

Monthly Newsletter

July 2017

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Equity markets test recent highs

Positive corporate results & dividends announced

Bond yields tick lower

An overview of the Tehran Stock Exchange

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

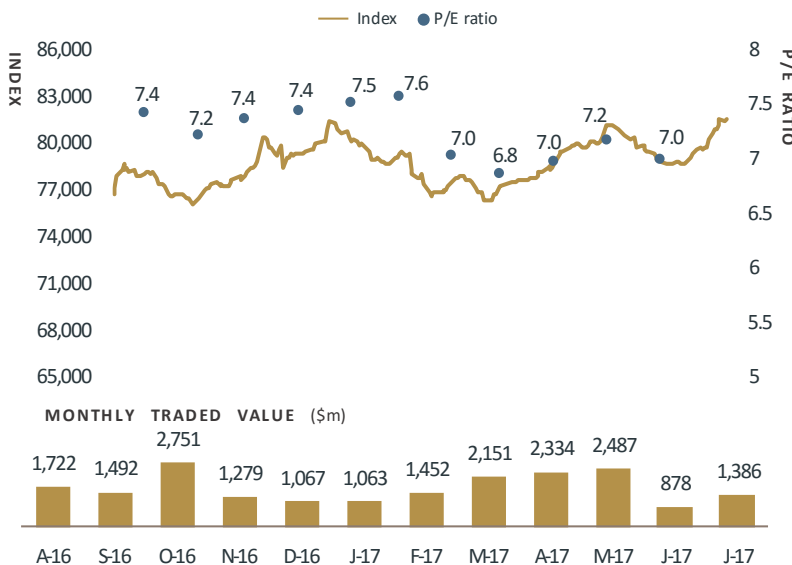


IRAN EQUITY MARKETS

INDICES

Past month	TSE (TEDPIX)	Farabourse	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
	3.5% ↑	1.1% ↑	3.5% ↑	4.6% ↑
Monthly Performance				
Last close	81,491	920	580	1,063
Past 12M	6.4%	14.8%	17.5%	21.7%
YTD	3.3%	7.9%	16.2%	23.3%
P/E	6.7x	8.0x	14.6x	12.2x
Div. yield	9.4%	8.8%	3.8%	2.4%

TEDPIX INDEX & P/E RATIO



MARKET CAPITALISATION

Market Cap (\$m)		Value traded (\$m)	
TSE	Farabourse	TSE	Farabourse
85,028	14,364	1,076	310

MARKETS AT A GLANCE

In July the market staged a solid rally, with higher volumes versus June. The TEDPIX gained 3.5%, touching and testing 81,491 – an 18-month high and so far a resistance level – for the fourth time since March 2016. With strong full-year corporate results (1395: March 2016 to March 2017) confirmed and Q1 results (1396: March 2017 to March 2018) announced, corporate earnings are beating expectations. Many large caps saw strong gains as they resumed trading following their respective halts for the reporting AGM periods (mainly June and July). Market volumes should also pick up further in August. Maturity dates are looming for the remaining few listed Islamic Treasury Bills (14-77 days to expiry), which traded with average YTM's (~21.5-22%) lower than the 23-23.5% range in June. July's ADTV was \$63.0m versus \$54.9m, \$108m and \$130m for June, May and April, respectively. Institutional and retailer activity was evenly split, implying a 5% relative increase of retail activity over institutional versus the previous month. The most actively traded sectors were base metals (13.7%), chemicals (10.7%), IT (10.0%), telecoms (8.9%) and banks (5.4%), which together made up 48.7% of total trades.

\$1 : 37,807 IRR is the monthly average free market exchange rate used for this report.

All market data represents the period July 1-30, 2017.

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

IRAN EQUITY MARKETS

SECTOR PERFORMANCE

BEST PERFORMING SECTORS

Base metals	↑	19.8%
Metallic ore	↑	15.4%
Sugar & by-products	↑	12.2%
Ceramics & tiles	↑	11.6%
Coal & lignite mining	↑	9.3%

WORST PERFORMING SECTORS

Transportation & storage	↓	-8.3%
Electric machines	↓	-7.5%
Paper & paper products	↓	-4.9%
Agriculture	↓	-3.3%
Textiles	↓	-3.1%

TOP GAINERS AND LOSERS

GAINERS

Motorsazan	Motor vehicles	↑	64.4%
Salemin Factory	Food stuff excl. sugar	↑	59.4%
Bahonar Copper Industries	Base metals	↑	57.6%
Takceram Tile Manuf.	Ceramics & tiles	↑	53.7%
Iran Industrial Development	Investment companies	↑	52.5%

LOSERS

Persian Gulf Transportation	Transportation & storage	↓	-33.6%
Lia co.	Chemicals	↓	-26.1%
Khavar spring	Motor vehicles	↓	-24.8%
Afranet	IT & computers	↓	-20.8%
Marjan Kar	Ceramics & tiles	↓	-18.8%

SECTOR NEWS

Auto

Following a 17-year hiatus, Volkswagen AG (VW) once again plans to sell cars in Iran, taking advantage of the easing of sanctions whilst also looking to offset the headwinds from stagnant developed markets and other volatile emerging countries. VW has signed an agreement with Iran's Mammut Khodro to import its Tiguan and Passat models, with a focus on the greater Tehran area. Meanwhile, French carmaker Renault's sales rose more than 100% y/y, giving it a market share of 9.8% in Iran; sales have been driven by the success of the Tondar and Sandero models. Iran is now Renault's eighth biggest market, ahead of the United Kingdom and Argentina.

Steel & Mining

The European Commission (EC) is to announce its final decision on the anti-dumping case against five countries (including Iran) by October 6. The complaint was initially lodged by the European Steel Association (Eurofer) in May 2016. Hot rolled coil (HRC) products from Iran could face a 23% import tariff if and when the duties are imposed. Iranian steel exports to the EU have leapt to over 1m tonnes annually, lagging behind only China and India.

Insurance

Munich RE, one of the leading global reinsurers, has signed agreements with Saman

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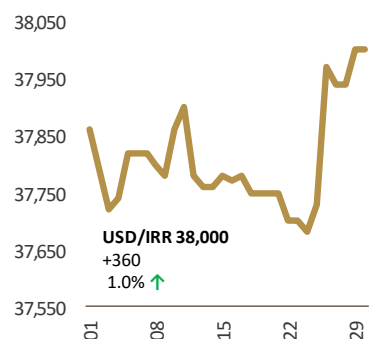
IRAN EQUITY MARKETS

TOP 10 COMPANIES BY MARKET CAPITALISATION

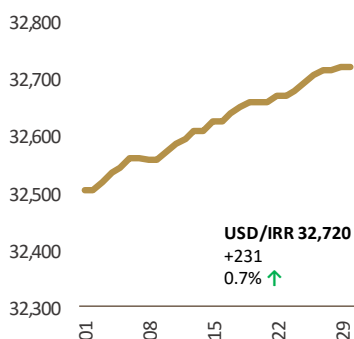
Price values in IRR	Market cap (\$m)	Last price		1M	YTD	52 w/h	52 w/l
Khalij Fars Petrochem Chemicals	6,032	4,550	↑	0.8%	0.7%	5,000	4,120
MCI Telecommunication	3,781	14,820	↑	4.2%	25.5%	15,260	11,093
Mobarakeh Steel Base metals	3,297	1,656	↑	23.3%	30.0%	1,656	1,233
TCI Telecommunication	3,080	1,937	↑	0.4%	5.7%	1,937	1,833
Maroon Petrochemical Chemicals	2,897	29,820	↑	6.2%	2.8%	29,820	26,211
NICICO Base metals	2,448	1,837	↑	23.2%	19.4%	1,837	1,327
Ghadir Investment Conglomerates	2,055	1,064	↓	-0.7%	-12.3%	1,213	1,064
Jam Petrochemical Chemicals	2,014	7,720	↓	-2.4%	-4.1%	8,050	6,551
TAPICO Chemicals	1,988	1,700	↓	-7.5%	-11.0%	1,910	1,700
Parsian Oil & Gas Chemicals	1,952	1,809	↑	6.4%	-4.3%	1,890	1,700

USD/IRR EXCHANGE RATE, JULY 2017

FREE MARKET RATE



CBI OFFICIAL RATE



SECTOR NEWS (CONT'D)

Insurance Company (a subsidiary of Saman Bank) and Parsian Insurance Company (a subsidiary of Parsian Bank) to reinsure life insurance and capital formation categories. The German firm has become the first foreign reinsurer to work with Iran post the JCPOA.

IT

With demand growing from current and new internet users, ISP AsiaTech, one of the largest privately-owned ISPs established in 2003, has formed a new national data centre in Tehran. Afranet (a listed IT services company providing broadband internet, data centres, cloud services and e-commerce) has already launched the first-ever cloud-based data centre in Iran, hosting 20,000 virtual networks. Afranet is also planning to launch telco cloud services for the networks of Telecommunication Company of Iran (TCI) and Mobile Telecommunication Company of Iran (MCI).

IPO

This month there was an IPO in the payment service provider (PSP) sector: Behpardakht Mellat (5% free float, \$568m Market Cap.), a subsidiary of Mellat Bank (the largest listed bank by assets and market cap) opened for trading on the TSE on 18 July and was 28.7% higher as of the close on 30 July.

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SOURCES: SEO, CBI, IFB, Financial Tribune, Tehran Stock Exchange, Royal Exchange, and Griffon Asset Management.

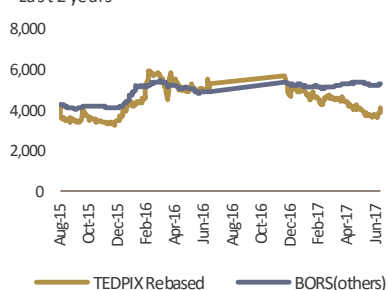
IRAN EQUITY MARKETS

TEHRAN STOCK EXCHANGE (BORS – RETAIL SHARE CLASS)

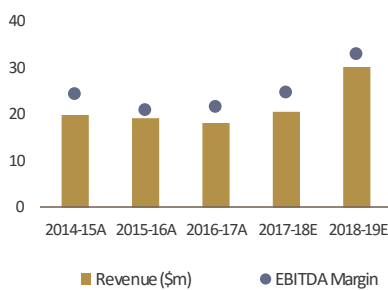
Symbol: BORS	Market cap.: \$135.7m	P/E (17-18E) ^(b) : 18.2x	12-month return: +7.8%
Exchange: TSE	Enterprise value ^(b) : \$134.2m	5-yr (avg.) dividend payout ratio: 26%	EV/revenue (17-18E) ^(b) : 6.6x
Listed since: 2006	% of market (TSE): 0.2%	Dividend yield (17-18E) ^(b) : 1.6%	EV/EBITDA (17-18E) ^(b) : 13.3x
Last close: IRR 4,125	Free float: 27%	Avg. daily trade value: \$26,921	ROCE (hist.): 43.6%
90-day change: ↓-4.1%	Shares outstanding: 1.25bn	52-wk high/low (IRR): 6,074/3,656	ROE (hist.): 19.6%

BORS AND TEDPIX^(c)

Last 2 years

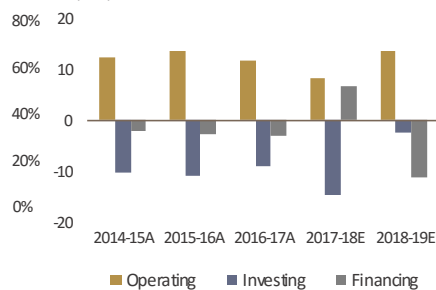


REVENUE & EBITDA MARGIN



CASH FLOW

(\$m)



FINANCIAL STATEMENTS (\$M)

	14-15A	15-16A	16-17A ^(a)	17-18E ^(b)	18-19E ^(b)
Total Market Cap.	104,191	102,937	86,106	91,700	114,934
Value of Trades	21,069	15,657	15,174	18,478	27,984
Revenue	20.0	19.0	18.2	20.5	30.2
Growth %	-46.4%	-5.0%	-4.1%	12.5%	47.8%
COGs	(7.0)	(7.4)	(7.2)	(6.9)	(6.9)
Growth %	-9.7%	5.1%	-2.9%	-3.3%	0.4%
Gross Income	12.9	11.6	11.0	13.4	23.2
Growth %	-56.1%	-10.5%	-4.9%	21.5%	73.7%
Gross margin	64.8%	61.0%	60.5%	65.4%	76.8%
SG&A	(3.5)	(3.9)	(3.5)	(3.4)	(3.4)
Growth %	-16.4%	10.2%	-11.0%	-2.4%	0.0%
EBITDA	9.7	7.9	7.8	10.1	19.9
Growth %	-62%	-18%	-2%	30%	97%
EBITDA margin	48%	42%	43%	50%	66%
Net Income	12.7	9.8	8.8	7.5	14.8
Growth %	-62.0%	-17.9%	-1.8%	29.9%	96.7%
Net profit Margin	48.5%	41.9%	42.9%	49.5%	65.9%
Capex	14.8	13.7	16.3	16.1	2.4
Dividend	3.5	3.6	1.8	2.1	4.2

COMPANY OVERVIEW

The Tehran Stock Exchange Company (TSE) was established in 2006 and was listed in 2013. The company has a rather complex shareholder policy in that its shares are divided into three distinct ownership groups: brokers, financial institutions and retail shareholders. Each class trades under a different ticker symbol, and each can be traded and owned only by the designated group pertaining to that class. According to article 54 of The Securities Market Act, no legal entity or person can own more than 2.5% of the TSE's outstanding shares. The latest financials show that 34.0%, 39.2% and 26.8% of the shares are owned by brokers, financial institutions and retail shareholders, respectively. The brokers' and financial institutions' share classes tend to trade at a premium relative to the retail shareholders' class.

The key drivers of the TSE's revenue are the value and volume of transactions. Its top line comprises fees generated from transactions, brokers and issuers; transactions and services to brokers represent about 68% and 25% of all revenue, respectively. The transaction fee is 8 bps of the transaction value for equity and derivatives trading (bonds are lower at 2.4 bps) with a cap of IRR 400m (~\$10.6k). The "services to brokers" fee is determined by two underlying fees: a fixed fee of IRR 25m (~\$664) per trading terminal (the terminals connect brokers to the exchange trading system; each has a unique code) and a variable fee that is 10% of brokers' commissions from client trades. There are also two applicable revenue caps, one at the trading-terminal level and the other at the broker level, which limit each broker's maximum payout to the TSE. Expenses are mostly fixed costs (salaries and rents are 70% and 20%, respectively), so operational leverage is high. Additionally, the TSE's new headquarters is under construction and the estimated total capex was IRR 2,728,800m (~\$72m), of which 55% has been completed. This will lead to a new, notable depreciation cost item in its income profile.

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) 2016-17 numbers are based on unaudited annual financial statements.

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

c) On 23 July 2016, BORS was delisted from the IFB; it was listed on the TSE on 21 Dec. 2016.

Sources: Annual company accounts (Codal), TSE, 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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