

Macau Property Opportunities Fund (MPO, 131.5p, BUY)

Fund Details

Last Published NAV (GBP)	174.30
Last NAV Date	31/03/2011
Premium/Discount	-24.56%
Average 52-Week % Prem	-23.07%
Next NAV Announcement	Aug 2011
Market Cap (GBP m)	138.08
Total Assets (\$ m)	288.38
Net Yield (historic)	-

Fund Information

Sector	Property
Geographic Focus	Macau
Benchmark index	EPRA/NAREIT ASIA \$ TR
Fund manager	Sniper Capital Ltd/British Virgin Islands
Investment manager	Tom Ashworth and Martin Tacon
Website	www.mpofund.com

Investment objective/description

Macau Property Opportunities Fund Limited is a closed-end investment company incorporated in Guernsey. The Fund's objective is to provide shareholders with an attractive total return, through investing in property opportunities primarily in Macau, but also potentially in the Western Pearl River Delta region and, in exceptional circumstances, greater China.

Dividend policy

The Company's investment objective and strategy means that the timing and amount of rental or other income cannot be predicted. There can therefore be no guarantee as to the timing and amount of any dividend payable by the Company. In addition, the Company may distribute any gains on the realisation of properties from time to time.

Source: Bloomberg, Company, Liberum Capital

Macau Property Opportunities Fund (MPO) has made significant progress during the last 12 months with stable rent generation and successful realisations. Positive results were recently reported in the Waterside (50% occupancy rate achieved) and Fountainside (40% pre-launch sales) projects. The current portfolio is moving toward a more mature stage and is well positioned to benefit from the buoyant local property market, which is driven by Macau's strong gaming industry, low unemployment rate (February: 2.8%), high GDP per capita (the highest in the region) and a low interest rate environment.

The Fund recently exited its Rua do Laboratório site, a pre-development project, at a net IRR of 15%. Post this sale \$17.9m of cash will be returned to investors (c. 10.5p/share) and this represents the first major return of capital to investors and implementation of a complete investment cycle. Similar progress has been made in the sale of 10 individual units in the One Central development and we believe these sales and exits underpin the current valuation. The key portfolio position is "The Waterside" in which progress continues to be positive. At the current discount to NAV of 23.5%, and with a positive macro outlook in Macau driving expected NAV gains, we continue to recommend MPO as BUY.

The manager and investment strategy

The manager

Macau Property Opportunities Fund (MPO) was launched on AIM in June 2006 and moved to the Main Market in June 2010. The Fund is managed by Sniper Capital Limited, an independent real estate fund manager focusing on Macau and Southern China. Founded in 2004, Sniper Capital currently manages two funds with combined assets of over \$350m. It has two principals - Tom Ashworth and Martin Tacon, who bring combined experience of over 40 years in the financial and property market. Sniper Capital has a team of 30 professionals in its Hong Kong and Macau offices.

The strategy

MPO focuses on property opportunities in Macau and Western Pearl River Delta region. The Fund seeks primarily capital growth but with the potential for dividends over the medium to long term. MPO targets properties with a potential IRR of over 20%.

The Company intends to target principally niche and undervalued developments which are often overlooked by large developers. It seeks to add value through the process of re-development, repositioning and asset management. Key focused market segments are high-end and entry level residential, leisure, retail and logistic/warehousing properties.

Portfolio highlights

In February MPO announced its interim results for the six months ended 31 December 2010. Adjusted NAV was \$270m, up 3.2% in dollar terms during the period. The property portfolio was valued at \$333m, up 5.2% for the period and 8.4% for the calendar year of 2010. H2 2010 is a significant period for the Company

as its portfolio progressed towards maturity and started to bear fruit by generating rental income and sales proceeds.

An updated NAV has been provided for 31 March 2011 showing a further 9.4% gain from this point bringing the NAV to \$296m or \$2.82/share. The market value of the properties was \$363m, an increase of 9% in the quarter. This is a strong gain in the period, no breakdown was provided as yet but we believe possible increases in The Waterside valuation and The Fountainside are likely to be key drivers. The agreed sale of 10 individual One Central units will have added a small amount to portfolio gains while the Rua do Laboratorio exit was slightly below book value.

The cash balance stood at \$22.4m as of 31/12/2010. Total LTV remained at a low level of 27% based on the total portfolio valuation as of 31/12/2010 and this has reduced to 24% at 31/3/2011.

Post result events include the sale its Rua do Laboratório site to a local developer for c. \$41m at an IRR of 15%. The objective for the disposal of this pre-development site was to unlock value and crystallise returns. The sales proceeds are slightly below the 31/12/2010 valuation of \$42.5m. It has been decided that \$17.9m or \$0.17/share (10.5p/share) of these proceeds will distributed to shareholders in the form of a redeemable B Share. This will be the first major exit and completion of a sale and the distribution will represent a payment of 6.03% of latest NAV.

Figure 1: Portfolio Overview as at 31/12/2010

Property	Description	Exit strategy	GFA sqft'000	Cost \$'000	Valuation \$'000	Change since acquisition %
The Waterside - One Central Tower Six	High-end residential	Lease and asset manage	197	88,000	151,807	73%
One Central - individual units	High-end residential	Opportunistic sell	-	49,000	44,616	-9%
Senado Square	Mixed-use development	Lease and sell	70	16,000	43,612	172%
The Fountainside (Rua do Penha)	Niche market residential	Pre-sell and sell	80	8,100	23,543	192%
APAC Logistics Centre (Zhuhai Logistics Centre)	Warehousing & logistics	Sell with long-term leases	1,500	11,000	14,666	33%
Other smaller properties	-	-	-	7,300	12,543	73%
Rua do Laboratorio (exited in 2011)	Entry level residential	Exited (expect to complete in April 2011)	220	21,400	42,454	98%
Total Portfolio				200,800	333,241	66%
Cash					22,409	
Loans and other liabilities					85,722	
Total adjusted assets					269,928	
Adjusted NAV/share \$					31/12/2010 2.57	30/03/2011 2.82
Adjusted NAV/share GBp - using exchange rate at results					164.9	175.9
Adjusted NAV/share GBp - using current exchange rate					156.1	171.3

Source: Company, Liberum Capital

The Waterside

The Waterside is located in Tower Six of One Central Residences, a high-end residential complex that includes luxury serviced apartments, a Mandarin Oriental hotel and a shopping centre. In late 2006 MPO acquired Tower Six which consists of

59 appointed apartments (54 standard units, three simplex and two duplex apartments). All of MPO's acquired units, including the individual units, are positioned with a front lake view. This is MPO's key portfolio position representing 43% of the portfolio at 31 December 2010.

MPO's strategy with this asset is to lease in the near-term and to exit in the next 2-3 years. The first stage of the leasing campaign was launched in February 2010. Since then, a 50% occupancy rate (29 standard units) was achieved. Marketing of The Waterside has progressed well, and MPO has now increased unit price over the last 12 months. Rental prices increased by 25% since the launch with most leases transacted at a face rental rate of HKD20/sqf/month. This represents a gross yield of 3.1% based on the valuation as of 31 December 2010. Tenants are mostly senior professionals in Macau's gaming and infrastructure sectors. MPO is working toward occupancy of 80% and higher rents. The second stage of the leasing campaign was launched on in February 2011, with the release of apartments on the higher floors which include three simplexes and two duplexes that command much higher rents than the standard units. We expect rental income and gross yield to be further enhanced by strong rental demand in the market and the second stage of the leasing campaign. Success of this campaign is possibly one of the reasons for the large NAV gain this quarter.

MPO acquired Tower Six for c.\$87m in 2006 (valued at \$152m in December 2010). A loan of \$82m was drawn down in H2 2009 to finance the remaining payments due on Tower Six and individual units when the property was handed over from the developer. As of 31 December 2010, the LTV of this asset stood at 41% compared with a covenant of 60%. The interest charge on this loan is 1.6% plus three-month HIBOR. The Manager expects this asset to become cash flow positive by mid 2011 due to a higher occupancy rate and rental reversion.

Figure 2: MPO loan overview as of 31/12/2010

Debt facility	Amount (\$m)	Maturity	Drawdown (\$m)	Cost	Covenant	Recourse clause	Banks
One Central	81.2	Nov-15	fully drawn	1.60% + HIBOR	60%	Recourse	Hang Seng Bank
The Fountainside	13.5	Jul-12	\$1.9m	1.65% + HIBOR	60%	Non-recourse	Banco Weng Hang S.A.,
Compared with the loan of Speymill Macau Property Company plc							
AIA Tower	c.71.5	Sep-13	fully drawn	2.05% + HIBOR	65%	Non-recourse	a Macau bank

Source: Company, Liberum Capital

One Central – Individual units

The manager currently owns 25 individual units in the development valued at \$44m in December 2010. The strategy for these units is to sell into market strength. The company has announced that it has agreed a sale of 10 apartments to individual mainland China and local Macau buyers for a total amount of HK\$165m or c. \$21m. This translates into a net profit of \$1.2m from the book value at 31/12/10 of \$19.8m or a 10% gain. If we were crudely to mark up the remaining 15 units by the same level this would add \$2.4m to the valuation of the portfolio.

Senado Square

This is MPO's first mixed-use redevelopment project located in Macau's prime shopping area. Once completed, the property will offer 70,000 square feet of prime retail space.

Total value of Macau's retail sales in 2010 increased 32% YoY to \$3.68bn driven by tourists as well as locals. This has raised the interest of international retailers to the market. Redevelopment opportunities in the neighbourhood of Senado Square are limited due to the adjacent heritage architecture. MPO's strategy for this asset is to lease up to a stage with a stabilised income and eventual an en-bloc sale as a lease-up investment.

The Fountainside

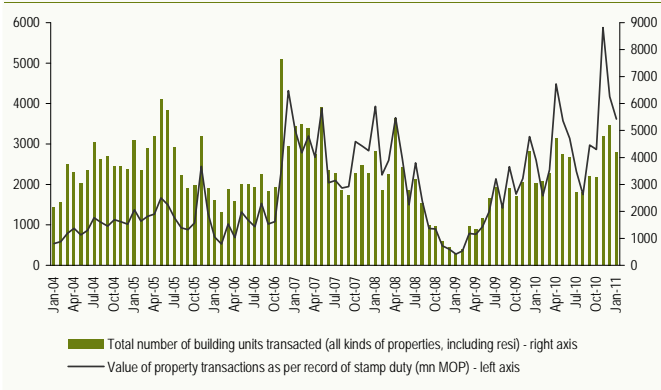
The Fountainside (formerly Rua do Penha) is a low rise niche residential development with 42 apartments. It is MPO's first residential redevelopment property and the strategy is to sell by strata to end buyers targeting on locals of middle/upper-income.

In February MPO announced it had achieved a 40% pre-launch sales result in this property and launched the public sales programme, with the release of ten units. This is a very positive result given the short period of soft marketing started in Q4 2010. MPO has received total deposits of c.\$2m out of total sale proceeds to date of c.\$10m. The sales result demonstrates the strong local interest for better quality properties which in this case includes a prime location, unique design and reasonable pricing.

In June 2010, MPO signed an agreement to secure a credit facility arrangement for up to \$13.5m (Table 1), which will cover expected development cost for this project. The Fountainside is expected to complete in mid 2013.

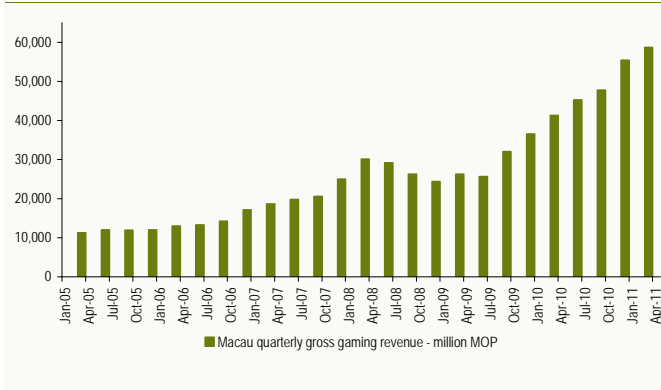
A 10% and a 15% gain have been forecast by Jones Lang LaSalle and Savills respectively. Despite the strong growth of the local real estate market, the value has yet to recover to its peak in 2008. Hong Kong and Mainland China's property values have long since surpassed their previous peaks.

Figure 3: Macau Property Transactions



Source: the Statistics and Census Service of Macau

Figure 4: Macau Gross Gaming Revenue



Source: the Statistics and Census Service of Macau

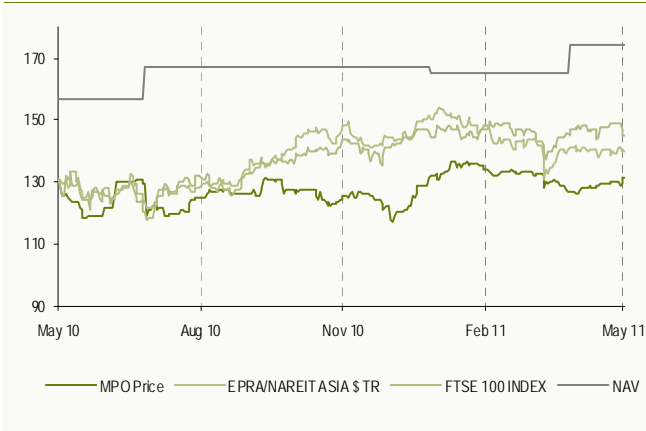
Conclusion and recommendation

Valuation in the portfolio has been validated by the recent exits of 10 units in One Central and Rua do Laboratório. We believe the 24.5% discount to represents good value and an attractive entry point to what we believe is an attractive investing environment. The sale of Rua do Laboratório represents the first major exit in the portfolio and the announcement of a return of capital through a B Share is a positive for the company and is representative of a full investment cycle.

In its 4.5 years life, MPO has demonstrated the ability to identify opportunities, add value through active asset management and to make profitable realisations. We remain bullish on the outlook for Macau property given the backdrop of strong economic growth (2010 GDP increase: 26.2%), a low unemployment rate (February: 2.6%) and an inflationary environment (February CPI: 3.39%). The portfolio continues to mature and we believe is a well placed long-term play on Macau's economic growth. We reiterate our BUY recommendation on MPO.

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Price/NAV/Benchmark Performance

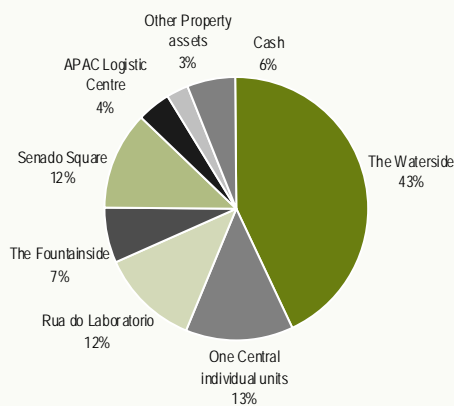


Performance (%)

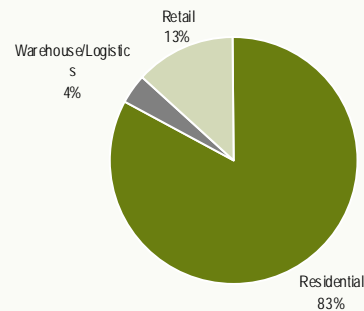
	1 Month	3 Months	12 Months
Price (GBP)	126.50	134.00	129.00
Premium/Discount	-27.43%	-18.73%	-16.34%
Price performance	3.95%	-1.87%	1.94%
NAV performance	0.00%	5.71%	11.32%
EPRA/NAREIT ASIA \$ TR	0.36%	-3.69%	18.58%
FTSE 100 INDEX	-2.01%	-1.29%	12.53%
Relative to EPRA/NAREIT ASIA \$ TR	3.59%	1.82%	-16.64%
Relative to FTSE 100 INDEX	5.96%	-0.58%	-10.59%
		Date of high	Date of low
52-Week price range	137 to 117	18/01/2011	07/12/2010
52-Week prem range	-16.34 to -30.02	05/05/2010	07/12/2010

Source: Bloomberg, Company

Breakdown by project (based on market value) as at 31/12/2010



Breakdown by sector (based on market value) as at 31/12/2010



Largest holding as at 31/12/2010

The Waterside	43.00%
One Central individual units	13.00%
Rua do Laboratorio	12.00%
The Fountainside	7.00%
Senado Square	12.00%
APAC Logistic Centre	4.00%
Other Property assets	3.00%
-	-
-	-
-	-
	94.00%

Source: Company

Management Contract

The Manager is entitled to a quarterly management fee of 2.0% of the adjusted NAV and a performance fee that is subject to (i) a performance hurdle of 10% (Basic Performance Fee); (ii) a 'high watermark'. The performance fee will be equal to 20% of the excess of adjusted NAV in US dollar term over the higher of (i) basic performance hurdle of 10%; (ii) the adjusted NAV at the start of performance period; and (iii) the high watermark. A Super Performance Fee will be paid equal to 15% of the excess of the adjusted NAV over the higher of (i) the Super Performance Hurdle of 25%; (ii) the adjusted NAV at the start of the performance period; and (iii) the high watermark.

Source: Company

Fund information and Capital structure

Launch date	05/06/2006
End date	-
Exchange	London
Domicile	BRITISH VIRGIN
Average daily volume (100 days)	76,673
Shares Outstanding (m)	105.00
Free Float	86.90%
LTV	24.00%
Loan amount (One Central, \$m)	82.13
Loan coupon	1.6% + HIBOR
Loan maturity	Nov 2015
Covenants	60%

Source: Bloomberg, Company, Liberum Capital

Wind-up provisions/Discount management

At the 8th AGM following incorporation a special resolution will be proposed that the Company ceases to continue as constituted. If the resolution is not passed, a similar resolution will be proposed at every 5th AGM. The Company currently has authority to buy back up to 14.99% of its own shares. Renewal of this authority will be sought at every AGM.

Source: Company