



 Macau Property Opportunities Fund

INVESTOR UPDATE

H1/2019

Macau's property market continues to be affected by macroeconomic factors and restrictive mortgage policies. While overall transaction prices have been stable, the wider residential sector has seen a decline in transaction volumes, with the luxury segment remaining particularly quiet. The Manager and the Board are intently focused on achieving optimal disposals of each asset. Market conditions are not helpful, but we are continuing to apply a determined, proactive approach.

KEY DATA

Inception Date

5 June 2006

Exchange

London Stock Exchange

Domicile

Guernsey

Market Capitalisation

£90.3 million

Portfolio Valuation

US\$316.2 million¹

-1.3% (vs 31 December 2018)

Adjusted NAV

US\$182.1 million¹

Adjusted NAV per share

US\$2.94/225p^{1,2}

-3.3% (vs 31 December 2018)

Share price

146p

-9.9% (vs 31 December 2018)

Discount to Adjusted NAV

35%

No change (vs 31 December 2018)

Cash Balance

US\$30.4 million¹

Total Debt

US\$147.8 million¹

Loan-to-Value Ratio

42.6%¹

¹ As at 31 March 2019.

² Based on a US\$/£ exchange rate of 1.304 as at 31 March 2019.

All other data are as at 30 June 2019.

 *Bustling resort hotels in Cotai Strip with Rotunda do Istmo on the foreground.*

MANAGED BY

 **Sniper Capital**

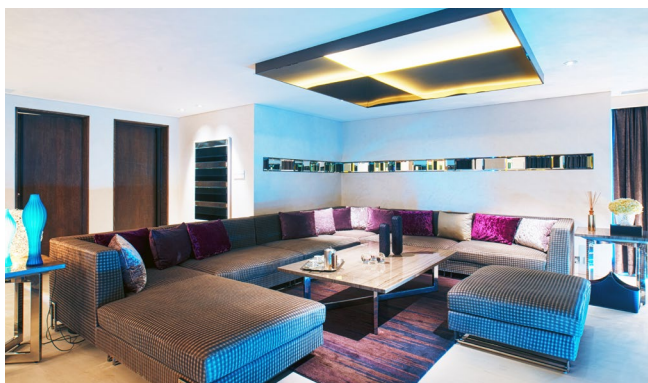
Portfolio

The Waterside

The Waterside, MPO's landmark asset in downtown Macau, offering 59 residential luxury apartments for lease, continued to operate in a challenging environment.

Demand from junket operators, a key tenant segment at *The Waterside*, remained weak as VIP gaming revenues declined following stricter regulations and slower economic growth in China. Competition is also growing from other regional gaming destinations, some of which offer more discreet environments for VIP clients.

Despite these challenges, proactive leasing incentives and attractive packages promoted by the Manager resulted in occupancy rates rising over the period to 55%, with 15 new leases and seven lease renewals offsetting lease expiries. The average rental rate remained stable at HK\$22 (US\$2.8) per square foot per month.



Living area of Duplex unit at *The Waterside*.

The Manager is continuing to work towards an en-bloc divestment of *The Waterside* and is in various stages of discussions with a number of investment groups. Meanwhile, our asset management team continued to focus on general upgrading works to ensure that *The Waterside* maintains its pre-eminent position as the high-end apartment complex of choice in Macau.

The Fountainside

The Fountainside is MPO's low-density residential development in the prestigious Penha Hill district, comprising 42 homes and 30 car-parking spaces. Twelve units and nine car-parking spaces remain available for sale. As previously announced, in response to much stronger demand for smaller properties, we applied to the Macau authorities to reconfigure the development's six largest apartments into 12 smaller, more marketable units with additional car-parking spaces. Architectural approval was received in May, allowing us to proceed to full submission in July. Full approval is expected in the second half.



Living and dining area at *The Fountainside*.

We have continued to actively market the available apartments and car-parking spaces, deploying special offers and incentives agreed with the Board, and are in advanced dialogue with a number of interested parties. Potential buyers, however, have remained hampered by stricter mortgage policies introduced by the government last year.

Proactive leasing incentives resulted in occupancy rates at *The Waterside* rising to 55%

Estrada da Penha

Estrada da Penha is a prestigious, colonial-style villa atop Penha Hill, an exclusive, highly sought-after residential enclave. We are continuing our carefully focused efforts to promote the property to ultra-high-net-worth investors following the opening of the Hong Kong-Zhuhai-Macau Bridge (HZMB) in October 2018. The HZMB has improved connectivity within the Greater Bay Area and boosted Macau's positioning within the region.

We have recently successfully extended a US\$9 million term loan, representing c. 50% of the total debt held against the asset, for a further two years on improved terms.



Estrada da Penha's colour palette adds to the luscious and serene ambience of Penha hill.

Macau

Macau's economy contracted in Q1 2019

Macau's Q1 GDP shrank by 3.2% year on year (YoY), its first contraction following 10 consecutive quarters of growth. This was due largely to a decrease in the number of construction projects being undertaken in both the public and private sectors following the completion of the HZMB in late 2018. The decline is likely to be temporary, with the IMF expecting Macau's economy to expand by 4.3% in 2019 and 4% annually over the medium term, despite cautioning that ongoing tensions arising from the US-China trade war could adversely impact the territory's longer-term forecasts due to slower economic growth in China.

Gross gaming revenue stable, VIP sector declines

First-half gross gaming revenue (GGR) was stable, decreasing by a moderate 0.5% YoY. Although the VIP gaming segment came under pressure, contracting by approximately 12%, the decline was largely offset by strong growth in mass-market gaming revenues, which expanded 14%, taking that segment's market share to more than 50% for the first time.

The VIP gaming segment has faced significant challenges since 2014 as its biggest clients – primarily from mainland China – have been impacted by the Chinese central government's clampdown on corruption and by capital controls. Although the VIP segment experienced a rebound in 2016-18, heightened restrictions on capital outflows, a weaker Chinese currency, increasing tensions in US-China trade relations, and stricter regulation of junket operators have recently curtailed growth. This has prompted junket operators to diversify into other Asian gaming markets that offer more relaxed regulations and lower taxes.

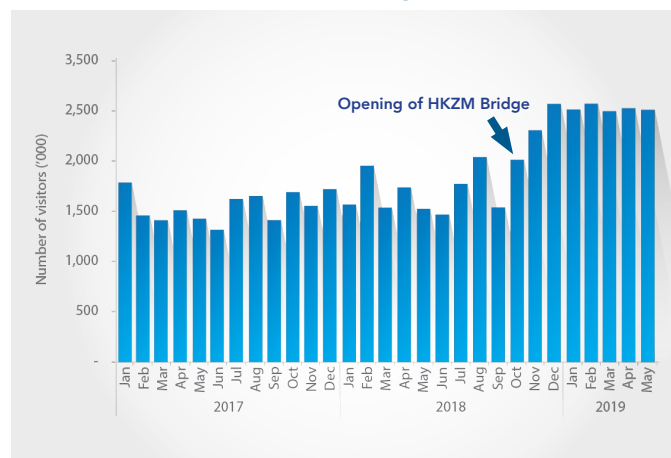
Gaming operators face uncertainty over concession renewals

Uncertainty has increased over the prospect of Macau gaming licences held by US companies – Wynn Resorts, Las Vegas Sands and MGM Resorts International – becoming pawns in the US-China trade war. The renewal criteria and licence conditions for the existing six concessions, which expire in 2022, are not likely to be finalised for another two years.

Macau's current chief executive, Fernando Chui, will step down in December this year following the election of a new chief executive in August. This has added to uncertainty, as the incoming administration will be charged with undertaking fresh tenders for casino concessions. There has been speculation over new policy considerations such as an expansion of the number of concessions, a shortening of their duration, and an increase in gaming taxes.

Gaming operators have announced expansion plans in Macau worth approximately US\$18 billion, but are likely to exercise increased caution in executing those plans until the way forward becomes clearer. This slowdown could spill over into Macau's banking and property sectors.

Visitor Arrivals By Land



Source: Statistics and Census Service of Macau

Hong Kong-Zhuhai-Macau Bridge brings surge in visitor arrivals

Since the HZMB opened, Macau has become more accessible for international visitors travelling via Hong Kong International Airport and Chinese tourists from Guangdong Province. The number of visitor arrivals by land increased sharply in the first quarter of 2019, to 7.6 million, a jump of almost 50% YoY. Market research indicates that visitors arriving via the HZMB spend one-third more than those who arrive by ferry.

The HZMB has also boosted the MICE (meetings, incentives, conferences and exhibitions) market. With better connectivity via Hong Kong's airport, Macau is now more attractive for large-scale events that include participants from the United States and Europe. In Q1 2019, Macau hosted 377 MICE events, a 15% YoY increase, attracting 332,800 attendees.

Sustained increase in visitation

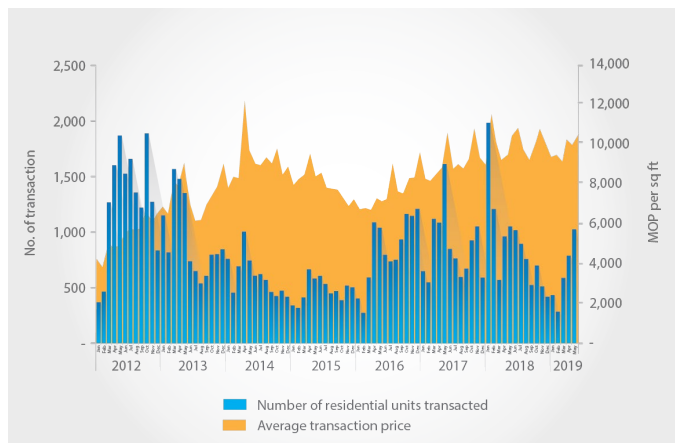
Based on our estimation, the number of visitors to Macau is likely to reach 20 million in H1 2019, a significant YoY increase of 19%. Visitors from mainland China (14 million) and Hong Kong (3.6 million) increased YoY by 22% and 19%, respectively.

The average stay among visitors to Macau was 1.1 days as of H1 2019 (0.1 day less compared with Q1 2018). In the first four months of the period, the number of day-trippers was up 32% YoY. This is attributable to the opening of the HZMB, which has made it more convenient for residents of the Greater Bay Area to drive to Macau and spend the day.

Property

Macau's residential property market has got off to a slow start this year. Transaction volumes dominated by first-time buyers seeking affordable homes priced at under US\$1,000,000, accounted for more than 80% of turnover. Sales activity in the first two months was down 77% YoY, although this was mainly due to a high comparison base from the same period last year, when buyers made purchases before the implementation of the government's new anti-speculation measures.

Residential Property Transactions and Prices



Since March, mass-market property prices have recovered slightly, thanks to the launch of several new residential projects. Average home prices remained stable at HK\$9,789 per square foot (US\$1,250 per square foot) during the period, but the number of residential transactions slumped 46% YoY during the first five months of the year.

Meanwhile, the luxury segment remained extremely subdued as a result of restrictive mortgage policies remaining in place and adverse investor sentiment due to concerns over China's economic growth prospects amid the country's ongoing trade war with the US.

Outlook

Economic uncertainty

Global markets are expected to remain highly volatile in the coming months. The spillover effects of the ongoing US-China trade dispute and its potential adverse impact on the Chinese economy are likely to make Macau's market environment more challenging.

Property market expected to remain quiet

In the short term, analysts expect Macau's property market to continue to face some pressure due to slowing growth and ongoing regulatory measures designed to curb real estate market speculation. The capital values of high-end residential properties may continue to drift, but rental values are expected to remain stable.

The luxury segment remained extremely subdued as a result of restrictive mortgage policies.

Luxury buyers likely to maintain 'wait and see' stance

A potential catalyst for renewed property market strength may arise from a recovering credit cycle in mainland China, where we expect to see credit-easing measures in H2 2019 that may boost the mainland economy. There is also scope for the US Federal Reserve to lower interest rates. This would be positive for Macau real estate, since Macau's currency is indirectly pegged to the US dollar and therefore to US interest rates.

In the meantime, coupled with ongoing trade war concerns and slower-than-expected growth in mainland China's economy, Macau's luxury property market is likely to remain quiet, with investors continuing to exercise caution when making big-ticket commitments.

FURTHER INFORMATION

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About The Company
Macau Property Opportunities Fund Limited is a closed-end investment company registered in Guernsey and 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 was valued at US\$316.2 million as at 31 March 2019.

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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