


Macau Property Opportunities Fund

INVESTOR UPDATE

H1/2023

Macau's economic engines roared back into life in H1 2023. The property sector, however, has so far lagged the overall economy at this relatively early stage of the recovery and challenges including high interest rates and a slow return of confidence have persisted. Against this backdrop, the Company continued to advance its divestment programme during the period, selling an additional nine units at *The Waterside*.

 The striking Crystal Palace lobby atrium at The Londoner Macao which recently celebrated its grand opening.
Photo credit: Sands China Ltd

KEY DATA

Inception Date

5 June 2006

Exchange

London Stock Exchange

Domicile

Guernsey

Market Capitalisation

£36.2 million

Portfolio Valuation

US\$213.8 million¹

-1.5% (vs 31 December 2022)

Adjusted NAV

US\$94.1 million¹

Adjusted NAV per share

US\$1.52¹/121p²

-5.4% (vs 31 December 2022)

Share price

58.5p

+12.0% (vs 31 December 2022)

Discount to Adjusted NAV

51.5%

61.6% (as at 31 December 2022)

Cash Balance

US\$1.9 million¹

Total Debt

US\$110.4 million¹

Loan-to-Value Ratio

51.2%¹

¹ As at 31 March 2023.

² Based on a US\$/£ exchange rate of 1.261441 as at 30 June 2023.

All other data are as at 30 June 2023.

MANAGED BY



Portfolio

The lifting of travel restrictions to and from Macau just six months ago has been extremely positive for the territory's tourism industry, but the immediate impact on the ultra-luxury segment of its residential property market and the Company's portfolio has so far been muted.

The Waterside

The strata sales programme at *The Waterside* has made further progress, with the disposal of three additional units since the last update to Shareholders in the Company's Interim Report, issued in February. The disposals bring total year-to-date sales at the property to nine standard units. Overall, 14 of the development's 59 apartments have so far been sold through the strata sales programme.

The combined value of year-to-date sales at *The Waterside* is approximately US\$22.3 million, with 80% of the apartments sold being standard units located on low to middle floors. Units located on more valuable higher floors, including the special simplex and duplex units, have been reserved for future sales as Macau's property market improves.

In line with the recovery in Macau's tourism industry, leasing demand at *The Waterside* is showing continued signs of improvement. Occupancy currently stands at 47%, up from 32% at the end of 2022, driven by a 22% increase in new leases since last December and an 11% reduction in the number of units available for lease during the same period. Rental income has also increased since December, up 22%, while the average rent remains unchanged at US\$2.17 per square foot, despite average rentals in the immediate area around *The Waterside* dropping 8.3% year on year (YoY) in Q1.

The ultra-luxury segment of residential property market remains muted

Securing further sales at *The Waterside* remains a priority. The Company is therefore balancing increased rental income from current leasing demand with further strata sales of vacant units. Sales of units with sitting tenants are a component of our strategy, bringing our leasing and sales approaches into alignment. The Company intends to progress the strata sales programme but pace this to take advantage of the expected property market recovery.

The Fountainside

At *The Fountainside*, four villas, three reconfigured units and two car-parking spaces remain available for sale. A few potential purchasers have viewed the villas and negotiations remain ongoing, a reflection of the current



Contemporary interior of a *Fountainside* villa

state of the luxury segment of Macau's property market, which has faced ongoing challenges despite the territory's economic recovery. Nevertheless, in anticipation of increased market activity in the coming months, a renewed marketing campaign is currently in progress for the villas.

The issuance of occupancy permits for the three smaller reconfigured units has been delayed. The authorities completed inspections in January and comments detailing minor changes have been received. The permits are now expected to be issued in Q3, following which the marketing of the three units will commence.

Penha Heights

Interest in *Penha Heights* has been muted, consistent with the lack of activity in Macau's ultra-luxury property segment. Although several viewings have taken place in the past six months, a sustained economic recovery in both Macau and mainland China is a prerequisite for investor interest in an asset such as *Penha Heights* – a fact that is likely to become more apparent entering 2024. In the meantime, maintenance work has been ongoing to keep the property in pristine condition and a very targeted marketing campaign is planned for the second half of the year.



A contemporary unit at *The Waterside* showing a night view of the Macau Tower

Macau

Economy: Rapid recovery from an extremely low base

With the lifting of Macau's travel restrictions, the territory's economy rallied in the first half of 2023, driven by its twin economic engines, gaming and tourism. In Q1 2023, gross domestic product grew 39% YoY to reach approximately 66% of Q1 2019 levels. Macau's economy has clearly turned the corner following its 27% contraction in 2022, but its recovery will require significant time and effort to restore balance sheets, rebuild capacity, address labour shortages and re-establish flight connectivity.

The outlook for the second half of 2023 is encouraging, with Fitch Ratings and the International Monetary Fund predicting full-year GDP growth of 48% and 59%, respectively.

Tourism: YTD arrivals have already topped 2022 numbers

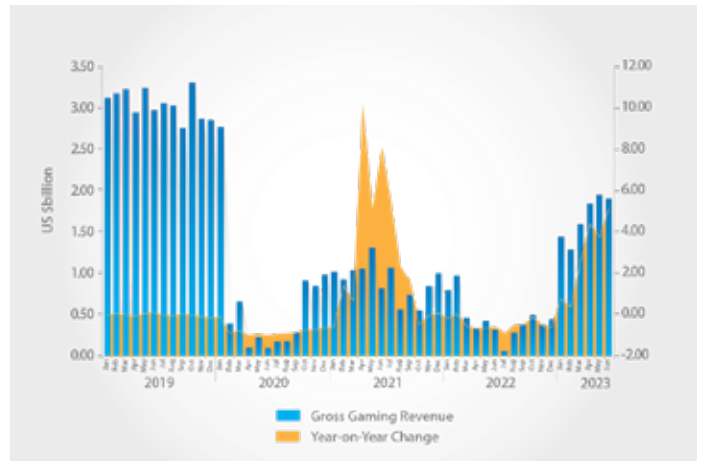
Macau's tourist arrivals have surged since the lifting of border control measures, and for the first half of the year, year-to-date tourist arrivals had already exceeded 2022's visitor arrivals by 104%. Tourist arrivals grew month on month during the first half of the year, and the territory had admitted 11.6 million visitors by June, approximately 57% of 2019's record-breaking total.

More than two-thirds of visitors are mainland Chinese, but travellers from Hong Kong SAR now make up 30%, an increase of 21 percentage points since travel restrictions were lifted. By May, the number of visitor arrivals from Hong Kong had recovered to c.92% of 2019 levels.

Macau's residential property market has so far lagged its impressive tourism industry recovery

Macau's tourism agencies have been actively promoting the territory, particularly to North Asian and Southeast Asian tourists, with special offers and packages to boost visitation. In Q1 2023, Macau International Airport recorded YoY passenger traffic growth of 170%, while flight movements increased 57% YoY. As airlines tackle the task of restoring routes paused during the pandemic, international tourist numbers will take time to reach pre-pandemic levels.

Macau Gross Gaming Revenue Year-on-Year Change



Source: Statistics and Census Service (Macau)

Gaming: YTD revenues have beaten full-year 2022 GGR

GGR has rallied in line with Macau's surging visitor numbers. By June, year-to-date GGR had exceeded 2022's total by c.90%, with June's GGR reaching c.64% of pre-Covid levels, surpassing analysts' initial forecasts.

The rally in GGR is being led by the premium mass-market and mass-market gaming segments, which have rebounded to c.90% of pre-pandemic levels in June, while VIP GGR is at c.24% of its level pre-Covid, heavily impacted by an official clampdown on the junket business. The current mix of GGR is positive for gaming operators' financial performance as the mass-market segments are generally more profitable than VIP gaming. JP Morgan has estimated that Q2 EBITDA for Macau's six gaming operators rang in at US\$1.7 billion, or 73% of 2019 levels, which puts the gaming industry significantly ahead of previous projections.



The famous Ruins of Saint Paul's filled with tourists during the recent Dragon Boat Festival

Property

Property sector expected to lag economic recovery

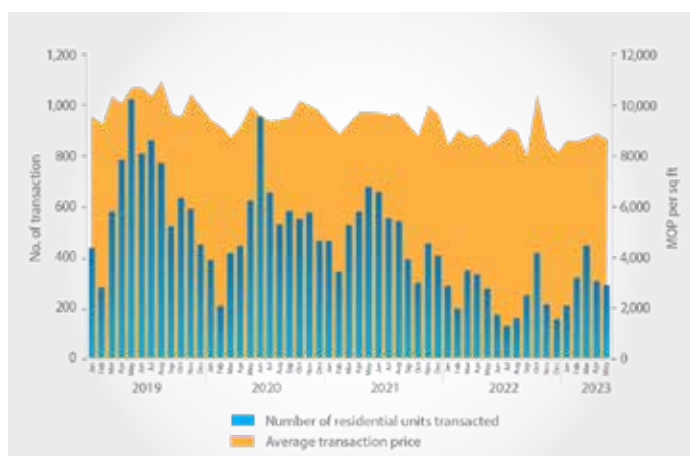
Macau's property market has so far lagged its impressive tourism industry recovery. The market faces a number of challenges, including a high interest rate environment that has seen the territory's base lending rate rise to 5.25% while yields on properties have remained historically low at below 2% per annum.

Following FY2022's 40-year low in transaction volumes, Macau's residential property market improved in terms of both transaction volume and value during the period. In Q1 2023, 848 units changed hands, representing 31% quarter-on-quarter (QoQ) growth, while total transaction value rose by 34% QoQ to MOP5.6 billion.

The luxury segment of the market has remained quiet, with only 48 luxury units transacted in Q1 2023, a 9% YoY decline, although the average transaction price per square foot increased 3.1% YoY in the same period. The market environment remains challenging, with high interest rates driving potential investors to seek increased yields when considering investment opportunities, or to seek price reductions to compensate for lower expected returns. Sellers are exhibiting strong holding power, with many reluctant to accept lower prices at a time when the tourism sector is seeing such a strong rebound. In addition, potential investors are also distracted as they grapple with immediate concerns amid the recovery – reviving their businesses and coping with a spike in demand while simultaneously managing labour shortages.

Average rents declined across Macau's residential property market in Q1 2023, with the average rent per square feet of usable area at MOP 12 (US\$1.5), 7% lower YoY and 2% lower QoQ.

Macau Residential Property Transactions and Prices



Source: Financial Services Bureau

Outlook

Continued economic recovery

The economic outlook for the second half of 2023 is positive, with a continued recovery expected through the period and beyond. In addition to predicting full-year 2023 GDP growth of 59%, the IMF forecasts that in 2024, Macau's economy is likely to grow by 21%, taking it to 86% of its pre-pandemic size.

Nevertheless, challenges remain as Macau rebounds from a low base and faces shortages of labour and other inputs. Investor sentiment is increasingly buoyant, but it will take time for that optimism to spill over into the property sector, which faces additional headwinds, particularly with regard to high interest rates.

Divestments remain the Company's key priority

We remain cautiously optimistic that the Company's sales programme can be actively advanced in the second half of 2023, given the overall positive sentiment in Macau, but we are balancing transaction velocity with achievable disposal prices, while also managing our debt amid higher interest rates.

The Company will continue to position its portfolio properties to take advantage of opportunities that arise as Macau's economy recovers to its pre-pandemic condition, prioritising debt repayments and the return of capital to Shareholders in the shortest possible timeframe.

FURTHER INFORMATION

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LEI:
213800NOAO11OWIMLR72

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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