



 Macau Property Opportunities Fund

# INVESTOR UPDATE

## H1/2020

Macau's economy and property market suffered a setback due to Covid-19 control measures. Despite this, three apartments with a cumulative value of US\$5.8 million were divested above valuation during the period.

The entire mainland China is now off Macau's list of highly infected areas, which means all visitors from mainland China can now enter Macau without undergoing quarantine, paving the way for the gradual recovery of Macau's economy.

 Macau's most famous landmark, the Ruins of St. Paul's, deserted during the health crisis.

### KEY DATA

Inception Date

**5 June 2006**

Exchange

**London Stock Exchange**

Domicile

**Guernsey**

Market Capitalisation

**£38.2 million**

Portfolio Valuation

**US\$279.6 million<sup>1</sup>**

**-5.0% (vs 31 December 2019)**

Adjusted NAV

**US\$140.0 million<sup>1</sup>**

Adjusted NAV per share

**US\$2.26<sup>1</sup>/184p<sup>2</sup>**

**-10.2% (vs 31 December 2019)**

Share price

**61.75p**

**-44.6% (vs 31 December 2019)**

Discount to Adjusted NAV

**66.4%**

**46.1% (as at 31 December 2019)**

Cash Balance

**US\$19.9 million<sup>1</sup>**

Total Debt

**US\$146.8 million<sup>1</sup>**

Loan-to-Value Ratio

**49.0%<sup>1</sup>**

<sup>1</sup> As at 31 March 2020.

<sup>2</sup> Based on a US\$/£ exchange rate of 1.23086 as at 30 June 2020.

All other data are as at 30 June 2020.

MANAGED BY

 **Sniper Capital**



## Portfolio

Macau's luxury residential property market remained quiet throughout H1 2020 and will likely remain so through Q3 2020.

### The Waterside

*The Waterside*, MPO's landmark asset, with 59 luxury apartments for lease in downtown Macau, saw its occupancy rate drop from 58% as at end December 2019 to 36% at the end of June this year. The decline was due mainly to tenants being unable to return to Macau following the imposition of strict border control measures by territorial authorities in March. Security deposits equivalent to three months' rental have been forfeited and the apartments have been put on the market for new leases.

## Macau's luxury residential property market will likely remain quiet through Q3 2020

Our leasing team has put together new lease packages to improve occupancy at *The Waterside* and achieve a more diverse tenant mix, but occupancy levels are likely to remain muted until travel restrictions are eased and mainland Chinese visitors return to the city.

In line with our focus on divesting our portfolio, we completed the disposal of an individual unit at *One Central Residences* in April for HK\$19 million (US\$2.4 million) or HK\$10,288 per sq ft (c.US\$1,327 per sq ft), around 2% above the latest valuations as at the end of March. This leaves one remaining unit in the development for sale.



Living area of Standard unit at *The Waterside*.

### The Fountainside

*The Fountainside* is a low-density residential development in the Penha Hill district, comprising 42 homes and 30 car-parking spaces. Our sales team focused on local



Terrace of the recently sold unit at *The Fountainside*.

purchasers in H1 2020. Despite the limited buyer pool and the difficulties in arranging viewings, we have signed the promissory sale and purchase agreements for two apartments and a car-parking space for HK\$28.4 million (US\$3.7 million). Deposits have been received and the transactions are expected to complete by the end of July and early November respectively. The total selling price of the two residential units is approximately 5% above the latest valuations by Savills. We continue to pursue creative strategies to aid the sales process for the remaining 9 units.

## Our sales team focused on local purchasers in H1 2020



Further improvements made to *Estrada da Penha*.

### Estrada da Penha

During this enforced quiet period, we have been carrying out further enhancement works at *Estrada da Penha*, a prestigious, colonial-style villa atop Penha Hill. Following our efforts to market this trophy home to ultra-high-net-worth investors through our local and international network, we have received several viewing requests from agents. These viewings will proceed after the completion of the enhancement works, although they may be subject to travel restrictions for potential buyers from outside Macau.

# Macau

## Covid-19 containment

Macau Chief Executive, Ho Iat Seng, described the outbreak situation as “basically under control” in his first policy address on 20 April. Only one imported case was reported over the past three months. The total number of infections in Macau stands at 46, with 45 patients having recovered. Remarkably, and laudably, Macau has suffered no Covid-19 deaths to date.

Given the stabilised situation, the entire mainland China is now off Macau’s list of highly infected areas, which means all visitors from mainland China can now travel to Macau without undergoing quarantine. In addition, Guangdong authorities announced that visitors arriving from Macau who meet certain health requirements no longer have to undergo the quarantine period in Guangdong from 15 July. This is a welcome interim measure as the governments of Macau, Hong Kong and Guangdong are near finalising the framework for a “travel bubble” within the Greater Bay Area, but have delayed its implementation in the light of recent new Covid-19 outbreaks in Hong Kong.

Nevertheless with many countries easing lockdown rules, a potential second wave of the pandemic cannot be ruled out, particularly given Macau’s proximity to Hong Kong and mainland China, where new clusters of infection emerged recently. However, China and the two SARs have taken swift and decisive action in controlling new outbreaks, thereby providing a high level of confidence that the pandemic is being closely monitored and effectively managed in the region, as opposed to certain others.

## Economic impact

Nevertheless, the Covid-19 containment measures have taken a toll on the economy, as Macau’s twin economic engines – gaming and tourism – were all but shut down. Macau’s economy in Q1 2020 contracted 49% YoY in real terms.

Latest forecasts by the International Monetary Fund (IMF), the Economist Intelligence Unit (EIU) and Fitch Ratings projected a 2020 contraction in Macau’s economy of between 24% and 69.8% YoY. GDP forecasts for 2021 differ widely, from a 12.6% positive growth by Fitch Ratings to bullish expansion of 31% by the EIU and 32% by the IMF.

## Tourism

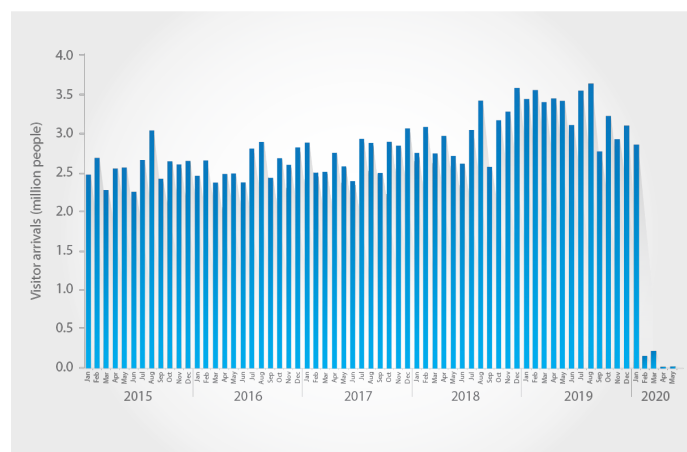
Visitor arrival numbers for April reflect the full impact of the Covid-19 containment measures, plummeting 99.7% YoY. The lack of momentum continued into May, which saw YoY decline of 99.5% in visitor arrivals to 16,133, although this was a 46.1% month on month (MoM) increase. For the period between January and May, visitor arrivals totalled 3.2 million, a decline of 81.1% YoY.

## Gaming

With the sharp fall in visitor numbers and following the 15-day closure of casinos in February, gross gaming revenue (GGR) slumped 77.4% YoY during the first half of the year. GGR for the month of June alone contracted by 97.0% YoY.

The government has provided little further insight into the renewal of Macau’s gaming concessions, which expire in 2022. The chief executive’s policy address outlined the government’s plan to hold a public consultation on the territory’s gaming laws in H2 2020. After obtaining public feedback, the legislation will be revised and a fresh public tender for gaming rights will be conducted.

## Macau Visitor Arrivals



Source: The Statistics and Census Service

Despite the uncertainties, Sands China Ltd and Galaxy Entertainment Group Ltd have indicated that they are proceeding with their previously announced expansion plans. Sands began trial operations at The Grand Suites at Four Seasons while its new Londoner Macau is on track for launch this year; Galaxy has announced that work on phases 3 and 4 of its flagship Galaxy Macau, in Cotai, are continuing.

## Government relief measures

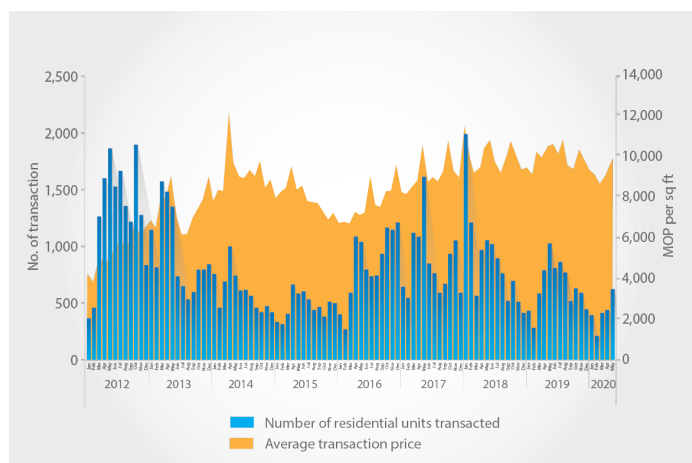
The Macau government’s stated focus on social welfare, job creation and institutional reform demonstrates its swift reaction to the economic impact of Covid-19. A package of economic relief measures has been rolled out to boost local spending and reduce the financial burden on local businesses, particularly small and medium-sized enterprises, including consumption subsidies, rental waivers, job-training opportunities, tax deductions, interest-free loans and other business incentives.

To further boost the economy, the government will increase investments in public works projects including the Light Rail Transit linking Cotai and Hengqin Island, and streamline approvals for private construction projects.

## Property

The economic contraction and uncertain recovery trajectory of the gaming and tourism sectors have had a spillover effect on the property sector. In Q1 2020, residential sales were at their lowest levels in more than a decade, and commercial property sales hit a record low. Only 1,106 residential properties were sold, a decline of 22% YoY, and average transaction prices declined 8% YoY.

### Residential Property Transactions and Prices



However, in Q2 as the Covid-19 outbreak was brought under control, market sentiment improved. Property viewings began picking up and developers launched new units with incentives such as flexible payment methods. In May, transaction volume improved by 41% MoM, although on a YoY basis, it was 39% lower. During the first five months of the year, a total of 2,083 residential units were transacted, down 33% YoY. Average transaction price decreased by 6% YoY in May to US\$1,236 per square foot, but increased by 9% MoM, showing signs of improvement.

**The property market is likely to pick up only after travel restrictions on visitors from the Chinese mainland are lifted**

Overall, first-time buyers continued to dominate the market, making up 84% of transactions between January and May, and residential properties priced below MOP8 million (US\$1 million) remain the most sought-after.

## Outlook

### Revitalising the economy

Macau's economy, which depends heavily on gaming and tourism, has been hampered by border control restrictions. The recent easing of quarantine requirements for people

travelling between Macau and mainland China is an encouraging step towards the formalisation of a wider travel bubble, paving the way for the gradual recovery of Macau's economy.

In addition, Macau's government is also seeking the Chinese central government's approval to restart and expand the Individual Visit Scheme (IVS), which allows mainland Chinese visitors from 49 cities to travel individually to Macau instead of being subject to a general requirement for group travel.

### Property sector likely to improve as travel restrictions are lifted

As the Covid-19 pandemic has hit the property sector hard, we are hopeful that the government will introduce policies to support it in due course. As Macau acted swiftly and decisively to manage the viral outbreak, we expect renewed demand for quality housing in the territory when potential buyers look to invest in property in the Greater Bay Area.

Although market sentiment in the property sector has improved in tandem with developments related to Covid-19, the property market is likely to pick up only after travel restrictions on visitors from the Chinese mainland are lifted, enabling potential buyers from mainland China to return to Macau. This is a setback for MPO because it unavoidably places our disposal timetable in limbo, with potential buyers remaining in a holding pattern until the travel restrictions have been eased.

## 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.

The Company is premium listed on the London Stock Exchange.

Launched in 2006, the Company targets strategic property investment and development opportunities in Macau. Its portfolio of property assets was valued at US\$279.6 million as at 31 March 2020.

**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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