

# Monthly Newsletter

August 2017

*In this issue:*

Equity market makes new highs

Commodity stocks lead the charge

Banking sector reform picks up pace

An overview of Behpardakht Mellat, a leading payment service provider

Please see the important Sanctions Disclaimer on pages 6 and 7 of this document.



## IRAN EQUITY MARKETS

### INDICES

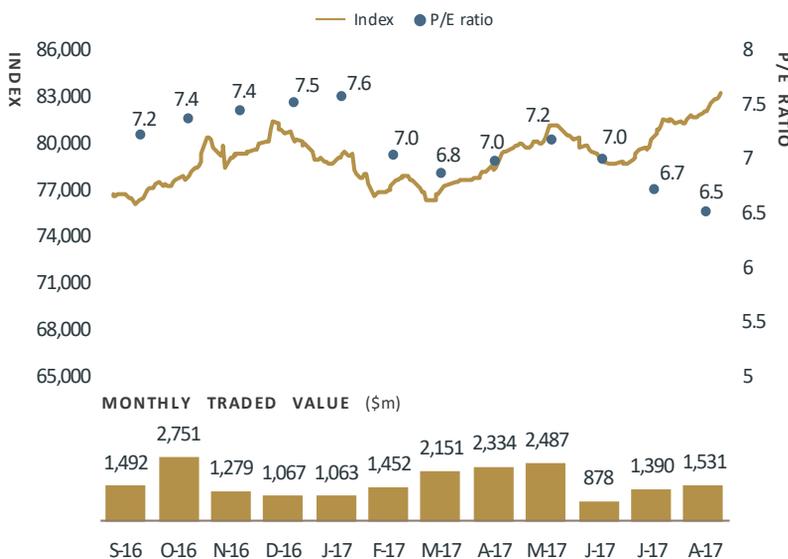
| Past month          | TSE (TEDPIX) | Farabourse (IFX) | Frontier Market (MSCI FM) | Emerging Market (MSCI EM) |
|---------------------|--------------|------------------|---------------------------|---------------------------|
|                     | 2.1% ↑       | 2.4% ↑           | 4.2% ↑                    | 1.8% ↑                    |
| Monthly Performance |              |                  |                           |                           |
| Last close          | 83,252       | 952              | 598                       | 1,085                     |
| Past 12M            | 7.9%         | 17.6%            | 22.7%                     | 21.4%                     |
| YTD                 | 5.5%         | 8.9%             | 15.0%                     | 23.7%                     |
| P/E (fwd.)          | 6.5x         | 7.8x             | 14.7x(hist.)              | 12.5x                     |
| Div. yield          | 10.5%        | 11.5%            | 3.5%                      | 2.3%                      |

### MARKETS AT A GLANCE

The market continued higher in August as the TEDPIX and IFX closed 2.1% and 2.4% higher, respectively. The TEDPIX broke above its two-year resistance level (~81,500) to close at 83,252 as of 29 August. The volumes were higher versus last month, with commodities (especially metals and mining) driving the index higher. With the new cabinet approved by parliament this month, investors are now assessing the forthcoming new ideas and policies from the State.

Despite the rise in the TEDPIX (total return index), the market P/E ratio decreased to 6.5x due to higher earnings as well as the high dividends recently paid (stocks trade ex-dividend following AGMs). August's average daily trading volume (ADTV) was \$76.8m versus \$60.4m and \$54.9m for July and June, respectively. Institutional activity (65.8% of total trade) outpaced that of retail (34.2%). In August, the market volumes were reasonably dispersed amongst the industries – the most actively traded sectors were base metals (14.0%), chemicals (13.2%), refineries (11.5%), iron ores (7.9%) and transportation (7.5%), which together made up 54.1% of total trades. This month, the rial fell 1.6% and 3.9% versus the US dollar and euro, respectively; the larger drop versus the euro was again driven by the broad strength of the euro versus most other currencies.

### TEDPIX INDEX & P/E (fwd.) RATIO



### MARKET CAPITALISATION

#### Market Cap (\$m)

|        |            |
|--------|------------|
| TSE    | Farabourse |
| 84,989 | 14,358     |

#### Value traded (\$m)

|     |            |
|-----|------------|
| TSE | Farabourse |
| 998 | 533        |

\$1 : 38,234 IRR is the monthly average free-market exchange rate used for this report.

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

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

## IRAN EQUITY MARKETS

SECTOR PERFORMANCE<sup>(a)</sup>

## BEST PERFORMING SECTORS

|                          |   |       |
|--------------------------|---|-------|
| Transportation & storage | ↑ | 19.6% |
| Metallic ore             | ↑ | 13.9% |
| Base metals              | ↑ | 13.4% |
| Refineries               | ↑ | 3.1%  |
| Ceramics & tiles         | ↑ | 2.6%  |

## WORST PERFORMING SECTORS

|                            |   |       |
|----------------------------|---|-------|
| Construction & real estate | ↓ | -7.5% |
| Cements, limes & plasters  | ↓ | -6.2% |
| Leasing                    | ↓ | -5.1% |
| Paper & paper products     | ↓ | -4.5% |
| IT & computers             | ↓ | -3.8% |

## TOP GAINERS AND LOSERS

## GAINERS

|                               |                             |   |        |
|-------------------------------|-----------------------------|---|--------|
| Iran Aluminium <sup>(b)</sup> | <i>Base metals</i>          | ↑ | 265.8% |
| Mobin One Kish <sup>(c)</sup> | <i>Telecoms</i>             | ↑ | 97.7%  |
| Motorsazan                    | <i>Motor vehicles</i>       | ↑ | 68.9%  |
| Behceram Tile                 | <i>Ceramics &amp; tiles</i> | ↑ | 66.8%  |
| Iran Manganese Mines          | <i>Metallic ore</i>         | ↑ | 61.1%  |

## LOSERS

|                           |                                       |   |        |
|---------------------------|---------------------------------------|---|--------|
| Mihan Insurance           | <i>Insurance companies</i>            | ↓ | -29.8% |
| Marjan Kar                | <i>Ceramics &amp; tiles</i>           | ↓ | -29.3% |
| Atieh dade Pardaz         | <i>Telecoms</i>                       | ↓ | -28.1% |
| Tehran Housing Investment | <i>Construction &amp; real estate</i> | ↓ | -22.0% |
| Kordestan Cement          | <i>Cements, limes &amp; plasters</i>  | ↓ | -21.2% |

## SECTOR NEWS

## Mining

Domestic steel prices (for bloom, billet and rebar) are rising fast on the Iran Mercantile Exchange (IME). Bloom, for instance, increased 40% in the 43 days from 11 July to 23 August. Similarly, prices for hot rolled coil (HRC) made by Mobarakeh Steel Company (MSC) – the largest finished-steel producer in Iran, with a market share of ~50% – rose 21%. The main billet/rebar producers are Khouzestan Steel Company (KSC) and Esfahan Steel Company (ESCO). Separately, iron ore mining companies (the two largest are Golgohar and Chadormalu) also benefit from the fact that their concentrate and pellet prices are directly linked to KSC's billet prices: concentrate and pellet prices are set by a (ministry legislated) industry formula defined as 12.5% and 21.5% of KSC billet prices, respectively).

## Macro &amp; Banking

President Hassan Rouhani's second presidential inauguration took place in August, and cabinet members have been selected and approved by Parliament. Amongst the new appointments were the Ministers for Economic Affairs and Finance and for Industry, Mining and Trade. Overall, the pace of scheduled administrative reforms and policy decision making should now accelerate, reversing the recent period of relative inactivity following the presidential election in May.

\$1 : 38,234 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.

(b) Iran Aluminium reopened, having been suspended for 22 months.

(c) Mobin One Kish was a recent IPO (see page 4).

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

Sources: SEO, Financial Tribune, Codal.ir, Mine News, Griffon Asset Management.

## IRAN EQUITY MARKETS

### TOP 10 COMPANIES BY MARKET CAPITALISATION

| Price values in IRR                                 | Market cap (\$m) | Last price | 1M    | YTD    | 52 w/h | 52 w/l |
|---|------------------|------------|-------|--------|--------|--------|
| Khalij Fars Petrochem<br><i>Chemicals</i>           | 5,953<br>5.42%   | 4,540 ↑    | 1.4%  | 0.4%   | 5,000  | 4,120  |
| Mobarakeh Steel<br><i>Base metals</i>               | 3,845<br>3.50%   | 1,940 ↑    | 17.5% | 52.3%  | 1,940  | 1,102  |
| MCI<br><i>Telecommunication</i>                     | 3,668<br>3.34%   | 14,620 ↓   | -1.1% | 23.9%  | 15,260 | 11,630 |
| TCI<br><i>Telecommunication</i>                     | 3,026<br>2.76%   | 1,911 ↓    | -1.5% | 4.2%   | 2,049  | 1,796  |
| Maroon Petrochemical<br><i>Chemicals</i>            | 2,982<br>2.72%   | 28,100 ↓   | -5.8% | -3.2%  | 29,820 | 24,614 |
| NICICO<br><i>Base metals</i>                        | 2,910<br>2.65%   | 2,222 ↑    | 20.1% | 44.4%  | 2,222  | 1,295  |
| Golgozar Mining & Industrial<br><i>Metallic ore</i> | 2,173<br>1.98%   | 2,754 ↑    | 14.8% | 33.3%  | 2,754  | 1,472  |
| Ghadir Investment<br><i>Conglomerates</i>           | 1,970<br>1.79%   | 1,040 ↓    | -2.8% | -14.2% | 1,258  | 1,035  |
| Jam Petrochemical<br><i>Chemicals</i>               | 1,959<br>1.78%   | 7,810 ↑    | 0.1%  | -3.0%  | 8,175  | 6,767  |
| TAPICO<br><i>Chemicals</i>                          | 1,950<br>1.78%   | 1,699 ↓    | -1.2% | -11.0% | 2,020  | 1,661  |

### USD/IRR EXCHANGE RATE, AUGUST 2017

#### FREE MARKET RATE



#### CBI OFFICIAL RATE



### SECTOR NEWS (CONT'D)

The Central Bank of Iran (CBI) has stepped up its intensity with new measures to remedy the challenges in the banking sector. One of the remaining uncertainties – relating to the rate of interest owed on State debt/payables to banks, which are estimated to be \$50bn (~12% of GDP) – has been addressed: the prevailing/market interest rate of the given historic year is to be enforced. The CBI also declared three more credit institutions illegal and halted their activities (by selecting bigger banks to manage their liquidation). A directive was also ‘reissued’ to cap deposit rates – 15% for long-term deposits and 10% for short-term – whilst providing banks with 18% credit lines (falling to as low as 16% subject to adequate collateral).

#### FDI

Iran has finalised an \$8bn financing agreement framework with South Korea’s Eximbank. This is the largest financing agreement signed since the JCPOA in January 2016. The first funds are expected by Q1 2018.

#### IPO

This month there was an IPO in the IT sector: Mobin One Kish (5% free float, \$17m market cap), a company that operates as an aggregator between mobile network operators (MNOs) and value-added service (VAS) companies. It debuted on the IFB on 9 August and closed 97.7% higher as of 29 August.

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

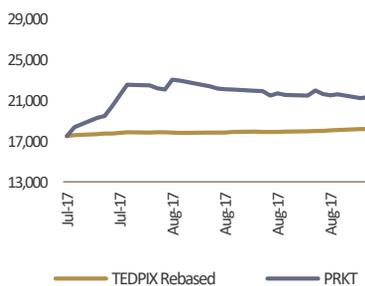
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## IRAN EQUITY MARKETS

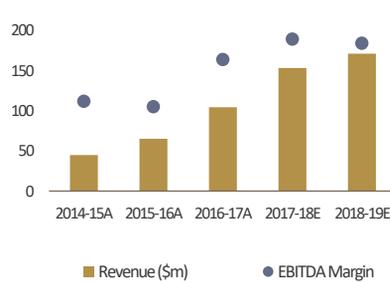
### BEHPARDAKHT MELLAT (RECENT IPO)

|                        |  |   |   |
|------------------------|--|---|---|
| Symbol: PRKT           | Market cap.: \$526.1m                      | P/E (17-18E) <sup>(b)</sup> : 8.5x            | 12-month return: N.A.                     |
| Exchange: TSE          | Enterprise value <sup>(a)</sup> : \$524.7m | 5-yr (avg.) dividend payout ratio: 53%        | EV/revenue (17-18E) <sup>(b)</sup> : 3.4x |
| Listed since: 2017     | % of market (TSE): 0.5%                    | Dividend yield (17-18E) <sup>(b)</sup> : 7.1% | EV/EBITDA (17-18E) <sup>(b)</sup> : 4.5x  |
| Last close: IRR 21,319 | Free float: 5%                             | Avg. daily trade value: \$1,350K              | ROCE (hist.): 49.3%                       |
| 90-day change: ↑21.8%  | Shares outstanding: 950M                   | 52-wk high/low (IRR): 23,495/17,500           | ROE (hist.): 54.1%                        |

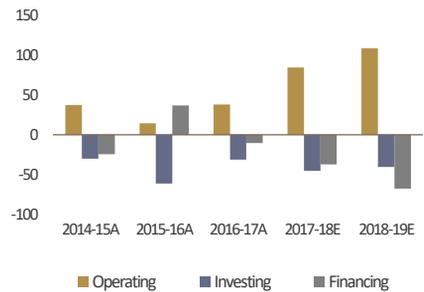
**PRKT AND TEDPIX**  
Last 2 years



**REVENUE & EBITDA MARGIN**



**CASH FLOW**  
(\$m)



### FINANCIAL STATEMENTS (\$M)

|                                | 14-15A | 15-16A  | 16-17A               | 17-18E <sup>(b)</sup> | 18-19E <sup>(b)</sup> |
|--------------------------------|--------|---------|----------------------|-----------------------|-----------------------|
| No. of total Transaction (Bn.) | 7.4    | 9.9     | 12.6                 | 16.7                  | 20.9                  |
| Revenue <sup>(e)</sup>         | 45.1   | 65.2    | 104.4                | 153.3                 | 171.2                 |
| Growth %                       | -23.8% | 44.6%   | 60.1% <sup>(c)</sup> | 46.9% <sup>(d)</sup>  | 11.7%                 |
| EBITDA                         | 20.2   | 27.4    | 68.4                 | 116.0                 | 126.2                 |
| Growth %                       | -51.9% | 35.8%   | 149.6%               | 69.5%                 | 8.8%                  |
| EBITDA margin                  | 44.7%  | 42.0%   | 65.6%                | 75.7%                 | 73.7%                 |
| Net Income                     | 13.8   | (1.6)   | 32.4                 | 61.9                  | 71.9                  |
| Growth %                       | -55.1% | -111.4% | 2,023.2%             | 91.1%                 | 16.1%                 |
| Net Profit Margin              | 30.6%  | -2.4%   | 31.0%                | 40.4%                 | 42.0%                 |
| Net Debt                       | (4.8)  | 49.5    | 36.5                 | 18.4                  | (16.9)                |
| Capex                          | 29.2   | 61.1    | 30.8                 | 45.2                  | 29.8                  |
| Dividend                       | 17.4   | 1.2     | 25.8                 | 37.1                  | 43.1                  |

### COMPANY OVERVIEW

Behpardakht Mellat Company, Iran's leading payment service provider (PSP), was established in 2005 and listed on the TSE this year, debuting on 18 July. It is a subsidiary of Bank Mellat, the largest listed bank by assets and market cap. The company's services include point-of-sale (POS) terminals, internet payment gateways (IPGs), cashless/payment-only 'ATMs', other payment stations (e.g. at petrol stations), and smartphone payment applications. Of the 12 authorised PSP companies, Behpardakht ranks first by both volume and value of transactions, with 22.2% and 29.4% market share, respectively. Saman Electronic Payment (affiliated with Saman Bank but not listed) and Asan Pardakht Persian (listed) rank second and third and account for 16.9% and 14.6% of transactions by volume, respectively. Behpardakht has 15.6% of all POS terminals (5.3m) in Iran, of which ~90% are rented to its parent, Bank Mellat. The company derives most of its revenue from rent and maintenance of POS terminals as well as transaction commissions. Governed by the CBI's regulation (updated as of January 2016), PSPs receive 1% of each POS transaction within a minimum and maximum range of 1.5 to 7 U.S. cents per transaction. The volume and value of PSP transactions are significantly influenced by money velocity and supply, GDP growth and e-commerce technology/infrastructure, as well by PSP's own marketing strategy and value-added services. POS terminals are the most widely-used transaction gateway in Iran, making up 87.8% of total electronic transactions. (Mobile and internet payment services accounted for 9.2% and 2.9% of transactions, respectively.) In Iranian year fiscal year 1395 (21 March 2016 to 20 March 2017), Shaparak – the regulator's electronic payment network company, supervised by the CBI – processed 12.6 billion transactions worth \$36bn, equating to 26% y/y growth in volume and 34% y/y growth in value. Furthermore, Shaparak announced year-on-year increases in volume and value of 35% and 32%, respectively, for the first quarter of Iranian fiscal year 1396 (March–May 2017).

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 2016-17 audited annual reports.

b) 2018 and 2019 numbers are based on Griffon Asset Management's expectations.

c) CBI regulation change in 2016 - PSP companies received total transaction commission from banks.

d) Post IPO, Behpardakht started to receive POS terminal rent from Bank Mellat.

e) Headline revenue adjusted by removing very high volume/ low margin activity (related to mobile top-ups) to enable greater clarity of the company's normalised sales/operations.

Sources: Annual company accounts (Codal.ir), Shaparak Bulletin News, CBI, Griffon Asset Management.

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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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