



Sniper Macau Heritage Properties II

INVESTOR UPDATE

H2/2019

Macau's new Chief Executive was sworn in on 20 December, expressing a determination to diversify the territory's economy. Visitor arrivals hit a record high in 2019. The Light Rapid Transit (LRT) Taipa Phase opened in December, from which Taipa Village is poised to benefit. The retail property market remained generally subdued, while the Fund's portfolio value increased by 2.5% over the six-month period due to official title granted for Property 4.

📷 Christmas themed exterior of Taipa Village Art Space

KEY DATA

Inception date

1 Oct 2011

Fund life (years)

5+1+1¹

Number of properties

4

Total estimated GFA

37,400 sq ft²

Issue price per share

US\$1,000

Portfolio valuation

US\$66.0 million
(+2.5% vs 30 June 2019)

Cash balance

US\$0.6 million

Total debt

US\$19.7 million

NAV

US\$46.7 million

NAV per share

US\$1,807.43
(+1.3% vs 30 June 2019)

Return

80.7%³

IRR

7.4%³

Loan-to-value ratio

29.6%

¹ Fund life has been extended to 30 September 2021, pursuant to EGM resolutions dated 24 September 2018

² Estimated GFA of completed projects

³ Indicative Return and IRR based on initial subscription price of US\$1,000 per share

All data are based on unaudited financial information as at 31 December 2019, unless otherwise indicated.

MANAGED BY

Sniper Capital

Portfolio

Property 1: Construction at the property was delayed considerably when additional work was required to comply with new fire service regulations. All work requested by the government to fulfil the requirements imposed by the new regulations had been completed as of August and duly acknowledged by the planning department. We have applied for an updated Urban Condition Plan (UCP), which is required for construction work to begin, and we expect to receive approval in Q1 2020. Our top priority is to start this work as soon as possible.

Property 2: Following a government inspection in July, and after discussions with relevant authorities and our tenants,

Portfolio Status

Property details	Gross floor area (sq ft)	Status	Rent psf pm/yield
1 Development (Retail/F&B)	27,500*	All preparatory work requested by the government completed; updated UCP applied for; awaiting government response.	N/A
2 Three-storeys + basement (Retail/F&B)	5,600	Fire doors to be replaced to comply with current practices of Fire Services Bureau; resubmission of as-built drawings in Q1.	N/A
3 3 storeys + basement (F&B)	3,000	Leased to La Famiglia (Macanese Restaurant).	HK\$56.33/2.6%
4 Redevelopment (Retail/F&B)	1,300*	Full submission made in March rejected; revised plans being prepared and to be submitted soon. Our ownership of the smaller asset now officially reflected on property register.	N/A

* Projected GFA subject to final planning consent

Location of Portfolio Properties



we will replace the fire doors to comply with the current practices of the Fire Services Bureau and resubmit a full set of as-built drawings in Q1, which will include tenants' fit-out works, for approval. After this, an occupation permit inspection is expected to be carried out. The unexpected and prolonged delays due to these issues have been beyond our control, but ensuring that income flows to the Fund are generated as soon as possible remains our top priority.

Property 3: La Famiglia restaurant continues to perform well and to draw visitors to Taipa Village. The monthly rent on the property increased to around US\$21,700 (HK\$169,000) from November, generating an increased yield of 2.6% as of December 2019.

Our sales team is working closely with property agents on a potential sale of Property 3. However, buyers remain in bargain-hunting mode due to the subdued state of the property market, and have offered only rock-bottom prices. These offers do not reflect either the current performance of the asset or the potential upside of the village. A sale in the current market would be less than optimal, due to the steep discounts being demanded. We will therefore continue to monitor market conditions to identify a reasonable divestment opportunity for shareholders.

Property 4: This asset comprises two existing properties. For the larger property, a full submission made in March was rejected in September on technical grounds. In order to expedite the process, and after discussions with our legal advisers, we are preparing revised full architectural plans, which will be submitted shortly. The application for a land contract, which was in progress, has been halted pending the approval of the revised architectural submission.

For the smaller unit, following a court hearing in September, a final decision was made in our favour the following month. Our ownership of the property has now been officially reflected on the property register.

Destination Creation

Our marketing efforts are continuing to draw an increasing number of visitors to Taipa Village through promotional campaigns run under our now well-established brand concept "Taipa Village – Authentic Macau".

In H2 2019, Taipa Village Art Space featured local Macau artist Un Chi Wai's first solo exhibition, entitled "What Are You Thinking?". The exhibition showcased the artist's illustrations from a self-published children's book.

Christmas at Taipa Village featured the "My Merry X'Mas! Taipa Village Christmas Fair", a month-long pop-up festive event held in partnership with the Mandarin Oriental Macau and presented at Taipa Village Art Space. The pop-up promoted the best of Macau's cultural and creative industries, ranging from food to handicrafts to locally produced gift items. Interactive activities were also set up to attract visitors to the Christmas store.

Macau

Optimism grew at the end of 2019

Macau's economy shrank by 3.5% in real terms between January and September, marking three consecutive quarters of decline. In Q3 2019, GDP contracted 4.5% year on year (YoY) due to a larger decline in exports of services. For FY2019, Fitch Ratings expects Macau's economy to contract by 2.5%.

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

China also announced new measures to act as catalysts for the diversification of Macau's economy and the transformation of the territory into a tourism and finance hub integrated into the Greater Bay Area. Those measures included providing support to Macau banks to set up branches on the Chinese mainland and allowing mainland insurance funds to invest in Macau.

The initiatives address issues highlighted by Macau's new Chief Executive, Mr Ho Iat Seng, which are related to reducing the territory's dependence on gaming and its increased integration with the mainland Chinese economy as key measures underpinning a more sustainable future.

GGR declined this year, but improvement expected from 2020

In H2 2019, gross gaming revenue (GGR) fell 6.3% YoY, led by a continued contraction in the VIP segment, which shrank 23% YoY during the period, offsetting growth of 13% in the mass-market segment.

For full-year 2019, GGR fell 3.4% to US\$36.5 billion (MOP 292 billion). GGR forecasts for 2020 have been cautious, with Morgan Stanley forecasting growth of 2% YoY, while Goldman Sachs sees GGR growing 9% YoY, with 3% VIP and 13% mass-market growth.



Light Rapid Transit began operations on 10 December 2019.

Macau's tourism sector continues to grow

Visitor arrivals to Macau totalled more than 39.4 million for the year, an increase of around 10% YoY, while the average length of stay among visitors remained stable at 1.2 days. During the first 11 months of the year, the average lodging occupancy rate remained stable at 90.7%, with a total of 38,000 rooms at 121 hotels and guesthouses as of the end of November.

The meetings, incentives, conferences and events (MICE) sector also showed active growth. In the first three quarters of 2019, 1,075 MICE events were held, an increase of 109 YoY.



The Hong Kong-Zhuhai-Macau Bridge marked its first anniversary in October 2019.

Improving connectivity in the Greater Bay Area, within Macau

The Hong Kong-Zhuhai-Macau Bridge marked its first anniversary in October. As a major gateway for tourists from Guangdong Province, it is credited with being a key enabler of Macau's double-digit jump in visitor arrivals in 2019.

Construction work at the new Hengqin Port has been completed, and port operations are expected to commence in Q1 2020. The port streamlines immigration and customs clearance between Hengqin and Cotai as it accommodates immigration and customs checkpoints for both mainland China and Macau. It is also linked to the upcoming Zhuhai Airport Urban Rail Transit, which will connect the Gongbei Border to Hengqin, providing more options for travel between Macau and Zhuhai.

Macau's LRT began operations on 10 December. The LRT system is 9.3km long and has 11 stations, linking gaming properties in Cotai with Taipa, Macau's airport and various other points of interest. Taipa Village has a station at its entrance and stands to benefit greatly from the LRT.

Property

Retail sales volumes and the retail property market overall have been negatively affected by the triple-whammy of the US-China trade war, a slowing mainland Chinese economy, and a weakened yuan. During the first three quarters of 2019, the total value of retail sales dipped 0.9% YoY to US\$7 billion (MOP56.4 billion) despite sharp growth in visitor arrivals to Macau.

Leasing and sales transactions in Taipa district in H2 2019

Leasing			
Property	Gross floor area (sq ft)	Rent per month (HK\$)	Rent per sq ft per month (HK\$)
Estr. Gov. Nobre de Carvalho	457	27,000	59
R. de Tai Lin	1,191	68,000	57
Estr. Gov. Albano de Oliveira	473	21,000	44
Estr. Gov. Nobre de Carvalho	766	30,000	39
Estr. Nordeste da Taipa	7,264	86,000	12
R. de Bragança	1,190	73,000	61
Estr. Gov. Albano de Oliveira	550	32,000	58
R. de Nam Keng	2,940	180,000	61

Sales			
Property	Gross floor area (sq ft)	Price (HK\$)	Price per sq ft (HK\$)
R. de Viseu	586	10,000,000	17,065
R. do Regedor	275	16,800,000	61,091

Source: Centaline

The retail property market, which got off to a slow start this year, remained subdued in H2 2019. During the first 11 months of the year, a total of 422 retail premises were transacted, down 29% YoY. The corresponding transaction value was US\$656 million (MOP5.3 billion), 43% lower YoY.

Taipa Village nevertheless continued to demonstrate resilience. Although sales of retail properties were quiet, a 275 sq ft shop was recently transacted for HK\$16,800,000 (HK\$61,091 per sq ft). Leasing of properties in Taipa Village remained active, and F&B outlets continued to perform well. We expect the LRT to boost visitation to the area in the coming months as it improves connectivity throughout Cotai and Taipa.

Outlook

Macau's subdued economic environment is expected to persist into 2020, with Fitch Ratings forecasting flat GDP growth. GGR is expected to return to growth in 2020, with analysts forecasting a modest expansion of 2% - 9% YoY.

We expect more clarity on renewals of casino licences once the new government gives its first policy address in April 2020, which may provide the impetus for casino operators to move full steam ahead with their expansion pipelines.

Efforts to boost Macau's standing as an international tourism hub and investment destination will improve the performance of the retail sector.

There are additional positives in growing visitor arrivals and efforts by the mainland Chinese government to put in place building blocks to diversify Macau's economy away from gaming. Improving connectivity within the Greater Bay Area will also support tourism and trade. Efforts to boost Macau's standing as an international tourism hub and investment destination will improve the performance of the territory's retail sector, driving up rents and the values of retail properties, and benefit our portfolio in Taipa Village.

FURTHER INFORMATION

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About The Company

Sniper Macau Heritage Properties II Limited is a private property investment company that aims to generate capital growth and income from a portfolio of commercial properties located in Taipa Village, a historic and increasingly popular lifestyle destination in Macau.

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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