

Monthly Newsletter

March 2018

In this issue:

Equities and fixed income bounce off monthly lows

FX weakness persists

CBI maintains close supervision of banks

An overview of Gharb Cement

Happy Nowruz!

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)
	-1.0% ↓	1.3% ↑	0.1% ↑	-2.2% ↓
Monthly Performance				
Last close	96,939	1,107	663	1,185
Past 12M	24.9%	24.7%	23.4%	23.7%
YTD	0.8%	4.6%	4.0%	2.4%
P/E (hist.)	6.6x	7.4x	15.9x	15.5x
Div. yield	8.9%	9.4%	2.9%	2.3%

MARKETS AT A GLANCE

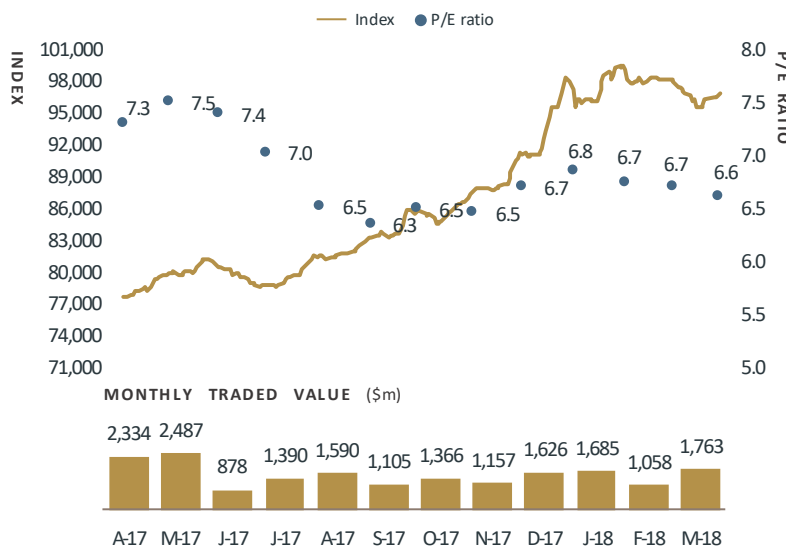
The TEDPIX and IFX closed at 96,939 (-1.0%) and 1,107 (1.3%), respectively. The TEDPIX actually managed to rally 1.5% off its intra-month low – nevertheless, the main causes for the TEDPIX’s weakness were seasonal liquidity drivers and deleveraging by brokers and investors ahead of the fiscal year end (20 March 2018). This liquidity squeeze was also witnessed in the fixed income markets: average YTM’s on Islamic T-Bills peaked at 24% in the second week of March and settled lower at 20% towards month end.

Year-end block trades by institutions boosted March ADTV to \$103.7m – the first time in 10 months that monthly ADTV was higher than \$100m. Unsurprisingly, institutional activity surpassed retail activity by a ratio of 4:1.

The most actively traded sectors were chemicals (24.9%), base metals (14.3%), refineries (7.8%), banks (7.1%) and mining (5.6%), which together comprised 59.7% of total trades.

In the FX market, the Iranian rial – having had a short-lived rally of 1.8% versus the US dollar in February – resumed its volatile downward trend in March due to the uncertainty created by the US threat to pull out of the JCPOA in May. FX markets were closed for the new year holiday period – the last credible and officially available FX rate was on 19 March; as of this date, the rial had weakened 6.9%, to 47,730 versus the US dollar.

TEDPIX INDEX & P/E (hist.) RATIO



MARKET CAPITALISATION

Market Cap (\$m)		Value traded (\$m)	
TSE	Farabourse	TSE	Farabourse
82,735	14,019	1,433	330

\$1 : 46,608 IRR is the monthly average free-market exchange rate used for this report.

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

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

IRAN EQUITY MARKETS

SECTOR PERFORMANCE^(a)

BEST PERFORMING SECTORS

Transportation & storage	↑	4.2%
IT & computers	↑	3.5%
Ceramics & tiles	↑	2.3%
Pharmaceuticals	↑	1.6%
Cements, limes & plasters	↑	1.4%

WORST PERFORMING SECTORS

Banking	↓	-9.0%
Motor vehicles	↓	-7.5%
Rubber & tyre	↓	-6.2%
Construction & real estate	↓	-5.2%
Leasing	↓	-4.6%

TOP GAINERS AND LOSERS

GAINERS

Iran Manganese Mines	<i>Metallic ore</i>	↑	61.9%
Shirin Khorasan Agro. Ind.	<i>Sugar & by-products</i>	↑	41.9%
Part Sanat	<i>Motor vehicles</i>	↑	37.9%
Technotar	<i>Machinery</i>	↑	33.1%
Western Azerbaijan Pegah Milk	<i>Food stuff excl. sugar</i>	↑	31.6%

LOSERS

Bank Saderat Iran	<i>Banking</i>	↓	-38.3%
Parsian Kosar Hotel	<i>Hotels & Restaurants</i>	↓	-21.9%
Parsian Bank	<i>Banking</i>	↓	-19.9%
Sepahan Industrial Group	<i>Base metals</i>	↓	-19.0%
Kharazmi IT Development	<i>IT & computers</i>	↓	-18.8%

SECTOR NEWS

Auto

According to Renault's latest monthly sales report, the French automotive giant sold 15,846 cars in Iran in February 2018, accounting for 83% of all motor vehicles sold by the firm in the Middle East. Renault's sales in Iran have increased 17.8% year-on-year, enabling it to maintain an 11.4% share of Iran's auto market.

IT

The Telecommunication Company of Iran (TCI) – the state-owned fixed-line incumbent operator, offering services in fixed telephony and DSL/ADSL – is allowing smaller private firms to use its extensive network infrastructure. This regulatory shift will increase sector competitiveness and boost communication services. The latest two agreements (with Mabna Telecom and Asiotech) came soon after earlier agreements with Shatel Group and Hiweb.

Banking

This month both Saderat Bank and Parsian Bank – the third- and fourth-largest listed banks by assets, respectively – resumed trading again. They had been suspended for prolonged periods of 20 and 16 months, respectively, because they were required to adhere to new, more stringent financial reporting requirements stipulated by the Central Bank of Iran (CBI). Consequently, significant negative financial adjustments were made to previous annual reports. On their first day back, Saderat

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

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Sources: SEO, Financial Tribune, Sena.ir, ibena.ir, cbi.ir, Griffon Asset Management.

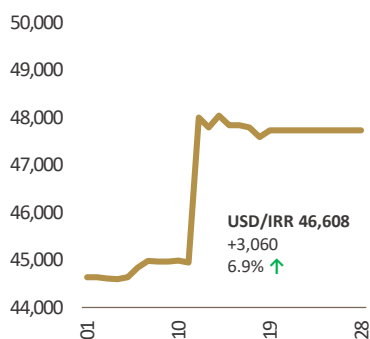
IRAN EQUITY MARKETS

TOP 10 COMPANIES BY MARKET CAPITALISATION

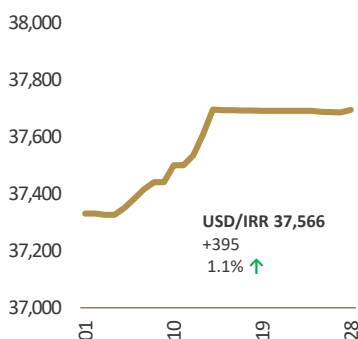
Price values in IRR	Market cap (\$m)	Close price	1M	YTD	52 w/h	52 w/l
Khalij Fars Petrochemicals <i>Chemicals</i>	5,778 5.5%	5,400	↓ -1.3%	-3.7%	5,798	3,790
Mobarakeh Steel <i>Base metals</i>	4,741 4.5%	2,960	↑ 0.5%	-0.8%	3,119	1,232
MCI <i>Telecommunication</i>	3,716 3.5%	18,000	↑ 0.0%	5.0%	18,289	12,486
Maroon Petrochemicals <i>Chemicals</i>	3,656 3.5%	42,600	↑ 5.2%	5.2%	43,996	17,995
NICICO <i>Base metals</i>	3,350 3.2%	2,610	↓ -2.2%	3.4%	2,770	1,367
TCI <i>Telecommunication</i>	2,850 2.7%	2,222	↑ 0.0%	-1.0%	2,299	1,879
Tapico <i>Chemicals</i>	2,730 2.6%	1,547	↓ -1.0%	6.3%	1,594	1,210
Golgozar Mining & Industrial <i>Metallic ore</i>	2,567 2.5%	3,300	↑ 2.1%	10.6%	3,300	1,660
Jam Petrochemical <i>Chemicals</i>	2,236 2.1%	11,000	↑ 7.0%	20.3%	11,000	7,660
Bandar Abbas Oil Refining <i>Petroleum products</i>	2,111 2.0%	7,009	↓ -0.3%	-1.1%	7,500	4,244

USD/IRR EXCHANGE RATE, MARCH 2018

FREE MARKET RATE (a)



CBI OFFICIAL RATE



SECTOR NEWS (CONT'D)

Bank's and Parsian Bank's share prices fell sharply by 49.2% and 10.2%, respectively. In addition, other (smaller) listed banks that remain suspended are now trying to resolve the CBI impasse by holding AGMs and releasing more transparent and accurate financial reports.

The CBI has announced that the much-needed merger of banks and other financial institutions is to start soon. The first such consolidation will be the acquisition of Mehr Eghtesad Bank and Samen Credit Institution by Ansar Bank, followed by the merger of three other financial institutions: Hekmat Iranian, Ghavamin and Kowsar Bank.

Macro

Following last month's CBI-led policy package aimed at stabilizing the Iranian rial – the CBI has released data showing that banks managed to sell 240tn toman (~\$50 bn) of certificates of deposit (CDs) with a 20% annual yield, in contrast to the 15% CBI-mandated cap on long-term deposits. Also, about 820,000 gold coins (worth ~\$230m) were pre-sold.

IPO

This month there were three IPOs. The largest was that of Shafa Darou Investments (10% free float, \$105m market cap), a company that invests in the pharmaceutical industry. It debuted on the TSE on 7 March and closed 0.5% higher as of 28 March.

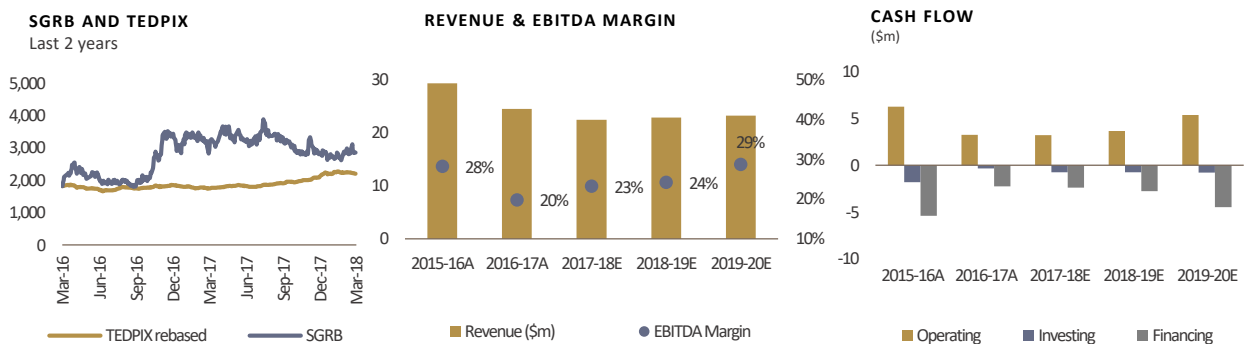
(a) The last officially available USD/IRR (Eskenans) rate for March 2018 was as of 19 March 2018, prior to the Iranian New Year on 21 March 2018.

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

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

COMPANY OVERVIEW: GHARB CEMENT

GHARB CEMENT			
Symbol: SGRB	Market cap.: \$19.1m	P/E (17-18E) ^(b) : 6.2x	12-month return: ↓-10.7%
Exchange: TSE	Enterprise value ^(a) : \$20.7m	5-yr (avg.) dividend payout ratio: 98.1%	EV/revenue (17-18E) ^(b) : 0.9x
Listed since: 1995	% of market : 0.02%	Dividend yield (17-18E) ^(b) : 12.0%	EV/EBITDA (17-18E) ^(b) : 4.0x
Last close: IRR 2,868	Free float: 20%	Avg. daily trade value: \$11.7K	ROCE (hist.): 17.7%
90-day change: ↑2.0%	Shares outstanding: 300M	52-wk high/low (IRR): 4,165/2,602	ROE (hist.): 18.1%



FINANCIAL STATEMENTS (\$M)

	15-16A	16-17A	17-18E ^(b)	18-19E ^(b)	19-20E ^(b)
Sales volume (tonnes)	1,030,448	1,037,347	960,000	1,085,760	1,135,680
Revenue	29.3	24.4	22.4	22.8	23.2
Growth %	-34.9%	-16.5%	-8.4%	1.8%	1.8%
EBITDA	8.3	4.8	5.2	5.5	6.6
Growth %	-54.1%	-41.5%	7.4%	6.1%	20.5%
EBITDA margin	28.2%	19.8%	23.2%	24.2%	28.6%
Net Income	4.2	2.9	3.1	3.7	5.2
Growth %	-66.1%	-31.9%	7.6%	19.4%	42.1%
Net Profit Margin	14.3%	11.7%	13.7%	16.1%	22.4%
Net Debt	8.2	6.7	8.5	3.5	1.1
Capex	1.8	0.4	0.8	0.8	0.8
Dividend	4.2	2.6	2.3	2.7	3.9

COMPANY OVERVIEW

Gharb Cement Company was established in 1974 and listed on the TSE in 1995. Located in the west of Iran, in Kermanshah, Gharb’s production plant has a production capacity of 1.2m tonnes per year, and there are no plans to expand. The company has a market share of approximately 1.5%, competing in a fragmented industry comprising an estimated 68 plants across the country. The total nominal capacity of Iran’s cement production is more than 80 million tonnes; current industry capacity utilisation is about 60%.

The price of cement has declined in recent years. This is for several reasons, mainly the recession in the housing and broader construction industry, the decline in the State’s expenditure on civil projects, and the notable overcapacity and ensuing intense (price) competition amongst producers. There are also structural impediments – chiefly the over-extended industry expansion/capital cycle over the last ~15 years. However, there are also a few green shoots in the form of cyclical factors that could gradually improve the industry’s economics in the medium term: greater exports, greater infrastructure spend in the country (by the State or by way of FDI), and a stabilising housing/construction industry. In addition, the dynamics of the housing industry are advancing. For instance, new (subsidised) mortgage products and other incentives, alongside supportive housing policies for the low- and medium-income categories (including the renovation of less-urbanized suburbs), are expected to aid the sector.

From a cost standpoint, Iran’s cement industry is one of the lowest-cost producers globally: its cost of production is estimated at \$18/tonne versus the global average of \$40/tonne. The industry benefits from low costs in raw materials, energy and labour.

In the previous fiscal years of 2015/2016 and 2016/2017, Gharb generated 55% and 26% (respectively) of its revenues from exports. The reason for the fall in exports in 2016/2017 was import tariffs imposed by Iraq on Iranian cement. Nevertheless, given the strategic positioning of its site close to Iran’s western border, it can monetise improving conditions from exports and domestic demand if and when they occur.

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 semi-annual reports.
 b) 2018, 2019 and 2020 numbers are based on Griffon Asset Management’s expectations.
 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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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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