

# INVESTOR UPDATE

## H2/2021

Macau's economy grew 27.5% in Q1-Q3 2021, but overall sentiment remained weak as the territory's zero-COVID strategy adversely impacted the gaming and tourism sectors. The gaming industry was buoyed by the announcement of the draft new gaming bill which set out the key parameters for licensing and alleviated long-standing uncertainty within the industry.

 Duplex Unit's dining & living area in The Waterside.

### KEY DATA

Inception Date

**5 June 2006**

Exchange

**London Stock Exchange**

Domicile

**Guernsey**

Market Capitalisation

**£29.2 million**

Portfolio Valuation

**US\$262.9 million<sup>1</sup>**

**-0.4% (vs 30 June 2021)**

Adjusted NAV

**US\$126.1 million<sup>1</sup>**

Adjusted NAV per share

**US\$2.04<sup>1</sup>/151p<sup>2</sup>**

**-3.1% (vs 30 June 2021)**

Share price

**47.3p**

**-29.9% (vs 30 June 2021)**

Discount to Adjusted NAV

**68.7%**

**55.6% (as at 30 June 2021)**

Cash Balance

**US\$9.7 million<sup>1</sup>**

Total Debt

**US\$134.7 million<sup>1</sup>**

Loan-to-Value Ratio

**49.4%<sup>1</sup>**

<sup>1</sup> As at 30 September 2021.

<sup>2</sup> Based on a US\$/£ exchange rate of 1.3503318 as at 31 December 2021.

All other data are as at 31 December 2021.

MANAGED BY

 Sniper Capital



## Portfolio

Macau's economy showed some improvement in Q3, but the luxury segment of the residential property market remained quiet. The determined pursuit of a zero-COVID strategy across mainland China, Macau and Hong Kong has resulted in lockdowns of cities as a primary public health tool. This has delayed the launch of the travel bubble with Hong Kong, and has, alongside government mortgage caps, continued to adversely weigh on sentiment.

We thank our Shareholders for their continued support at the recent Annual Meeting and for the extension of the Company's life during this challenging period.

### The Waterside

*The Waterside* is MPO's flagship asset, comprising 59 luxury apartments with commanding views of downtown Macau. At the end of 2021, 30% of *The Waterside's* apartments were occupied, yielding an average monthly rental of US\$2.3 per square foot.

Leasing demand for luxury property in Macau remains subdued due to ongoing travel restrictions. COVID-19 outbreaks and three rounds of citywide COVID testing in H2 2021 have also impacted sentiment. While market conditions have challenged efforts to secure an en-bloc sale of the property, there remains active investor interest in this direction. We are reviewing the divestment strategy against the market developments while engaging potential buyers. Each apartment has a separate strata title.



*The Waterside's Duplex dining and living area*

### The Fountainside

*The Fountainside* is a residential development in the Penha Hill district that originally comprised 42 homes and 30 car-parking spaces. The sale of the last remaining standard-type unit was completed for HK\$11.8 million (US\$1.5 million, in line with its latest valuation) in August 2021, bringing to an end the divestment of all 36 standard units at the property.

***The sale of the last remaining standard unit at The Fountainside was completed in August 2021, bringing to an end the divestment of all 36 standard units at the property.***

In the remaining six units, reconfiguration work on the two duplex units has commenced and is expected to be largely completed in Q1 2022. This will result in the availability of three new units and two new parking spaces for sale, with marketing expected to commence in February following the Chinese New Year. We are also continuing to market the property's four villas.



Reconfiguration rendering

### Penha Heights

*Penha Heights* is a prestigious, colonial-style villa atop Penha Hill. Despite increased sales and marketing efforts, the potential pool of buyers remains limited, a situation that will persist as long as travel restrictions continue to inhibit viewings of the property by potential investors from outside Macau. We will continue to work with specialist agents to explore all possible channels for an optimal exit from the asset.



*Penha Heights Rooftop*

## Macau

### COVID-19 containment – a successful management of the pandemic

Macau's official COVID-19 case numbers remain remarkably low, at total of 79, despite the emergence of the highly transmissible Delta and Omicron variants that prompted closure of non-gaming entertainment and leisure outlets and tightening of travel restrictions. Follow-on citywide COVID testing on three occasions confirmed that community infections were minimal and contained. Nevertheless, these measures fostered an unprecedented level of uncertainty in Macau's economy, with its main drivers – tourism and gaming – among the sectors most affected.

As of the end of 2021, around 75% of Macau's population had been fully vaccinated against the virus, and around 80% had received at least one vaccine dose. Booster shots have also been available since early November.

### Economy – growth hit by zero-COVID strategy and termination of junket operations

During the first three quarters of the year, GDP grew by 27.5% YoY. Amid economic uncertainties, in October the International Monetary Fund cut its full-year growth forecast for Macau to 20.4% YoY, a sharp drop from its growth forecast of 61% issued in April. This change reflects the adverse externally influenced factors affecting Macau's economy which significantly altered the outlook from that which was expected earlier in 2021. The numbers may be revised further with the termination of junket operations as VIP gaming contributes to 30% of Macau's gross gaming revenue.

### Policy Address – further integration into the Greater Bay Area

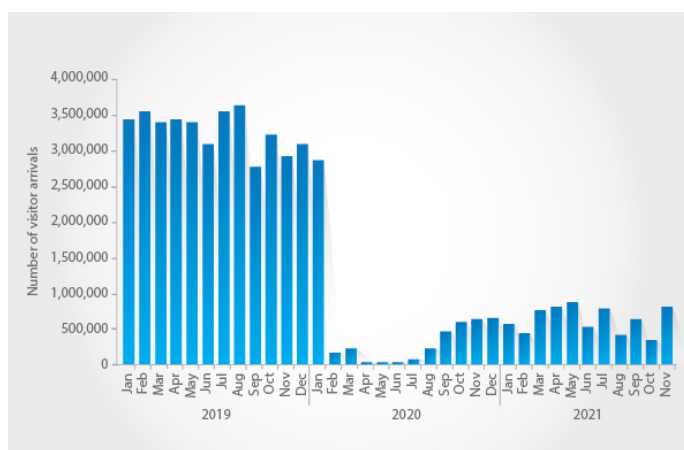
Macau Chief Executive Ho Iat Seng delivered his annual Policy Address in November. He outlined the policies of mainland China, including the diversification of Macau's economy to integrate with the Greater Bay Area. Brief comments were made on the new framework for the gaming industry emphasising the need to improve oversight of gaming activities.

### Tourism – an erratic recovery

With disruptions caused by the Delta and Omicron COVID variants, Macau tourism operators were particularly disappointed as the reopening of Hong Kong's borders with mainland China and Macau was shelved yet again following local transmissions of the Omicron variant in Hong Kong.

Macau welcomed a total of 6.9 million visitors from January to November 2021, up 31% YoY. During the period from January to October, the total number of guests in hotels and guesthouses was 94% higher YoY despite occasions of mass cancellation of travel plans following the discovery

### Macau Visitor Arrivals



Source: Statistics and Census Service (Macau)

of local COVID cases in Macau and mainland China. The year ended on a high note as festivities drew over 40,000 visitors on Christmas Eve.

### Gaming – details of new gaming law announced

Gross gaming revenue (GGR) increased 44% YoY to MOP87 billion (c.US\$11 billion) in 2021, but was still less than a third of the MOP292 billion (c.US\$36 billion) reported in 2019 before the pandemic. GGR in October and November was affected by travel restrictions that saw tourist numbers plummet during the Golden Week holiday.

Industry sentiment was also impacted by the escalation of the mainland Chinese government's efforts to crack down on suspicions of money laundering and capital flight. The chief executive of Macau's largest junket operator was arrested, and regulatory orders were subsequently issued for junket operators to stop providing credit to clients.

While the VIP gaming segment had been in decline for several years due to tightened regulations, the growth of the premium mass market has been the industry sweet spot with the expansion of China's middle class and their demands for memorable experiences.

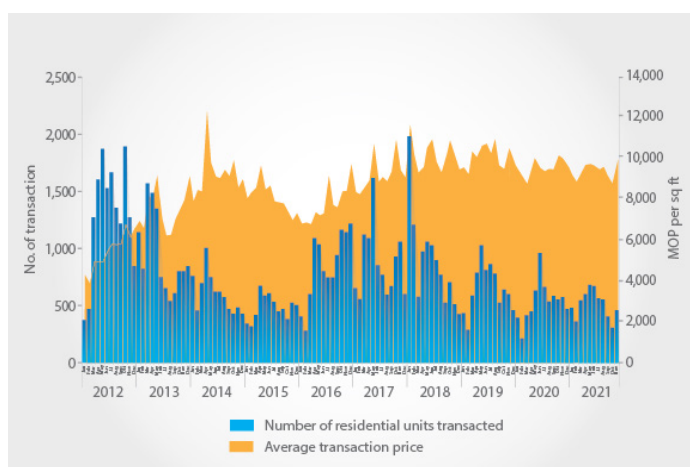
On a positive note, the industry's most pressing concerns over the new gaming laws have been somewhat allayed by the announcement of the results of the public consultation and government's responses. The main features of the new licensing regime include a maximum of six gaming concessions for 10 years with the potential to extend for a further three years. Earlier government proposals to increase gaming taxes, appoint delegates to the boards of concessionaires and to approve dividend payouts were dropped. Although the draft bill may be amended as it passes through the legislature, industry players and analysts have commented positively on the transparency of the public consultation and the clarifications provided by the government.

## Property

Impacted by renewed concerns over COVID created by the outbreaks and mass testing, Macau's residential property market remained relatively quiet in Q3 2021, with a total of 1,500 transactions – a decline of 15% YoY. The luxury end of the market remained stagnant, affected by external factors and muted by current sentiment. Overall, prices rose slightly to an average of US\$1,170 per square foot – an increase of 0.76% YoY. For the first 11 months of the year, a total of 5,557 residential units were transacted, down 6% YoY. First-time buyers accounted for 83% of all transactions, second time buyers accounted for 14%, and the remaining 3% were buyers purchasing residential properties for at least the third time.

Within the Greater Bay Area, luxury home sales in Hong Kong appear to be en route to a new record high this year. The value of transactions involving properties worth more than HK\$100 million (US\$12.8 million) in the first 11 months of the year reached HK\$46.4 billion (US\$5.95 billion), 60% higher than the total value for full-year 2020. The figure is remarkable, given that Hong Kong's borders have been closed throughout the pandemic. The boom has been fuelled largely by "IPO billionaires" – founders of Chinese companies recently listed on Hong Kong's stock exchange.

### Residential Property Transactions and Prices



Source: Financial Services Bureau

Given Macau's track record on public health, alongside infrastructure and connectivity improvements, investors may look to the territory's luxury property market, prices of which are considered to be at a five-year lows, as they return to the Greater Bay Area and economic activity in the region resumes more fully.

## Outlook

Macau and mainland China are maintaining a stringent zero-COVID policy that is expected to remain in place for some time and at least until the end of the Winter Olympics in Beijing. Macau's economy will nevertheless be vulnerable to disruption by COVID outbreaks on the Chinese mainland and locally, as seen in H2 2021, and more recently in January 2022, with a 14-day ban on

international flights to Macau aimed at curbing the spread of the Omicron variant.

The Macau government has warned that the economic conditions are expected to remain challenging in 2022 and a recovery from the pandemic will take time. It has consistently outlined specific plans for Macau's role within the Greater Bay Area to diversify Macau's economy away from gaming and turn the territory into a technology and tourism hub. Although the plan is still in its early stages, the potential for the property market to gain is clear.

Fitch Ratings expects Macau's GGR to pick up in 2022, particularly when the travel bubble with Hong Kong goes into operation to boost the gaming and tourism industry and contribute to a potential spill over into the retail and the property sectors. The Macao Government Tourism Office had also predicted that the border reopening together with the resumption of the e-visa programme with mainland China may boost visitation to Macau to 10 million arrivals in 2022.

Restrictions on travellers from other countries will, however, limit the number of potential buyers of the Company's properties and continue to disrupt the Company's divestment plan. We will continue to pursue the divestment of the remaining assets on acceptable terms within current market conditions. A return of capital to shareholders in the shortest possible timeframe remains the primary objective.

### 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\$262.9 million as at 30 September 2021.

#### 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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