

## SEALAND CAPITAL GALAXY

### DIGITAL MEDIA

#### SCGL.L

2.5p

Market Cap: £12.6m

SEALAND CAPITAL GALAXY IS A  
RESEARCH CLIENT OF PROGRESSIVE

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## A bridge to the Chinese consumer

**Sealand Capital Galaxy (“Sealand”) offers investors exposure to two key growth areas for the internet – fintech and e-marketing, with a focus on the fast-growing and already vast Chinese tourist wallet. In this short note, we provide a brief introduction to the group and to ePurse, its service offering on the WeChat platform – in partnership with leading Chinese internet player Tencent.**

### ■ A material opportunity from Chinese tourism

Over recent years, China has remained the largest supplier of outbound tourists globally, and traveller numbers are sizeable. In 2017, 145m overseas trips were made by Chinese tourists. To put that in context, 145m travellers is more the combined populations of the UK and France. Volumes are expected to grow to over 200m by 2020<sup>1</sup>.

### ■ Tencent and WeChat

WeChat was launched in January 2011 by Chinese technology conglomerate Tencent, and has been described by Forbes as one of the world’s most powerful apps<sup>2</sup>. With a current market capitalisation of US\$335bn, Tencent is the world’s #4 Internet player behind Amazon, Google and Facebook<sup>3</sup>.

WeChat is a multi-functional app, including messaging, social networking, games, mini apps and payments. It is very “sticky”, with the average user spending over an hour per day using the platform. In aggregate, WeChat generates 34% of all mobile traffic in China<sup>4</sup>.

With access to western social media platforms such as Google+ and Facebook prohibited in China, domestic services such as WeChat have become dominant and are one of the few ways for western merchants to reach Chinese consumers.

As China’s most popular app<sup>4</sup>, around 80% of the total Chinese population use WeChat. The platform has over 1.1bn active monthly users – with many of these users frequently travelling overseas. For overseas (non-Chinese) merchants looking to connect with Chinese tourists, WeChat is an obvious and logical platform.

### ■ ePurse: cross border digital marketing solutions

Sealand’s ePurse business provides a one-stop cross-border solution for overseas merchants wishing to benefit from the rise of the Chinese economy. The group provides a range of services including payment and marketing services, primarily across the WeChat platform but also via other social media platforms. The group has ambitious expansion plans. In Hong Kong, 117 retailers have signed up to the service and we understand that the group has obtained licenses for WeChat advertising in over 40 countries. ePurse is also a WeChat partner in both Hong Kong and Dubai.

**ePurse lets the Chinese traveller take the simplicity and familiarity of their preferred payment app overseas. With growing numbers of Chinese travellers, the ePurse proposition is also increasingly attractive to merchants, as a tool to build their brands. We believe Sealand is well-placed to deliver growth going forward and will return with a longer note on the Sealand business and ePurse opportunity in due course.**

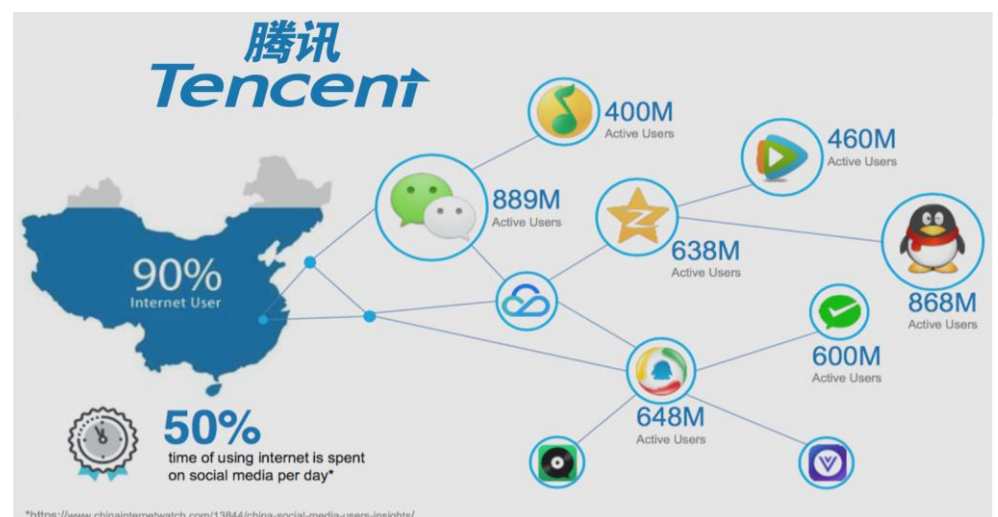
## Background on Tencent

The Chinese internet market is largely closed to the American giants that dominate web activity in most countries. This has allowed (even fostered) the stratospheric growth of a small number of domestic players – chief among them Tencent Holdings, a China-based but Hong Kong and US-listed business, with a market value of around \$335bn.

Tencent is effectively China's Google...it has a very strong presence in search, but has a number of other applications and market-leading platforms:

- Tencent News (akin to an offering like CNN)
- QQ Mobile Browser (similar to Google Chrome)
- Tencent Video (YouTube equivalent)
- WeChat :
  - WeChat Messaging (Whatsapp)
  - WeChat Pay (Paypal / Apple Pay)
  - WeChat Moments (Facebook)

### Tencent in pictures and numbers – vast user base



**Source: Company data**

The graphic above demonstrates the user numbers enjoyed by the various parts of the Tencent empire. It is difficult to overstate the scale and effectiveness of these various Tencent platforms...they are genuinely dominant in a vast and fast-growing economy, and their usage dwarfs many of their global peers.

## WeChat – Tencent’s social media, messaging and payment platform

WeChat began simply as a messaging app, but Tencent has intelligently (and rapidly) added a number of additional areas, making it in its own right almost “the only app you need to use”....it incorporates not just the social media gateway, but also a payment platform, mini apps, city services, mapping and so on.

### Tencent in pictures and numbers – vast user base



**Source:** Company data

## WeChat and Sealand’s ePurse offering

ePurse is a Hong Kong-headquartered subsidiary of the Sealand group. It offers payment and digital marketing services, in particular advertising, consumer targeting and brand enhancement for overseas merchants wishing to access the Chinese marketplace. Although the business is active across several social media platforms in mainland China, WeChat is China’s most popular app<sup>4</sup> and the ePurse offering is focussed across three key elements of the WeChat platform.

- WeChat Pay
- WeChat Official Accounts
- WeChat Advertising

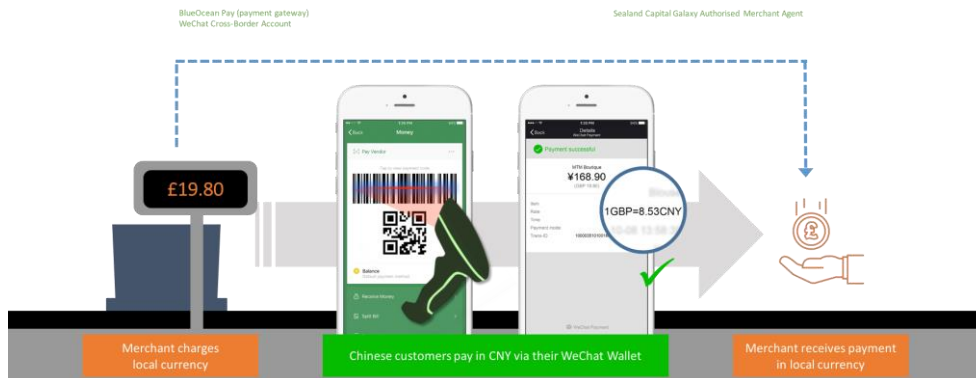
We understand that ePurse has a licence for WeChat advertising in 40 countries, and is already processing payments via WeChat Pay in Hong Kong.

Each of the three WeChat elements are introduced in further detail in the following pages.

## WeChat Pay

The following graphic describes the functionality of WeChat Pay in an international setting.

### We Chat Pay



Source: Company data

- Payment is effected by the customer, using the WeChat application, scanning a QR code displayed by the merchant
- The merchant receives the funds in local currency, while the Chinese customer's account is debited in Chinese RMB (Renminbi)

The business model is transactional. As the authorised merchant agent, ePurse typically receives a small percentage of the total customer spend.

“QR codes are everywhere in China”<sup>5</sup> ...to quote a recent CNBC article “Cash is already pretty much dead in China as the country lives the future with mobile pay”<sup>6</sup>.

### WeChat Pay – example real-life usage scenarios



Sources: Left Image: Technode (Image credit: Timmy Shen/TechNode). Right image: Nikkei Asian Review

In the Hong Kong market, ePurse has 117 merchants already signed up to offer WeChat Pay via the platform, a number that we expect to grow over time. Some of the early adopters include :

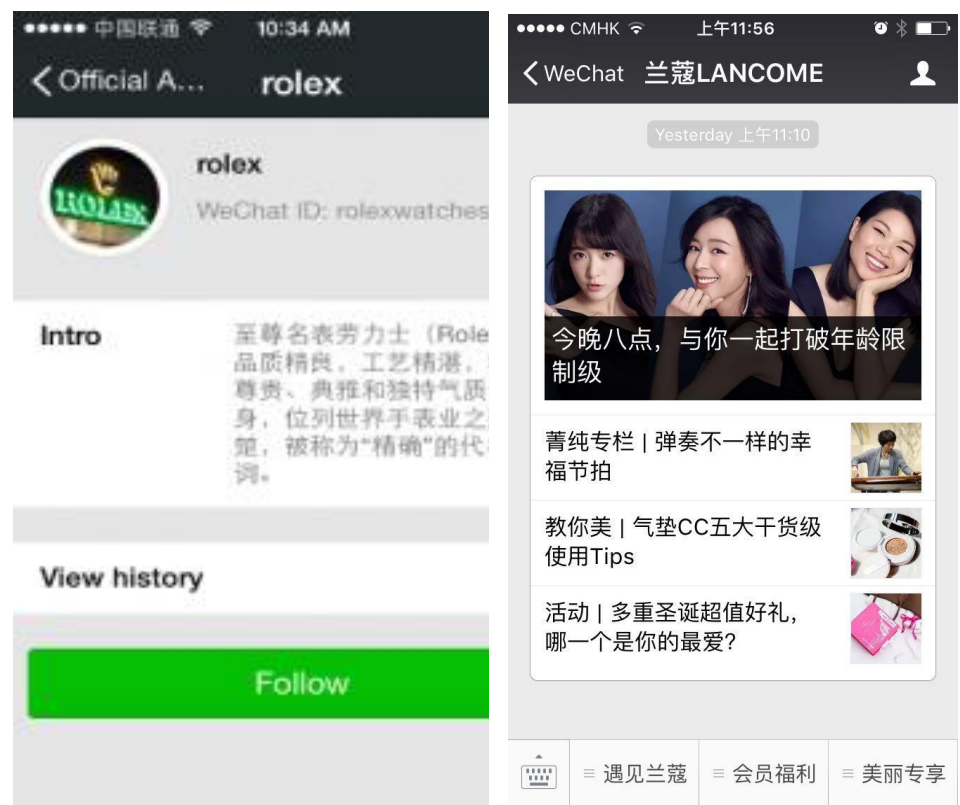
- Lego
- Madison Wine
- AUX International Holdings

## WeChat Official Account

WeChat Official Accounts are the WeChat equivalent of a Facebook page for organisations. Official accounts are essentially an interface for a brand/merchant to

- Acquire followers
- Send followers push notifications to do with merchants' updates, news or sales offers
- Redirect followers to a website/e-commerce

### We Official Account - sample screenshots



**Source: Company data**

As the Official Accounts audience will be Chinese-speaking, the content should be written in localised and colloquial Chinese to build readership and traction. Non-Chinese merchants frequently find this a challenge. ePurse provides management services for Official Accounts, including translation, copy writing, marketing campaigns and in-app functionality around e-commerce applications. A management fee is charged for this work.

## WeChat Advertising - Moments

WeChat Moments are similar to adverts on Facebook appearing in the user's timeline and include the following elements:

- Brand name and profile picture
- Ad description
- Pictures or video
- A button linking to the merchant's Official Account
- Users can also interact with an ad by "liking" it and commenting on it.

Moments advertisements are sold using the CPM model, based on variable cost per impression. ePurse earns a small commission on the sales value, in return for its services facilitating and managing the advertising process, and ensuring compliance with both legal and Tencent's requirements and regulations. ePurse's main value-add relates to effective targeting and retention of Chinese WeChat user bases.

### We Chat Moments - sample screenshots



Source: Company data

## The Sealand Capital Galaxy investment case

Sealand offers investors a potentially-compelling opportunity, with key attractions being:

- Involvement in both advertising and payment-driven revenue streams – potentially leading to high gross margins and strong recurring income
- Offering retail merchants hard-to-get exposure to Chinese consumers – both within the Chinese Mainland, and when they travel
- Ability to capitalise on the group's strong relationship with Tencent's institutional partner, in Hong Kong, the United Kingdom, Dubai and other geographies
- A strong management team, keen on evolving and extending the group both organically and, over time, via acquisition and partnerships

This exposure clearly comes with risks – the group may be unable to execute on the opportunity, its relationship with Tencent could be curtailed, and the revenue and margin it is able to generate may be lower than anticipated.

Nevertheless, we suggest that investors keen to find ways to gain exposure to the Asian (and in particular Chinese) market opportunity should spend time to learn more about Sealand, its business model and its management team.

### Sources:

- 1 <https://www.verdict.co.uk/chinese-tourists-wechat-2021/>
- 2 <https://www.forbes.com/sites/jlim/2014/05/19/wechat-one-of-the-worlds-most-powerful-apps/#787f539374f1>
- 3 <https://www.worldatlas.com/articles/the-25-largest-internet-companies-in-the-world.html>
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- 7 <https://www.scmp.com/tech/article/2153705/tencents-wechat-now-host-1-million-mini-programs>

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