

Monthly Newsletter

October 2017

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TEDPIX resilient – 4th consecutive positive month

H1 reporting season delivers strong results

IPO deal momentum continues

An overview of Middle East Bank (MEB)

Please see the important Sanctions Disclaimer on pages 7 and 8 of this document.



IRAN EQUITY MARKETS

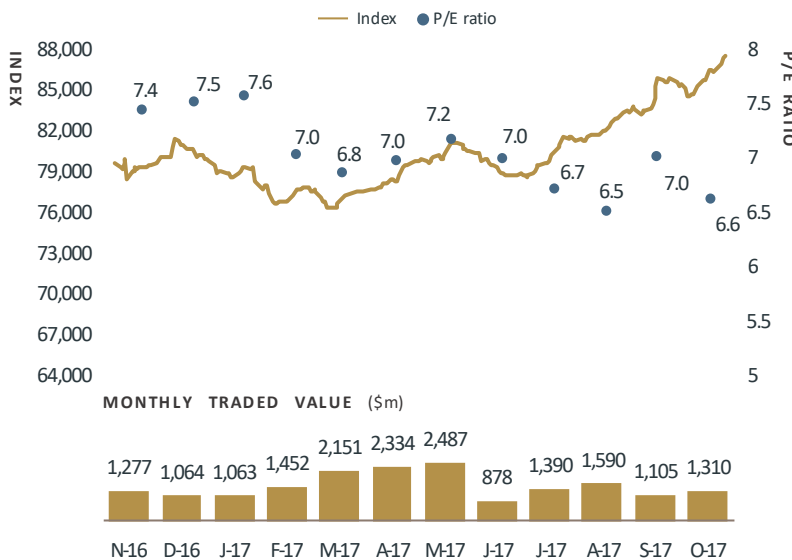
INDICES

Past month	TSE (TEDPIX)	Farabourse (IFX)	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
	1.9% ↑	0.9% ↑	2.7% ↑	2.8% ↑
Monthly Performance				
Last close	87,477	970	617	1,110
Past 12M	9.0%	15.7%	24.5%	22.7%
YTD	10.9%	13.7%	23.6%	28.8%
P/E (fwd.)	6.6x	8.1x	15.0x(hist.)	12.5x
Div. yield	10.1%	11.3%	3.2%	2.3%

MARKETS AT A GLANCE

Iranian equity indices shrugged off President Trump’s ‘decertification’ of the JCPOA and continued higher in October. It was the fourth consecutive positive month for the TEDPIX, now 2.3% off its 2014 all-time high of 89,500. Positive corporate earnings, lower interest rates and moderate currency depreciation are pushing the stock market sustainably higher. The announcement of H1 corporate results for Iranian fiscal year 1396 (March 2017 to March 2018) for the majority of listed companies is nearly complete. The results have been positive thus far, and the upgrades – alongside new company forecasts – have notably lowered the TEDPIX’s forward PE to 6.6x (from 7.0x in September). Separately, last month’s CBI directive to lower long-term bank deposit rates to 15% has also helped maintain the lower YTM’s of Islamic Treasury Bills at 15.6%, despite the issuance of \$3.1bn since September. October’s average daily trade value (ADTV) stood at \$62.4m, a slight uptick on September; retail activity (52.9%) outpaced institutional (47.1%) for the first time since May. The most actively traded sectors were base metals (15.3%), autos (10.5%), chemicals (9.5%), telecoms (8.1%) and refineries (7.6%); the pickup in telecoms volume is related to High Web, a recent IPO and one of Iran’s largest ISPs. This month the Iranian rial fell 3.6% and 2.4% versus the dollar and euro, respectively.

TEDPIX INDEX & P/E (fwd.) RATIO



MARKET CAPITALISATION

Market Cap (\$m)

TSE	Farabourse
87,334	14,444

Value traded (\$m)

TSE	Farabourse
805	506

\$1 : 39,983 IRR is the monthly average free-market exchange rate used for this report.

All market data represents the period October 1-30, 2017.

Sources: Tehran Stock Exchange, Bloomberg, MSCI, Royal Exchange, Griffon Asset Management, Bourseview.

IRAN EQUITY MARKETS

SECTOR PERFORMANCE^(a)

BEST PERFORMING SECTORS

Refineries	↑	11.0%
Base metals	↑	9.3%
Telecommunications	↑	6.9%
Chemicals	↑	3.6%
Conglomerates	↑	3.6%

WORST PERFORMING SECTORS

Rubber & tyre	↓	-10.2%
Motor vehicles	↓	-9.6%
Non-metallic ore	↓	-9.0%
Ceramics & tiles	↓	-8.3%
Foods excl. sugar	↓	-7.2%

TOP GAINERS AND LOSERS

GAINERS

Rishmac Production & Export ^(b)	Pharmaceuticals	↑	36.5%
Shirin Khorasan Agro. Ind.	Sugar & by-products	↑	31.7%
Techinco	Engineering	↑	25.5%
Iran & Shargh	Leasing	↑	23.8%
Sepahan Oil	Petroleum products	↑	22.9%

LOSERS

Iran Industrial Dev. Invnt.	Investment companies	↓	-24.0%
Mobin One Kish	Telecoms	↓	-25.4%
Oil Experts ETF	Exchange Traded Fund	↓	-26.2%
Iran Aluminium	Base metals	↓	-26.5%
Persian Gulf Transportation	Transportation & storage	↓	-30.2%

SECTOR NEWS

Auto

In the first six months of Iranian fiscal 1396, which runs from March 2017 to March 2018, the total production of vehicles in the country rose 17.9% y/y. The growth in the manufacturing of light vehicles (cars and vans) stood at 20% y/y, outpacing the 15% y/y growth in commercial vehicle production.

IKCO and Saipa, the two largest domestic vehicle manufacturers, increased their output by 12.8% and 19.7% y/y, respectively, in the first half of this Iranian year. Despite the increase in local production, various influences – including the reduction in imported cars (a result of the four-month-old ban on issuing new import permits), the recent rial weakness and the increase in steel prices – has contributed to price rises of ~10%, especially in the mid-price (\$15-20,000) car market.

Insurance

Mellat Insurance and the French reinsurer SCOR SE (the fourth-largest reinsurer in the world) signed a reinsurance agreement. Capped at €200 million, the contract will cover catastrophic losses for Mellat Insurance's policies relating to fire, engineering and natural disasters.

PSPs

Shaparak, the domestic payment and settlement network company, announced that payment service providers (PSPs) will

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(a) Main sectors are included, whereas smaller sectors (comprising less than three companies) are excluded.

(b) Rishmac was one of the IPOs in September 2017.

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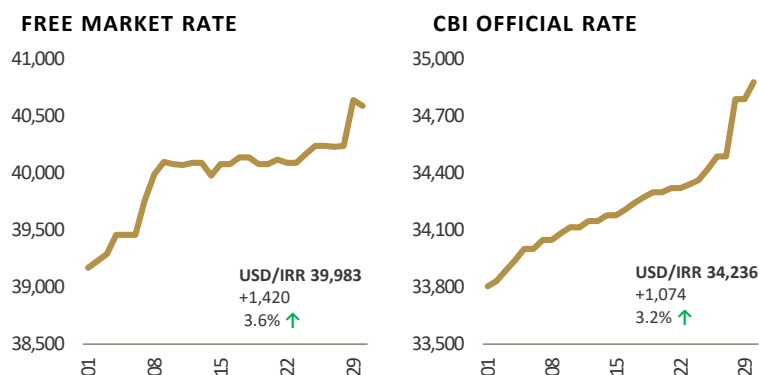
Sources: SEO, Bourse Press, Financial Tribune, Codal.ir, Griffon Asset Management.

IRAN EQUITY MARKETS

TOP 10 COMPANIES BY MARKET CAPITALISATION

Price values in IRR	Market cap (\$m)	Close price		1M	YTD	52 w/h	52 w/l
Khalij Fars Petrochemical <i>Chemicals</i>	5,843	4,666	↑	4.6%	12.2%	4,700	3,790
	5.3%						
Mobarakeh Steel <i>Base metals</i>	4,410	2,340	↑	17.1%	83.7%	2,408	1,192
	4.0%						
MCI <i>Telecommunication</i>	4,176	17,180	↑	5.5%	45.6%	17,502	11,663
	3.8%						
TCI <i>Telecommunication</i>	3,255	2,195	↑	7.9%	19.7%	2,195	1,796
	3.0%						
Maroon Petrochemical <i>Chemicals</i>	3,242	32,010	↑	6.7%	10.3%	32,010	24,614
	2.9%						
NICICO <i>Base metals</i>	2,717	1,968	↑	6.4%	38.8%	2,097	1,337
	2.5%						
Tapico <i>Chemicals</i>	2,560	1,249	↓	-7.4%	-12.5%	1,483	1,249
	2.3%						
Parsian Oil & Gas <i>Chemicals</i>	2,191	2,148	↑	11.2%	13.6%	2,198	1,670
	2.0%						
Ghadir Investment <i>Conglomerates</i>	2,123	1,170	↑	6.9%	-3.5%	1,240	1,032
	1.9%						
Bandar Abbas Oil Refining <i>Petroleum products</i>	2,020	5,780	↑	12.0%	41.3%	5,780	3,944
	1.8%						

USD/IRR EXCHANGE RATE, OCTOBER 2017



SECTOR NEWS (CONT'D)

need to rearrange their respective transaction fee models with regard to the payments banks currently make. This will lessen the burden on banks, as they are the main contributor of transaction fees in addition to paying rental fees for the equipment use.

IPOs

Eastern Azerbaijan Pegah Pasteurized Milk Co. (\$18.8m market cap), a dairy producer, is a subsidiary of Iran Dairy Industries Co. ('PEGAH'), one of the largest dairy companies in Iran with ~15 subsidiaries in several provinces. It started trading on the IFX on 16 Oct. and closed 12.3% higher as of 30 Oct.

South Kaveh Steel Co. (5% free float, \$368m market cap) produces semi-finished products (direct reduced iron and billet) and has a capacity of 1.2m tonnes per year. Its IPO took place on the TSE on 18 Oct. and the stock closed 19.4% higher as of 30 Oct.

Asia Seir Aras Co. (10% free float, \$27m market cap), a rail transportation company working mainly with mining and industrial companies, started trading on the IFB on 9 Oct. and closed 9.9% higher as of 30 Oct.

Iran Shargh Leasing Co. (10% free float, \$14.6m market cap), operating in the commercial property and industrial equipment segments of leasing, started trading on the TSE on 7 Oct. and closed 23.8% higher as of 30 Oct.

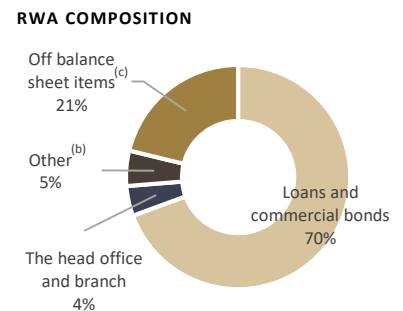
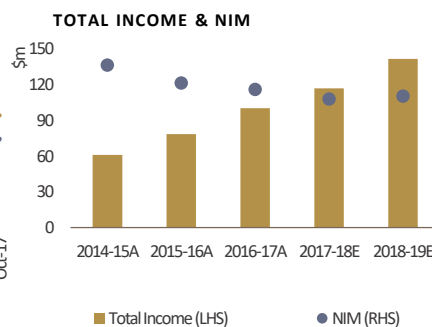
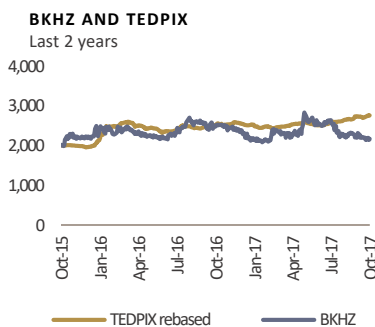
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Sources: SEO, CBI, IFB, Donya-e-Eghesad, Codal.ir, Tehran Stock Exchange, Royal Exchange, and Griffon Asset Management.

COMPANY OVERVIEW: MIDDLE EAST BANK

MIDDLE EAST BANK

Symbol: BKHZ	Market cap.: \$270.9m	P/E (17-18E) ^(a) : 4.4x	12-month return: ↓-11.8%
Exchange: TSE	Total Assets(17-18E) ^(a) : \$2,211.9m	5-yr (avg.) dividend payout ratio: 65%	Leverage ratio (hist.): 6.1%
Listed since: 2012	% of market (TSE): 0.3%	Dividend yield (17-18E) ^(a) : 12.6%	P/BVPS (hist.): 1.3x
Last close: 2,192 IRR	Free float: 89%	Avg. daily trade value: \$114.7K	RORWA (hist.): 4.1%
90-day change: ↓-15.6%	Shares outstanding: 5bn	52-wk high/low (IRR): 2,881/2,071	ROE (hist.): 29.9%



FINANCIAL STATEMENTS (\$M)

	14-15A	15-16A	16-17A	17-18E ^(a)	18-19E ^(a)
Commercial Loans	795.3	838.7	1,433.8	1,725.9	1,973.0
Growth %	53.7%	5.5%	71.0%	20.4%	14.3%
Interest Income	191.6	215.2	256.3	296.7	293.7
Growth %	43.2%	12.4%	19.1%	15.8%	-1.0%
Interest cost	(143.8)	(162.3)	(185.9)	(205.6)	(184.8)
Growth %	79.3%	12.9%	14.5%	10.6%	-10.1%
Net Interest Income	47.8	52.9	70.4	91.1	108.9
Growth %	-10.9%	10.7%	33.1%	29.4%	19.6%
NIM (Average Loan)	7.3%	6.5%	6.2%	5.8%	5.9%
Non-Interest Income	13.2	25.6	29.7	25.7	32.7
Total Income	61.0	78.5	100.1	116.8	141.6
Growth %	-11.1%	28.7%	27.6%	16.7%	21.2%
SG&A	(16.6)	(22.3)	(22.5)	(32.7)	(38.1)
Growth %	38.4%	34.8%	0.8%	45.3%	16.5%
Cost/Income ratio	27.1%	28.4%	22.5%	28.0%	26.9%
Provision Costs	(5.7)	(6.7)	(15.7)	(16.1)	(11.2)
Growth %	-33.4%	16.9%	133.0%	3.0%	-30.8%
Earning Before Tax	38.7	49.4	62.0	68.0	92.4
Tax	(4.5)	(4.6)	(4.9)	(6.0)	(12.3)
Net Income	34.2	44.8	57.1	62.0	80.1
Total Deposits	922.8	1,027.3	1,678.7	1,895.6	2,184.0
Dividend	34.8	38.8	13.2	34.1	43.2

This is not a stock recommendation. The above is an introductory information overview. The reference currency rates are based on the yearly average of the free market exchange rates.

- a) 2018 and 2019 numbers are based on Griffon Asset Management's expectations.
- b) Includes non-core assets, equity investments and interbank lending.
- c) Off balance sheet items are LCs and guarantees.

Sources: TSE, Annual company accounts (Codal.Ir), company website, Griffon Asset Management.

COMPANY OVERVIEW

Headquartered in Tehran, Middle East Bank (MEB) is a relatively new bank, having begun operations in 2012. It operates primarily as a wholesale bank with limited physical branches, offering its services and products chiefly to institutional clients. MEB provides remote and online banking as well as 'distant banking', where the MEB representative goes to the customer's location. MEB has 15 branches in Iran, with its first foreign branch expected to be opened in Germany by December 2017.

MEB's management and strategy have enabled it to grow organically whilst outperforming the broader banking sector. The bank's board of directors and senior managers have both domestic and international banking experience. Its disciplined approach and governance culture is to adopt global best practices and international standards alongside domestic banking regulations and practices. The bank's organizational structure and policy sets well-defined frameworks based on international standards; this is evident in the departments and committees, including Audit, Risk, Compliance, Investor Relations, HR, Legal and IT. MEB is in full compliance with the Central Bank of Iran's (CBI) capital adequacy requirements (CAR): MEB's CAR is 13.5% versus CBI's mandatory minimum of 8%. MEB has also hired KPMG to help the bank in adopting IFRS standards and open its first foreign branch this Iranian fiscal year (1396 – March 2017 to March 2018).

Given MEB's focus on conventional and core commercial banking, most of its income (>70%) derives from interest income, and it boasts a sector-leading net interest margin (NIM) of 6.2% (on average loans for 2016-17). The recent CBI directive capping long- and short-term deposit rates at 15% and 10%, respectively, is positive for the bank as it lowers the cost of funding going forward. The bank, given its limited branch network and higher profitability, has a significantly lower cost/income ratio and higher return on equity (ROE) when compared to domestic industry averages. Additionally, the bank plans to expand its non-lending activities by focusing on international transactions and trade finance (letters of credits and guarantees); to this end they have applied for a banking license to open a branch in Munich. Post-JCPOA, the bank has already managed to increase its income from fees and commissions by 46% year-on-year.

ABOUT GRIFFON CAPITAL

Griffon Capital is an Iran-focused asset management and private equity group established to unlock value from the country's public and private equity markets. Among Griffon's primary objectives is to allow local and international institutional investors the ability to seamlessly access and maximise opportunities in Iran through purpose-built vehicles and investment products spanning traditional and alternative assets.

The Group's strength is rooted in a robust operating platform developed by leading international advisors and are supported by internationally recognised administrators and auditors. Our platform consists of a high-calibre team with deep local market expertise and an international financial pedigree blended at the board, management and execution levels. This includes a management team steeped in investment banking, wealth and asset management and corporate finance experience. Griffon is also distinguished by on-the-ground local research and primary thinking and a governance culture defined by global best practices in risk management, compliance and reporting.

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On July 14, 2015, the P5+1, the European Union, and Iran reached a Joint Comprehensive Plan of Action ("JCPOA"). Subsequently, following confirmation that relevant JCPOA commitments had been

delivered, certain of the international sanctions and restrictive measures relating to Iran were eased or lifted on 'Implementation Day', 16 January 2016, including the majority of previous EU and UN sanctions on Iran. While this represented a significant relaxation of the sanctions in place against Iran, a number of important restrictions remain in force (including certain sanctions which may affect financial and investment activity).

In particular, notwithstanding the relaxation of sanctions on 'Implementation Day', certain categories of persons may be prohibited from investing in the Fund. The Fund and Investment Manager's policy is to comply with all applicable sanctions, and not to engage in activity that would be sanctionable under the sanctions applicable to non-US persons. Before making or managing any investments in Iranian securities, the Fund and the Investment Manager will put in place a robust compliance framework based on professional advice with a view to ensuring that its activities and investments are compliant with EU and applicable US sanctions and restrictive measures in force from time to time regarding Iran.

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