



A newly refurbished unit at *The Waterside*.

## QUICK FACTS

Inception Date	5 June 2006
Exchange	London Stock Exchange
Domicile	Guernsey
Market Capitalisation	£117.5 million
Share Price	189.98p
Number of Principal Properties	3
Portfolio Valuation	US\$338.4 million <sup>2</sup>
Adjusted NAV per share	US\$3.41/258p <sup>1,2</sup>
Discount to Adjusted NAV	26%
Cash Balance	US\$88.2 million <sup>2</sup>
Total Debt	US\$148.0 million <sup>2</sup>
Loan-to-Value Ratio	35% <sup>2</sup>

<sup>1</sup> Based on US\$/£ exchange rate of 1.321 as at 30 June 2018.

<sup>2</sup> As at 30 June 2018.

All other data are as at 30 September 2018.

*The Waterside secured eight new leases and had several early terminations by junket-related tenants. Sale campaigns for both *The Fountainside* and *Estrada da Penha* are continuing. The imminent opening of the Hong Kong-Zhuhai-Macau Bridge is expected to boost sentiment and drive long term property values in Macau and the western Pearl River Delta.*

### **Occupancy level at *The Waterside* declined to c.60%.**

Early lease terminations were exercised by several junket-related tenants.

### **Ongoing activities at *The Fountainside*.**

Marketing of six apartments continues, while awaiting authorities' approval on the larger units' reconfiguration plans.

### **Continued pursuit of ultra-high net worth buyers for *Estrada da Penha*.**

Large-scale infrastructure projects connecting 11 cities in the region is expected to boost sentiment and assist our marketing efforts.

### **Macau's economy to continue expansion.**

The city's gross domestic product is forecast to grow 5.8% for 2018 and 3.9% in 2019.

### **Sanguine outlook for the property market.**

Average home prices are predicted to rise further for the remainder of the year and into 2019.

## FUND

The Company announced its annual financial results on 24 September 2018.

As at 30 June 2018, MPO's adjusted Net Asset Value was US\$260.6 million, which translated to US\$3.41 (258 pence), representing an annual growth rate of 4.5%.

## PORTFOLIO

Macau was hit by a typhoon in September, which caused widespread disruption in the city. Fortunately, the Company's portfolio of properties, which is fully insured for typhoon risk, suffered minimal damage.

### THE WATERSIDE

The average rental rate registered a modest sequential quarterly increase of 1.2% to HK\$21.90 (US\$2.81) per square foot per month – thanks to eight well-negotiated new leases which were sealed on the back of an active level of leasing enquiries.

Meanwhile, during the quarter, several junket-related tenants exercised early terminations on their leases. These terminations are believed to be due to the Macau government's plans to introduce greater and more stringent oversight of junket operators via fresh legislation and regulations. This is compelling some junket operators to carry out reviews of their current business and compliance models. Consequently, the occupancy level during the quarter declined to c.60% from 70% in the prior quarter.

We believe this spate of terminations was a 'one-off' event and are hopeful that the

overall occupancy level will recover to a healthier level going forward, on the back of optimism in Macau's economic growth as well as the positive impact of the opening of the Hong Kong-Zhuhai-Macau Bridge this year.

The Company had US\$88.2 million in cash and US\$148.0 million as borrowings, which worked out to a loan-

to-value ratio of 35%. Subsequently in July 2018, there was a distribution of US\$50.5 million to shareholders.

As at end September, MPO had a share price of 189.98 pence, a 2.1% QoQ decline.

We commenced the latest phase of our upgrading programme for all units during the quarter, including installing and upgrading of kitchen appliances. Such asset enhancement programmes aim to maintain the premium positioning of *The Waterside*, ensuring its capability to continue commanding attractive rental rates and to further boost the occupancy level.

We actively continue to market the other six apartments, although the residential sales market remains somewhat muted due to stricter mortgage policies implemented earlier this year.

### THE FOUNTAINSIDE

Architectural approval for the reconfiguration of the four villas and two duplex units into smaller apartments is expected by the end of 2018. Notwithstanding any unforeseen delays, the entire reconfiguration project should be completed by end 2019.

We sold one car-parking space in August for HK\$2.37 million (US\$0.3 million). Consequently, there are 12 residential units remaining for sale at the end of the quarter – including 4 villas and 2 duplexes – and 9 car-parking spaces.

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### ESTRADA DA PENHA

With the imminent opening of the Hong Kong-Zhuhai-Macau Bridge, the Greater Bay Area is clearly in focus, with much discussion about the integration of the region's 11 cities, shortened travel times and the impact on property values. It is expected that the price gap for residential assets between Macau and the neighbouring cities will gradually narrow.

Macau's sister city, Hong Kong, was ranked as the "most luxurious" residential market worldwide and has boasted two residential sales of above US\$100 million and the highest price per square foot of any urban area in 2017<sup>3</sup>. As such, we are hopeful that the niche group of ultra-high net worth buyers will soon expand their search for trophy homes to the neighbouring cities, and recognise similar scarcity value of the ultra-luxury properties such as *Estrada da Penha* in Macau. In the meantime, dedicated marketing efforts in promoting the property are continuing.

<sup>3</sup> Christies' International Real Estate: *Luxury defined 2018 | An insight into the luxury residential market.*



A breathtaking panoramic view of Macau from *Estrada da Penha*.



## MACAU

### Continued expansion in economy

Macau's economy grew by 6.0% in Q2 2018, registering the eighth quarter of consecutive growth since Q3 2016. On a full-year growth projection, the Economist Intelligence Unit forecasts that Macau's GDP will grow 5.8% this year and 3.9% in 2019. Against such sustained growth, Moody's has renewed Macau's credit rating to "Aa3" with a stable outlook in June. The city is expected to continue its economic expansion over the next two years, amid booming gaming and non-gaming tourism.

Based on statistics released by the Gaming Inspection and Coordination Bureau, gross gaming revenue (GGR) surged 2.8% year-on-year (YoY) to MOP22 billion (US\$2.7 billion) in September. The modest gain for the month could be attributed to Typhoon Mangkhut that struck Macau and which forced a 33-hour closure of all casinos for the first time in history. For the first nine months of the year, GGR totalled to MOP224 billion (US\$28 billion), representing an increase of 15.9% YoY. However, short-term uncertainties such as the on-going trade dispute between US and China, weakening Chinese currency and rising interest rates remain. Hence, Bank of America Merrill Lynch revised Macau's 2018 full-year GGR growth forecast from 17% to 15%.

Looking at different segments, Nomura predicts that the VIP and mass market GGR this year will increase by 13% and

16%, respectively. For 2019, Nomura revised down its forecast for VIP sector growth from 14% to 7%, and for mass market from 14% to 12%.

The gaming concessions of SJM Holdings and MGM China Holdings will expire in March 2020, whereas the gambling permit of the remaining four casino operators, Sands China, Wynn Macau, Galaxy Entertainment and Melco Resorts & Entertainment, will expire in June 2022. The Government received a preliminary proposal for amending the existing gaming law in July, but details remain unknown at the moment, casting some doubts on the license renewal process.

### Quality new resorts support tourism growth

According to DSEC, visitor arrivals totalled 3.4 million in August, up 18.7% YoY. The number of overnight and same-day visitors increased by 16.3% and 21.6%, respectively YoY. The average length of stay of visitors dropped slightly by 0.1 day YoY to 1.2 days. For the first eight months, Macau welcomed 23.3 million visitors, an increase of 8.9% YoY.

Following the opening of the Morpheus Hotel in June, the number of hotel rooms and guest-houses in Macau was approximately 39,400 as of end-July, with occupancy averaging at 89.9%. Looking ahead, the 2,000-room Grand Lisboa Palace is now expected to open in the second half of 2019. Galaxy Entertainment has also pushed back the launch date of Phase 3 of its Cotai

flagship resort from 2019 to 2020. Phase 3 is expected to feature 1,500 hotel rooms, some casino space and a large venue that has capacity to hold 16,000 seats. In addition, Phase 4 is expected to be launched in 2021.

### Infrastructure projects nearing completion to boost economy

Macau's economy will be further boosted by the upcoming new infrastructure projects. According to the Macau International Airport Company, with the completion of the new northern terminal, the airport handled a total of four million passengers in the first half of 2018, up 20% YoY. The majority of the passengers were from Mainland China, Taiwan and Southeast Asia. The airport is expected to handle around 7.4 million passengers for the whole year.

In the Greater Bay Area (GBA) region, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) that links West Kowloon in Hong Kong and Futian in Shenzhen became operational in September 2018. The Express Rail Link will shorten the commuting time between the two cities from 1 hour to 15 minutes, and connect Hong Kong with the national high speed rail service totalling over 25,000 km in length. This rail link, together with the much-anticipated Hong Kong-Zhuhai-Macau Bridge, will boost exchange of goods and services, tourism and enhance the transportation system of one-hour commuting circle in the GBA.

## PROPERTY

### Macau's property market remains robust

According to the Financial Services Bureau, the average home price stood at MOP9,221 (US\$1,153) per square foot in August, up 4.7% from a year earlier. The number of home sales totalled 8,443 units in the January-August period of 2018, also up 17.1% from the previous year. Following the upswing in the first eight months, property agencies predict that the property market would maintain its momentum for the remainder of the year, among which Centaline (Macau) forecasts housing prices to increase by 15% for 2018.

### Possibility of vacancy tax levy on newly completed flats

In late June, Hong Kong introduced a plan to levy a vacancy tax on property developers for all newly completed

flats that are unsold or not rented for six months in a year, with the tax rate amounting to 4-5% of the property value. The aim of the tax levy is to prevent developers from hoarding flats, while easing the supply shortage. Consequently, there have been discussions on whether the Macau government should follow suit. By far, the government has been hesitant to do so, given the limited number of vacant newly completed flats in Macau and the technical difficulties, such as the official definition of a vacant home. Official data from DSEC shows that the number of vacant units totalled 15,252 units as at the end of 2017, accounting for 6.82% of total residential units.

### Macau's ranking improves in Global Real Estate Transparency Index

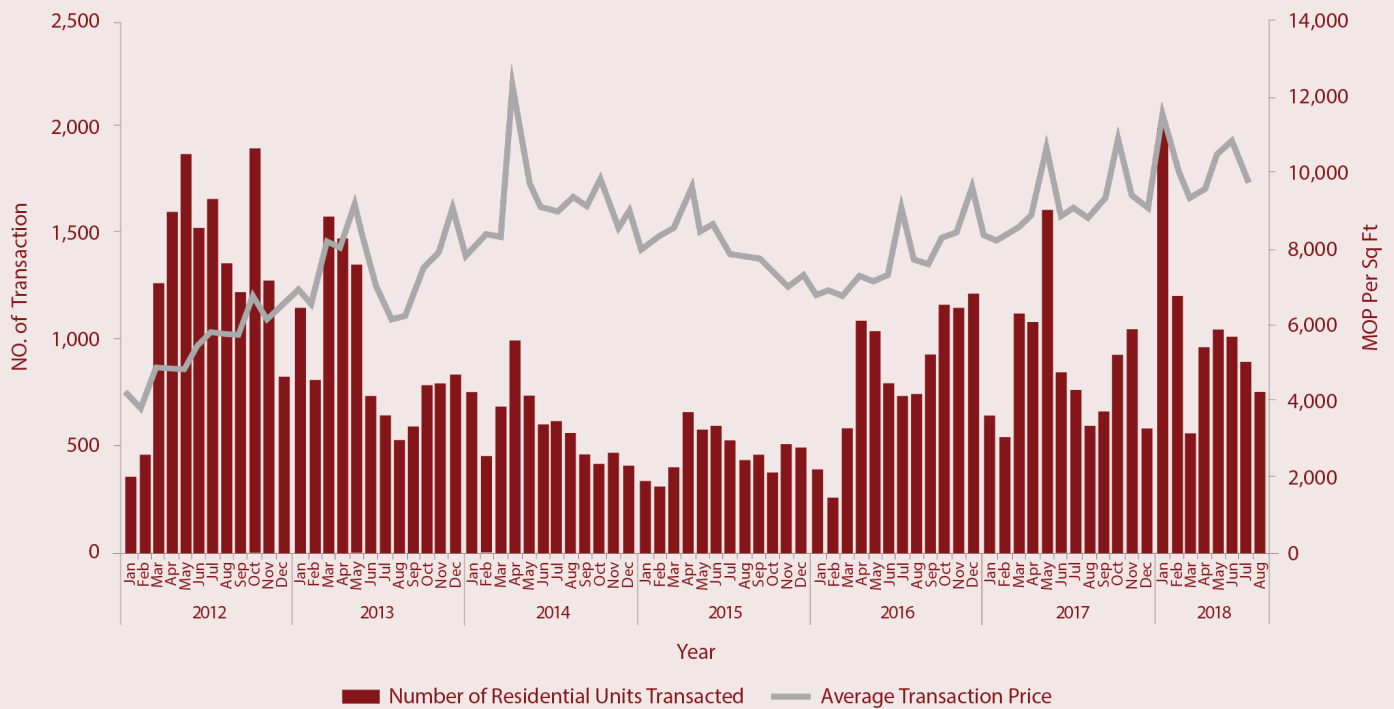
The Macau property market has, for the first time, been deemed 'semi-

transparent' by the Global Real Estate Transparency Index 2018. Of 158 countries and regions, the city was ranked 60th in the latest edition, moving up 10 places from 2016. The index, which is published every two years, measures the transparency of global property markets in terms of various issues from investment performance measurement to regulatory and legal systems. The improvement in Macau's rank on the Index was the result of the strengthening efforts by the government in clamping down on money laundering and in releasing detailed residential sales figures every month. The improved transparency level will increase investors' confidence in Macau.

### Cautiously optimistic outlook for the property market

Global economic fluctuations, such as the

## Residential Property Transactions and Prices



Source: Financial Services Bureau

China-US trade dispute, are unlikely to subside anytime soon, and global markets may remain highly volatile. Furthermore, in the wake of six rate hikes in the US since December 2015, Macau might face pressure for more rate hikes, restraining the investment and asset market performance.

Hong Kong-Zhuhai-Macau Bridge should also provide the necessary cushion for the overall property market in the next few years.

However, we believe Macau's healthy financial fundamentals will be able to mitigate any macro economic impact. The distinct lack of supply in the local housing market and the imminent opening of the

Note:  
All figures reported under the Macau and Property sections are based on latest information released by The Statistics and Census Service unless otherwise stated.

## FURTHER INFORMATION

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### About The Company

Macau Property Opportunities Fund Limited is a closed-end investment company registered in Guernsey. It is the only quoted property fund dedicated to investing in Macau, the world's largest gaming market and the only city in China where gaming is legalised.

Premium listed on the London Stock Exchange, it is also a constituent stock of the FTSE All-Share and FTSE SmallCap indices.

Launched in 2006, the Company targets strategic property investment and development opportunities in Macau. Its portfolio of property assets is valued at US\$338.4 million as at 30 June 2018.

### About Sniper Capital Limited

The Company 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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**Stock Code**  
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