

Monthly Newsletter

February 2018

In this issue:

Record high fiscal-year trade value at IME

CBI intervention: Rial stabilises, bond prices fall

FATF continues suspension of countermeasures

An overview of System Group

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



IRAN EQUITY MARKETS

INDICES

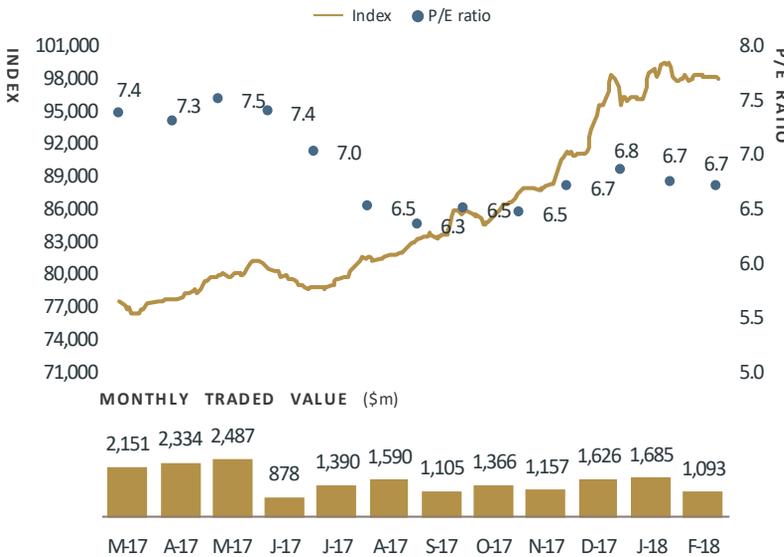
Index	TSE (TEDPIX)	Farabourse (IFX)	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
	-0.2% ↓	0.2% ↑	-1.8% ↓	-3.4% ↓
Monthly Performance				
Last close	97,962	1,092	662	1,212
Past 12M	26.2%	25.6%	24.9%	29.5%
YTD	1.8%	3.2%	3.9%	4.7%
P/E (hist.)	6.7x	7.0x	15.9x	16.0x
Div. yield	8.7%	9.6%	2.9%	2.1%

MARKETS AT A GLANCE

Iran's stock markets traded sideways in February, with the TEDPIX and IFX closing almost flat. The TEDPIX closed marginally lower (-0.2%), consolidating a 24.7% gain generated over the preceding seven consecutive positive months. The FX market was volatile during the month, and although it eventually settled down – the USD/IRR pair had traded as high as 48,690, but closed 8.3% off its highs at 44,670 – this created uncertainty for both equities and fixed income. The Central Bank of Iran's (CBI) interventions, especially in the money markets, helped stabilize the local currency whilst pushing bond yields higher: the average YTM of Islamic Treasury T-Bills rose from ~16.5% to ~20.5%. The impact on the equity markets has thus far been relatively muted; however, if bond yields move higher, this could prove to be a strong headwind for equities.

February's ADTV stood at \$60.7m, in a decline from the prior and more active December and January periods (\$77.4m and \$75.6m, respectively). Institutional activity (61.9%) surpassed retail activity (38.1%), as it did last month. The most actively traded sectors were base metals (17.6%), chemicals (14.8%), ETFs (10.1% – mainly composed of fixed income instruments – high activity given the move lower in bond prices/higher in bond yields), autos (9.6%) and mining (8.1%), together comprising 60.2% of total trades.

TEDPIX INDEX & P/E (hist.) RATIO



MARKET CAPITALISATION

Market Cap (\$m)

TSE	Farabourse
84,940	14,177

Value traded (\$m)

TSE	Farabourse
874	219

\$1 : 45,957 IRR is the monthly average free-market exchange rate used for this report.

All market data represents the period February 1-28, 2018.

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

IRAN EQUITY MARKETS

SECTOR PERFORMANCE^(a)

BEST PERFORMING SECTORS

Motor vehicles	↑	6.1%
Metallic ore	↑	4.1%
Leasing	↑	3.4%
IT & computers	↑	1.6%
Base metals	↑	1.3%

WORST PERFORMING SECTORS

Pharmaceuticals	↓	-5.8%
Ceramics & tiles	↓	-3.8%
Banking	↓	-3.7%
Transportation & storage	↓	-3.1%
Non-metallic ore	↓	-2.6%

TOP GAINERS AND LOSERS

GAINERS

Mashhad Wheel Co.	Motor vehicles	↑	90.1%
Saipa Diesel	Motor vehicles	↑	68.0%
Iran Khodro Mehvar	Motor vehicles	↑	58.0%
Larestan Cement	Cements, limes & plasters	↑	46.7%
Iran Auto-Parts	Motor vehicles	↑	43.6%

LOSERS

Karafarin Bank	Banking	↓	-39.8%
Shirvan Sugar Co	Sugar & by-products	↓	-18.0%
Navard & Steel	Base metals	↓	-16.5%
Tolidaru	Pharmaceuticals	↓	-16.4%
Loghman Pharma. & Hygiene	Pharmaceuticals	↓	-14.4%

SECTOR NEWS

Commodities

As we near the end of the Iranian fiscal year (20 March 2018), the ~\$23bn in trade value registered since 21 March 2017 at the Iran Mercantile Exchange (IME) is already 39% higher than in the previous entire fiscal year, setting a new record. Physical commodity trading accounted for approximately 40% of these transactions.

Golgozar Mining & Industrial Co, Iran's largest producer of iron ore pellet and concentrate, is now also expected to start making sales on the IME, though continuing to supply major domestic steel producers based on a preset pricing formula derived from Khuzestan's Steel's billet price. Golgozar has now also completed two main projects: a new line for producing iron ore concentrate with 2m tonnes of capacity, and a direct-reduced iron mill with 1.7m tonnes of capacity.

Banking

State-owned French bank Bpifrance announced that it plans to finance exports up to €1.5bn to Iran via euro-denominated credits.

The Financial Action Task Force (FATF) decided to continue its suspension of countermeasures. Depending on Iran's progress in completing its action plan, the FATF will take further steps in June 2018. The FATF expects Iran to complete the necessary AML/CFT reforms by passing the necessary legislation.

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(a) Smaller sectors (i.e. those comprising less than three companies) have been excluded.

All market data represents the period February 1-28, 2018.

Sources: SEO, Financial Tribune, Reuters, ibena.ir, cbi.ir, iscanews, 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>	5,953	5,469	↓	-5.6%	-3.5%	5,798 3,790
Mobarakeh Steel <i>Base metals</i>	4,808	2,944	↑	1.7%	-1.9%	3,119 1,232
MCI <i>Telecommunication</i>	3,759	18,000	↑	2.3%	6.0%	18,188 12,184
Maroon Petrochemicals <i>Chemicals</i>	3,586	40,500	↓	-1.0%	10.7%	42,281 26,057
NICICO <i>Base metals</i>	3,509	2,670	↓	-1.3%	5.7%	2,770 1,367
TCI <i>Telecommunication</i>	2,918	2,223	↓	-1.6%	-1.0%	2,299 1,879
Tapico <i>Chemicals</i>	2,797	1,579	↓	-0.3%	8.5%	1,594 1,210
Golgozar Mining & Industrial <i>Metallic ore</i>	2,405	3,677	↑	1.8%	8.8%	3,713 1,817
Ghadir Investment <i>Conglomerates</i>	2,167	1,379	↓	-4.9%	2.5%	1,450 1,032
Jam Petrochemical <i>Chemicals</i>	2,158	10,277	↑	0.8%	12.4%	10,550 7,660

USD/IRR EXCHANGE RATE, FEBRUARY 2018

FREE MARKET RATE



CBI OFFICIAL RATE



SECTOR NEWS (CONT'D)

Iran's Ministry of Economic Affairs and Finance continues to urge banks to increase the pace of selling excess and/or non-core assets. It has established a committee to track the process and laid out a more granular list based on specific assets per bank.

IPO

This month there was an IPO in the cleaning/detergent sector – Behshahr Industrial Development Cleaning Co. (10% free float, \$74.9m market cap) – on the TSE. It debuted on 6 February and closed 28.5% higher as of 28 February.

Macro and Banking

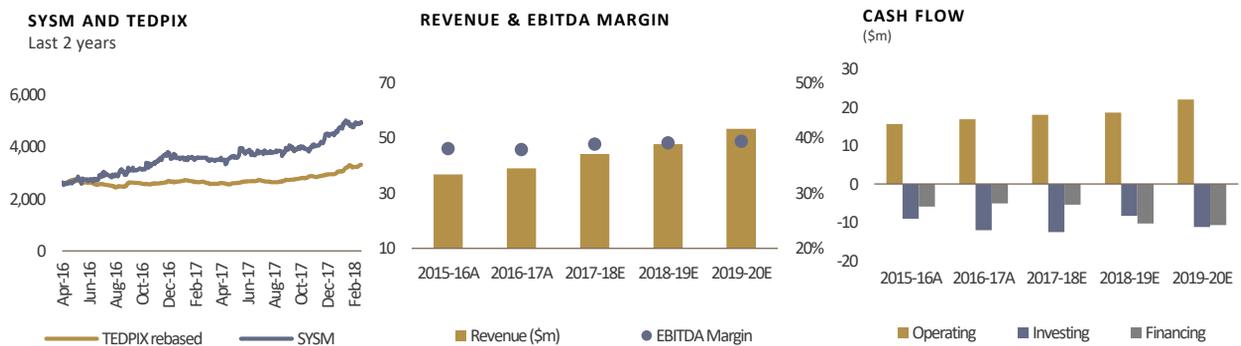
The Parliament approved the revised budget for the next Iranian fiscal year (March 2018 to March 2019). The CBI's official IRR/USD rate in the budget is now expected to be set close to 41,000, versus the current official rate of 37,299. The CBI has taken several steps to stabilise the local currency, including (a) deciding to issue foreign-currency bonds – purchased in rials, but calculated in (and thus giving exposure to) US dollars, with annual yields of ~4%; (b) holding several gold auctions/pre-sales, with prices fixed for 5-month and 12-month delivery; and (c) allowing banks a 2-week window to issue 1-year fixed certificates of deposit with an annual yield of 20% (in contrast to the 15% CBI-mandated cap on long-term bank deposits set in September 2017).

All market data represents the period February 1-28, 2018.

Sources: SEO, CBI, Financial Tribune, Madan24, Codal.ir, Tehran Stock Exchange, Royal Exchange, Griffon Asset Management.

COMPANY OVERVIEW: SYSTEM GROUP

SYSTEM GROUP			
Symbol: SYSM	Market cap.: \$107.1m	P/E (17-18E) ^(b) : 7.2x	12-month return: ↑46.2%
Exchange: TSE	Enterprise value ^(a) : \$94.3m	5-yr (avg.) dividend payout ratio: 61.9%	EV/revenue (17-18E) ^(b) : 2.1x
Listed since: 2011	% of market : 0.1%	Dividend yield (17-18E) ^(b) : 11.1%	EV/EBITDA (17-18E) ^(b) : 5.5x
Last close: IRR 5,073	Free float: 17%	Avg. daily trade value: \$22.8K	ROCE (hist.): 67.3%
90-day change: ↑11.1%	Shares outstanding: 950M	52-wk high/low (IRR): 5,553/3,761	ROE (hist.): 42.5%



FINANCIAL STATEMENTS (\$M)					
	15-16A	16-17A	17-18E ^(b)	18-19E ^(b)	19-20E ^(b)
Revenue	36.8	39.0	44.2	47.8	53.4
Growth %	5.7%	5.9%	13.4%	8.1%	11.7%
EBITDA	14.0	14.8	17.2	18.7	21.0
Growth %	-7.4%	5.4%	16.4%	8.7%	12.5%
EBITDA margin	38.1%	37.9%	38.9%	39.1%	39.4%
Net Income	11.8	14.1	14.9	15.3	17.4
Growth %	-2.6%	19.3%	5.9%	2.5%	13.9%
Net Profit Margin	32.0%	36.1%	33.7%	31.9%	32.6%
Net Cash	19.6	23.2	15.8	16.9	20.4
Capex	2.3	4.3	15.5 ^(c)	3.8	4.3
Dividend	6.0	6.3	11.9	12.2	13.9

COMPANY OVERVIEW

System Group is Iran’s largest private producer of enterprise resource planning (ERP) software. The company started operating in 1989 and listed in 2011 on the Iran Fara Bourse (IFB). Today it is a conglomerate of 53 subsidiaries – 19 provincial companies, 24 licensed companies, and 10 specialized companies – with more than 1,500 employees. The company focuses on business process management (BPM), business intelligence (BI) tools for small and medium enterprises (SMEs), and enterprise resource planning (ERP) for large companies in the manufacturing and service industries – as well as providing implementation, technical support and training services for its customers. In 2013 the company introduced three brands for its business solutions – ‘Rahkaran’, ‘Sepidar’ and ‘Dasht’ - each targeting a customer base. As the market leader, it has over 39,000 corporate customers in Iran. Approximately 50% of its revenues are recurring, derived from the renewal and technical support of existing software and clients. About 35% of revenues come from the sale of new software and clients; the balance is from installation and training services. In early 2017, System Group received approval to list on the TSE, having been on the IFB (the junior exchange) for the preceding five years. Positive sector drivers and company-specific competitive advantages include:

- Greater corporate transparency & competition (post sanctions) will boost product demand and increase penetration
- High switching cost (i.e. very high customer renewal rates/retention) for customers & high market share/strong brand
- High free cash flow generation and strong balance sheet
- No State regulation controlling prices or costs
- Management owned business

This is not a stock recommendation. The above is an introductory information overview. The currency rates used are based on the yearly average of the free market exchange rates.
 a) The enterprise value calculation is based on 2017-18 audited semi-annual reports.
 b) 2018, 2019 and 2020 numbers are based on Griffon Asset Management’s expectations.
 c) The growth in capex is due to investment for a new building to expand operations.
 Sources: Annual company accounts (Codal), company website, Griffon Asset Management.

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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Please read this disclaimer carefully as it contains important information about the Griffon Iran Flagship Fund SP ("Fund"), a segregated portfolio of GIF SPC, its proposed investments in Iran and the current international sanctions and restrictive measures in relation to Iran.

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The Fund will not accept investments from any US Persons (as defined in applicable legislation) or persons whose conduct is subject to US economic sanctions (unless and until such investments are authorised by the relevant US authorities).

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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.

Griffon Capital

T: +98 21 26231278

F: +98 21 26231275

E: info@griffoncapital.com

Unit 101

No. 38, Golfam Street

Africa Boulevard

Tehran

Iran