

SEALAND CAPITAL GALAXY

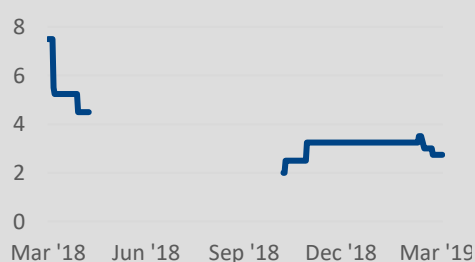
SOFTWARE AND COMPUTER SERVICES

SCGL.L

2.75p

Market Cap: £13.9m

SHARE PRICE (p)



12m high/low

7.5p/2p

Source: LSE Data

KEY INFORMATION

Enterprise value	£13.9m
Index/market	LSE
Next news	FY 18 Results
Gearing	N/A
Interest cover	N/A

SEALAND CAPITAL GALAXY IS A
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New strategic initiatives

Sealand Capital Galaxy Limited (“Sealand”) has announced three new strategic initiatives, which in our view, are potentially transformational for the business. Each of the three initiatives represents a material growth opportunity for Sealand and offers strong synergy potential with the other new ventures and with Sealand’s existing ePurse business. The new ventures also further deepen the relationship between Sealand and Tencent Holdings (0700.HK), a leading provider of internet value-added services in China.

- Initiative 1: New Sky Global:** Subject to final contract signing, Sealand intends to acquire a controlling majority stake in New Sky Global (“New Sky”), a new full-service digital marketing agency, based in Hong Kong. New Sky is expecting to sign a licensing agreement with Tencent and offer marketing and advertising campaigns to overseas merchants using the full range of Tencent Advertising channels and other platforms. Management believe the New Sky service offering to be highly complementary to Sealand’s existing ePurse business, which provides payments and marketing services to merchants in Hong Kong, the UK and Dubai using Tencent’s WeChat platform.
- Initiative 2: Tencent Anime Comics Game (“TACG”):** Sealand is to establish a new subsidiary to manage the organisation of Tencent’s TACG Carnival. The inaugural annual Carnival will be held in at least thirteen regions of China between May and September 2019. It will target the 370m people in China who are regular users of products relating to anime, comics and video games. Sealand will become the exclusive organiser of the events and be responsible for all logistics, selling sponsorships, advertising and developing brand partners. Sealand is already in discussion with a number of high-profile brands, including well-known US car manufacturers and global luxury goods providers.
- Initiative 3: Tencent Car:** Subject to Chinese regulatory approval, a new joint venture will be established to obtain a license to run marketing campaigns on the Tencent Car platform. Sealand is expecting to take a significant equity stake in the venture, which will leverage Tencent’s existing auto.qq.com portal. This provides news coverage and car acquisition services and is a key category of qq.com, China’s leading internet portal⁴. We note that China is the world’s largest car market, with 28m vehicles sold during 2018¹.

Sealand’s stated goal is to build a portfolio of businesses with the potential to deliver strong growth and synergies. Today’s announcement confirms strategic moves into three business opportunities which in our view, are well positioned to deliver both of these. Following on from the update on progress with Sealand’s ePurse business², we believe recent news flow demonstrates the strong momentum in the Sealand business. The increasingly close relationship with internet titan Tencent represents a significant vote of confidence in the business.

3 initiatives: scale and synergies

We believe the three new strategic initiatives offer the potential for Sealand to rapidly achieve scale and deliver synergies. We note:

- New Sky's licensing agreement with Tencent is expected to allow it to deliver marketing and advertising services to overseas merchants using the full range of Tencent advertising channels. The ability to reach over 1bn users of Tencent platforms is we believe, likely to be very attractive to advertisers.
- Around 26% of the total 1.4bn Chinese population – 370m people - are believed to be active consumers of anime, comics and video games⁵. As the exclusive organiser of the Tencent TACG Carnival, Sealand in our opinion, has become a mission-critical component of a key marketing activity undertaken by Tencent – which is the largest video games publisher in the world by revenue³.
- qq.com is China's largest internet portal⁴. The predecessor to Tencent Car, auto.qq.com is China's leading online car portal, providing news coverage and an existing umbrella platform for car sales. The new Sealand joint venture is expected to receive a license to run marketing campaigns on the Tencent Car platform. China is the world's largest car market, with 28m vehicles sold during 2018, with industry sources expecting similar volume in 2019¹.
- There is a significant marketing component to each of the three new initiatives. We see strong overlap with Sealand's existing ePurse business, which provides payment and marketing services to merchants wishing to target outbound Chinese tourists using Tencent's WeChat platform. One opportunity for collaboration between the units is expected to be for ePurse to refer clients seeking more in-depth marketing solutions to New Sky, which has a broader service offering. On the flip side, New Sky should benefit from ePurse's deep relationships with Tencent and the WeChat platform.

Sample Screenshots – auto.qq.com and TACG

The screenshot displays the 'Car' section of the auto.qq.com website. At the top, there are navigation tabs for 'Car', 'Picture', 'Technology', 'industry', and 'WECAR'. Below these, there are location filters for 'Nearby car market: Shenzhen, Dongguan, Foshan, Zhuhai, Jiangmen, Zhongshan' and 'Huizhou, Shaoguan, Zhaoqing, Shantou, Zhanjiang, Yangjiang, Maoming'. The main content area is titled 'Brand selection' and includes a search bar 'Choose a brand', a dropdown 'Choose a car (may not choose)', and a section 'Select model (may not be selected)'. Below this are two buttons: 'Find a new car' and 'ask for a'. The car models are categorized into 'Hot car', 'SUV', 'Compact', 'Medium', 'Zhongda/LuxurySports car', 'new energy', and 'New car'. Specific models listed include 'Home travel', 'Emgrand GS', 'Cruz', 'Arrizo 5', 'Fit', 'Baojun 510', 'Roewe i6', 'Langjing', 'Kovax', 'Business / Multifunction', 'Accord', 'Passat', 'Handsome', 'Auchan', 'Buick GL8', 'Touran', 'Mercedes-', 'Sports/cross c', 'Prado', 'Fox (import)', 'Guide to', 'BMW 4 Series', 'Mercedes-', 'Audi S6', 'Pathfinder', and 'other', 'Tiguan L', 'Roewe eRX5', 'Wuling Light', 'Audi A4'. At the bottom left, there are icons for 'Loan to buy a car', 'Model comparison calculation', and 'Car'. On the right, there is a promotional banner for 'Car group EVENT' featuring a red car and text in Chinese, including '发现∞', '首付1.08万起', and '最低可享4000元现金置换补贴'. Below the banner, it says '[Tencent Quotes] Guangzhou Toyota Vios'.

Source: QQ.com, translated via Google Translate

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References:

- 1 <https://uk.reuters.com/article/uk-china-autos/china-car-sales-hit-reverse-for-first-time-since-1990s-idUKKCN1P8065>
- 2 See Sealand Capital Galaxy: Strong blue-chip client wins in Hong Kong. PERL 13 March 2019
- 3 <https://newzoo.com/insights/rankings/top-25-companies-game-revenues/>
- 4 <https://imqq.com/html/about/about.html>
- 5 https://k.sina.com.cn/article_2619343453_9c20025d00100k3ha.html