 280 Megasols of equihash mining capacity. Capacity is expected to grow significantly in February next year following a lease order for 4,500 state-of-the-art Bitmain Antminer S19 and S19 Pro miners.

Bitcoin rewards halving also provides opportunities

In May this year the reward for mining Bitcoin blocks reduced from 12.5 to 6.25. Argo believes that it will be a long-term beneficiary as reduced rewards are expected to exclude less efficient miners from the market. These miners turning off their mining units, as they become unprofitable, will be favourable for efficient and larger scale miners like Argo due to an expected fall in the network's total hash rate.

Valuation suggests significant upside remains despite share price rise

We believe a multiple of 8 times earnings is a reasonable value to place on Argo shares. On our 2021 forecasts for c.2.05p of earnings, and adding in forecast cash and cryptocurrency, we arrive at a value of 21.14p per share, which we choose to adopt as our new target price. **Conviction Buy.**

This investment may not be suitable for your personal circumstances. If you are in any doubt as to its suitability you should seek professional advice. This note does not constitute advice and your capital is at risk. This is a marketing communication and cannot be considered independent research.

Key data

EPIC	ARB
Share price	11.75p
52 week high/low	11.75p/2.7p
Listing	Main Market
Shares in issue	293,750,000
Market Cap	£34.5m
Sector	Crypto Mining

12 month share price chart

Analyst details
Richard Gill, CFA
richard.gill@alignresearch.co.uk

IMPORTANT: Argo Blockchain is a research client of Align Research. Align Research and a director of Align Research hold an interest in the shares of Argo Blockchain. For full disclaimer and risk warning information please refer to the last page of this document.

Background

Argo Blockchain plc (ARB) listed on the Standard segment of the Official List of the London Stock Exchange on 3rd August 2018, becoming the first crypto-mining business to float in London. This was in conjunction with a £25 million (£22.78 million net) placing at a price of 16p per share. The proceeds were initially earmarked for investing in expanding the company's Mining as a Service (MaaS) business, an approach which offered consumers the chance to mine for cryptocurrencies without having to spend the time and money required to set up and maintain crypto mining infrastructure themselves.

However, in response to challenging market conditions, namely the falling price of cryptocurrencies, in February 2019 Argo made the decision to cease offering its consumer mining service, terminate all existing contracts and transition its infrastructure and capital to mining cryptocurrencies for its own account. This move also significantly reduced costs associated with marketing the MaaS service, meaning that the operations were positioned to move into profitability more quickly. The company's strategy is now focused on it becoming one of the world's largest and most efficient publicly-listed cryptominers.

Infrastructure expansion

While resulting in a perhaps unexpected and swift change in the business model, the fall in crypto prices at the end of 2018 presented opportunities for Argo. In particular, the company saw the opportunity to step-up investment in new mining infrastructure hardware and capacity as the lower crypto asset prices led to lower demand for hardware and in turn lower hardware prices. With sizeable funds still remaining from the IPO fundraise, Argo was in a strong position to take advantage of these lower prices.

During 2019, just over £15 million was spent on a capital investment program to establish one of the world's leading cryptomining platforms by a company listed on a major stock exchange. Argo's mining estate mainly consists of the Bitmain Antminer T17, S17 and Z11 units. These are new generation "application specific integrated circuits" (ASICs), powerful technologies in terms of speed and efficiency compared to general computing hardware which are used to mine cryptocurrencies. Argo is primarily focused on mining the Bitcoin (BTC) and ZCash (ZEC) currencies. **Argo's total mining capacity currently stands at 16,000 machines and 645 petahash in addition to 280 Megasols of equihash mining capacity.** Capacity is expected to grow significantly in February next year following a recent lease order for 4,500 state-of-the-art Bitmain Antminer S19 and S19-pro miners.

Argo's operations are based in Quebec, Canada. In August 2018 the company signed an initial three year agreement with GPU.One, a Canadian data centre hosting company specialising in GPU-based server technology. Under this deal Argo agreed to lease the two data centres in Quebec from which with the contract including the supply of 9.5 MW of hydroelectricity at a price of CAD $0.038 (US$0.03) per kilo-watt hour (kWh). At the end of June 2019 the contract was varied and extended, increasing Argo's access to clean power at significantly reduced prices. Beginning from 25th June 2019 the revised deal was for an initial three year period with the option to extend for a further two.

Developments in 2020

Operational/financial developments

2019 Results

On 29th April 2020, Argo announced results for the year to December 2019, its first set of full year numbers since listing on the LSE. The results reflect the change of strategy in February 2019 when the firm moved from offering a mining subscription service to mining crypto for its own book.

At the top line revenue for the year increased from £0.76 million to £8.62 million, with EBITDA of £1.39 million verses a £3.66 million loss in the previous year. Net losses after currency translation fell to £0.69 million from £4.12 million. Of the major costs, total administrative expenses rose marginally to £3.89 million, with depreciation of computer hardware amounting to £2.08 million (accounted for under cost of sales). Cash and digital assets totalled £1.2 million at the period end, down from £16.4 million after the previously discussed £15 million investment in capex.

As is usual in the crypto markets, Bitcoin prices were highly volatile, rising from lows of around $3,800 at the beginning of the year before soaring to a high of almost $13,000 in June. The second half was less favourable however, with the BTC price pursuing a downtrend before levelling out at c.$7,000 at the year end. Despite this, Argo's average cash mining margins and efficiency rates remained among the best in the industry.

2020 trading

The beginning of 2020 marked the completion of Argo's major infrastructure expansion, delivered on time and on budget, which has led to a much improved financial performance compared to 2019. Throughout the course of the year the company has consistently announced monthly updates to the market, reporting on its mining revenues, mining margins and other corporate developments. The table below summarises the overall financial performance in the first 10 months of the year, with mining revenues based on daily foreign exchange rates and cryptocurrency prices during the relevant month.

£	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**TOTAL**
Mining revenues (£m)	1.63	2.54	1.80	1.80	1.93	1.41	1.25	1.48	1.10	1.20	**16.14**
Mining margin	N/A	50%	42%	39%	34%	27%	34%	44%	37%	40%	**N/A**
BTC equivalent mined	247	337.5	333.8	319	252	180	165	166	127	126	**2253.3**

Source: Company announcements

Mining margins (the difference between mining income and costs associated with electricity and hosting) fell steadily over H1 before recovering in H2 following a rise in the BTC price and the halving of Bitcoin rewards (see page 7). Due to the company's agreement with GPU.One, direct mining costs are relatively fixed, so the main factors which affect changes in margins are the number of mining units in operation, cryptocurrency prices, difficulty rates and block reward size. We discuss recent changes in the latter three factors below.

Interim results

Numbers for the six months to 30th June 2020 reported that Argo mined 1,669 BTC in the first half, up from 306 in H1 2019 mainly due to the expansion of the mining estate. Revenues for the period were up by 280% at £11.12 million, with EBITDA up 96% to £3.23 million. Mining margins however fell from 76% in H1 2019 to 39% as a result of the Bitcoin reward halving in May and lower Bitcoin prices. Also affecting margins were issues with the quality of certain Bitmain T17 miners that were installed during the period, which affected machine uptime and overall efficiency. Argo is in discussions with manufacturer Bitmain and its hosting partner to address the impacts of this situation. Encouragingly, and as expected, general admin expenses were lower in the period, down from £1.29 million to £0.95 million as professional advisory and management costs were reduced.

On the balance sheet, cash was £1.3 million at the period end, up from £0.16 million at the year end in December. Short-term loans relating to new hardware purchases fell from £1.1 million to £0.29 million following partial repayment, giving a net cash position of c.£1 million. This position rises to £1.84 million if we include the £0.84 million of digital assets held at the period end. More recently, as at 1st September 2020, Argo held £1.22 million of cash with £1.62 million in cryptocurrencies based on that day's closing price.

Argo put in a good cash flow performance in the period, with the net cash inflow from operations being £3.7 million, ahead of reported operating profits of £0.65 million. The main contribution to this was the adding back of £3 million of depreciation/amortisation - Argo is currently seeing high levels of depreciation on its mining machines after last year's large capital investment. During the period a further £1.6 million was spent on capex, down from £18.1 million in H1 2019 at the height of the mining infrastructure investment.

Operational highlights of the half included the expansion of the mining estate by 260% to 18,000 machines, up from 5,000 at the end of H1 2019, making Argo one of the world's largest publicly listed miners with 730 petahash capacity. In addition, enhanced power consumption efficiencies were developed, along with proprietary performance optimisation tools, by Argo's in-house technology team. These tools adjust power consumption in line with prevailing Bitcoin prices and hash-rates, leading to improved efficiency, lower energy costs and potentially better returns. Encouragingly, the effects of the global pandemic were said to have had no direct effects on the company's operations, with the data centres operating as normal.

For the rest of 2020 the strategic priority will be on maximizing returns from the existing mining infrastructure, making decisions on deploying capital to grow the mining infrastructure and continuing to improve average mining margins.

Monthly updates

Following the period end, **July** saw the mining of 165 Bitcoin Equivalent (BTC) compared to 180 in June, lower due to a rise in mining difficulty mid-month. Based on daily foreign exchange rates and cryptocurrency prices, mining revenue amounted to £1.25 million at an average monthly mining margin of c.34%.

In **August** Argo mined 166 BTC, slightly ahead of the previous month on a flat machine base due to minor fluctuations in mining difficulty. Mining revenue for the month amounted to £1.49 million, up 19% month-on-month due to higher crypto prices, with the average monthly mining margin being c.44%.

September saw Argo mine 127 BTC, lower than in August mainly due to a significant rise in mining difficulty throughout the month and other factors mentioned below. Revenues were £1.1 million at an average monthly mining margin of c.37%. Lower Bitcoin and ZCash prices also contributed to the reduced income.

Due to factors outside of its control, Argo saw a portion of its overall hashrate offline for four days during the period, caused by a contractual dispute between its hosting provider and their subcontractor. In reaction, to secure greater control over all of its mining machines, Argo has entered into direct discussions with the subcontractor and does not anticipate any further interruptions.

In a further move to increase control over its estate, Argo has entered into a conditional Letter of Intent (LOI) with partner GPU.one, setting out terms on which it would make a strategic purchase of the two data centres in Quebec owned and operated by GPU.one which currently house Argo's cryptocurrency mining equipment. The data centres have a combined total of 20MW of power capacity, and if completed, the acquisition would provide Argo with direct control over the facilities as well as higher margins. Subject to entering into a definitive agreement Argo expects the purchase will be funded by cash and its existing deposits with GPU.one – although no potential figure has yet been announced.

The most recent update covered **October**, showing trading slightly ahead of the previous month. Argo mined 126 Bitcoin Equivalent (BTC) in the month, taking the total amount of BTC mined in the year-to-date to 2,254. Mining revenue in October amounted to £1.2 million, generated at an average monthly mining margin of c.40%. At the end of October, the company held 137 BTC in Bitcoin and BTC equivalents.

During October Argo worked with Bitmain regarding the previously mentioned underperforming T17 Antminers. As part of the solution agreed with Bitmain, some of these machines have been retired, reducing the company's overall petahash capacity by 85 petahash. Argo's total mining capacity is now 16,000 machines and 645 petahash in addition to 280 Megasols of equihash mining capacity. We await news as to any resolution over the underperforming machines.

New leasing, hosting and mining agreements

On the same day as the October trading update Argo also announced it has entered into an equipment lease with cryptocurrency lending platform Celsius Network for 4,500 Bitmain Antminer S19 and S19 Pro miners (valued at over $10 million) for a period of 24 months. These are Bitmain's latest, state-of-the-art machines, which have computing power more than double some of Argo's existing models.

The lease spreads the new equipment cost over 24 monthly lease payments, allowing Argo to add capacity, upgrade its mining technology and achieve economies of scale while spreading the capitalised cost of the miners over the term of the lease. The new hardware is expected to be fully operational by February 2021, adding c.430 petahash to the current installed computing power as well as consuming approximately 15 MW of electricity. The machines will be hosted by Core Scientific which will provide physical hosting and access to electrical power at its facilities in the United States.

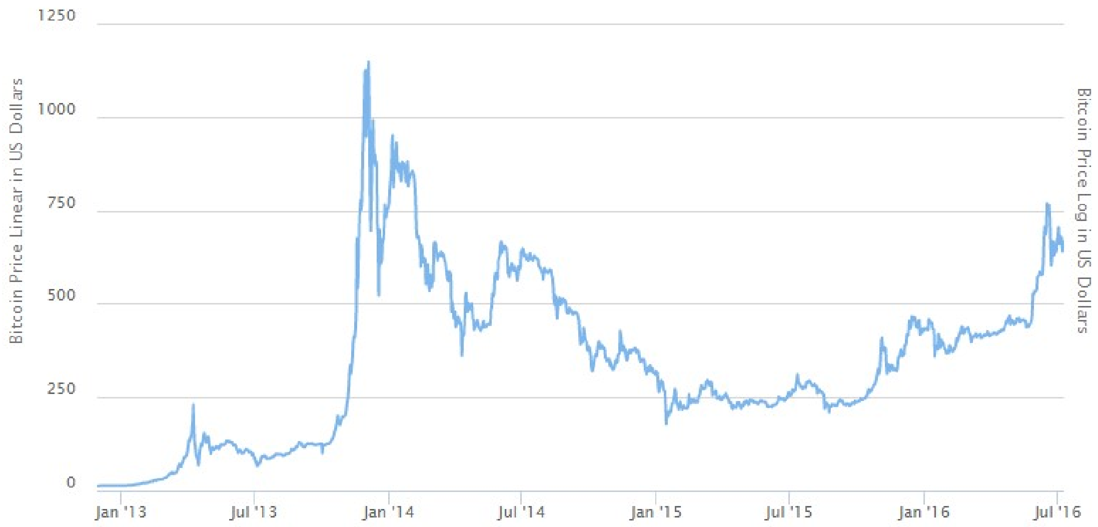
At the same time Argo announced it has partnered with an un-named third party which has purchased a new fleet of 4,378 miners to mine for its own account and which will be delivered in February and March 2021. The two parties have entered into a managed cryptocurrency mining services agreement whereby Argo will be managing the mining operations of these machines. The deal will have an initial term of 24 months and Argo will receive a monthly fee for its services.

Crypto market developments

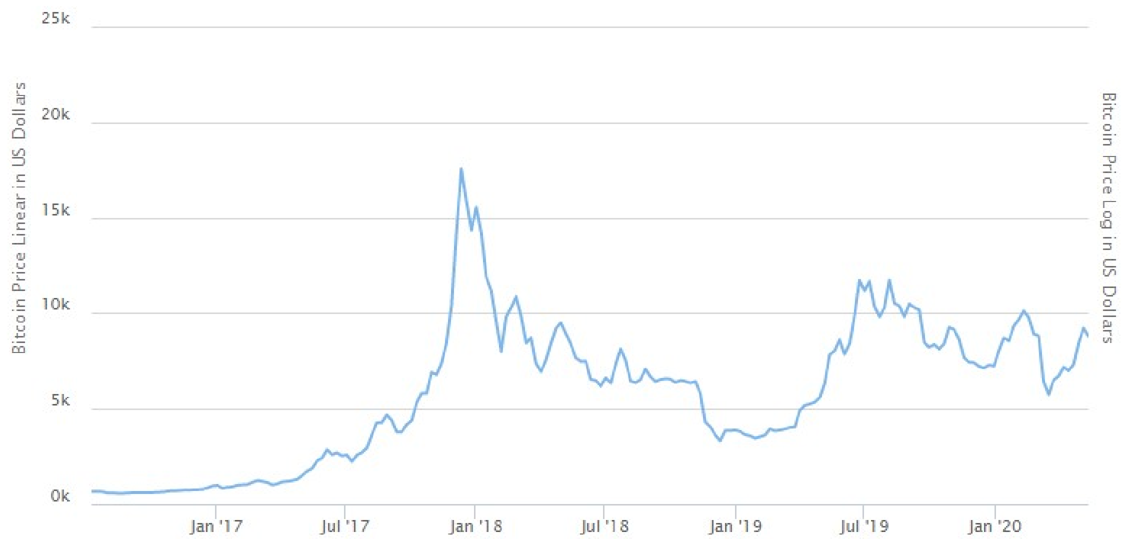
Bitcoin rewards halving

Perhaps the most important event in the crypto industry in recent times was the halving of the BTC block reward rate on 11th May 2020, from 12.5 BTC per block to 6.25 BTC per block. Bitcoin reward halvings are periodic (and expected) events which occur every 210,000 blocks mined. Since the first halving in November 2012 they have happened around every four years. The halving is written into the algorithms that run the Bitcoin network and reduces the rate at which new Bitcoin is released into circulation, thus limiting inflation, until the 21 million BTC cap is reached.

As the charts below show, previous halvings in 2012 and 2016 led to surges in the Bitcoin price, maintaining an incentive for the most efficient miners to remain active. While these initial rises were followed by a large drop from peak values, BTC prices were maintained at levels much higher than before the halving date in subsequent years.



BTC price from 1st halving on 28th November 2012 to 9th July 2016.
Source www.buybitcoinworldwide.com

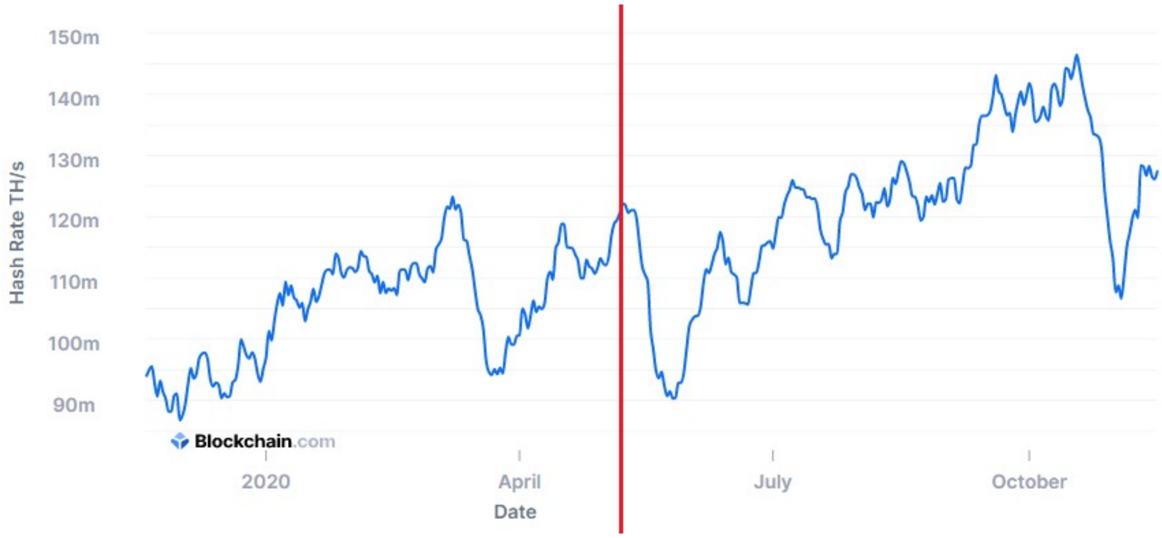


BTC price from 2nd halving on 9th July 2016 to 11th May 2020
Source www.buybitcoinworldwide.com

While the rewards available to Bitcoin miners per block mined are now half what they were a few months ago, Argo believes that it will be a long-term beneficiary of the recent halving. This is because the reduced rewards are expected to exclude less efficient miners from the market (those with high power costs and older, less powerful hardware). These miners turning off their mining operations, as they become unprofitable, will be favourable for efficient and larger scale miners like Argo due to a fall in the network's total hash rate.

The hash rate is a measurement of the processing power of the Bitcoin network (in effect how much computer power is being used to mine Bitcoin) and a factor in the difficulty rate. It is measured in terahashes (a trillion hashes) per second – for example if the network has a hash rate of 10 Th/s, it is making 10 trillion calculations per second. All other things being equal, the higher the hash rate the higher the difficulty and vice versa. With miners exiting the market the difficulty rate would be expected to fall. Argo management have positioned the company to benefit from this through the large expansion in machine orders, with its recent purchases being the latest industry models.

Looking at the raw data, the chart below shows that the network hash rate fell sharply on the day of the halving, from c.121 million Th/s to 90.3 Th/s on 26th May. Following some volatility, it currently stands at 127.56 million Th/s, only marginally above the pre-halving. The sharp fall in mid-October came due to the end of the so-called Chinese "hydro season" (when cheaper hydroelectricity is available due to the rainy season), with the subsequent rise coming on the back of the surge in the BTC price, as mining became profitable again for older machines.



Bitcoin hash rate daily – last 12 months
Source: Blockchain.com

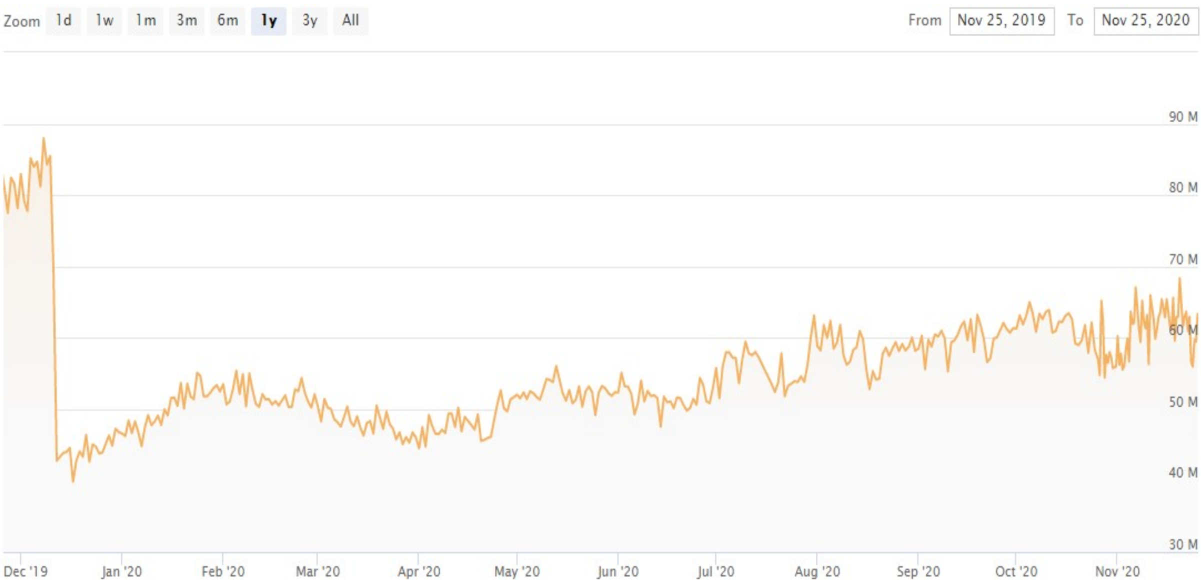
Meanwhile, ZCash experienced its own block rewards halving on 18th November, with block rewards cut from 6.25 ZEC to 3.125 ZEC at block 1,046,400.

Difficulty rates

Bitcoin difficulty rates meanwhile are the key factor in how many Bitcoins can be mined for a given level of hashing power. Difficulty levels are adjusted every 2016 blocks so the average time between each block mined remains at around 10 minutes. The Bitcoin difficulty rate fell from 16.105 Th/s as at the May halving date to 13.732 Th/s in early June. Since then, a consistent uptrend saw a record high of 19.997 Th/s reached in October before the largest percentage drop for nine years was seen at the beginning of November. The 16% fall, the second biggest percentage fall of all time, came following the exit of the Chinese machines mentioned above. A small uptick since then has left the BTC difficulty at a current level of 17.041 Th/s.

Bitcoin difficulty rates – last 12 months. Source: https://www.blockchain.com/en/charts/difficulty

ZCash difficulty rates meanwhile halved in early December 2019 in reaction to the "Blossom hard fork", an upgrade which saw block time reduced from 150 per second to 75 per second. Since then the rate has risen from a low of 39.9 million h/s to a current level of c.63 million h/s.



ZCash difficulty rates – last 12 months Source: https://www.coinwarz.com/mining/ZCash/difficulty-chart

Crypto prices

The Bitcoin price is the key driver of Argo's revenues, with every $1 increase in the price all falling through to gross margins as there are no additional direct costs incurred. BTC has displayed its usual volatility during the course of 2020. Starting the year at c.$7,000 it rose to c.$10,500 in February before falling to a low of c.$4,900 in March amidst the coronavirus inspired sell off. **Since then, following a significantly rally from the $10,000 level over the summer, the price has gone on to reach a three year high of just under $19,400 as we write.**

Blockchain – 12 month chart. Source: Blockchain.com

ZCash meanwhile has followed a general uptrend since falling to a low of c.$25 in March. A peak of $98 was hit during August with the current price standing at c.$83.

Board changes

Argo has made several changes to its senior management team since our last update.

On 2nd January 2020, Argo announced that Peter Wall had been appointed as CEO with immediate effect. Peter was a member of the management team that founded Argo and has been Vice President of Operations since then. He has been responsible for overseeing the day-to-day operations of the mining organization as well as the management of the software development team. Peter is a technology entrepreneur based in Ottawa, Canada and is President of Vernon Blockchain, a company specialising in the design, build and management of cryptocurrency mining operations in Canada and worldwide. Peter has been involved in cryptocurrency mining in Quebec, both as a personal miner and a consultant, for the past five years. On 7th July Peter Wall bought 570,000 shares in the company at a price of 3.5p, for a total of £19,950.

Later in January, Ian MacLeod, previously a non-executive director, was appointed as Executive Chairman with immediate effect, replacing Mike Edwards. Ian brings more than 20 years of international experience providing strategic and legal advice at board level. Since 2007, Ian has served as corporate secretary and general counsel to the Teligence Group of Companies in Canada which operate a private equity investment fund focused on telecoms, payments, ecommerce and software development. He is responsible for acquisitions, structuring and the strategic direction of the portfolio.

In May, Timothy Le Druillenec stepped down as Chief Financial Officer to become a non-executive director of the company with immediate effect. He was briefly succeeded by James Savage who then stepped down in September to pursue interests outside the crypto industry. Alex Appleton has now joined the company as Interim Finance Director. He is a member of the Institute of Chartered Accountants of Scotland and brings 19 years of experience in auditing and corporate. Alex brings 8 years of board level experience to the role as both a Finance Director and as Chief Operations Officer having previously held roles within large multinational organisations and worked within the cryptocurrency sector.

On 21st July Argo announced the appointment of Dr. Marco D'Attanasio to the board with immediate effect as an independent non-executive director. Dr. D'Attanasio is currently the Chief Investment Officer at Hadron Capital, an investment management firm he co-founded and which owns a 4.61% stake in Argo. He brings over 20 years' experience in international capital markets, fund management as well as entrepreneurship in the technology sector. He holds a PhD from the University of Parma in Italy in theoretical and mathematical physics. Prior to co-founding Hadron Capital, Dr. D'Attanasio served as a Managing Director at the Royal Bank of Canada in London and was responsible for the Europe and Asia Relative Value Group, a 10-man proprietary trading unit based in London and Hong Kong.

Forecasts update

We have reviewed our financial model for Argo taking into account recent corporate developments, changes in cryptocurrency prices, block rewards and difficulty rates. Using the new information from the events above we have updated our financial model, which covers the 2020 and 2021 financial years. The key changes and assumptions are:

- 2020 revenue and mining margin figures up to October are actual rather than forecast, with the numbers for the year updated with information from the interim results.

- the number and type of machines in operation has been updated for the underperforming T17s and incorporates the new 4,500 S19s and S19 Pro models which are expected be in operation beginning in March 2021. We assume no further additions for the year. Revenues and mining costs for these new machines have been forecast using standard specifications.

- Bitcoin/ZCash price and difficulty figures have been reset using current levels as a base. We use a BTC price of $16,500 beginning in November 2020, a decent margin below the current price to remain conservative, growing at 5% a month to the end of 2021. The current BTC difficulty level of 17.59 Th/s is assumed and expected to rise at 5% a month over the forecast period. ZCash prices are assumed to rise by 2% a month over the forecast period, beginning at a conservative level of $60 in November, with the difficulty also rising by 2% a month.

- the GBP/USD exchange rate is assumed to be flat over the forecast period at the current level of 1.30476.

- capex, interest and certain balance sheet forecasts have been revised to reflect the lease payments for the S19s.

- power and hosting costs for the new S19s are expected to be 15-20% lower than the rest of the estate due to the new hosting agreement with Core Scientific.

- for 2021 we add in ten months' worth of income from the recent management fee agreement, with no additional costs assumed.

- ZCash block rewards have been halved to 3.125 per block as at 18th November 2020.

- we have incorporated a 5% reduction in the performance of each machine compared to standard specifications to take into account any downtime.

- corporate expenses are forecast to be in line with H1 2020 for H2 2020, growing 10% in 2021.

Findings

On the updated figures we are now looking for Argo to make total revenues of £19.2 million in 2020, EBITDA of £6.2 million and a net profit of £0.4 million. The large difference between the two profit measures comes as depreciation remains high at £5.7 million. In 2021, as the new S19 machines come online, we expect total revenues to rise to just over £30 million. Due to the strong operational gearing EBITDA more than doubles to £14.4 million, with a net profit of £6.53 million.

We do point out that Argo is a strongly cash generative business, with cash inflows being well ahead of reported profits. This is again mainly due to the high levels of (non-cash) depreciation charges, with the mining assets being depreciated at the relatively high rate of 33% per annum. Our model sees Argo having a net cash inflow of £9.4 million in 2021, ending the year with net cash (ex-crypto assets) of £8.2 million.

£	**2020**	**2021**
Mining income	19,191,680	29,492,834
Mining management fee	0	583,333
Power & Hosting	-11,284,088	-13,808,728
NET MINING PROFIT	**7,907,592**	**15,684,106**
Mining margin	41.2%	53.2%
Corporate expenses	-1,700,000	-1,870,000
EBITDA	**6,207,592**	**14,397,439**
Depreciation, amortisation & interest	-5,729,399	-6,971,248
PRE-TAX PROFIT	**478,193**	**7,426,191**
Tax	-90,857	-1,410,976
NET PROFIT	**387,336**	**6,015,215**
EPS (p)	0.13	2.05

Argo Blockchain – 2020 and 2021 income statement forecasts. Source: Align Research

Valuation

Despite shares in Argo having risen from a low of 2.7p in March 2020 to a current two year high of 11.75p, they remain cheap on a number of valuation metrics in our view. On a price/earnings basis the shares currently trade on a multiple of just 5.7 times our 2021 forecasts. If we strip out forecast net cash and crypto assets the ex-liquid assets PE multiple falls to just 4.2 times. On an EV/EBITDA basis the multiple for 2020 is a lowly 4.8 times, falling to 1.75 times in 2021.

Taking into account the risks involved, Argo's growth profile and efficient operations, we remain of the belief that a multiple of 8 times earnings would be a reasonable value to place on the shares. On our 2021 forecasts for c.2.05p of earnings, that equates to a value of 16.38p per share. **Adding in the value of forecast cash and cryptocurrency on the balance sheet adds another 4.76p per share for a total value of 21.14p per share. We choose to adopt this as our new target price.**

Assuming our forecasts are met then Argo should have significant distributable reserves available to return to shareholders next year. On that matter, the company is currently in the process of cancelling its share premium account, which would allow for the payment of a dividend. Reasonably assuming a 30% payout ratio on our forecast 2021 earnings then investors are looking at a potential dividend of 0.615p per share for 2021, which yields 6.34% at the current share price. However, given the cash generative nature of the business discussed above we believe that the payout ratio has the potential to be much higher. A 50% payout ratio and an assumed yield application by the market of 5% results in a value of 20.48p per share.

Conclusion

While some variables have gone against Argo since our initiation of coverage note in 2018 the company remains one of the most efficient miners in the industry. The recent expansion in infrastructure, combined with the surge in the Bitcoin price, places it very well to have its best year yet in 2021, especially following the installation of the new S19 and S19 Pro mining machines. In addition, our financial model does not consider the potential acquisition of the company's data centres in Quebec from GPU.One, which would provide an additional boost to margins.

As ever, the main risk to our forecasts being met remains changes in the Bitcoin price, with every $1 change falling straight through to profits. Despite Bitcoin being at a three year high it remains a highly volatile asset which continues to see large changes in value, sometimes on a daily basis. Nevertheless, we have already incorporated a lower price into our financial model and of course upside potential exists should Bitcoin carry on its current upward trend.

With our earnings plus cash & crypto based target of 21.14p per share suggesting 80% upside from the current price of 11.75p we retain our stance of **Conviction Buy.**

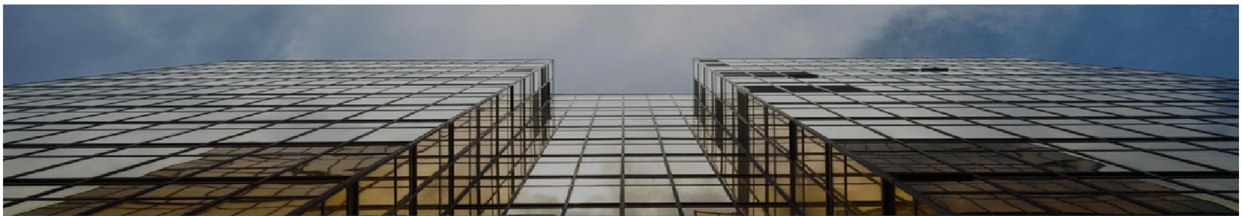
DISCLAIMER & RISK WARNING

It is the policy of ALIGN Research to only cover companies in which we have conviction in the investment case. Our "Conviction Buy" recommendation is derived from our conviction in either taking equity as payment for our research services, or applying our fee to the purchase of equity in a covered company whilst absorbing the cash cost of our freelance analyst payments. Argo Blockchain is a research client of Align Research. Align Research and a director of Align Research own shares in Argo Blockchain. Full details of our Company & Personal Account Dealing Policy can be found on our website http://www.alignresearch.co.uk/legal/

ALIGN Research has made every reasonable effort to ensure the accuracy of the information in our research reports and on our website, although this can not be guaranteed. Our research reflects the objective views of our team of analysts. As we actively seek to take the majority of our fees by the way of equity payment in the companies we cover, we believe that we are aligned with both investors and the subject company. Additionally, we only write about those companies that we have conviction in. However, as a consequence of this alignment, our vested interest is in an increase in value of the subject company's equity. As such, we can not be seen to be impartial in relation to the outcome of our reports.

ALIGN Research has both a personal & company dealing policy (covering staff & consultants) in relation to the dealing in the shares, bonds or other related instruments of companies that we follow & which adhere to industry standard personal account dealing (PAD) rules. ALIGN Research may publish follow up notes on these securities/companies but has no scheduled commitment and may cease to follow these securities/companies without notice. Our reports are not subject to any prohibition on dealing ahead of their dissemination by staff members.

Your capital is at risk by investing in securities and the income from them may fluctuate. Past performance is not necessarily a guide to future performance and forecasts are not a reliable indicator of future results. Nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell securities by us. As we have no knowledge of your individual situation and circumstances the investment(s) covered may not be suitable for you. You should not make any investment decision without consulting a fully qualified financial advisor. The marketability of some of the companies we cover is limited and you may have difficulty buying or selling in volume. Additionally, given the smaller capitalisation bias of our coverage, the companies we cover should be considered as high risk.



Align Research Limited
7 Moorhead Lane
Shipley
UK
BD18 4JH

Tel: 0203 609 0910
E: info@alignresearch.co.uk