GriffonCapital

Asset Management and Private Equity

# Monthly Newsletter

June 2018

*In this issue:*

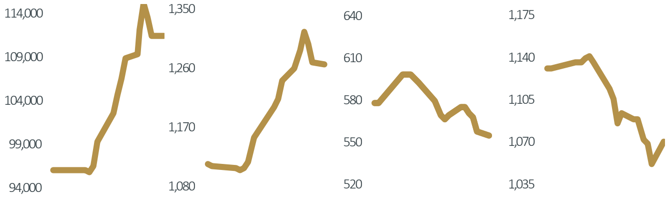


Please see the important Sanctions Disclaimer on pages 7 and 8 of this document.

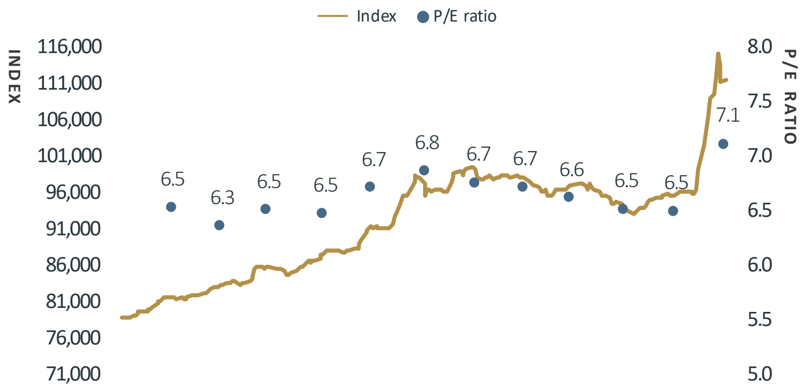
# IRAN EQUITY MARKETS

## INDICES

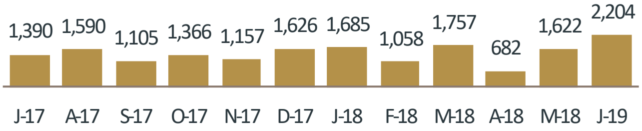
| Index | TSE (TEDPIX) | Farabourse (IFX) | Frontier Market (MSCI FM) | Emerging Market (MSCI EM) |
|---|---|---|---|---|
| Monthly Performance | 16.7% | 14.1% | -3.8% | -5.0% |
| Last close | 111,528 | 1,267 | 554 | 1,070 |
| Past 12M | 41.7% | 39.2% | -1.2% | 5.2% |
| YTD | 15.9% | 19.7% | -13.1% | -7.6% |
| P/E (hist.) | 7.1x | 7.9x | 13.6x | 14.3x |
| Div. yield | 8.7% | 11.0% | 3.8% | 2.4% |




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




MONTHLY TRADED VALUE ($m)




## MARKET CAPITALISATION

| Market Cap ($m) | | Value traded ($m) | |
|---|---|---|---|
| TSE | Farabourse | TSE | Farabourse |
| 101,198 | 16,755 | 1,719 | 485 |

$1 : 42,354 IRR is the monthly average free-market exchange rate used for this report.
All market data represents the period June 1-30, 2018.
*Sources*: Tehran Stock Exchange, Bloomberg, MSCI, Griffon Asset Management, Bourseview.

## MARKETS AT A GLANCE

In June, the stock markets re-rated sharply higher – the TEDPIX and IFX closed 16.7% and 14.1% higher, respectively – and both indices are now at all-time highs. The main cause was the ‘pricing in’ of the recent devaluation of the Iranian currency. Despite the government’s recent attempt (in April 2018) to unify the official and free market exchange rates at around USD/IRR 42,000, the market is now expecting another exchange rate to emerge – one closer to where the free market exchange rate was trading just before the announced FX unification – i.e., over USD/IRR 60,000. Other factors, like high dividend payout ratios following the recent AGMs, added further momentum. In the last few trading days of the month, the market pulled back 3.5% from the intra-month high. The market also awaits any further EU proposals – economic packages, incentives or guarantees – regarding the JCPOA following the US withdrawal. Separately, it is worth noting that in the preceding months of current fiscal Iranian year 1397 (March 2018 to March 2019), domestic money flow had already significantly buoyed the prices of gold, real-estate and automobiles. June’s ADTV, at $129.6m, was the highest since May 2017. The most actively traded sectors were base metals (23.1%), chemicals (12.0%), mining (8.1%), oil refiners (5.9%) and IT (5.5%), comprising 54.6% of total trade value.

# IRAN EQUITY MARKETS

## SECTOR PERFORMANCE[a]

### BEST PERFORMING SECTORS

| | | |
|---|---|---|
| Metallic ore | ↑ | 34.1% |
| Rubber & tyre | ↑ | 31.6% |
| Base metals | ↑ | 26.0% |
| Chemicals | ↑ | 24.7% |
| Conglomerates | ↑ | 24.4% |

### WORST PERFORMING SECTORS

| | | |
|---|---|---|
| Construction & real estate | ↓ | 1.3% |
| Sugar & by-products | ↓ | 1.3% |
| Insurance companies | ↓ | 1.4% |
| Foods excl. sugar | ↓ | 2.1% |
| Transportation & storage | ↓ | 2.2% |

## TOP GAINERS AND LOSERS

### GAINERS

| | | | |
|---|---|---|---|
| Mobin One Kish | *Telecoms* | ↑ | 100.4% |
| Rishmac Production & Export | *Pharmaceuticals* | ↑ | 72.2% |
| Tolid Mavad Daroupakhsh | *Pharmaceuticals* | ↑ | 66.4% |
| Esfahan Steel Co. | *Base metals* | ↑ | 59.9% |
| Tehran Stock Exch. | *Exchanges & Exchange Related* | ↑ | 58.4% |

### LOSERS

| | | | |
|---|---|---|---|
| Zahravi Pharmaceutical | *Pharmaceuticals* | ↓ | -30.8% |
| Farabi Pharmaceutical | *Pharmaceuticals* | ↓ | -26.0% |
| Iran Manganese Mines | *Metallic ore* | ↓ | -25.1% |
| Bojnurd Cement | *Cements, limes & plasters* | ↓ | -21.3% |
| Minoo Group | *Foodstuff excl. sugar* | ↓ | -17.4% |

$1 : 42,354 IRR is the monthly average free-market exchange rate used for this report.
(a) Smaller sectors (i.e. those comprising less than three companies) have been excluded.
All market data represents the period June 1-30, 2018.
*Sources:* SEO, Financial Tribune, isna.ir, CBI, Griffon Asset Management.

## SECTOR NEWS

**IT**
The fee payment model in the payment service provider (PSP) sector has been under review since last year. Banks are still the sole payer for transaction and rental fees - banks pay rents on POSs to PSPs and transaction fees for purchases made via all payment tools. Some banks have now independently banned very small transactions (below 20,000 IRR). Separately, they have notified their customers that they can only do transactions on the Unstructured Supplementary Service Data (USSD) platform once per day due to commercial and security concerns. The USSD is used for bill payments and mobile phone top-ups.

**Petrochemicals**
The government enacted a directive requiring the Ministry of Oil and Gas to use the equivalent USD/IRR FX rate of 38,000 (a 10.8% discount to the CBI FX rate of 42,610) for the purpose of calculating petrochemicals' feedstock prices.

**Macro**
CBI data show that Iran's economy grew by 3.7% in fiscal 1396 (ending March 2018). The industrial sector grew the fastest at 5.1%, followed by the service sector at 4.4%. Separately and possibly more notably, the construction industry, after 5 years of contraction, turned positive and grew 1.2%.

The Head of the Trade Development Organization has indicated that non-commodity exporters will be

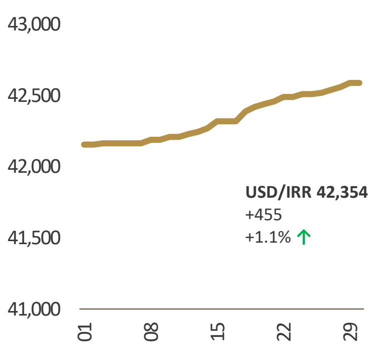
# IRAN EQUITY MARKETS

## TOP 10 COMPANIES BY MARKET CAPITALISATION

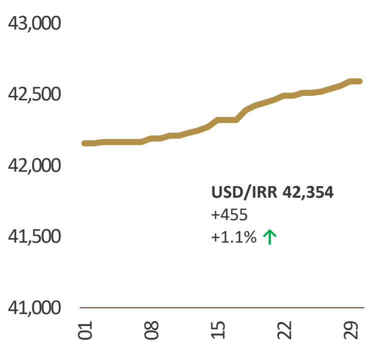
| *Price values in IRR* | Market cap ($m) | Close price | | 1M | YTD | 52 w/h | 52 w/l |
|---|---|---|---|---|---|---|---|
| Mobarakeh Steel | 7,135 | 4,029 | ↑ | 29.4% | 36.9% | 4,286 | 1,342 |
| *Base metals* | *5.6%* | | | | | | |
| Khalij Fars Petrochemicals | 7,101 | 6,015 | ↑ | 22.5% | 6.0% | 6,133 | 4,121 |
| *Chemicals* | *5.6%* | | | | | | |
| NICICO | 4,675 | 3,300 | ↑ | 26.7% | 33.4% | 3,613 | 1,384 |
| *Base metals* | *3.7%* | | | | | | |
| Golgohar Mining & Industrial | 4,424 | 4,555 | ↑ | 36.4% | 72.3% | 4,624 | 1,526 |
| *Metallic ore* | *3.5%* | | | | | | |
| Maroon Petrochemicals | 4,155 | 43,998 | ↑ | 5.7% | 14.4% | 44,249 | 26,903 |
| *Chemicals* | *3.3%* | | | | | | |
| Tapico | 3,348 | 1,740 | ↑ | 25.2% | 17.1% | 1,839 | 1,219 |
| *Chemicals* | *2.6%* | | | | | | |
| MCI | 3,184 | 14,048 | ↑ | 0.3% | 0.7% | 14,847 | 11,887 |
| *Telecommunication* | *2.5%* | | | | | | |
| Jam Petrochemical | 2,905 | 12,815 | ↑ | 28.1% | 41.6% | 13,054 | 7,775 |
| *Chemicals* | *2.3%* | | | | | | |
| TCI | 2,709 | 1,912 | ↑ | 13.0% | 4.8% | 1,912 | 1,537 |
| *Telecommunication* | *2.1%* | | | | | | |
| Parsian Oil & Gas | 2,603 | 2,722 | ↑ | 31.1% | 26.0% | 2,825 | 1,504 |
| *Chemicals* | *2.1%* | | | | | | |

## USD/IRR EXCHANGE RATE, JUNE 2018

**FREE MARKET RATE**




**CBI OFFICIAL RATE**




## SECTOR NEWS (CONT'D)

selling their foreign currency in a secondary market outside of NIMA (the CBI's online FX order management integrated system), and so are not obliged to trade the USD/IRR at the government's unified official rate of 42,610. At the end of June, the Financial Action Task Force (FATF) stated that Iran has not yet fulfilled its action plan. Given Iran's continued efforts, the FATF decided to continue the suspension of counter measures against Iran until October 2018, giving Iran more time to complete the remaining items of the Action Plan and implement the outstanding AML/CFT reforms.

Following the unilateral US withdrawal from the JCPOA, the EU Commission has adopted the update of the EU blocking statute aiming to protect EU-based companies engaging in sanctions-compliant business with Iran. The updates have incorporated the US secondary sanctions that will be reimposed on Iran and the widening of the European Investment Bank's lending mandate to include Iran.

**IPO**

This month there was an IPO in the payment service provider (PSP) sector: Saman Pardakht Kish (5% free float, $403.9m market cap.), a subsidiary of IFB-listed Saman Bank, opened for trading on the TSE on 3 June and was 46.2% higher as of the close on 30 June.

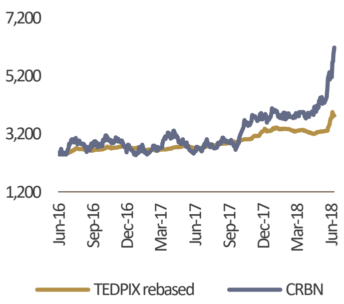
All market data represents the period June 1-30, 2018.
*Sources:* SEO, CBI, Donya-e-eqtesad, Tehran Stock Exchange, Boursepress, Griffon Asset Management.

# COMPANY OVERVIEW: IRAN CARBON

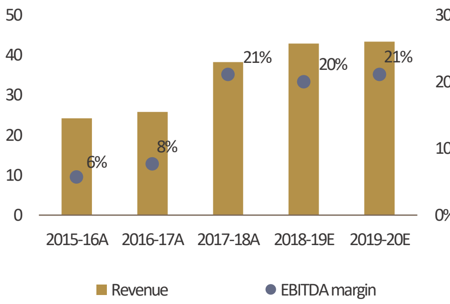
## IRAN CARBON

| | | | |
|---|---|---|---|
| Symbol: CRBN | Market cap.: $37m | P/E (18-19E)[b]: 4.8x | 12 months change: ↑128.4% |
| Exchange: TSE | Enterprise value[a]: $38.5m | 5-yr (avg.) dividend payout ratio: 52.2% | EV/revenue (18-19E)[b]: 0.9x |
| Listed since: 1993 | % of market : 0.03% | Dividend yield (18-19E)[b]: 17.8% | EV/EBITDA (18-19E)[b]: 4.5x |
| Last close: IRR 6,174 | Free float: 54% | Avg. daily trade value: $27.0K | ROCE (hist.): 32.2% |
| 90-day change: ↑57.5% | Shares outstanding: 250 M | 52-wk high/low (IRR): 5,360/2,800 | ROE (hist.): 34.3% |

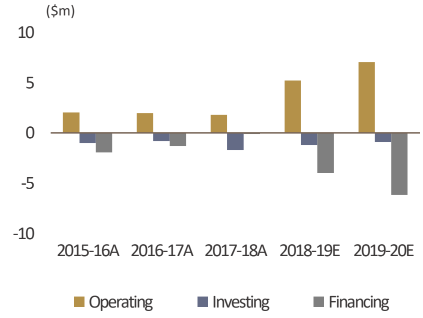
**CRBN AND TEDPIX**




**REVENUE & EBITDA MARGIN**




**CASH FLOW**
($m)




## FINANCIAL STATEMENTS ($M)

| | 15-16A | 16-17A | 17-18A | 18-19E[b] | 19-20E[b] |
|---|---|---|---|---|---|
| Carbon black sold (tonnes) | 32,976 | 36,251 | 37,116 | 36,618 | 36,618 |
| Revenue | 24.1 | 25.7 | 38.2 | 42.9 | 43.3 |
| Growth % | -19.7% | 6.7% | 48.4% | 12.2% | 1.1% |
| EBITDA | 1.4 | 2.0 | 8.0 | 8.5 | 9.1 |
| Growth % | -35.6% | 43.6% | 308.2% | 6.4% | 6.9% |
| EBITDA margin | 5.7% | 7.6% | 21.0% | 19.9% | 21.1% |
| Net Income | 0.8 | 1.3 | 5.9 | 7.7 | 8.3 |
| Growth % | -52.3% | 52.5% | 367.1% | 29.7% | 8.4% |
| Net profit margin | 3.4% | 4.9% | 15.5% | 17.9% | 19.2% |
| Net debt | 2.7 | 3.1 | 1.9 | 0.6 | 0.0 |
| Dividend | 0.7 | 0.0 | 4.1 | 6.5 | 7.1 |

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 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

Iran Carbon was the first Iranian company to produce carbon black, which is used mainly as a reinforcing filler in the production of tyres and other rubber products. It was founded in 1972 as a joint venture, originally between National Petrochemical Company and Cabot Corporation, a US company. For nearly a decade, Iran Carbon was the sole carbon black producer in Iran. In 1983 Doodeh Sanati Pars company was founded, and two other producers – Sadaf Carbon Black and Simorgh Carbon – have since incorporated and increased Iran's production capacity to 129,000 tonnes per annum.

Iran Carbon owns approximately 44% of Doodeh Sanati Par's shares, and the companies together control 45% of Iran's carbon black production capacity. Separately, 56% of Sahand Rubber Industries – a listed company with a market cap of ~$16m, producing rubber conveyors – is owned by Iran Carbon. Iran Carbon's subsidiaries have a total market cap of ~$15m, and they generate dividend income equal to ~22% of the firm's earnings before tax.

Iran Carbon's main customers have been the domestic tyre manufacturers. However the company is starting to consider international markets as the global prices for carbon black have risen (~$1,150/tonne recently versus ~$1,040/tonne and ~$800/tonne one and two years ago, respectively).

Iran Carbon's production capacity stands at 36,000 tonnes per year. The grades of carbon black produced include N-330, N-339, N-550 and N-660. The grades are determined mostly by the inputs used – although the inputs range widely based on availability. Cracked fuel oil (CFO) and carbon black oil (CBO) are among the raw materials most utilized by the company in recent years.

The company's profitability is driven largely by raw material prices, which comprise 75% of cost of goods sold (COGS). Because the raw materials are byproducts from refineries and petrochemical producers, the suppliers do not necessarily seek out strict or onerous commercial terms. Conversely, carbon black is one of the most important ingredients for manufacturing tyres – so in periods of high demand, gross margins can expand notably.

Recently China, the main producer of carbon black, curtailed its production, resulting in a global price increase that boosted Iran Carbon's margins. Global prices of carbon black now appear to be outperforming oil prices – even though historically the former follows the latter, given the feedstock for carbon black is either heating coal or heavy oil cut. Nevertheless, China is likely to remain the price-setter of this commodity for the foreseeable future.

# 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 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.

*On 8 May 2018, US President Donald Trump announced that the US will completely withdraw from the Joint Comprehensive Plan of Action (JCPOA). The President's announcement states that all pre-JCPOA nuclear-related sanctions will be re-imposed (both primary and secondary) and indicates that the US may impose new and additional sanctions in the future. Soon after this announcement by President Trump, the leaders of France, Germany, the United Kingdom and the European Commission released a joint statement emphasizing their continued commitment to the JCPOA. Next steps seem unclear at this stage. The Fund and the Investment Manager are closely monitoring the situation post the US withdrawal from the JCPOA.

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