

# INVESTOR UPDATE Q2 2013



Macau's city skyline at night.

## QUICK FACTS

Exchange	London Stock Exchange
Domicile	Guernsey
Market Capitalisation	£138 million
Share price	153.50p
Portfolio Valuation	US\$418 million <sup>1</sup>
Loan-to-Value	21% <sup>2</sup>
Adjusted NAV per share	US\$3.62/237.95p <sup>1,3</sup>
Discount to Adjusted NAV	35.49%

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

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

<sup>3</sup> Based on a US\$/£ exchange rate of 1.5213 as at 28 June 2013.

All remaining data as at 28 June 2013.

## About the Fund

Macau Property Opportunities Fund Limited is a closed-end investment fund registered in Guernsey and listed on the London Stock Exchange 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\$418 million portfolio comprises a mix of well-positioned residential, retail and logistics property assets.

The Fund is managed by Sniper Capital, an Asia-based property investment manager with a track record of consistent performance in real estate fund management, investment and advisory.

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

MANAGED BY  Sniper Capital

MPO released strong Q3 results with Adjusted NAV per share rising by 13.25%. Further share buybacks continued in the quarter, *The Waterside* achieved record occupancy levels and the final sales phase of *The Fountainside* was launched.

## At a Glance

- **Strong Q3 results.** Adjusted NAV per share increased 13.25% since December to US\$3.62, driven by increased portfolio values and further accretive share buybacks.
- **Final sales of *The Fountainside* launched.** Sales of this niche residential development should benefit from a new pre-sale law which has further tightened residential supply.
- ***The Waterside* achieves record occupancy level of 92%.** Occupancy levels have surged from last quarter's 75%, with all standard and simplex apartments now leased.
- **Zhuhai properties in final stages of development.** *APAC Logistics Centre* is ready for occupancy, and we expect the same for *Cove Residence* in August.
- **New law on residential pre-sales ratified.** Developers are now required to complete basements and foundations and temporary building licence registrations before a sale is permitted.
- **Working population to jump more than 10%.** The Policy Research Office, a government think tank, estimates that Macau will require 40,000 more workers by 2016.

## Fund Update

MPO's latest unaudited Adjusted NAV per share reached US\$3.62 as at 31 March 2013, an uplift of 13.25% from December and a YoY increase of 25.81%. The strong quarter was driven by sustained growth across Macau's markets. The Fund's portfolio valuations increased to US\$418.4 million as at 31 March 2013, representing an uplift of US\$42 million or 11.2% over the three-month period.

Since the end of March, a further 5% of the Fund's issued share capital, worth US\$10.3 million has been repurchased, funded by last quarter's US\$19.4 million divestment of *The Sky House*. MPO's Board remains fully committed to further share buy backs combined with proactive asset management to drive and further maximise shareholder value.

**The Fund's annual results for the year ended 30 June 2013 are expected in late September.**

## Portfolio Overview

The launch of the final sales phase of *The Fountainside* took place in May, with an exclusive site tour for media

and real estate agents. Scaffolding on the property has been removed from its upper levels and internal fit-out and finishing works are due to be completed by end-July. The project is expected to obtain its occupancy permit in the second half of 2013.

Sale prices have been established at an average of HK\$9,000 (US\$1,160) per sq ft for standard units. We are also aiming to sell special units at HK\$11,000-HK\$15,000 (US\$1,400-US\$2,000) per sq ft, and villas from HK\$13,000 (US\$1,700) per sq ft.

A new law on pre-sales of flats came into effect in June, which is likely to further restrict the supply of apartments in the medium term. This puts *The Fountainside* in a strong position to benefit from the tighter supply amid continued demand for residential properties.

As Macau's gaming revenues continue to grow, so too does demand for luxury rental residential properties for senior executives and VIP guests. This has resulted in occupancy levels at *The Waterside* now standing at an all-time high of 92%, with all standard and simplex units occupied. Average net rental rates were HK\$22.30 (US\$2.90) per sq ft monthly as at end-June, a 9% YoY increase. We are targeting further

## Special Feature



Chimelong International Ocean Resort is due to open in September.

## The 'Disneyland' of the Pearl River Delta

Located on the southeast side of Hengqin Island, Chimelong International Ocean Resort is expected to receive 20 million people annually\*, and we believe there will be a spillover effect for Macau. The resort is due to open in September, and will include a 1,888-room ocean-themed hotel, the largest hotel in Mainland China. It will also have a man-made beach with a wave pool, MICE facilities, and the world's biggest aquarium, highest Ferris wheel and longest roller coaster.

The project will be developed in two phases, at a total cost of more than US\$3 billion.

The Chinese government aims to develop retail, MICE and leisure facilities to make the Macau-Hengqin hub a compelling domestic destination to drive visitor traffic to Macau and further exploit the city's growth potential.

Upcoming events at Chimelong include the first-ever Chinese Circus Festival. The festival is expected to boost the number of visitors to Hengqin, with Macau benefitting from the tourist spillover effect.

\* Based on a Citi research note, and working on the conservative assumption that only one in five Chimelong visitors will cross the border to visit Macau, the number of Mainland Chinese visitors should easily exceed 20 million.

As Macau's gaming revenues continue to grow, so too does demand for luxury rental residential properties.

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HEADLAND DEVELOPMENTS  
匯豐發展

As part of the media campaign for its final sales phase, *The Fountainside* published advertisements in local newspapers.

rental growth of 5% by December, to reach an average net rental rate of HK\$23.50 (US\$3) per sq ft monthly.

Following the successful launch of the *Sapphire Suites* last year, we have re-branded the *Apex Collection* units as the *Emerald Suites* - a new collection of ultra-luxury residential apartments available for lease.

The *Emerald Suites* are located on the highest floors of *The Waterside* and offer residents the most upscale lifestyle accommodation on the property, with floor-to-ceiling windows and private sky terraces. There are three spacious simplex (four-bedroom) and two duplex (three or four-bedroom) apartments. The simplex units start at 4,738 sq ft and the duplexes measure 4,424 sq ft to 4,549 sq ft.

The regional PR campaign for *The Waterside* gained further momentum, with media events arranged in Hong Kong, Guangzhou and Singapore. Our objective is twofold: to cement the position of *The Waterside* as the pre-eminent residence in Macau while at the same time building on this reputation and further generating interest in the *Emerald Suites*.

We received verbal approval for our proposed design plans for **Senado Square**, the Fund's flagship retail development, from Macau's Cultural Heritage Department in mid-May. Following approval by the Land, Public Works and Transport Bureau, a new alignment plan will be issued. Following this, minor adjustments will be made to the architectural submission before its resubmission for final approval.

The formal planning application process is expected to be completed by the end of the year and for construction to begin in the first half of 2014.

**The Green House** continues to generate market interest. This iconic asset offers exclusivity in a prime location, and we will consider divesting it only once a sufficient price premium has been achieved.

## PROPERTY MARKET OVERVIEW

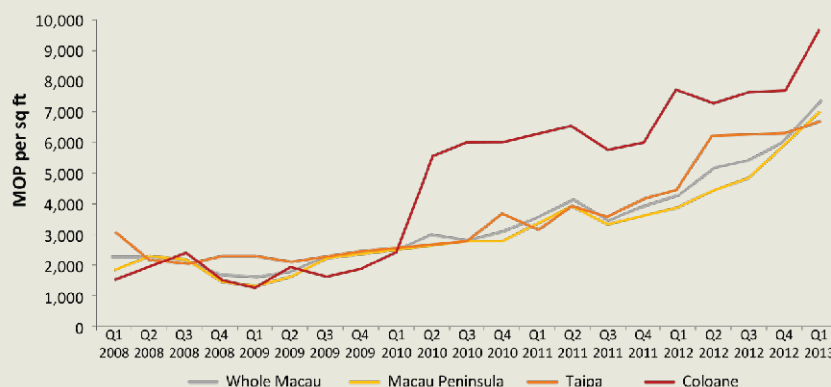
A new law on flat pre-sales came into effect on 1 June. Developers are required to finish projects' basement and foundations and to complete temporary horizontal property registration before a sale is permitted. Sales of unfinished homes before 1 June will be unaffected, but re-sales of such dwellings will be allowed only after the properties are logged by the Real Estate Registry.

Ricacorp, a local realtor, has said that the new law is creating confusion amongst buyers and sellers alike who are uncertain about its full implications.

Supply is expected to tighten further and buyers may face additional delays in obtaining property titles, exacerbating a market with already limited supply. Most buyers are looking to the secondary market, adding potential upward momentum to prices.

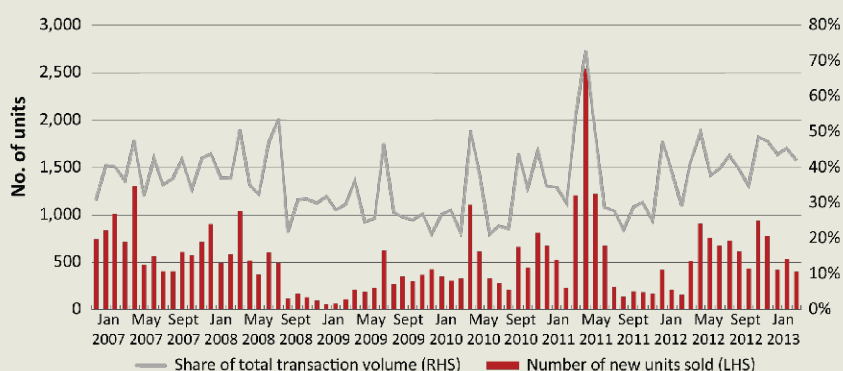
In April, however, prices were flat MoM, following a very strong first quarter, averaging HK\$7,745 (US\$1,000) per sq ft. There were 1,477 residential transactions and although this was a MoM decrease of 6%, it represented a 7.7% YoY increase.

### Average home prices by major submarkets



Source: Vigers Research: Macau Property Market Quarterly (Q1 2013)

### Number of new residential units transacted, Jan 2007–Feb 2013



Source: Market in minutes: Macau Residential, May 2013, Savills



We are in the final stages of developing our first Zhuhai property, the **APAC Logistics Centre** (phase 2 of 3). We obtained occupancy rights for the property in mid-June and minor defect rectifications are nearing completion. We are in negotiations with a number of potential tenants, including logistics, manufacturing and engineering companies seeking a quality strategic location with maximum connectivity to Mainland China and global markets.

At **Cove Residence**, our second Zhuhai property, hard landscaping, power and underground utility connections are almost complete and we expect to obtain occupancy rights for the project in August, pending final government inspections.

We have been in discussions with an array of potential tenants, ranging from developers to gaming operators, with a view to leasing the entire facility. A number of potential buyers also continue to express interest in acquiring the project in its entirety and we will consider all options to ensure the best possible return on the property.

## Macau Overview

There continues to be a strong positive correlation between China's economy and the growth of Macau's gaming industry. The city's GDP grew 10.8% YoY in real terms in the first quarter,

and ratings agency Fitch maintained its AA- rating. Inflation is expected to stabilise at 5%-6%.

Macau's unemployment rate has continued to fall, reaching an all-time low of 1.8% as at end-May, and the Policy Research Office estimates that the territory will need 10% more workers - another 40,000 - by 2016.

The head of the Macau Travel Industry Council expects the number of inbound tourists to rise by 2%-3% this year to hit 29 million. Mainland Chinese tourists remain the primary drivers of tourism, accounting for 64% of the 11.8 million visitors in the first five months of the year.

A stamp-free clearance system has been introduced for all Chinese two-way permit holders. Visa relaxation measures have also been introduced; Mainland Chinese nationals resident in Guangdong province are now able to apply for visas under the Individual Visit Scheme for Macau and Hong Kong at the same time. Analysts believe this represents a positive sign that the Chinese government is taking steps to make it more convenient to visit both cities.

Also adding to Macau's accessibility is the Guangzhou-Zhuhai Railway, which has expanded its bullet train services by 20% since 1 July, and trains between the two cities now run every 15 minutes. 🚄



Tourists at the ruins of St Paul, a popular tourist spot in Macau. The Macau Travel Industry Council expects tourist figures to reach 29 million this year.

## FOR FURTHER INFORMATION

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### Stock Codes:

Bloomberg: MPO LN  
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