

Macau Property Opportunities Fund

INVESTOR UPDATE

H2/2022

In the second half of 2022, China's maintenance of its zero-COVID policy continued to have a severe impact on Macau's economy, with GDP expected to have contracted by 25%. The rapid reversal of that policy in December – although ultimately positive for Macau – is likely to continue to hinder the near-term progress of the Company's divestment programme due to the ensuing "exit-wave" of COVID infections sweeping across the region.

 New Year's firework celebrations near the Macau Tower

KEY DATA

Inception Date

5 June 2006

Exchange

London Stock Exchange

Domicile

Guernsey

Market Capitalisation

£32.3 million

Portfolio Valuation

US\$227.4 million¹

-0.1% (vs 30 June 2022)

Adjusted NAV

US\$101.9 million¹

Adjusted NAV per share

US\$1.65¹/136p²

-1.5% (vs 30 June 2022)

Share price

52.25p

36.8% (vs 30 June 2022)

Discount to Adjusted NAV

61.6%

74.7% (as at 30 June 2022)

Cash Balance

US\$3.5 million¹

Total Debt

US\$118.8 million¹

Loan-to-Value Ratio

51.5%¹

¹ As at 30 September 2022.

² Based on a US\$/£ exchange rate of 1.210295 as at 31 December 2022.

All other data are as at 31 December 2022.

MANAGED BY

 Sniper Capital

Portfolio

The economic downturn and zero-COVID restrictions over the past six months prompted the Company to carefully adjust its divestment strategy. This led to negotiations for all three portfolio properties, although successful sales were concluded only at *The Waterside*. The complete reversal of China and Macau's zero-COVID policy in December, is far reaching and comes as a long-awaited, positive development. Most significantly, it reinstates free access across the region, including Hong Kong. However, a positive impact on Macau's property market is unlikely to be immediate, and the Company is adopting a cautious position as the rapid spread of COVID following the lifting of restrictions may complicate the near-term divestment programme.

The Waterside

The Company's strata sales programme at *The Waterside* made slow progress in the second half, with the sale of only one additional unit, bringing the total sold in 2022 to five out of the 59 apartments in the building. The total combined sales value of the units was approximately US\$17 million, equating to a discount of 6% to their average valuations as of 30 June 2022.

From the US\$17 million sales proceeds, the Company utilised US\$14 million for loan repayments and earmarked the balance for working capital. *The Waterside's* lender extended new financing of US\$6.4 million partly to refinance an US\$18.3 million repayment that was due for settlement in September, resulting in an improvement of the overall portfolio loan-to-value (LTV) ratio from 53.3% in June to its current 51.5%.

Securing further sales remains the Company's overriding priority

Securing further sales remains the Company's overriding priority at *The Waterside*, but this is being balanced with its ongoing leasing programme. Tenant demand showed signs of improvement in December, with the occupancy rate increasing marginally to 32% at an average rent of HK\$17.06 per square foot, largely unchanged from H1 2022. The Company has received interest in unit purchases in the building from some long-term tenants.

The Fountainside

At *The Fountainside*, four villas and two duplexes that have been reconfigured into three smaller units and two additional car-parking spaces, remain available for sale.



Rendering of one of *The Fountainside's* reconfigured apartments

The reconfiguration work was completed in Q3, but the occupancy permits have been delayed by several months due to Macau's protracted approvals process and the local COVID situation. The permits are now expected to be issued by Q2 2023, following which the marketing of the three units will commence.

Although several buyers from Macau and Hong Kong have been identified, negotiations stalled as investor sentiment waned following a COVID lockdown in Macau in July and amid restrictions on access to the territory from China, which have now been lifted.

Penha Heights

Marketing *Penha Heights* to potential purchasers has been challenging, as viewings are an important step in the acquisition of this type of luxury property. Demand for the asset remains strongest from China where travel restrictions have discouraged interested parties from actively viewing the property. The more recent resumption of the free movement of people in the region and a likely rebound in sentiment once the current COVID surge abates should positively impact progress on a sale moving forward.



World class panoramic views from the roof terrace at *Penha Heights*

Macau

COVID-19: Abrupt dismantling of zero-COVID

In December, China's central government rapidly reversed its zero-COVID policy, replacing it with a renewed focus on the country's economy. Investors welcomed the move, but fresh concerns emerged that an anticipated "exit-wave" of infections would be severe due to low vaccination and booster rates among the country's elderly population.

Macau, mirroring mainland China's shift away from zero-COVID, eliminated zero-COVID measures including mass-testing for at-risk groups in December. As a result, an exit-wave of infections has affected at least 60% of the territory's population, and the fact that vast numbers of infected workers have been caught up in the outbreak has disrupted gaming and tourism operations.

Despite rising infections, Macau's government quickly announced a series of measures to restore pre-pandemic ease of travel. To date, all quarantine requirements for visitors have been abolished. Regular bus and ferry services between Macau and Hong Kong have resumed. Direct international air connectivity is also resuming, with Air Macau flights from major hubs set to restart through 2023. These developments are significant milestones in the recovery of Macau's tourism industry and the territory's economy. The resulting rebound in sentiment in the property sector will likely benefit the Company's divestment programme once the current and future COVID exit waves subside.

Economy: A difficult second half

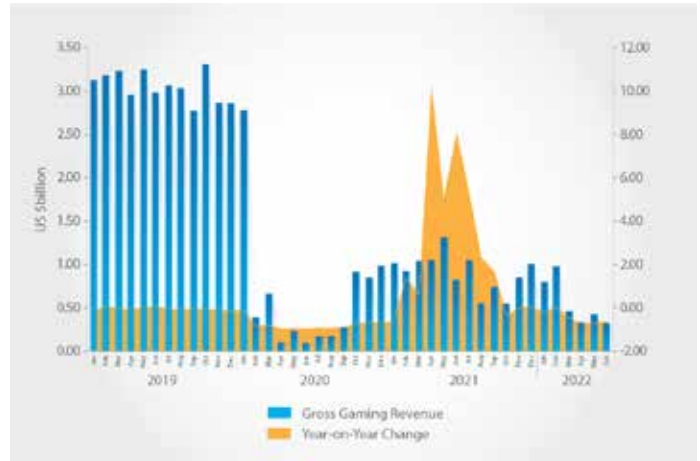
Macau's economy continued to suffer in H2 2022, with gross domestic product expected to have fallen 25% YoY. The COVID outbreak in summer led to a dismal third quarter, during which visitor arrivals more than halved YoY and exports of gaming and other tourism services tumbled 73% and 46% YoY, respectively.

The unemployment rate among Macau residents in Q3 2022 rose to 5.2%, one of the territory's highest unemployment figures since the global financial crisis in 2008. Pre-COVID, Macau's unemployment rate had hovered at a level of around 2.6%.

Tourism: Ebbs and flows from dynamic zero-COVID

Macau's visitor arrivals in H2 2022 reflect the impact of dynamic zero-COVID measures taken in the territory and in mainland China, its main source of visitors. H2 visitor arrivals expected to have fallen 41% YoY. Hotel occupancy in Macau is estimated to have fallen 12% YoY to 38% during the full year of 2022, and average room rates stood at MOP741 (US\$93). However, industry sources indicate that hotel bookings have rebounded for the upcoming Chinese New Year holiday period with room rates increasing in tandem.

Macau Gross Gaming Revenue Year-on-Year Change



Source: Statistics and Census Service (Macau)

Prior to December, Macau had announced several key measures to boost visitor numbers. For mainland Chinese tourists, such as the resumption of e-visa issuance under the Individual Visit Scheme. The expectation of a steady influx of tourists into Macau as a result of these changes has led to a rebound in sentiment among investors, who expect a recovery in the tourism and gaming industries – albeit with some lag – ultimately to spill over into the residential property sector. Gaming stocks, a leading indicator of economic recovery and investor sentiment, have rallied strongly.

Gaming: Stability heralds better times ahead

Gross gaming revenue (GGR) for H2 2022 reflects the economic impact of Macau and China's dynamic zero-COVID measures. For full-year 2022, GGR was down 51.4% YoY, at US\$5.26 billion, just 14% of 2019's total.

Following the passage of new gaming laws last June, seven companies – the six incumbents and surprise bidder Genting Malaysia – submitted bids for the six available licences. At the end of November, Macau's government announced that the six incumbents would be given new 10-year licences taking effect from January 2023. The long-awaited announcement was a nod to stability and continuity for the concessionaires, whose investments in the territory over the past 20 years total more than US\$50 billion.

All Macau quarantine requirements have been abolished

Property

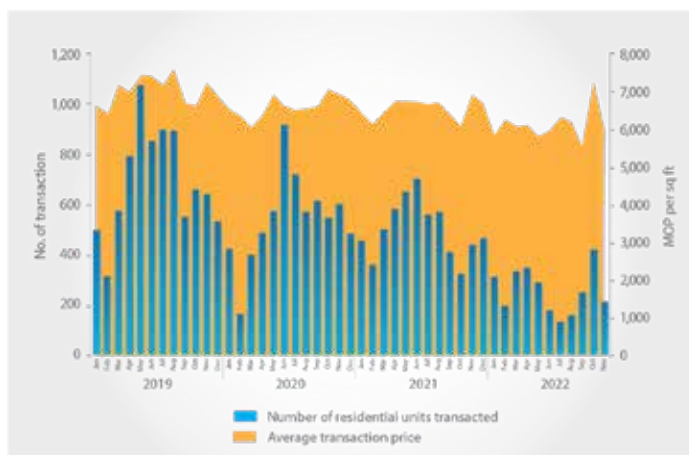
Residential property sector hits new lows

Impacted by weak investor sentiment, Macau's residential property sector continued to struggle in H2 2022. Following Macau's citywide lockdown in July, the city's property market did not recover as expected, resulting in Q3 transaction volumes declining by 32% quarter on quarter (QoQ), or 65% year on year (YoY) to 541 transactions – a new low for the residential market. Average prices declined 3.1% QoQ to HKD8,267 (US\$1,061) per square foot, indicating continued downward pressure on the property market.

In the luxury market segment, in which the Company is invested, average prices in Q3 2022 declined by 9.1% YoY to HKD8,373 (US\$1,078) per square foot. Investors persisted with a cautious stance after the July lockdown, with fewer viewings conducted than during the first half of the year. Rental values of high-end and mass-market to mid-market residential properties also remained under pressure, with average rental yields declining to 1.5%, according to real estate agency JLL.

Although pent-up demand from cash-rich buyers in China and Hong Kong remains strong, Macau's residential property market is expected to remain quiet until after the Chinese New Year holiday in late January. According to property agent Centaline, despite positive recovery prospects in the tourism industry, the property sector will continue to face pressure from other factors such as interest rate increases, stock market volatility, high unemployment, the Ukraine war, and regional tensions between China and the United States.

Macau Residential Property Transactions and Prices



Source: Financial Services Bureau

Outlook for Macau

China's pivot from zero-COVID

Macau's outlook for 2023 and beyond will depend very much on the impact of mainland China's pivot away from zero-COVID. Although Beijing's focus on economic growth is welcome, the exit wave of COVID infections is likely to delay economic recovery for several months as Macau's tourism and gaming sectors grapple with labour shortages and demand constraints.

Divestments remain the key priority for the Company

We remain cautiously optimistic that the Company's sales programme can be actively advanced in 2023, but the immediate future will likely bring headwinds due to aforementioned reasons. These challenges are expected to continue until investor confidence is restored, potentially in H2 2023. That said, it seems clearer that Macau is now better positioned for recovery and that the pace of change could see an accelerated return to more positive sentiment. The Company will continue to position its portfolio properties to take advantage of opportunities that arise as Macau's borders and economy reopen, and prioritise debt repayments and a return of capital to Shareholders in the shortest possible timeframe.

**The Company would like to thank shareholders for their continued support in extending the Company's life for a year at its recent AGM. Its Interim Results are due to be published towards the end of February.*

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 leading 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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