



# INVESTOR UPDATE

H1/2022

The sale of four apartments located in The Waterside has been agreed for a combined US\$14.4 million, marking the commencement of MPO's strata sales programme. Meanwhile, Macau's success at controlling the spread of COVID in the territory suffered a major near-term setback in June with the most significant instance of community transmission since the start of the pandemic.

 Macau's famous Grand Lisboa Hotel in lockdown

## KEY DATA

Inception Date

**5 June 2006**

Exchange

**London Stock Exchange**

Domicile

**Guernsey**

Market Capitalisation

**£23.6 million**

Portfolio Valuation

**US\$251.5 million<sup>1</sup>**

**-3.0% (vs 31 December 2021)**

Adjusted NAV

**US\$113.3 million<sup>1</sup>**

Adjusted NAV per share

**US\$1.83<sup>1</sup>/151p<sup>2</sup>**

**-6.7% (vs 31 December 2021)**

Share price

**38.20p**

**-19.2% (vs 31 December 2021)**

Discount to Adjusted NAV

**74.7%**

**68.7% (as at 31 December 2021)**

Cash Balance

**US\$5.8 million<sup>1</sup>**

Total Debt

**US\$132.8 million<sup>1</sup>**

Loan-to-Value Ratio

**51.6%<sup>1</sup>**

<sup>1</sup> As at 31 March 2022.

<sup>2</sup> Based on a US\$/£ exchange rate of 1.211859 as at 30 June 2022.

All other data are as at 30 June 2022.

MANAGED BY



## Portfolio

Macau's zero-COVID strategy, which had already led to a sharp economic downturn and high level of unemployment, culminated in the start of a city-wide lockdown in June that included the closure of all casinos. While this - along with the recent fall out in the junket sector - has had a severe impact on property market sentiment, there are early signs that wealthier individuals are seeking to enter the prime luxury segment for the first time in several years.

### The Waterside

As highlighted in the Company's interim report, MPO's divestment programme was widened in late 2021 to include strata sales of the 59 apartments located in *The Waterside*.

Since then, the Manager has been actively promoting a range of units to an exclusive segment of buyers in extremely challenging market conditions, compounded by several distressed transactions in other less prominent developments. Encouragingly, *The Waterside's* standout positioning has led to the successful sale of one simplex and three standard apartments worth a combined US\$14.4 million, representing an average discount of 6.8% to the units' latest valuation. Two transactions were completed on 25 July for a gross value of US\$9.03 million. Sale & Purchase Agreements for a further two units worth US\$5.4 million are due to complete by end August.



A simplex suite's master bedroom in *The Waterside*

These sales have been driven by the re-emergence of cash-rich buyers seeking ultra-high quality homes in the city and mark an important first step towards the orderly strata sales of all remaining 55 apartments in *The Waterside*.

Demand for luxury rental properties remains subdued due to ongoing travel restrictions and the departure of foreign workers, hindering *The Waterside's* leasing programme. 31% of *The Waterside's* apartments are currently leased out, yielding an average monthly rental of US\$2.2 per square foot - unchanged from end 2021.



Rendering of a reconfigured studio apartment at *The Fountainside*

### The Fountainside

*The Fountainside* is a residential development in the Penha Hill district comprised of 42 homes and 30 car-parking spaces. The divestment of all 36 standard units at the property was completed in 2021. Four villas and two duplexes, which have been reconfigured into three smaller units and additional carparks, remain available for sale.

The reconfiguration of two duplexes into three smaller units had been substantially completed as of Q2 2022. An inspection by the Land, Public Works and Transport Bureau (DSSOPT) is currently pending, following which the Manager expects to commence marketing efforts in Q4.

Several interested buyers from Macau and Hong Kong have been identified for the four villas. Counter-offers have been made, but negotiations have been hampered by the recent COVID-related lockdown.

### Penha Heights

*Penha Heights* is a prestigious, colonial-style villa atop Penha Hill. Five viewings were conducted during the reporting period, but no formal offers have yet been received. The Manager is continuing to deploy its carefully targeted marketing efforts and various exit strategies to divest the asset, although the current situation in Macau has paused this process.



Exterior perspective of *Penha Heights* overlooking the Sai Van Lake

## Macau

### COVID-19: Battling community transmission

Macau's most severe COVID-19 outbreak to date was detected in mid-June. Fuelled by the highly contagious Omicron BA.5.1 variant, the territory's total COVID cases surged from 83 to a current 1,816. Although Macau recorded its first COVID-related fatalities, so far only the most vulnerable – six elderly citizens with co-morbidities – have succumbed.

The government responded swiftly and decisively, deploying its dynamic zero-COVID strategy to identify sources of infection and curb further spread which include repeated rounds of city-wide testing, and a "standstill" period from 11-22 July during which non-essential businesses and services, including casinos, were closed. With community transmission falling to controllable levels, a gradual reopening commenced on 23 July with strict capacity limits as the health authorities are proceeding cautiously.

Macau's response has mirrored that of mainland China's zero-COVID approach which locked down major cities and industrial hubs in marked contrast to the "living with the virus" stance adopted globally. Despite Macau's high vaccination rate of 90.2%, the territory will therefore likely remain in lock step with mainland China given its reliance on mainland Chinese visitors to fuel the economy.

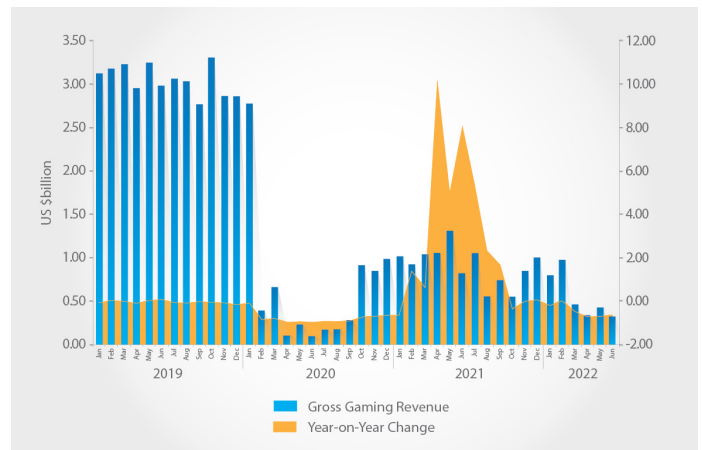
## Macau's response to the outbreak has mirrored that of mainland China's zero-COVID approach

### Economy weighed down by dynamic zero-COVID policy

Macau's FY2021 gross domestic product grew 17.7% year on year (YoY), but 4Q 2021 GDP was 4.4% lower YoY after two consecutive quarters of growth. The economy continued to be impacted in Q1 2022 as travel restrictions on an increasing number of COVID hotspots in mainland China began to weigh on Macau's gaming and tourism sectors, with Q1 2022 GDP shrinking 8.9% YoY.

Macau's government launched pandemic stimulus packages in H1 2022 of over MOP20 billion (US\$2.48 billion), which include subsidies for residents to use for designated goods, services and utilities as well as financial aid for those worst affected by the recent outbreak. The government broadly aims to mitigate the financial burden on residents, boost consumption to stimulate local businesses, and facilitate an economic revival.

### Gross Gaming Revenue Year-on-Year Change



Source: Statistics and Census Service (Macau)

### Tourism recovering in fits and starts

Travel restrictions curtailed inbound tourism from mainland China, with March through June being the worst months as lockdowns affected Guangdong Province, the mainstay of Macau's visitors. In H1 2022, visitor numbers were down 11.8% YoY compared to H1 2021. The average occupancy rate of hotel rooms in Macau for the first five months of 2022 decreased by 14.1 percentage points YoY to 37.3%, while the average room rate stood at around MOP800 (US\$100).

Zhuhai, the city in Guangdong province which acts as a gateway to Macau, has also reported the emergence of Omicron BA.5.1 cases around the same time as the outbreak in Macau and travel curbs are likely to continue in force, dampening visitor arrivals to Macau in the near term.

### Gaming: New regulations further curb VIP gaming

Macau's new gaming laws were passed by the Legislative Assembly on 21 June, setting out the parameters for six new 10-year operating concessions from 2023 onwards. The new framework reflects mainland China's intensified efforts in clamping down on illegal capital outflows. This spells the end of the current business model of junket operators as the number of junkets will be limited to one per concessionaire and profit-sharing by concessionaires is prohibited. The closure of junket operations since Q4 2021 has resulted in a sharp dip in VIP gaming revenues with a spill over into the luxury property market as demand for luxury accommodation for VIP gaming clients shrank.

The impact of Macau's zero-COVID measures was borne out in the sharp decline in gross gaming revenue (GGR), with six-month GGR for H1 2022 down 46.4% compared to the same period in 2021 and 82.4% lower than 2019. Gaming operators are bracing themselves for a continued period of low revenues in Q3, although the current outlook for Q4, commencing with China's important National Day holiday in the first week of October, is more optimistic.

## Property

### Junket fallout weighs on luxury property sector

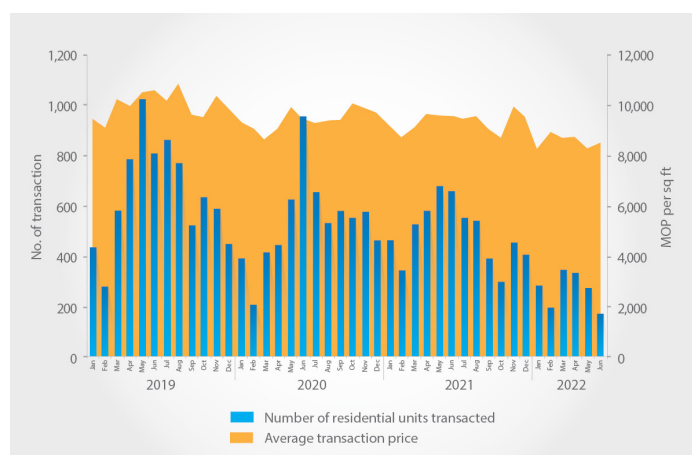
The economic downturn and high unemployment rate in Macau in 2021 due to the pandemic has affected cashflows, purchasing power, and investor interest and confidence in the property market. In H1 2022, the number of residential property transactions fell by 50.4% YoY from 3,243 to 1,607 units.

For Q1 2022, the overall average price of residential units dropped 8.4% quarter-on-quarter (QoQ) to MOP8,926 (US\$1,106) per square foot while the quiet market conditions continued for the remainder of H1 2022.

The luxury end of the market has experienced new lows in transaction prices, albeit primarily from distressed sellers of sub-par properties. Local property agent Centaline Macau cited a transaction involving a relatively large 3,000 square foot residential unit that hit a 10-year low of HKD5,500 (US\$700) per square foot, around 40% of 2007's market price. Another transaction involving a two-bedroom apartment was concluded at a price 15% short of its pre-COVID levels. While some of the transactions were forced sales following the recent collapse of the casino junket industry, these units are not generally considered top-tier luxury properties, and are not strictly comparable to the Company's portfolio properties.

For H2 2022, Centaline predicts that the average price of residential properties will likely increase by up to 5% as market conditions improve, and as a growing number of cash-rich local families are considering switching from renting to owning or upgrading their current homes.

### Residential Property Transactions and Prices



Source: Financial Services Bureau

**A growing number of cash-rich families are considering upgrading their homes**

## Outlook for Macau

### Near-term volatility but fundamentals remain intact

Amid the current COVID outbreak in Macau, the situation is fluid and the nature of the "dynamic zero" COVID response may be both swift and draconian, heightening near-term uncertainty. However, Hong Kong's new Health Secretary's moves in relaxing COVID restrictions under the "one country, two systems" banner may give impetus for Macau to pursue further relaxation of its own rules once the current outbreak is under control.

### Focus on further divestments

Restrictions on travellers from outside China will continue to limit the number of potential buyers in Macau, and thus impact the timing of company's divestment plan, although we may see further measures to ease travel restrictions for other nationalities once the public health situation stabilises. Regardless, we will pursue the active divestment of the Company's remaining assets on acceptable terms under current market conditions.

The focus on achieving debt repayments and the reduction of gearing through sales, along with a return of capital to Shareholders in the shortest possible timeframe, remains the Company's primary objective.

*\*The Company's Full Year Results are due to be published by the end of September.*

## FURTHER INFORMATION

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### About The Company

Premium listed on the London Stock Exchange, 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.

Launched in 2006, the Company targets strategic property investment and development opportunities in Macau. Its current portfolio comprises prime residential property assets.

### 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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