

Monthly Newsletter

May 2018

In this issue:

US President announces US to exit from JCPOA

China, France, Germany, Russia and the EU reaffirm commitment to JCPOA

Equity and housing markets bounce back

AGM season in full swing

An overview of Omid Investment Bank

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)
	2.1% ↑	5.5% ↑	-9.4% ↓	-3.3% ↓
Monthly Performance				
Last close	95,578	1,110	577	1,126
Past 12M	18.7%	21.2%	2.8%	11.0%
YTD	-0.7%	4.9%	-9.5%	-2.7%
P/E (hist.)	6.5x	6.7x	14.6x	14.5x
Div. yield	9.5%	12.3%	3.3%	2.3%

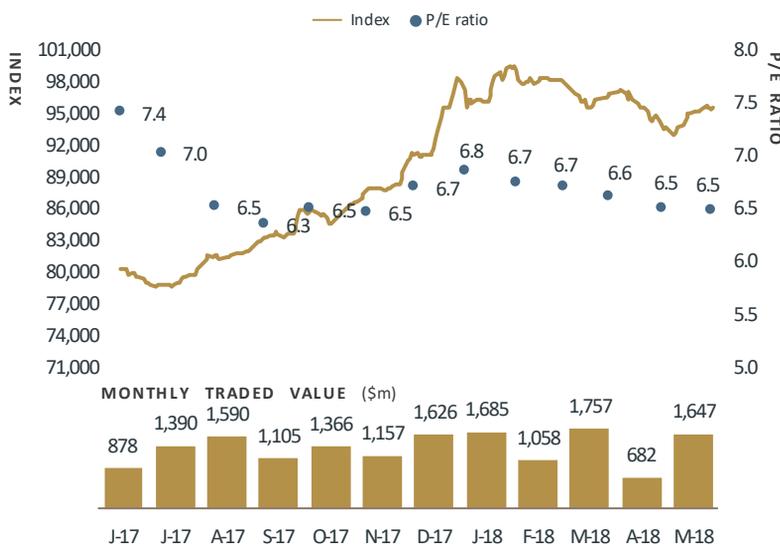
MARKETS AT A GLANCE

In May Iran’s stock markets bounced back – despite the fact that on May 8, US President Donald Trump announced that the US would completely withdraw from the Joint Comprehensive Plan of Action (JCPOA). The stock markets managed to stabilise following the weakness in April and the trough of 92,850 in the first week of May – all of which occurred in anticipation of the announcement.

Meanwhile, AGM season has already begun and will continue in June and July. Investors are focused on – and thus far encouraged by – expected announcements of high dividend payouts. The market is also expected to take its cue from the ongoing negotiations between Iran and the remaining participants in the JCPOA (China, France, Germany, Russia and the EU) to try to preserve the plan. In the FX market, the USD/IRR finished May at 42,155 – virtually unchanged from the 42,000 level the pairing posted following the unification of the dual FX rate structure last month.

At \$76.3m, the May ADTV more than doubled April’s ADTV of \$35.9m, with institutional activity (70.3%) significantly surpassing retail activity (29.7%). The most actively traded sectors were chemicals (16.1%), base metals (13.7%), oil refiners (7.9%), auto (7.6%) and mining (5.2%), which together comprised 50.5% of total trades.

TEDPIX INDEX & P/E (hist.) RATIO



MARKET CAPITALISATION

Market Cap (\$m)

TSE	Farabourse
88,666	14,890

Value traded (\$m)

TSE	Farabourse
1,378	269

\$1 : 42,033 IRR is the monthly average free-market exchange rate used for this report.

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

Sources: Tehran Stock Exchange, Bloomberg, MSCI, 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.	<i>Sugar & by-products</i>	↑	41.6%
Alumrod Factory	<i>Base metals</i>	↑	33.7%
Mellat Leasing	<i>Leasing</i>	↑	32.9%
Western Azerbaijan Pegah Milk	<i>Food stuff excl. sugar</i>	↑	27.4%
Technotar	<i>Machinery</i>	↑	22.2%

LOSERS

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

SECTOR NEWS

Auto

In 2016, SAIPA (Iran's second largest car manufacturer) and PSA Group's Citroën brand formed a 50-50 joint venture under which the Paris-based carmaker committed to invest more than €300 million in Iran over the next five years. Just this month Citroën sold 2,000 C3 subcompacts in one hour on the day of that model's launch. In addition to the C3, the C4 model will also be produced in Iran. Citroën has stated that its Iran strategy has not changed since the US withdrawal from the JCPOA.

Pharma

The Central Bank of Iran (CBI) has removed pharmaceuticals from the list of items eligible to receive subsidized FX rates for imports. Instead, medicines will now be imported at the recently unified rate of USD/IRR 42,000. Given the suspension of this subsidy, the Ministry of Health may now review prices and allow for higher price increases.

Mining

Several of Iran's largest mining and steel companies are located in central Iran and do not have ready access to water sources for their respective production needs. Given the recent water shortages in parts of the country, the top three Iranian mining companies (Golgohar Mining Co., Chadormalu Mining Co., and NICICO) have allocated the capital necessary to set up the transfer of water from the Persian Gulf to their facilities. The initial investment was completed in the last Iranian

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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, isna.ir, ibena.ir, cbi.ir, Griffon Asset Management.

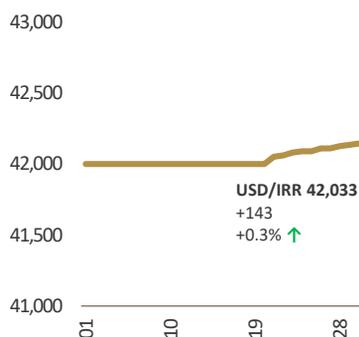
IRAN EQUITY MARKETS

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>	5,842	4,911	↓ -4.1%	-13.5%	5,813	4,121
Mobarakeh Steel <i>Base metals</i>	5,556	3,114	↑ 13.5%	5.8%	3,114	1,289
Maroon Petrochemicals <i>Chemicals</i>	3,960	41,611	↑ 1.1%	12.9%	43,000	26,779
NICICO <i>Base metals</i>	3,718	2,605	↑ 3.6%	5.3%	2,771	1,377
Golgozar Mining & Industrial <i>Metallic ore</i>	3,269	3,817	↑ 16.9%	29.7%	3,817	1,686
MCI <i>Telecommunication</i>	3,197	14,000	↓ -1.4%	0.4%	14,847	11,494
TCI <i>Telecommunication</i>	2,979	2,087	↓ -5.5%	-7.2%	2,280	1,896
Tapico <i>Chemicals</i>	2,695	1,390	↓ -7.0%	-4.0%	1,594	1,219
Bandar Abbas Oil Refining <i>Petroleum products</i>	2,425	7,386	↓ -1.3%	4.3%	8,167	4,316
Jam Petrochemical <i>Chemicals</i>	2,285	10,005	↑ 4.8%	10.6%	11,665	7,775

USD/IRR EXCHANGE RATE, MAY 2018

FREE MARKET RATE



CBI OFFICIAL RATE



SECTOR NEWS (CONT'D)

fiscal year (ending March 2018) and the first phase is expected to be operational by next year.

Housing

The housing market continued to recover, with recent events and weakness in the FX market continuing to accelerate housing transactions and inflate prices. In Tehran the number of housing transactions in April rose by 16% year on year, while the average price per transaction (in local currency) increased by 34.8% year on year.

Macro

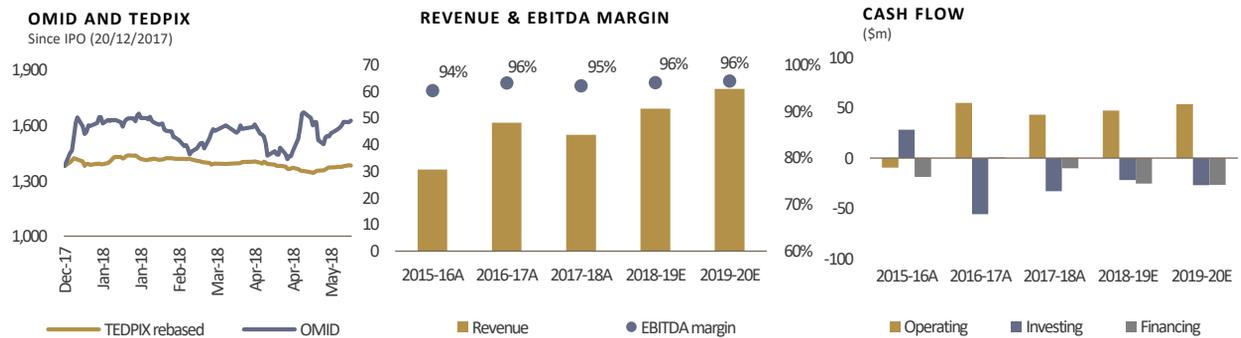
In the first two months of this Iranian fiscal year (starting March 2018), Iran's non-oil trade balance registered a \$942 million surplus versus a deficit of \$525m for the same period last year. Total, the French oil and gas supermajor, has declared it will pull out of the Iran Gas project (Phase 11 of the South Pars, the world's largest gas field) if it cannot secure a sanctions waiver from the US post its JCPOA exit. China, France, Germany, Russia and the EU have meanwhile reaffirmed their commitment to the JCPOA. Moreover, the EU is expected to reinstate a blocking statute that aims to neutralise the extraterritorial effects of US sanctions in the EU. The European Commission may also try to arrange for and enable its members to pay the CBI directly for purchases of Iran's oil.

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

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

COMPANY OVERVIEW: OMID INVESTMENT BANK

OMID INVESTMENT BANK			
Symbol: OMID	Market cap.: \$189m	P/E (18-19E) ^(b) : 4.2x	Since IPO (20/12/2017): ↑17.8%
Exchange: TSE	Enterprise value ^(a) : \$145m	5-yr (avg.) dividend payout ratio: 87.1%	EV/revenue (18-19E) ^(b) : 3.4x
Listed since: 2017	% of market : 0.2%	Dividend yield (18-19E) ^(b) : 20.3%	EV/EBITDA (18-19E) ^(b) : 4.8x
Last close: IRR 1,626	Free float: 7%	Avg. daily trade value: \$307.5K	ROCE (hist.): 16.9%
90-day change: ↑1.9%	Shares outstanding: 4.9B	52-wk high/low (IRR): 1,670/1,380	ROE (hist.): 24%



FINANCIAL STATEMENTS (\$M)		15-16A	16-17A	17-18A	18-19E ^(b)	19-20E ^(b)
Market making portfolio ^(c)		348.7	305.5	412.9	674.7	863.1
Revenue		30.5	48.2	43.6	53.5	60.9
Growth %		-10.9%	57.8%	-9.6%	22.7%	13.9%
EBITDA		28.8	46.3	41.6	51.4	58.7
Growth %		-12.0%	60.5%	-10.2%	23.6%	14.3%
EBITDA margin		94.4%	96.1%	95.5%	96.1%	96.5%
Net Income		26.3	42.2	39.2	45.0	50.8
Growth %		-8.7%	60.9%	-7.3%	14.9%	12.9%
Net Profit Margin		86.0%	87.7%	90.0%	84.2%	83.5%
Net Debt/(Cash)		(16.9)	(41.2)	(44.2)	(0.5)	(1.4)
Dividend		23.3	35.8	31.4	38.3	43.2

COMPANY OVERVIEW

In December 2017 Omid Investment Bank, Iran’s largest Investment Bank by nominal paid-in capital, became the first investment bank to be listed on the TSE. The country’s other main investment banks – all unlisted – include Mellat, Amin, Novin and Tamadon.

The company specialises in providing financing and advisory services to the metals and mining sector. This is to be expected as it is majority owned by Omid Investment Holding, which is a major stakeholder (directly and indirectly) in the two largest mining companies in the country - Golgohar Mining Co. and Chadormalu Mining Co.

Market making in *sukuks* (an Islamic financial certificate, similar to a bond in western finance, that complies with Sharia Islamic law) is Omid’s main activity, generating approximately 60% of revenues. Omid has an estimated market share of 10% in commercial sukuk; Golgohar’s Musharaka and Saipa’s Murabaha (Saipa is Iran’s second-largest car manufacturer) make up about 20% of its portfolio.

Although banks have provided and continue to provide the large majority of financing in the economy, the fixed income market has recently delivered remarkable growth, albeit off a low base given its nascent stage of development. In the last three years, the debt capital market has grown by nearly 300%. Given the ongoing banking sector challenges and expected recapitalisations and reform plans, the government is encouraging additional funding channels, including the debt market. Therefore, it can be expected that the demand for underwriting and market-making activities will continue to rise. Amongst the CBI’s directives to restructure the banking sector is a risk framework which limits how much banks can lend to single (major) borrowers; it is thus foreseeable that larger companies will need to diversify funding sources and consequently tap the capital markets further for incremental funding – in particular the debt market. Fixed-income funds already make up 98% of all investment funds’ AUM in Iran.

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.
 c) The value of the total bonds for which they are mandated to make a market.
 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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DISCLAIMER

Please read this disclaimer carefully as it contains important information about the Griffon Iran Flagship Fund SP ("Fund"), a segregated portfolio of GIF SPC, its proposed investments in Iran and the current international sanctions and restrictive measures in relation to Iran.

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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).

This newsletter is only addressed to and directed at: (a) persons in member states of the European Economic Area ("Member States") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC, as amended (including amendments by Directive 2010/73/EU to the extent implemented in the relevant Member State)) provided that the giving or disclosing of this newsletter to such person is lawful under the applicable securities laws (including any laws implementing Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers (the "AIFM Directive")) in the relevant Member State ("Qualified

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By accepting this newsletter you represent, warrant and agree that you are a Relevant Person.

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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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