Asset Management and Private Equity

Monthly Newsletter

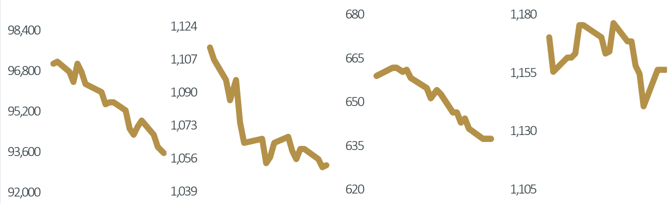
April 2018

In this issue:

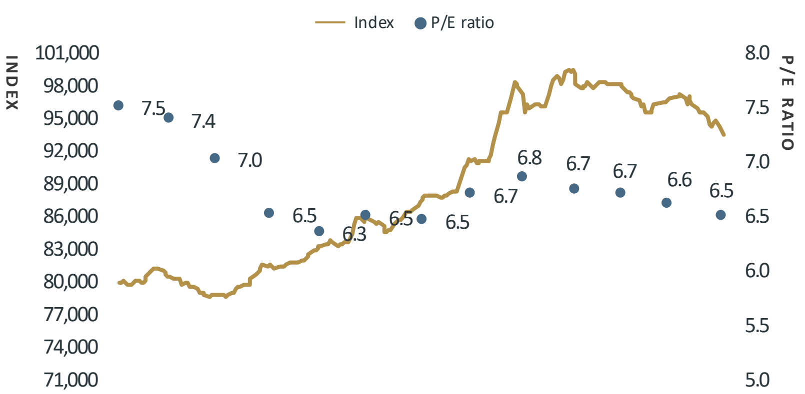
Please see the important Sanctions Disclaimer on pages 7 and 8 of this document.

IRAN EQUITY MARKETS

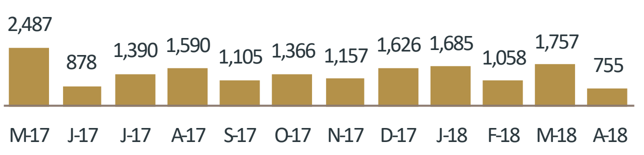
INDICES

Index	TSE (TEDPIX)	Farabourse (IFX)	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
Monthly Performance	-3.5%	-4.9%	-3.9%	-2.4%
				
Last close	93,587	1,053	637	1,156
Past 12M	17.3%	13.8%	17.7%	18.2%
YTD	-2.7%	-0.5%	-0.1%	-0.1%
P/E (hist.)	6.5x	7.0x	15.5x	14.7x
Div. yield	9.2%	9.9%	3.1%	2.4%

TEDPIX INDEX & P/E (hist.) RATIO



MONTHLY TRADED VALUE ($m)



MARKET CAPITALISATION

Market Cap ($m)		Value traded ($m)	
TSE	Farabourse	TSE	Farabourse
81,845	13,792	553	202

MARKETS AT A GLANCE

Iran's stock markets came under pressure in April, with the TEDPIX and IFX closing at -3.5% and -4.9%, respectively. The two main causes were interrelated: the increased likelihood that on May 12 the US might unilaterally pull out of the JCPOA, coupled with the recent and dramatic events in FX market. Following the Iranian New Year holidays, the sharp fall in the USD/IRR rate from April 3 to April 9 (approximately -20%) resulted in the Central Bank of Iran (CBI) setting a new rate for the USD/IRR at 42,000. This was communicated as the unification of the dual foreign exchange (FX) system and equated to a ~40% appreciation of the free market rate from last trade. This weighed heavily on many of the stock market's commodity- and export-related sectors, which benefit from a weakening currency.

AGMs began this month, with firms announcing full-year dividends for the last Iranian fiscal year ending March 20, 2018. Despite this corporate activity, however, April's ADTV (at $39.8m) was the lowest recorded in the last 12 months – the trailing 12-month ADTV stands at $77.2m. Institutional and retail activity levels were fairly evenly matched. The most actively traded sectors were base metals (13.1%), chemicals (10.4%), auto (8.3%), refineries (8.0%) and utilities (6.6%), which together comprised 46.4% of total trades.

$1 : 45,101 IRR is the monthly average free-market exchange rate used for this report.
All market data represents the period April 1-30, 2018.
Sources: Tehran Stock Exchange, Bloomberg, MSCI, Royal Exchange, Mirdamad Exchange, TGJU, Griffon Asset Management, Bourseview.

IRAN EQUITY MARKETS

SECTOR PERFORMANCE[a]

BEST PERFORMING SECTORS

Sugar & by-products	↑	5.1%
IT & computers	↑	4.5%
Utilities	↑	2.7%
Refineries	↑	2.7%
Ceramics & tiles	↑	1.1%

WORST PERFORMING SECTORS

Motor vehicles	↓	-8.5%
Transportation & storage	↓	-7.6%
Investment companies	↓	-7.4%
Construction & real estate	↓	-7.4%
Chemicals	↓	-7.1%

TOP GAINERS AND LOSERS

GAINERS

Shirin Khorasan Agro.	*Sugar & by-products*	↑	41.6%
Alumrod Factory	*Base metals*	↑	33.7%
Mellat Leasing	*Leasing*	↑	32.9%
Western Azerbaijan Pegah Milk	*Food stuff excl. sugar*	↑	27.4%
Technotar	*Machinery*	↑	22.2%

LOSERS

Kharazmi IT Development	*IT & computers*	↓	-29.3%
Kaveh Paper Ind.	*Paper & paper products*	↓	-29.1%
Soufian Cement	*Cements, limes & plasters*	↓	-24.6%
Petro. Transportation	*Transportation & storage*	↓	-23.2%
Pars Refractories	*Non-metallic ore*	↓	-22.3%

SECTOR NEWS

Insurance

Central Insurance of Iran (CII), the insurance industry's regulatory body, reported that insurance premiums reached $8.3bn for Iranian fiscal year 1396 (March 2017 to March 2018), equating to an annual growth of 21%. Industry penetration stands at 2.3% of GDP, which compares to a 3-6% (of GDP) range for global markets.

The government's 18.84% stake in Asia insurance – the second largest insurer in Iran, and the largest private insurance company in Iran – was sold to a subsidiary of the national pension fund, Saba Mihan Investment Co.

Banking

The CBI-mandated deleveraging of the banking sector continues and is expected to accelerate this year. Issued three years ago, the relevant CBI directive ordered all banks to sell 33% of non-core assets by the end of the current Iranian fiscal year ending March 2019. Banks in Iran have sold approximately $3.2bn of excess assets in the past five years. It is estimated that state-owned banks have ~$7.1bn of remaining non-core assets still to divest.

The central banks of Iran and Turkey have agreed to conduct bilateral trade using national currencies. The currency swap agreement was initiated by Bank Melli, Iran's largest state-owned bank.

A debt-swap plan has been triggered whereby Iran's government starts to net

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(a) Smaller sectors (i.e. those comprising less than three companies) have been excluded.
All market data represents the period April 1-30, 2018.
Sources: SEO, Royal Exchange, Mirdamad, TGJU, Financial Tribune, Sena.ir, ibena.ir, cbi.ir, Griffon Asset Management.

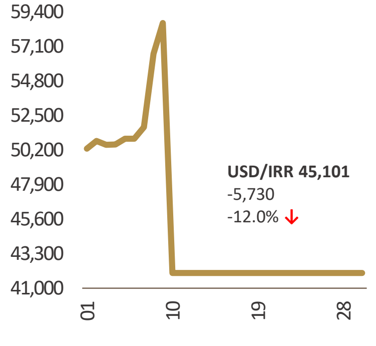
IRAN EQUITY MARKETS

TOP 10 COMPANIES BY MARKET CAPITALISATION

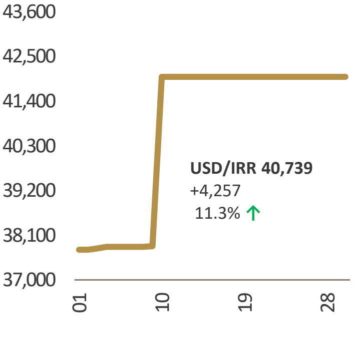
Price values in IRR	Market cap ($m)	Close price		1M	YTD	52 w/h	52 w/l
Khalij Fars Petrochemicals *Chemicals*	5,675 *5.4%*	5,119	↓	-5.0%	-10.8%	5,813	4,121
Mobarakeh Steel *Base metals*	4,563 *4.4%*	2,744	↓	-6.9%	-6.8%	3,100	1,264
MCI *Telecommunication*	3,698 *3.5%*	17,373	↓	-3.7%	1.8%	18,174	12,847
Maroon Petrochemicals *Chemicals*	3,649 *3.5%*	41,147	↓	-3.4%	11.6%	43,000	26,779
NICICO *Base metals*	3,346 *3.2%*	2,515	↓	-3.3%	1.7%	2,771	1,377
TCI *Telecommunication*	2,939 *2.8%*	2,209	↓	-0.2%	-1.8%	2,280	1,896
Tapico *Chemicals*	2,700 *2.6%*	1,494	↓	-4.3%	3.2%	1,594	1,219
Golgohar Mining & Industrial *Metallic ore*	2,605 *2.5%*	3,264	↓	-1.8%	10.9%	3,411	1,686
Jam Petrochemical *Chemicals*	2,289 *2.2%*	7,481	↑	5.0%	5.6%	7,517	4,316
Bandar Abbas Oil Refining *Petroleum products*	2,032 *2.0%*	9,547	↓	-12.1%	5.5%	11,665	7,775

USD/IRR EXCHANGE RATE, APRIL 2018

FREE MARKET RATE



CBI OFFICIAL RATE



SECTOR NEWS (CONT'D)

parts of its payable (~$46bn) to the banking sector against the banks' payable to the CBI (~$28bn).

Macro and FX

As mentioned earlier, the recent volatility in the currency market and the sharp recent fall in Iran's currency, the rial (IRR), caused the CBI to accelerate its planned unification of the dual FX structure. The rial hit an all-time low of ~60,000 versus the US dollar on 9 April 2018 – a ~28% fall since 1 January 2018. The Iranian government then announced it would enforce a single exchange rate for the country's currency to the US dollar of 42,000. The government further announced that trading at any exchange rates other than that set by the CBI would be illegal.

The new rate, communicated as the long-anticipated unification of the dual foreign exchange (FX) system, represents an ~11% devaluation of the official exchange rate and a ~40% appreciation of the free market rate from last trade. The CBI confirmed that the rate of 42,000 will not be a fixed peg, but rather a managed floating rate that would move in line with Consumer Price Index (CPI) differentials between Iran and its major trading partners.

Please refer to our April 26 Investor Report, 'The Iranian Rial', for further information.

All market data represents the period April 1-30, 2018.

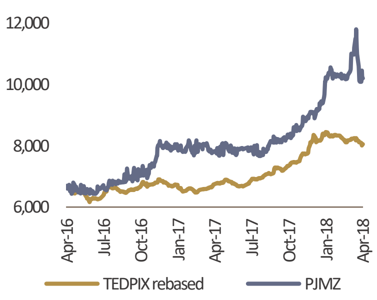
Sources: SEO, CBI, Financial Tribune, Codal.ir, Tehran Stock Exchange, Royal Exchange, Mirdamad Exchange, TGJU, Griffon Asset Management.

COMPANY OVERVIEW: JAM PETROCHEMICAL

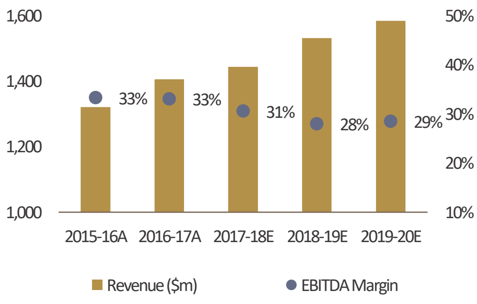
JAM PETROCHEMICAL

Symbol: PJMZ	Market cap.: $1,973m	P/E (17-18E)[(b)]: 4.4x	12-month return: ↑30.6%
Exchange: TSE	Enterprise value[(a)]: $1,976m	5-yr (avg.) dividend payout ratio: 96.1%	EV/revenue (17-18E)(b): 1.4x
Listed since: 2013	% of market : 2.6%	Dividend yield (17-18E)[(b)]: 20.5%	EV/EBITDA (17-18E)(b): 4.5x
Last close: IRR 10,275	Free float: 14%	Avg. daily trade value: $151.7K	ROCE (hist.): 68.8%
90-day change: ↓0.3%	Shares outstanding: 9.6B	52-wk high/low (IRR): 11,900/7,660	ROE (hist.): 62.0%

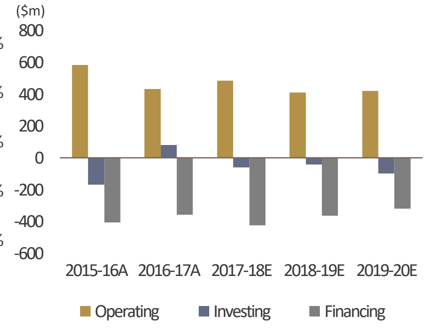
PJMZ AND TEDPIX
Last 2 years



REVENUE & EBITDA MARGIN



CASH FLOW



FINANCIAL STATEMENTS ($M)

	15-16A	16-17A	17-18E[(b)]	18-19E[(b)]	19-20E[(b)]
Ethylene Production (tonnes)	1,071,998	1,123,752	1,118,076	1,148,101	1,173,568
Revenue	1,321.0	1,406.3	1,443.7	1,531.7	1,584.0
Growth %	(7.0%)	6.5%	2.7%	6.1%	3.4%
EBITDA	440.3	465.3	442.0	429.3	451.8
Growth %	(13.6%)	5.7%	(5.0%)	(2.9%)	5.2%
EBITDA margin	33.3%	33.1%	30.6%	28.0%	28.5%
Net Income	420.8	455.3	449.3	382.9	403.7
Growth %	(8.2%)	8.2%	(1.3%)	(14.8%)	5.4%
Net Profit Margin	31.9%	32.4%	31.1%	25.0%	25.5%
Net Debt/(Cash)	(9.4)	(15.0)	14.2	11.3	69.4
Capex	71.9	75.2	45.7	43.3	38.9
Dividend	418.4	423.3	404.4	344.6	363.3

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 (EV) 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.

COMPANY OVERVIEW

In terms of production capacity, Jam Petrochemical Company (JPC) ranks first in Iran and is one of the largest petrochemical producers in the world. The company produces olefin, LLDP and HDPE, butadiene and butene. It owns 66% of Jam Poly Propylene Co (directly and indirectly), 100% of Jam Sanat Karan, and 47% of Gohar Ofogh Industrial Park.

JPC's annual production capacity of ethylene and propylene is 1,320,000 tonnes and 306,000 tonnes, respectively. A unique advantage of its facilities is their ability to use both gas and liquid feedstock in dual furnaces. Its HDPE unit, whose annual capacity is 300,000 tonnes, can produce 26 grades of polymer, far surpassing competitors in this regard; these include black, yellow, blue and normal grades.

After initially listing and trading in the second market of the Iran Fara Bourse in 2013, JPC transferred to the TSE in 2015. It is one of the largest exporters of polymeric products in Iran, with HDPE products being its largest export. About 70% of its products are exported to around 20 countries globally – mainly China but also Turkey, Pakistan, and countries in the Commonwealth of Independent States (CIS), the European Union, and South America. It is also expected that the company will export to African countries soon.

As Iran's gas production in the South Pars field increases (located in the Persian Gulf, the South Pars field is the largest gas field in the world, with ownership shared between Iran and Qatar), JPC's capacity utilization is expected to increase to 100% from 85% in the last fiscal Iranian year. The company also has plans to increase nominal capacity by adding a new ethane furnace.

Important variables for JPC's profitability are operational leverage (obtained from increasing capacity utilization) and weakness in the local currency (which increases exports and drives top line growth). In addition, since the JCPOA the reduction of banking transaction costs and insurance premiums, and the availability of both better technology (e.g. catalysts) and greater number of export destinations, have gradually materialised. Conversely, the main reasons for a likely fall in net profits in the short term are the CBI's recent FX unification and the expiration of a 10-year tax-exemption period which commenced in 2008.

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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The purchase of shares in the Fund is suitable only for sophisticated investors for whom an investment in the Fund does not constitute a complete investment program and who fully understand and are willing to assume the risks involved in the Fund's investment program. The Class A Shares of the Fund are subject to restrictions on redemption, transferability and resale as provided in the Confidential Memorandum and the Fund's constitutive documents. There is no secondary market for an investor's shares in the Fund and none is expected to develop. There is no obligation on the part of any person to register the shares under any statute.

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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.

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