

# INVESTOR UPDATE Q1 2014



The Waterside's newly furnished duplex.

## QUICK FACTS

Exchange	London Stock Exchange
Domicile	Guernsey
Market Capitalisation	£199 million
Latest Share Price	£2.41
Portfolio Valuation	US\$565 million <sup>1</sup>
Loan-to-Value	22% <sup>2</sup>
Adjusted NAV per share	US\$4.95/£2.99 <sup>1,3</sup>
Discount to Adjusted NAV	19.40%

<sup>1</sup> As at 31 December 2013.

<sup>2</sup> Assuming a full drawdown of MPO's committed loan facilities and based on MPO's portfolio value as at 31 December 2013.

<sup>3</sup> Based on a US\$/£ exchange rate of 1.657 as at 31 December 2013.

All remaining data as at 31 March 2014.

## About the Fund

Macau Property Opportunities Fund Limited is a closed-end investment fund registered in Guernsey and listed on the London Stock Exchange's main market.

Launched in 2006, the Fund targets strategic property investment and development opportunities in Macau and Mainland China's western Pearl River Delta. Its current US\$565 million portfolio comprises a mix of well-positioned residential and retail property assets.

The Fund is managed by Sniper Capital, an Asia-based property investment manager with an established track record in fund management and investment advisory.

[www.mpofund.com](http://www.mpofund.com)

MANAGED BY  Sniper Capital

Return of cash and Fund-life extension were passed at April's EGM. Further share buy backs were undertaken. *The Fountainside* partnered with BMW to include an i3 electric car with each villa. *The Waterside* won top accolades at the GoHome Awards.

## At a Glance

- **EGM held.** Shareholders approved a Return of Cash of 21p per share, and extended the Fund's life to end-2016.
- **APAC Logistics Centre and Cove Residence sale finalised.** It was formally completed on 25 February 2014 for US\$65 million.
- **The Fountainside partners with BMW.** Each villa will be sold with a BMW i3 electric car, promoting the development's eco-friendly concept.
- **Record Macau gaming revenues in February.** Bolstered by Chinese New Year visitors, gaming revenues reached US\$4.8 billion, representing 40% year-on-year growth.
- **The Waterside wins top accolades at GoHome Awards.** The property was awarded the China/Macau Best Serviced Apartments in the inaugural awards.
- **Tourist numbers continue to grow steadily.** 2.6 million people visited Macau in February, which saw 23% more Mainland Chinese visitors over the Chinese New Year period.

## Fund Update

The Fund's EGM was held on 7 April. Shareholders approved a number of proposals, including the return of cash to shareholders following the sale of the Fund's Zhuhai properties. This allows for a distribution of US\$0.35 (21p) per share – representing approximately US\$29 million or the net profit from the divestment.

Shareholders also approved the extension of the Fund's life to 2016. The next continuation vote will take place no later than 31 December 2016.

In addition, the Board intends for not less than 50% of any future net profits from asset sales to be distributed to shareholders. Further acquisitions will only be considered if exceptional shorter term opportunities present themselves.

760,000 shares were repurchased and cancelled in January at a price of 206.09p per share. The share buy back represented 0.9% of MPO's outstanding shares.

MPO's interim results as at 31 December 2013 were published in February. Adjusted NAV per share registered an uplift of 19.8% over the quarter (in US\$ terms) to reach US\$4.95, or £2.99\*.

The Fund's latest Adjusted Net Asset Value as at 31 March 2014 will be

published in the Interim Management Statement in May.

## Portfolio Overview

### *The Fountainside*

*The Fountainside* received its full sales licence last quarter. The final sales programme, consisting of 14 standard apartments, two duplexes and four villas, is currently underway.

*The Fountainside* has partnered with BMW for a host of exclusive offers for *The Fountainside* buyers. The partnership is in line with the thinking that underpins *The Fountainside* as an environmentally sustainable development.

The four villas at the luxury residential development will be sold with an environmentally-friendly BMW i3 electric car each, complete with private charging stations. An additional BMW i3 is also being offered in a prize draw for owners of all the other 38 units in the development.

We are awaiting the development's Occupancy Permit, for which an application was submitted last December. Once received, any sold units can be handed over to buyers.

### *The Waterside*

Occupancy levels at *The Waterside* remain at approximately 90%. Meanwhile, rental growth is accelerating

\* Based on a US\$/£ exchange rate of 1.657 as at 31 December 2013.



The electric BMW i3 at *The Fountainside*.

## Special Feature



Chimelong Ocean Resort in Hengqin Island, Zhuhai.

### Chimelong Ocean Kingdom officially opens

The Chimelong Ocean Kingdom celebrated its official opening at the end of March. The theme park also holds five Guinness World Records for its projects, including the world's highest diving roller coaster – with 10 stomach-churning inversions, and the world's largest aquarium.

The US\$6 million theme park is part of the attractions at the Chimelong Ocean Resort in Hengqin Island, Zhuhai, which includes the Hengqin Bay Hotel and Circus Town.

Three more projects are in the pipeline. Two hotels, featuring special penguin cartoons and European-style buildings, will have 2,000 and 700 rooms. The Resort will also boast one of the biggest '5D' special effect cinemas in Asia.

The Resort received more than 500,000 visitors during its trial opening period during January's Chinese New Year Holiday. Analysts predict that the Resort could draw between 3.6 million and 5.5 million visitors this year, at a rate of 10,000-15,000 daily. Up to 20% of visitors to Hengqin Island are forecast to visit Macau too.

The GoHome Award is a testament to *The Waterside's* success as a luxury leased residential property.

as rental values catch up with the recent strong growth in capital values. New rentals secured in the past quarter were 12% higher than a year ago, achieving an average of HK\$27.67 per sq ft.

*The Waterside* was awarded the title of China/Macau Best Serviced Apartments in the GoHome Serviced Apartment Awards 2013-14.

Organised by GoHome.com.hk, Hong Kong's leading property website, this year's awards included Mainland China and Macau for the very first time. The award gives *The Waterside* immediate recognition in the first year the awards have been extended to Macau, and is a testament to *The Waterside's* success as a luxury leased residential property.

To tap into continued and growing demand for furnished flats, furnishing works at one of *The Waterside's* duplexes were recently completed. The 4,400 sq ft duplex was decorated featuring a mix of modern and antique Asian elements, with each room having customised colour palettes. Our priority is to secure tenants for both duplexes as soon as possible.

### **Senado Square**

We continue to await a response to the formal planning application process, which we expect to receive by the next quarter. Once all architectural planning approvals have been received, we will proceed with the full structural submission for the project.

We are now expecting to receive planning approval in the second half of the year.

We remain committed to working in tandem with the relevant authorities to gain the necessary approvals for the Fund's first retail development.

### **APAC Logistics Centre and Cove Residence**

The sale of the properties was officially completed on 25 February 2014, when the Fund received RMB312 million (US\$52 million), or 80% of the total sales price. This takes the total amount received to-date to RMB352 million

## PROPERTY MARKET OVERVIEW

Several new launches took place over the quarter which saw prices reach record highs.

**The Carat**, an upmarket housing project in the NAPE area near the Macau Cultural Centre, pre-sold the first batch of all 210 flats on offer in just two days. The flats sold ranged between 654 sq ft and 1,770 sq ft, with the majority being studio flats. The flats were sold for between US\$1,600 to US\$2,100 per sq ft. These prices were at least one-third higher than those sold in January, which were around US\$1,220 per sq ft.

**Residencia Macau**, located in the northern district near the future Hong Kong-Zhuhai-Macau Bridge, sold several units in Q4 2013 at prices averaging US\$1,300 per sq ft.

**Nova Park**, a residential development in Taipa recorded transactions averaging US\$1,400 per sq ft last quarter. Luxury development **One Oasis**, situated near the Cotai Strip, transacted at an average of US\$1,600 per sq ft – nearly 40% more compared to last quarter.

Despite the price premiums and the prospect of rising interest rates, local agents believe buyers will continue to remain enthusiastic, given the

imbalance in housing supply and demand remaining severe and persistent.

More than half of all homes sold in Macau in 2013 cost at least MOP4 million (US\$500,000), official figures indicate. Local estate agents have now regarded this as the minimum price of entry into the city's housing market. Agents are also predicting that unfinished flats will make up 10% of homes sold in 2014, as compared to 30% last year.

Various estate agents have forecast that housing prices will rise between 10% and 20% this year, given the limited supply. Echoing this was the trend in residential mortgage loans, which grew 45.2% month-on-month to reach US\$0.55 billion in January 2013.

ECA International, a human resources management consultant, recently did a survey on accommodation and found that the average rent for an upmarket, three-bedroom home in Macau is US\$4,426 monthly – the seventh-highest in Asia.

The survey found that a similar home in Hong Kong is still the most expensive in the world to rent, costing an average of US\$11,444 – or more than two and a half times that of Macau.

(c. US\$58.6 million), or 90% of the total sales consideration.

In line with the terms of the sales agreement, the remaining 10% (c. US\$6.6 million) will be held in escrow as retention funds and will be released to MPO six months after the completion date (25 August 2014), provided no breaches of representations or terms occur during this period.

### **The Green House**

In an effort to make the property even more attractive to prospective buyers, further renovation works, which included painting, re-tiling and lighting works, were undertaken at *The Green House* last quarter.

We intend to retain *The Green House* as a core portfolio holding until a sufficient price premium has been achieved.



## Macau Overview



### Gaming Revenues

**US\$4.8 billion**

**+40% year-on-year**

Macau's gaming revenues set a new record in February, climbing 40% and beating analyst estimates. This followed a jump in Mainland Chinese visitors to the city during the Chinese New Year holidays.

The gaming table shift from VIP to mass continued throughout the quarter. All six gaming operators in Macau added almost 100 tables in the mass segment, of which 40 tables were taken from the VIP segment.

In addition, the mass table yield in Cotai outperformed the Peninsula side by 34% in Q4 2013. Morgan Stanley points to the cluster effect of bigger casinos on Cotai, which "draws substantially higher foot traffic", and is key to driving the mass market segment. Galaxy Macau is expected to open the second phase of its development on Cotai in early 2015, while Melco Crown's Studio City will be opening later that same year. Sands Parisian, MGM Cotai and Wynn Palace are targeting to open in early 2016, with SJM expected to be the last to open in 2017. These Cotai projects are estimated to create over 12,000 hotel rooms and 1,800 gaming tables, with more than 30 million sq ft of GFA combined.



### Visitor Arrivals

**US\$2.6 billion**

**+3% month-on-month**

The number of visitors from the Mainland rose by 14% to 1.71 million. Mainland Chinese visitors made up more than 65% of total visitors to the city.

Analysts believe that Macau is becoming a more accessible and realistic spot for visitation. Furthermore, with the Chimelong Ocean Resort opening in nearby Hengqin Island, a 'spillover' effect is expected – up to 20% of visitors to Hengqin Island are also expected to visit Macau.



### Visitor Expenditures

**US\$2.3 billion**

**+14% quarter-on-quarter**

Visitor expenditure grew in Q4 2013, bolstered by the holiday season and an

influx of visitors to the city. Retailers rang in the festive cheer, with retail sales of watches, clocks and jewellery accounting for 30% of total sales in the quarter.

Macau's retail sales are expected to be boosted by the Chinese middle class' consumers' discretionary spending, particularly as they expand their wealth in China. Given the improving Chinese economic outlook, disposable incomes are likely to rise and with it, retail sales.



### Hotel occupancy rates

**95%**

**+11% month-on-month**

February saw hotel occupancy rates grow due to the Chinese New Year holidays, which occurred during the month. There was also a rise in average room rates – 19% month-on-month to reach US\$230 in February. This was close to the average room rates of five-star hotels, which was US\$264.

Average occupancy rates in three-, four- and five-star hotels grew over the month, with occupancy rates in all tiers reaching more than 94% in February.



### Unemployment

**1.7%**

**-0.1% quarter-on-quarter**

Labour supply continues to be tight in the city, with the unemployment rate decreasing slightly over last quarter, and staying constant at 1.7% thus far in 2014.

Wynn Macau announced in March that it was offering 1,000 shares to all its casino employees in a bid to retain staff. Analysts believe this will spur other gaming operators to further improve benefits for their employees and adopt measures to build staff loyalty.

Morgan Stanley Research estimates that the new casino resorts in Cotai will need an additional 12,600 – or almost double – the number of croupiers by 2018. This is expected to further tighten labour supply, as business and SMEs compete to recruit workers.

The MICE industry is also reportedly feeling the labour crunch. Some companies have reportedly faced up to 20% turnover in a year, while another company supposedly faced a 90% turnover rate last year. 

## FOR FURTHER INFORMATION

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