



The interior of one of *The Waterside* units, Macau's premier leased apartment offering.

***The Fountainside* was granted its Occupancy Permit during the quarter; handover of units to buyers is underway. A new US\$28.4 million loan facility was executed. The Fund received vacant possession of its latest acquired property.**

- Rental demand at *The Waterside* remains under pressure.** Occupancy levels slipped to 56% as the slowdown in VIP gaming continued to impact tenant demand.
- The Fountainside* Occupancy Permit received.** The Fund will receive final payments totaling HK\$152.5 million (US\$20 million) once the handover process is completed.
- Vacant possession of newly acquired house adjoining the Green House.** The properties will be combined to create a single outstanding residence of 10,000 square feet.
- US\$28.4 million loan facility secured.** MPO's total cash balance will rise to c. US\$22 million after an existing US\$12.9 million loan facility is repaid.
- Gaming outlook deteriorates.** Gaming shares have remained under pressure as analysts continue to anticipate further declines in gaming revenue.
- Housing market consolidating.** Turnover continues to remain subdued with prices steady to slightly softer.

#### QUICK FACTS

|  |                       |
|--|-----------------------|
| Exchange.....                            | London Stock Exchange |
| Domicile.....                            | Guernsey              |
| Market Capitalisation.....               | £170.3 million        |
| Share Price.....                         | £2.17                 |
| Portfolio Valuation..... <sup>1</sup>    | US\$47.6 million      |
| Loan-to-Value..... <sup>2</sup>          | 27.2%                 |
| Adjusted NAV per share..... <sup>3</sup> | US\$4.97/ £3.02       |
| Discount to Adjusted NAV.....            | 28.2%                 |

MANAGED BY  Sniper Capital

<sup>1</sup> As at 31 December 2014.  
<sup>2</sup> Assuming a full drawdown of MPO's committed loan facilities and based on MPO's portfolio value as at 31 December 2014.  
<sup>3</sup> Based on a US\$/£ exchange rate of 1.5584 as at 31 December 2014.

All remaining data as at 31 March 2015.

## FUND

MPO's interim results as at 31 December 2014 were published in February. Adjusted NAV per share decreased 3.6% over the six month period from 1 June 2014 to 31 December 2014 to US\$4.71, or £3.02.\*

In March, the Fund secured a new loan facility of US\$28.4 million against *The Fountainside*. This generated US\$15.5 million net cash after the repayment of an existing US\$12.9 million loan facility, taking the Fund's total cash balance to c. US\$22 million. Cash will rise by a further US\$19 million once handover of *The Fountainside* units has been completed. The fund's overall loan-to-value stands at 24.9%.

Given the headwinds that the Macau economy is currently facing, prudent cash flow management will be essential. Nevertheless, share buybacks remain of foremost priority, although limited share liquidity has hindered recent activity.

\*Based on a Dollar/Sterling exchange rate of 1.5584 as at 31 December 2014.



The eco-friendly green roof at The Fountainside helps reduce heat transmission from the rooftop to the apartments.

## PORTFOLIO

### ESTRADA DE PENHA

As reported in last quarter's Investor Update, the Fund acquired the property adjoining the previously named Green House and in February took vacant possession. Subsequently, a final payment of HK\$15.8 million, or 10% of the purchase price, was released to the seller.

The new property, a three-storey villa with two basements, spans c. 6,500 square feet.

Renovation works have now commenced and will result in combining the property with the adjoining one to create a c. 10,000 square foot villa to be called *Estrada da Penha*, reflecting its address.

### THE WATERSIDE

The continued slowdown in Macau gaming revenue has further impacted rental demand at *The Waterside*. Occupancy rates slipped 11 percentage points during the period, to 56% due to a reduction in lease renewals and early terminations by tenants directly impacted by the gaming slowdown. On the brighter side, average monthly rental rates for new leases remains stable at HK\$27.70 (US\$3.51) per square foot per month. Although total quarterly rental income now stands at c. HK\$7.75 million (US\$1 million) – 11.5% lower than the previous quarter – net cash flow for the period remained positive at HK\$722,000 (US\$93,000).

While we are to a great extent beholden to the softer market environment, we have taken a number of steps to boost occupancy levels. These include offering higher incentives to property agents, rental discounts for one year tenancies paid in advance and ongoing marketing promotions. *The Waterside* brand remains well established and is the premier leased apartment offering in Macau. With over 35,000 new staff required to man the upcoming spate of new casino-resorts set to open progressively from May this year, and with premium housing stock remaining in very short supply, we expect to see a pickup in enquiries from the middle of the year.

### THE FOUNTAINSIDE

*The Fountainside's* Occupancy Permit was received in February and handover of units to buyers is currently underway. Final payments totaling HK\$152.5 million (US\$20 million) are expected to be received upon handover completion.

Out of a total of 38 apartments and four villas, 27 units have so far been sold. While local demand for new homes remains buoyant, anti-speculative curbs – which include caps on mortgage loans – continue to restrict residents' buying power, especially for larger units. Nevertheless, *The Fountainside's* location remains highly sought after. We are maintaining an active and widespread promotional programme.

### SENADO SQUARE

We received comments from the Land, Public Works and Transport Bureau regarding our latest submission in September 2014. Additional changes need to be made to the architectural plans, and are currently in progress and should be completed by the end of the first quarter.

Furthermore, an application for a new alignment plan for the development plan has been made, in line with regulatory requirements. The new alignment plan is expected to be received in the third quarter.

Construction is now expected to commence in H1 2016 upon receipt of all necessary approvals.

# MACAU

Analysts remain negative on the outlook for gaming operators, given the continued slowdown in the VIP gaming segment. Gambling revenue dropped 39% in March to US\$2.7 billion – just below the average estimate of analysts.

Deutsche Bank and Fitch Ratings are predicting 2015 gaming revenue to decrease by 25% and 22% year-on-year respectively.

Morgan Stanley noted in a March research report that VIP patrons were checking in with a “lower amount” of gaming spending power, which has declined by more than half, to around US\$0.5 million per visit. Furthermore, junket operators – ‘middlemen’ who act as facilitators, bringing in high net worth players – appear to be gradually moving VIP players out of Macau. Destinations such as Manila, Cambodia and Australia are proving more attractive for junkets, allowing VIPs to avoid scrutiny from Xi Jinping’s anti-corruption drive, along with higher commission rates.

Sanford C. Bernstein is taking a longer-term view of things, despite the gaming operators’ diminishing revenues. Bernstein believes Macau is undergoing a “Paradigm Shift” that is transforming the market, and estimates that the shift from VIP to mass gaming will lead to gaming EBITDA growing at an estimated 13% for 2015-2018 CAGR. Furthermore, the upcoming gaming resorts in Cotai are mass market-centric, which should further drive growth in this segment.

In the longer term, the outlook is more optimistic due to infrastructure development shortening travel times to Macau, as well as new gaming, hotel and leisure facilities attracting more visitors. Analyst estimate as few as 2% of China’s 1.4 billion people have visited Macau.

Macau’s Chief Executive Chui Sai On has also pledged a five-year action plan to facilitate the diversification of the local economy. Part of the government’s fiscal reserves will be used to create an Investment Development Fund, which will invest in projects in Guangdong Province to increase the return rate of the city’s fiscal reserve investments. Ahead of the renewal of gaming licences starting in 2020, the Macau government is conducting a review of gaming operators, partly focusing on how effectively they have incorporated non-gaming elements in their facilities. Non-gaming revenue makes up less than 10% of total revenue, compared with more than half in Las Vegas.

## MACAU GAMING REVENUE GROWTH FORECAST

| (US\$ mm)             | 2014          | 2015E         | 2016E         | 2017E         |
|-----------------------|---------------|---------------|---------------|---------------|
| VIP                   | 26,352        | 17,076        | 18,101        | 19,006        |
| Mass                  | 15,783        | 14,121        | 16,276        | 18,429        |
| Slot                  | 1,806         | 1,571         | 1,728         | 1,866         |
| <b>GGR</b>            | <b>43,940</b> | <b>32,768</b> | <b>36,104</b> | <b>39,301</b> |
| <b>Total Growth</b>   |               |               |               |               |
| VIP                   | -12%          | -35%          | 6%            | 5%            |
| Mass                  | 17%           | -11%          | 15%           | 13%           |
| Slot                  | 0%            | -13%          | 10%           | 8%            |
| Mass & Slot           | 15%           | -11%          | 15%           | 13%           |
| <b>GGR</b>            | <b>-3%</b>    | <b>-25%</b>   | <b>10%</b>    | <b>9%</b>     |
| <b>Organic growth</b> |               |               |               |               |
| VIP                   | 0%            | -41%          | -9%           | -3%           |
| Mass                  | 17%           | -15%          | -1%           | 6%            |
| Slot                  | 0%            | -18%          | -17%          | -17%          |
| Mass & Slot           | 15%           | -15%          | -3%           | 4%            |
| <b>GGR</b>            | <b>-3%</b>    | <b>-30%</b>   | <b>-6%</b>    | <b>0%</b>     |

Source: DICJ, Morgan Stanley Research (E) estimates

# PROPERTY

2015 has seen the value and volume of building units transacted decreasing further, a trend which is most likely to continue through to the next quarter. The value of building units purchased and sold in January this year was MOP\$3.4 billion (US\$0.4 billion) – close to one third of last January’s figure. A total of 636 building units were transacted in January this year – a 0.2% increase month-on-month, but a 147% decline annually. There were 364 new building units under construction in January, more than 24 times the number of units that were being built in December 2014, but still less than then 479 units that were under construction in January 2014.

New residential mortgage loans increased 2.7% month-on-month in January, according to the Monetary Authority of Macau. The total amount of new residential mortgage loans that were approved during the period totaled MOP3.8 billion (US\$0.5 billion). This, however, translated into a 12.5% year-on-year decrease.

In a press conference following his annual Policy Address, Chief Executive Chui said his government was undecided on taking any further action to curtail the property market. Chui added that they were paying attention to changes in the property market, along with the population’s income and purchasing power. Chui reiterated that the government wishes to pursue “stable development” in the property market, which remains a ‘hot button’ issue.

Supply of residential properties in Macau continues to remain tight, with demand outstripping supply. Housing starts are decreasing year-on-year, and unemployment in the city continues to remain low, further aggravating manpower shortages. We continue to remain optimistic about the city’s longer term outlook, given its strong demographics and gradual shift in focus to economic diversification.

## FURTHER INFORMATION

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### ABOUT THE FUND

Macau Property Opportunities Fund Limited is a closed-end investment fund registered in Guernsey. Listed on the London Stock Exchange’s main market, it is also a constituent stock of the FTSE All-Share and FTSE SmallCap indices. 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\$548 million portfolio comprises a mix of well-positioned residential and retail property assets. The Fund is managed by Sniper Capital Limited, an Asia-based property investment manager with an established track record in fund management and investment advisory.

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