

INVESTOR UPDATE Q3 2014



A newly furnished standard apartment at *The Fountainside*

QUICK FACTS

Exchange	London Stock Exchange
Domicile	Guernsey
Market Capitalisation	£188 million
Share Price	£2.38
Portfolio Valuation	US\$535.8 million ¹
Loan-to-Value	24% ²
Adjusted NAV per share	US\$4.89/£2.86 ^{1,3}
Discount to Adjusted NAV	17%

¹ As at 30 June 2014.

² Assuming a full drawdown of MPO's committed loan facilities and based on MPO's portfolio value as at 30 June 2014.

³ Based on a US\$/£ exchange rate of 1.710 as at 30 June 2014.

All remaining data as at 30 September 2014.

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\$535.8 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.

www.mpofund.com

MANAGED BY  Sniper Capital

MPO reported record annual results and continued to increase shareholder value through share buybacks. Financial flexibility improved following successful debt deals. Sales at *The Fountainside* are progressing, albeit modestly, due to the effects of property curbs.

At a Glance

- **Record results announced.** MPO's total return for the year, including distributions, hit 40%, while both portfolio value and Adjusted NAV per share recorded double-digit growth.
- **Shareholder returns boosted.** US\$10.5 million worth of share buybacks, representing 3.2% of issued share capital, were undertaken over the quarter.
- **Debt negotiations successfully concluded.** An additional US\$30 million of free cash was generated.
- **More units at *The Fountainside* sold.** Another two standard units were sold over the quarter, fetching an average price of HK\$8,668 (US\$1,120) per square foot.
- **Property transaction volumes remain sluggish.** This development is not wholly unexpected given government restrictions on property purchases by foreigners and locals.
- **China's anti-corruption campaign takes its toll.** Gaming revenues have fallen for four consecutive months on the back of weak VIP spending.

Fund Update

MPO released a record set of full-year results in September with Adjusted NAV per share rising by 30.7% year-on-year to US\$4.89 (286p) as at 30 June 2014. The market valuation of the Company's properties was US\$535.8 million, a 37.7% increase from the previous year.

During the quarter, the Company continued with its share buyback programme, with 3.2% of its issued share capital repurchased and cancelled at a weighted average price of 246.85p per share. The total number of shares outstanding as of 30 September 2014 is 78,846,464.

MPO's share price was 238p as at end-September, equating to a 17% discount to its latest Adjusted NAV per share.

On the financing front, US\$30 million was generated through a combination of new loan facilities and restructuring of existing debt covenants. Overall debt now stands at US\$142 million, equating to a loan-to-value ratio of approximately 24% based on June 2014 valuations.

Portfolio Overview

The Fountainside

Over the quarter, two additional units were sold at an average price of

HK\$8,668 (US\$1,120) per square foot, bringing the total sold to date to five out of 20 units in the final sales phase. Sales are likely to remain modest in the near term in light of current property cooling measures.

To help drive further sales, weekend viewings and the enhancement of standard units are being promoted. *The Fountainside*, in partnership with a local specialist in furniture, hotel and residence design, recently unveiled a newly furnished standard apartment in an event that was well-attended by local and regional media.

Government inspections, required prior to the issuance of an Occupancy Permit, took place in July and went well. Approval is expected by year-end, following which units will be handed over to buyers upon receipt of final payments. This should result in positive cashflow of HK\$151.0 million (US\$19.5 million).

The Waterside

The drive for higher rental growth is the key focus for *The Waterside*, where rental values have lagged the strong growth in the asset's value, while stabilising occupancy at 75% or higher.

As at end-September, occupancy levels stood at 76%, with rental renewal rates rising to as high as HK\$28.85 (US\$3.72) per square foot. Thanks to *The Waterside*'s premier leased property status, the number of rental enquiries

has remained healthy and stable. Latest average effective rents for *The Waterside* are now HK\$26.30 (US\$3.39) per square foot, compared to HK\$24.97 (US\$3.22) per square foot as at end-June.

Aside from accelerating rental growth, our current emphasis is on cementing the property's status and growing its reputation via continued strategic marketing campaigns.

In this respect, a new privileged Platinum card for residents, with merchant partners including Bentley (Macau), BMW (Macau) and Lamborghini (Macau), was launched in September.

Also in the pipeline is a general enhancement programme for all standard apartments, to ensure that the interiors are well-maintained as we aim to sustain our market position and maximise rental values.

The drive for higher rental growth is the key focus for *The Waterside*.



A Lamborghini on display at *The Waterside* during the launch event for the new residents-only privileged Platinum card

Senado Square

Further constructive feedback on various technical aspects of the latest design has been received from the authorities and incorporated accordingly. We have resubmitted the revised drawings as a full architectural submission package. A formal response to the planning application is still expected by end-2014, following which a full structural submission can be made.

Construction is now expected to commence by Q4 next year upon receipt of all necessary approvals. The project should be completed by end-2017.

Valuations in the area, meanwhile, remain robust thanks partly to solid retail sales. The value of retail sales rose

to US\$2 billion in Q2, the highest in the last four years and more than double that recorded in the second quarter of 2010.

Recent significant retail transactions in the area include the sale of a 800 square feet ground floor unit for HK\$160 million (US\$21 million) or HK\$200,000 (US\$25,800) per square foot.

In addition, a 1,500 square feet ground floor unit with a large basement – which generally has a lower unit price – was sold for HK\$120 million (US\$15 million), translating to HK\$80,000 (US\$10,300) per square foot.

In comparison, the latest valuation for our 65,000 square feet *Senado Square* project equates to approximately HK\$13,600 (US\$1,750) per square foot.

The Green House

Latest renovation works at *The Green House* have been completed.

We will continue to ensure that the property is kept in good condition, to enhance its appeal to potential buyers. We expect demand for luxury private homes to remain resilient, propped up by tight supply.

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PROPERTY MARKET OVERVIEW

Home prices remained on an uptrend in Macau, while transaction volumes continued to fall in the January-July period this year as housing demand stayed strong in the face of tight supply. The average home price rose 22% year-on-year to US\$1,170 per square foot. The number of home transactions, however, recorded a year-on-year decrease of 37%.

This adjustment phase is not wholly unexpected in light of the government's cooling measures and should be viewed in the context of rapid price increases in the past few years. It is particularly noteworthy that the average price of a residential unit has increased almost sixfold in the last five years.

Despite estimates that the number of property transactions could dip further for the rest of the year, estate agencies are generally still positive about the market given the backdrop

of robust economic fundamentals, tourism development in Hengqin, and the upcoming opening of large-scale integrated resorts with the accompanying housing demand from expatriate workers.

Rental prices of residential properties in the mass and high-end markets increased by 12% and 7% respectively over the first half of the year, according to Jones Lang LaSalle, and are expected to rise further in the second half of 2014 as supply remains inadequate to meet solid demand from the influx of new foreign workers.

Housing, meanwhile, remains a hot topic in the legislature, with the newly re-elected Chief Executive Chui Sai On reiterating it as a top priority for his new mandate. To that end, short, medium and long-term goals for the city's public housing were established. The three targets include making available 4,400 units occupying four parcels of land,

1,400 flats near the new passageway between Macau and Guangdong, and 28,000 public housing units on reclaimed land off the peninsula respectively. These are unlikely to have much impact on the high-end residential sector, however, given the different target market.

Separately, phase 1 of One Oasis in Cotai, comprising 870 units, started its handover process in July, suggesting that more units in the secondary market could come on stream soon. Even so, rental rates are expected to continue their upward momentum in view of strong demand. Separately, estate agency Centaline predicts that new apartments will be built as "pearl units" – small and costly – in the second half of the year; The Carat and The Grand Residencia Macau are two such examples.

Macau Overview

China's anti-corruption campaign continued to take its toll on Macau's gaming sector, with revenues falling for four consecutive months on the back of weakness in the VIP segment. The general consensus is that gaming revenue growth will be flat or negative in the next few months.

Despite recent gloom, analysts' assessment of Macau's prospects remains broadly positive. Among the reasons for this optimism are an under-penetrated market, new capacity with the opening of mega-casinos on the Cotai Strip, and better infrastructure and rail links.

Brokerage Sterne Agee perhaps put it best when they wrote that they viewed "2014 as a transition year in Macau ahead of multiple years of sequential market growth driven by visible, high-margin mass volumes."

The government, too, notes that the gaming industry is entering a more stable phase after a decade of rapid development. It expects single-digit growth this year, citing the economic slowdown in China, which supplies the territory with the majority of its visitors.

Gaming operators, meanwhile, have been the target of a wave of protests to hit Macau this summer, with workers demanding better pay and working conditions. The numerous staff retention plans that have been put in place since – including bonus hikes – are expected to drive up labour costs further in an already tight labour market.

Turning to the broader economy, Macau's second-quarter GDP rose by 8.1% year-on-year, thanks to healthy investment and tourism. This was down from the 12.4% recorded in the first quarter but still much higher than in most parts of the world.

Tourist numbers have kept on rising, totalling more than 21 million for the year to August, an increase of 8% from a year ago. Notably, mainland Chinese visitors continued to grow at

an above-average rate of 14% year-on-year. According to the Pacific Asia Travel Association, Macau's annual tourism revenue could hit US\$270 billion by 2018, surpassing both the US and China.

The transformation of the Cotai Strip has been gathering pace. Phase three of the shopping mall at Sands Cotai Central opened with 34 new retailers, including anchor store Marks & Spencer; Sands China is aiming to launch Planet J, Macau's biggest interactive indoor theme park, at Cotai Central by next spring. Construction at MGM Cotai's 2 million square feet property is also moving ahead following formal government approval.

Elsewhere, casinos on the peninsula are getting a makeover. Wynn Macau's US\$60 million redevelopment is expected to be completed before next year's Chinese New Year holiday. Likewise, MGM Macau will spend around US\$194 million to revamp gaming areas and add retail space by 2016.

Over in Hengqin, the Chinese government has approved a proposal for a 24-hour border crossing at the Zhuhai-Macau cross border industrial zone for Macau residents and migrant workers, which should ease pressure at the busy Gongbei border checkpoint nearby. The Light Rapid Transit railway, which is currently under construction in Taipa, may also be extended into Hengqin via an underwater tunnel; the government hopes to start work by the end of the year.

At the same time, another 10 square kilometres of space may be set aside on Hengqin to build a park for Macau businesses. It is hoped that this will provide more space for Macau's investors and encourage the territory to diversify its economy. 🌐

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