



Macau Property Opportunities Fund

# INVESTOR UPDATE

H2/2019

Shareholders voted to extend the Company's lifespan by one year until the next continuation vote in November 2020, in order to enable an orderly ongoing divestment process. Revised fee structures for the Manager and the Administrator came into effect on 1 January 2020, in an effort to reduce operating expenses. Macau's new Chief Executive was sworn in on 20 December, following which China's central government announced measures to further support financial cooperation between Macau and the Chinese mainland.

 Taipa phase of the Light Rapid Transit opened on 10 December.

## KEY DATA

Inception Date

**5 June 2006**

Exchange

**London Stock Exchange**

Domicile

**Guernsey**

Market Capitalisation

**£68.9 million**

Portfolio Valuation

**US\$306.0 million<sup>1</sup>**

**-1.7% (vs 30 June 2019)**

Adjusted NAV

**US\$168.2 million<sup>1</sup>**

Adjusted NAV per share

**US\$2.72<sup>1</sup>/207p<sup>2</sup>**

**-3.8% (vs 30 June 2019)**

Share price

**111.5p**

**-23.6% (vs 30 June 2019)**

Discount to Adjusted NAV

**46.1%**

**35% (as at 30 June 2019)**

Cash Balance

**US\$25.3 million<sup>1</sup>**

Total Debt

**US\$147.4 million<sup>1</sup>**

Loan-to-Value Ratio

**44.5%<sup>1</sup>**

<sup>1</sup> As at 30 September 2019.

<sup>2</sup> Based on a US\$/£ exchange rate of 1.312 as at 31 December 2019.

All other data are as at 31 December 2019.

MANAGED BY

 Sniper Capital

## Portfolio

### The Waterside

*The Waterside*, MPO's landmark asset in downtown Macau, offers 59 luxury apartments for lease. Despite a challenging property market environment, occupancy improved from 55% as of the end of June to 58% as of the end of December.

A slowdown in the VIP gaming sector affected our gaming-related tenants, which resulted in some early lease terminations. We continue to gradually reduce our reliance on the gaming industry in order to diversify our tenant mix, and to this end we have successfully secured new leases with professional expatriates.

The average rent remained stable at around HK\$22 (US\$2.8) per square foot per month as of the end of 2019.

The Manager is continuing to work towards an en-bloc divestment of *The Waterside*, and held discussions with a wide range of parties during calendar 2019.



*The Fountainside*

In the meantime, we have continued to market the available apartments and car-parking spaces with special offers and incentives. In H2 2019, we sold one residential unit, two car parking spaces and five motorcycle parking spaces for a total of HK\$15 million.

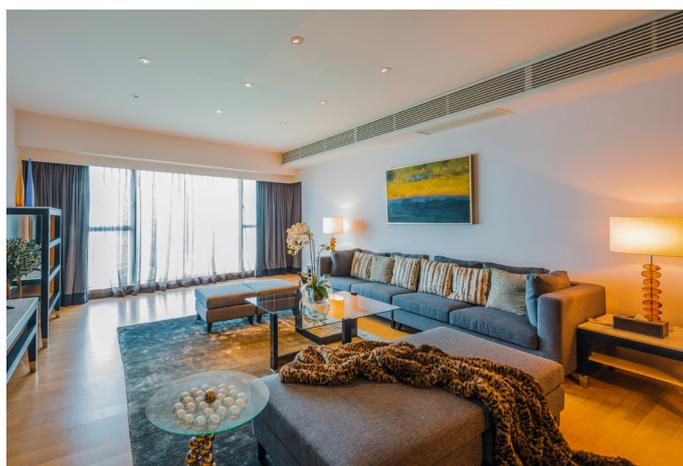
### Occupancy at *The Waterside* improved from 55% to 58% over the period.

Sales of the remaining 11 residential units and one car-parking space remain a key priority, and we are continuing to offer attractive commission terms to incentivise property agents.

### Estrada da Penha

*Estrada da Penha* is a prestigious, colonial-style villa atop Penha Hill, an exclusive, highly sought-after residential enclave. We are working closely with our local and international network to promote the property to ultra-high-net-worth investors, in view of improving connectivity in the Greater Bay Area thanks to the Hong Kong-Zhuhai-Macau Bridge and Hengqin's new port.

In the meantime, to maintain and enhance the villa's ongoing appeal, we have made further improvements to both its interior and exterior. Recently, the Manager successfully extended a US\$10 million bank loan that was due to mature in December 2019 until June 2021.



Living area of Sapphire unit at *The Waterside*.

Meanwhile, our asset management team has continued to focus on general upgrading works to ensure that *The Waterside* is well positioned for both a sale and ongoing leasing.

### 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.

In September, we made a full submission of our application to the Macau authorities to reconfigure the development's six largest apartments into 12 smaller, more marketable units with additional car-parking spaces, and we expect an official response in Q1 2020. Once approval is obtained, and before work commences, we will fully reassess the Company's position to decide on an approach that will yield the optimal return to Shareholders.



Further improvements made to *Estrada da Penha*.

## Macau

### Optimism grew at the end of 2019

Macau's economy shrank by 3.5% year on year (YoY) in real terms between January and September, marking three consecutive quarters of decline. In Q3 2019, GDP contracted 4.5% YoY, mainly due to a larger decline in exports of services.

For FY2019, Fitch Ratings forecasts that Macau's economy will contract 2.5%, due mainly to a slowdown in the gaming market. The subdued pace of economic activity is expected to continue into 2020, during which Fitch expects GDP growth to be flat.

The fourth quarter brought more positive news, with the US and China reaching the Phase 1 of a trade agreement to hold their trade war in abeyance.

Macau's new Chief Executive, Mr Ho Iat Seng, who was sworn in by Chinese President Xi Jinping in December, has spoken publicly about reducing Macau's dependence on gaming, as well as the integration of the territory into the mainland Chinese economy as key measures for its more sustainable future. In his inauguration speech, he pledged to diversify Macau's economy, support developments in industries such as conferences and exhibitions, traditional Chinese medicine, culture and creativity, and high tech, and also to weave Macau into China's national development strategy. Following Xi's visit, China's central government announced measures to further strengthen financial cooperation between Macau and the Chinese mainland, including supporting Macau banks to set up branches on the mainland and allowing mainland insurance funds to invest in Macau.

### Gross gaming revenue slips

In H2 2019, gross gaming revenue (GGR) declined 6.3% YoY, led by a continued decline in the VIP segment. From January to September, the mass-market segment continued to grow strongly by 17.4% YoY, but that proved insufficient to offset the 17.1% decline in the VIP segment. For full-year 2019, GGR slipped by 3.4% to around US\$36.5 billion (MOP 292 billion).

GGR forecasts for 2020 have been cautious. Sanford C. Bernstein Ltd sees GGR growing 8% YoY, with 6% VIP and 9% mass market growth. Morgan Stanley has forecast lower GGR growth of 2% YoY.

### Gaming operators face uncertainty

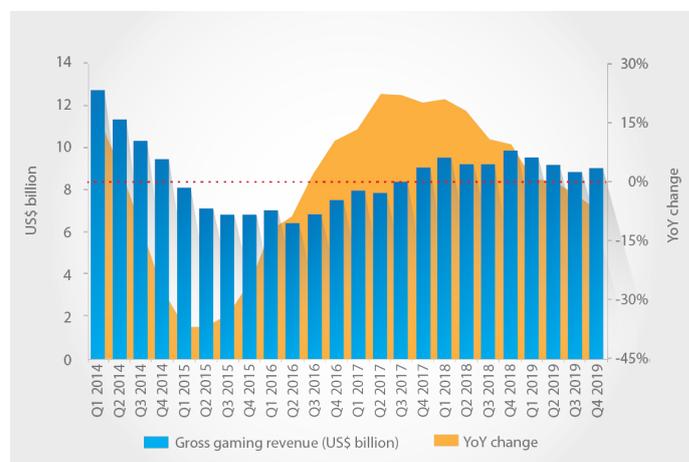
Uncertainty surrounds the expiry of Macau's six gaming concessions in 2022. More details on renewal criteria and licence conditions will be made public only in April 2020. Macau's government has stressed that the interests of local residents remain the priority.

### Expect a new record for visitors

According to the Public Security Police Force, visitor arrivals to Macau, totalled more than 39.4 million for the year, up by around 10% YoY. Visitor numbers from mainland China remained strong, accounting for around 70% of all visitor arrivals, followed by those from Hong Kong.

From January to November 2019, the average stay among visitors to Macau remained stable at 1.2 days, and the average lodging occupancy rate held steady at 90.7%. The total number of hotels and guesthouses increased by 5 YoY to 121 as of end November, while the number of guest rooms declined by 1.7% to around 38,000 as a result of renovations being undertaken at some hotels.

### Gross Gaming Revenue



Source: The Statistics and Census Service (Macao)

### Improving connectivity in the Greater Bay Area and within Macau

The Hong Kong-Zhuhai-Macau Bridge marked its first anniversary in October. It is credited with being a key enabler of Macau's double-digit jump in visitor arrivals in 2019, and it is a major gateway for tourists from Guangdong Province. The authorities have made more private vehicle permits available to further boost use of the bridge.

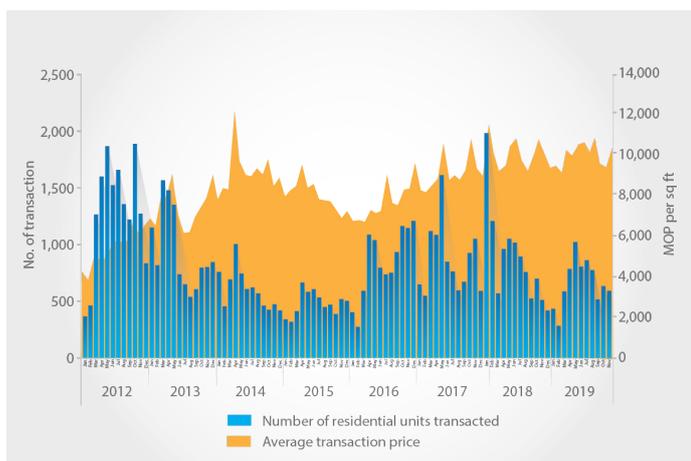
The new Hengqin Port – another Greater Bay Area initiative – is expected to commence operations in Q1 2020. The port accommodates immigration and customs checkpoints for both mainland China and Macau, replacing the two separate border gates at the existing port and Macau's Lotus Frontier, and streamlining immigration and customs clearance.

The Taipa phase of the Light Rapid Transit (LRT) opened on 10 December. The LRT network is 9.3km long and has 11 stations, linking gaming properties in Cotai with Taipa, Macau's airport and various other points of interest.

## Property

Macau's residential property market stabilised in H2 2019 after a poor first half saw the number of transactions falling 42% YoY. Between July and November, there was a slower decline, with 3,376 transactions recorded, just 0.1% lower than the same period a year earlier. While average home prices remained stable at HK\$9,857 per square foot (US\$1,270 per square foot). During the first 10 months of the year, more than 80% of those buying homes were first-time buyers, and the average transaction value was US\$0.76 million (MOP 6.1 million). Developers have been offering incentives such as flexible financing options in order to drive sales.

### Residential Property Transactions and Prices



Source: Financial Services Bureau

The luxury residential property segment remained subdued due to a combination of factors, including strict local mortgage policies, a slowing mainland Chinese economy, capital controls and the ongoing US-China trade war. Investors persisted with a "wait-and-see" attitude towards high-ticket investments.

## The luxury residential property segment remained subdued due to a combination of factors.

Macau's residential property market is also facing competition from neighbouring cities. With the easing of restrictions on sales of residential property to Hong Kong and Macau residents, the property markets in Zhuhai and Hengqin remained active, with residential transactions respectively totalling 3,792 and 474 in November, up 69% and 204% YoY. In Hong Kong, which remains affected by political unrest, residential property sales recorded a consecutive YoY decline from June to October. Hong Kong's government recently announced a relaxation of mortgage rules, which may have a positive impact on property market sentiment in the city.

## Outlook

### Economic uncertainty dampens luxury property market

Global and regional markets are expected to remain highly volatile in the coming months. Macau is vulnerable to the spillover effects of the US-China trade war, which contributed to an economic slowdown in China to 6.0% in Q3 2019, the lowest growth rate since the country began to open up its economy several decades ago.

### Potential catalysts remain

The Phase 1 trade deal reached in Q4 2019 between US and China looks set to de-escalate tensions. In the meantime, China has cut its lending benchmark rate to stimulate its economy and to mitigate the impact of the trade war.

Macau's new Chief Executive is expected to announce more details of the conditions for renewals of gaming concessions by April 2020. Once that cloud of uncertainty has cleared, gaming operators are likely to proceed with their mega-project pipeline.

Mr Ho has also outlined his priorities to diversify the territory's economy, boost small businesses, and pursue greater connectivity with the mainland Chinese economy to make Macau a vibrant tourism and investment destination. However, it remains to be seen whether any new policies favouring the property sector will be introduced, and whether the current restrictive policies impacting the high-end property market will be relaxed.

## 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\$306 million as at 30 September 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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