

Monthly Newsletter

November 2017

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TEDPIX hits an all-time high

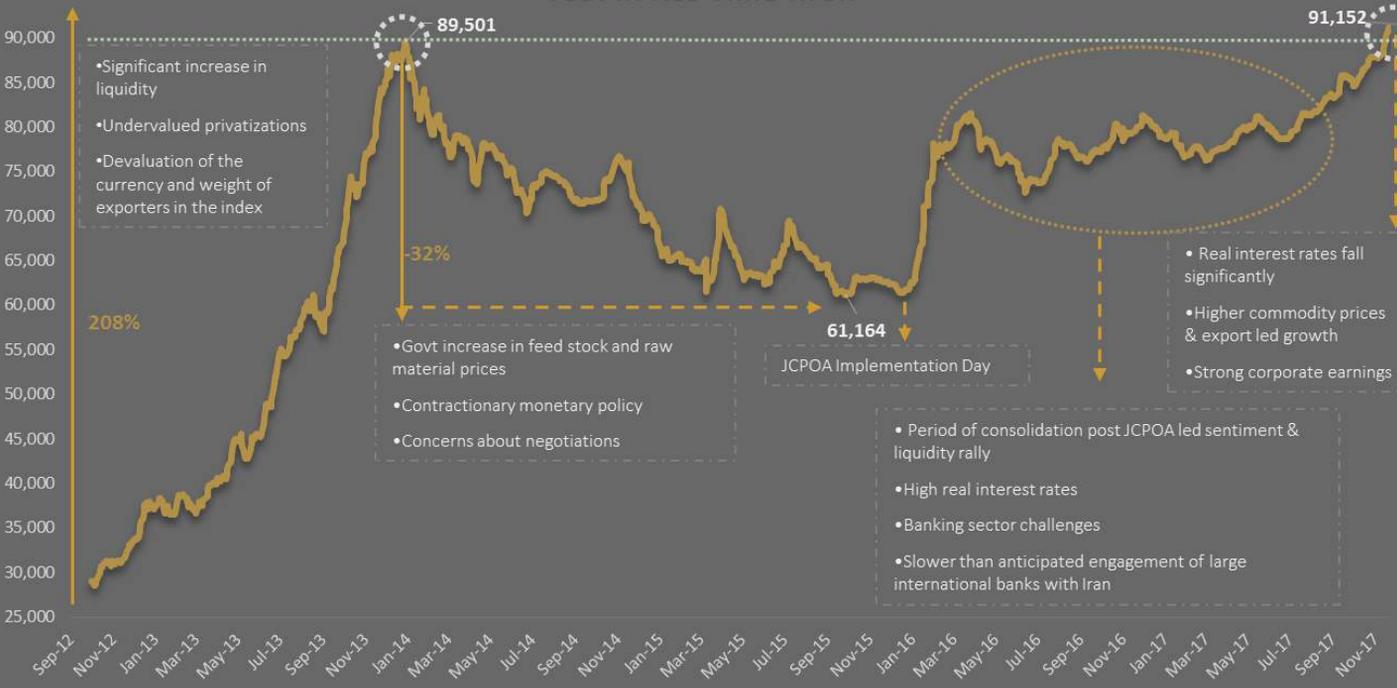
Miners and refiners lead the gains

EU-Iran trade doubles

An overview of Iran China Clay Company

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

TEDPIX ALL-TIME HIGH



IRAN EQUITY MARKETS

INDICES

Past month	TSE (TEDPIX)	Farabourse (IFX)	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
	4.0% ↑	6.0% ↑	0.8% ↑	2.5% ↑
Monthly Performance				
Last close	91,152	1,031	618	1,146
Past 12M	13.9%	24.0%	26.8%	33.6%
YTD	15.5%	20.8%	23.7%	29.8%
P/E (fwd.)	6.8x	8.6x	15.5x(hist.)	12.7x
Div. yield	9.4%	10.3%	3.1%	2.2%

MARKETS AT A GLANCE

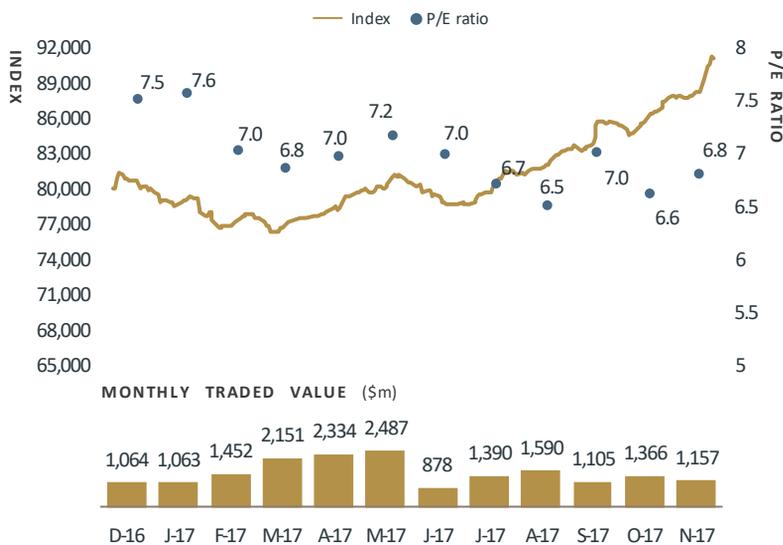
This month, the TEDPIX advanced 4%, breaking above the all-time high of 89,501 set on 6 January 2014. The IFX also rose to an all-time high, gaining 6% to close at 1,031. The sectors leading the advance were metals, miners and refineries.

The 90,000 level on the TEDPIX is now expected to be a major support level. The TEDPIX has formed a strong base and will likely begin a new rally that is longer-term and more sustainable – with the likelihood that gains spread into other main sectors as well.

Alongside strong corporate earnings – first half results were announced last month for most listed companies – lower real interest rates (now ~7% versus ~17-18% in Q1 2017) have been the two main drivers of the markets' acceleration over the last five months. November is the fifth consecutive positive month for the stock markets.

November's ADTV stood at \$60.9m versus October's ADTV of \$62.1m. Retail activity (at 52.8%) outpaced institutional (at 47.2%) for the second time since May 2017. The most actively traded sectors were base metals (21.1%), chemicals (12.9%), refineries (10.4%), auto (6.7%) and mining (6.1%), together comprising 57.2% of total trade volume; the large volume in base metals was centered on the larger key names of Khuzestan Steel, Mobarakeh Steel and NICICO.

TEDPIX INDEX & P/E (fwd.) RATIO



MARKET CAPITALISATION

Market Cap (\$m)

TSE	Farabourse
88,957	15,020

Value traded (\$m)

TSE	Farabourse
852	306

\$1 : 40,872 IRR is the monthly average free-market exchange rate used for this report.

All market data represents the period November 1-29, 2017.

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

IRAN EQUITY MARKETS

SECTOR PERFORMANCE^(a)

BEST PERFORMING SECTORS

Engineering	↑	12.4%
Metallic ore	↑	12.3%
Refineries	↑	9.6%
Base metals	↑	9.4%
Conglomerates	↑	6.0%

WORST PERFORMING SECTORS

Metal products	↓	-17.5%
Transportation & storage	↓	-5.8%
Leasing	↓	-3.0%
Insurance companies	↓	-1.7%
Pharmaceuticals	↓	-1.4%

TOP GAINERS AND LOSERS

GAINERS

Iran Manganese Mines	<i>Metallic ore</i>	↑	57.4%
Lamiran	<i>Metal products</i>	↑	39.1%
Sobhan Investment	<i>Investments</i>	↑	38.7%
Arfa Iron & Steel	<i>Base metals</i>	↑	36.0%
Alvand Tile & Ceramic Industries	<i>Ceramics & tiles</i>	↑	29.7%

LOSERS

Sarma Afarin	<i>Machinery</i>	↓	-35.0%
Machine Sazi Arak	<i>Metal products</i>	↓	-31.9%
Takceram Tile Mfg.	<i>Ceramics & tiles</i>	↓	-29.9%
Western Azerbaijan Pegah Milk	<i>Food stuff excl. sugar</i>	↓	-18.4%
Motorsazan Diesel & Gas Engines	<i>Motor vehicles</i>	↓	-16.9%

SECTOR NEWS

IT & Telecommunications

HiWeb, a listed Internet service provider with an approximately \$400m market capitalization, has signed a merger agreement with Pars Online, one of Iran's largest ISPs. The two companies are set to operate under the HiWeb brand. The finalisation of the deal remains subject to the Communications Regulatory Authority's approval.

New statistics on internet penetration from Iran's Ministry of Communications show that, as of September 2017, the number of mobile internet users in Iran has risen to 47m, up from 41m in June 2017; but the number of landline internet subscribers (10 million, using ADSL or fibre optic services) has remained relatively stagnant since June 2017. Currently, 3G and 4G internet is provided by all Iranian mobile operators in all the major cities in the country. The current penetration rate for active mobile subscribers in Iran is 106%.

Metals & Mining

Mobarakeh Steel Company (MSC), Iran's largest flat steel producer, is planning to purchase a controlling stake in Khuzestan Oxin Steel Company, Iran's sole heavy-plate producer. Located in southern Khuzestan province, Oxin's proximity to the Persian Gulf allows for lower transportation costs by lessening the use of rail and road transport.

\$1 : 40,872 IRR is the monthly average free-market exchange rate used for this report.

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

All market data represents the period November 1-29, 2017.

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

IRAN EQUITY MARKETS

TOP 10 COMPANIES BY MARKET CAPITALISATION

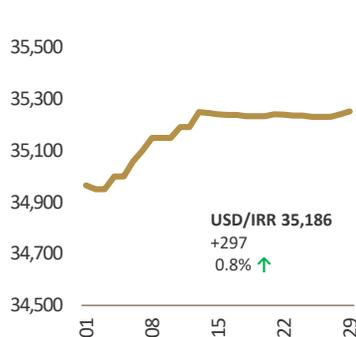
Price values in IRR	Market cap (\$m)	Close price		1M	YTD	52 w/h	52 w/l
Khalij Fars Petrochemicals <i>Chemicals</i>	5,860	4,700	↑	0.0%	13.0%	4,797	3,790
<i>5.2%</i>							
Mobarakeh Steel <i>Base metals</i>	4,986	2,720	↑	14.5%	113.5%	2,745	1,232
<i>4.4%</i>							
MCI <i>Telecommunication</i>	4,035	17,297	↓	-0.3%	46.6%	17,502	11,663
<i>3.6%</i>							
Maroon Petrochemicals <i>Chemicals</i>	3,636	37,600	↑	18.2%	29.6%	37,600	25,014
<i>3.2%</i>							
TCI <i>Telecommunication</i>	3,309	2,245	↑	2.4%	22.5%	2,250	1,796
<i>2.9%</i>							
NICICO <i>Base metals</i>	3,023	2,040	↑	3.6%	43.9%	2,097	1,367
<i>2.7%</i>							
Tapico <i>Chemicals</i>	2,580	1,286	↑	1.3%	-9.9%	1,480	1,210
<i>2.3%</i>							
Parsian Oil & Gas <i>Chemicals</i>	2,341	2,362	↑	7.5%	24.9%	2,362	1,670
<i>2.1%</i>							
Bandar Abbas Oil Refining <i>Petroleum products</i>	2,307	6,900	↑	22.8%	68.6%	6,939	3,944
<i>2.0%</i>							
Golgohar Mining & Industrial <i>Metallic ore</i>	2,237	2,970	↑	10.8%	43.7%	2,997	1,817
<i>1.9%</i>							

USD/IRR EXCHANGE RATE, NOVEMBER 2017

FREE MARKET RATE



CBI OFFICIAL RATE



SECTOR NEWS (CONT'D)

Golgohar and Chadormalu are the two biggest iron ore mining companies in Iran. Chadormalu has now also progressed further 'downstream' by starting to produce steel billet; with 1m tonnes of capacity, it plans to produce 300,000 tonnes this Iranian fiscal year ending March 2018. Golgohar continues to expand production capacity and is expected to operate at full nominal capacity (10m tonnes) next year.

Improved Banking and EU Trade

The Central Bank of Iran announced the implementation of the Anti-Money Laundry Law enacted last year and reported that the total number of international banks doing business in Iran is 270. Furthermore, total foreign financing thus far has reached \$26bn from Austria, Denmark, China, South Korea, India and Russia – with an additional \$35bn worth of financing contracts to be finalised.

Iran's trade with the EU is accelerating. In the first nine months of 2017, Iran's exports to the EU reached €7.2bn, a 107.7% year-on-year. In the same period, Iran's imports from the EU rose 34% to reach €7.5bn.

FX

In November, the rial fell 2.5% and 4.4% versus the dollar and euro, respectively.

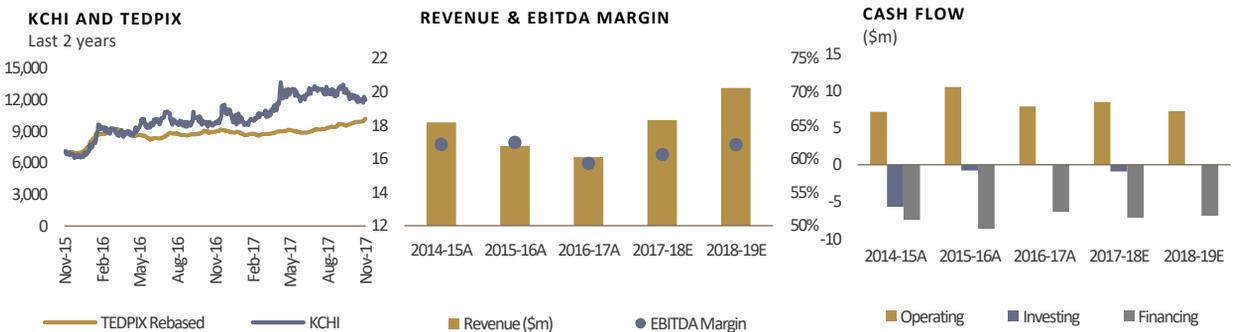
All market data represents the period November 1-29, 2017.

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

COMPANY OVERVIEW: IRAN CHINA CLAY COMPANY

IRAN CHINA CLAY CO.

Symbol: KCHI	Market cap.: \$50.9m	P/E (17-18E) ^(b) : 5.4x	12-month return: ↑21.8%
Exchange: TSE	Enterprise value ^(a) : \$50.2m	5-yr (avg.) dividend payout ratio: 94%	EV/revenue (17-18E) ^(b) : 2.7x
Listed since: 1997	% of market (TSE): 0.05%	Dividend yield (17-18E) ^(b) : 14.8%	EV/EBITDA (17-18E) ^(b) : 4.5x
Last close: IRR 11,986	Free float: 13%	Avg. daily trade value: \$46.1K	ROCE (hist.): 67.1%
90-day change: ↓7.4%	Shares outstanding: 175m	52-wk high/low (IRR): 14,989/7,873	ROE (hist.): 60.5%



FINANCIAL STATEMENTS (\$M)

	14-15A	15-16A	16-17A	17-18E ^(b)	18-19E ^(b)
Sale Volume (main product- K tonnes)	130.1	118.7	133.1	142.0	149.9
Revenue	18.2	16.7	16.1	18.3	20.2
Growth %	-10.0%	-7.8%	-4.0%	13.8%	10.5%
EBITDA	11.3	10.5	9.5	11.1	12.5
Growth %	-7.2%	-7.4%	-8.8%	16.3%	13.2%
EBITDA margin	62.1%	62.4%	59.3%	60.6%	62.1%
Net Income	10.3	9.4	8.3	9.4	10.7
Growth %	-3.3%	-8.7%	-11.5%	12.9%	13.8%
Net Profit Margin	56.8%	56.2%	51.8%	51.4%	53.0%
Net Cash	11.9	8.4	6.5	7.9	7.5
Capex	0.12	0.15	0.16	0.18	0.23
Dividend	10.2	8.7	6.5	7.5	8.6

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) The enterprise value calculation is based on net debt from 2017-18 audited semiannual reports.
 b) 2018 and 2019 numbers are based on Griffon Asset Management's expectations.
 c) Sources: Annual company accounts (Codal.ir), company website, Griffon Asset Management.

COMPANY OVERVIEW

Headquartered in Tabriz, in northwestern Iran, the Iran China Clay Company was founded in 1986 and listed on the Tehran Stock Exchange in 1997. It is Iran's leading producer of kaolin – in crushed, micronised and washed-noodle form – which is used in the production of paper, sanitary ware, porcelain, ceramic & tiles, glaze, rubber, and white cement, as well as in many other applications. The company's Zonouz mine, located 70 km from Tabriz, is the largest kaolin reserve (32.5m tonnes) in Iran. The mine's annual capacity is ~150k tonnes of processed kaolin and ~250k tonnes of unprocessed kaolin. The size of the total market for processed kaolin in Iran is estimated to be about 200k tonnes, of which ~65% is supplied by Iran China Clay.

The primary user of kaolin is the domestic sanitary ware industry, which accounts for about 35% of sales in Iran. This is followed by tableware and ceramic & tiles, with 29% and 21% of sales, respectively. Exports – to countries like Bangladesh, India and Turkey – make up ~9% of total sales. There are no State-regulated price controls for kaolin; pricing is determined by market supply and demand. The five-year CAGR (in Iranian rials) for the processed kaolin price is approximately 19%. The most important drivers of kaolin sales are the real estate market and consumer purchasing power. The sanitary ware and ceramic & tiles sectors have had very challenging years, with production falling in recent years due to the stagnant construction industry. However, with tentative signs of a pickup in real estate transactions (in Tehran), the buyers of kaolin recently have had notably greater demand.

Additionally, Iran China Clay just recently exported about 30% of its monthly revenue – which may bode well for the longer term if the exports are sustainable. Iran China Clay is also hoping to benefit from silicon, a by-product from the kaolin manufacturing process. As silicon is one of the main raw materials used to produce lightweight concrete, it can yield a cost advantage for its production. The budgeted production capacity is 270,000 m³ of blocks, requiring \$20m of capex; however, the timing of this potential project has not yet been confirmed.

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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By accepting this newsletter you represent, warrant and agree that you are a Relevant Person.

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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.

It is the responsibility of the recipient of this newsletter to satisfy itself as to its compliance with the legislation of any relevant jurisdiction or territory, including in particular regarding international sanctions and restrictive measures, and to assess the risk of the imposition of additional sanctions (including under the JCPOA 'snapback' mechanism) that might affect any investment in the Fund or its valuation or liquidity. It is the responsibility of the reader to satisfy themselves that any business activities will not expose them to liability under the laws of any state to which they are subject.

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