

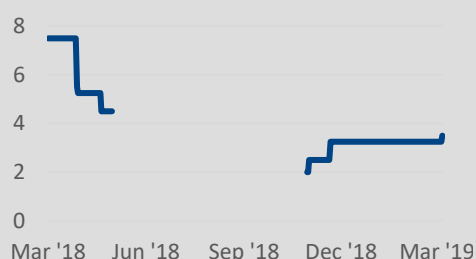
SEALAND CAPITAL GALAXY SOFTWARE AND COMPUTER SERVICES

SCGL.L

3.5p

Market Cap: £17.6m

SHARE PRICE (p)



12m high/low

7.5p/0p

Source: LSE Data

KEY INFORMATION

Enterprise value	£17.6m
Index/market	LSE
Next news	FY 18 Results, Feb-19
Gearing	N/A
Interest cover	

SEALAND CAPITAL GALAXY IS A
RESEARCH CLIENT OF PROGRESSIVE

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Strong blue-chip client wins in Hong Kong

In our view, Sealand Capital Galaxy's ("Sealand") update on the ePurse subsidiary confirms notable progress. The ePurse business in Hong Kong now has 176 clients using the service, including new blue-chip names such as Subway and the Lego franchise holder. In the UK and Dubai, ePurse is currently offering marketing services, and is making progress towards launching a WeChat pay offering. We continue to believe that WeChat represents a material growth opportunity for Sealand and the ePurse update gives confidence that the group is on track to deliver its targets.

- ePurse (HK) now has 176 merchants:** ePurse provides payment and marketing services to merchants using Tencent's WeChat platform. Sealand's announcement confirms that 176 merchants have now joined the platform, and many of these are blue-chip names.
- Blue chip names already on board:** A number of blue-chip names have already adopted WeChat Pay via ePurse in Hong Kong, and many of these are familiar brands. Key clients include Subway, with around a third of its outlets in Hong Kong able to accept WeChat Pay through the ePurse platform, Kidsland LCS (Lego Store), Madison Holdings, AUX International Holdings, Cookies Quartet, In-Talk Limited (SauTao) and Hong Kong Optical Limited. The fact that ePurse has such prestigious names on its client roster in our view demonstrates a significant vote of confidence in the ePurse platform.
- Progress in the UK & Dubai:** ePurse currently offers strategic marketing and advertising services in both the UK and Dubai. The group is negotiating to obtain licences to operate as a WeChat payment partner in the same way as it does in Hong Kong. Once the licences are obtained, the full ePurse platform will be deployed in these two new territories, targeting the significant spend of Chinese tourists.
- WeChat represents a vast opportunity for Sealand:** As discussed in our previous research¹, we believe there is a material growth opportunity for the Sealand group from its strategic relationship with Tencent (the world's #4 Internet player behind Amazon, Google and Facebook²) and presence on the WeChat platform. Chinese tourists are believed to have made c.140million outbound trips during 2018³, and the Chinese are voracious users of WeChat. The WeChat platform is China's most popular app⁴, and includes messaging, social networking, games, mini apps and payments modules. 72% of the total Chinese population regularly use WeChat – the platform has over 1 billion daily active users⁴. It is also very sticky, with users spending an average of 98 minutes per day using the platform.

Overall, we believe Sealand's update on progress with ePurse will boost confidence in the outlook for this key subsidiary. The client base is growing and the reputation of the some of the key clients signed to date represents a significant vote of confidence in the ePurse platform, its management and its Sealand Capital Galaxy parent.

The ePurse business model

ePurse is Sealand's payments and strategic marketing & advertising solutions business. The unit has two key revenue streams:

- Fee income from WeChat Pay transactions (where ePurse retains a small percentage of the transaction value)
- Management & consultancy fees from helping merchants launch marketing campaigns – particularly in managing WeChat Official Accounts, WeChat Moments advertising, brand-building through other Chinese social media platforms, and social media influencer or Key Opinion Leader (“KOL”) activities.

At present, ePurse operates in Hong Kong via the ePurse (HK) subsidiary, offering payment and marketing services. In the UK and Dubai, ePurse currently offers strategic marketing and advertising services and is currently negotiating to obtain licences to operate as a WeChat payment partner in the same way as it does in Hong Kong.

WeChat is gaining traction in Hong Kong...

We continue to believe that WeChat represents a material growth opportunity for Sealand. In aggregate, WeChat has over 1bn daily active users⁴, with WeChat Pay recording over 900m monthly users⁶. We understand Tencent does not disclose the size of the WeChat user base in Hong Kong. However, two data points have recently emerged that suggest WeChat Pay is gaining increasing traction in the territory:

- Tencent recently disclosed that Hong Kong, Macau and Bangkok were the top three overseas destinations where WeChat users made payments with their smartphones⁵.
- The 2018 YouGov Millennial Word-of-Mouth survey placed WeChat Pay first for brand recognition – above names such as McDonalds and Nike⁶.

Tencent has recently enabled Hong Kong-based WeChat Pay users to pay mainland merchants in Chinese yuan, and settle their bills in Hong Kong dollars. Previously this was not possible; a major source of inconvenience to HK travellers to the mainland, where many merchants strongly prefer (and automated vending machines only accept) mobile payments.

These changes suggest growing traction within WeChat in Hong Kong and China – the greater the volume of WeChat subscribers in the City, the more attractive WeChat becomes to merchants as a payment mechanism. The greater the number of merchants using the system, the more attractive WeChat Pay becomes for consumers to make payments. This virtuous circle drives increasing payment volumes (where ePurse has the opportunity to receive fee income) and also increased demand for marketing services (where ePurse has the opportunity to receive management and consultancy fees). ePurse plans to build on this Hong Kong opportunity, replicating the model in the UK to allow Chinese travellers to continue to use their favoured payment platform while away from home.

...and case studies demonstrate the value of WeChat marketing

Tencent has also revealed two case studies of merchants adopting WeChat, that in our view, demonstrate the benefits of the platform to merchants – using online activity to spur offline demand:

- Japan Home Centre (houseware retailer) set up a WeChat official account, followed by the launch of a Christmas promotion campaign. The campaign increased sales by 5% at all JHC stores. The company also recorded a substantial growth of customers paying via WeChat Pay and also recruited over 30,000 new fans for its WeChat official account during the campaign.
- Maxim's Group Hong Kong launched a mooncake pre-ordering campaign which resulted in 7,000 boxes of mooncakes being sold out within two hours via WeChat.

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