Asset Management and Private Equity

Monthly Newsletter

August 2018

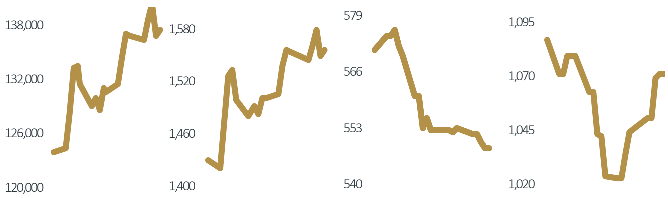
In this issue:

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

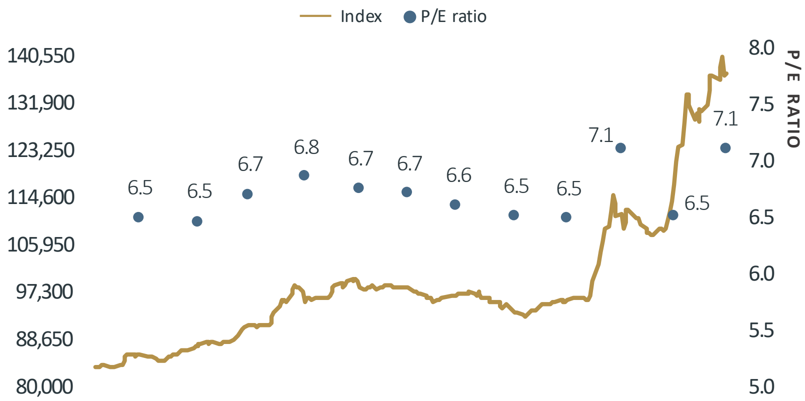
IRAN EQUITY MARKETS

INDICES

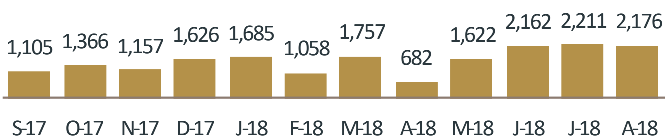
Index	TSE (TEDPIX)	Farabourse (IFX)	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
Monthly Performance	13.5%	11.6%	-4.8%	-1.8%
Last close	137,472	1,556	548	1,071
Past 12M	65.1%	63.2%	-8.0%	-1.6%
YTD	42.9%	47.1%	-14.1%	-7.5%
P/E (hist.)	7.1x	8.5x	14	14.1x
Div. yield	8.5%	8.7%	3.8%	2.6%



TEDPIX INDEX & P/E (hist.) RATIO



MONTHLY TRADED VALUE ($m)



MARKET CAPITALISATION

Market Cap ($m)	
TSE	Farabourse
63,957	10,273

Value traded ($m)	
TSE	Farabourse
1,701	475

$1 : 82,002 IRR is the monthly average foreign exchange rate used for this report.
All market data represents the period August 1-29, 2018.
Sources: TSE, IFB, Bloomberg, MSCI, Griffon Asset Management, Bourseview, Sanarate.ir.

MARKETS AT A GLANCE

In August, as in the previous two months, the stock markets steamed aggressively higher. The TEDPIX closed 13.5% higher at 137,472 (albeit off its intra-month and all-time high of 140,541) and the IFX finished the month 11.6% stronger. The 'pricing in' of the devaluation of the Iranian rial was again the main factor.

Despite the strong rally, however, intra-month volatility was notable. The uncertainty was related chiefly to the changing regulation of the foreign exchange (FX) market and its implications for how foreign-denominated costs and revenues of listed companies – especially those involved in import/export and/or commodities – are to be calculated. The Central Bank of Iran's (CBI) introduction of a new, secondary market foreign-exchange rate (in addition to the official CBI exchange rate) has raised the market's expectation of further liberalisation of the currency market and its application to relevant industries.

August's ADTV of $108.8m was strong, surpassing July's already high ADTV of $100.5m. Retail activity (53.0%) was slightly ahead of institutional activity (47.0%). The most actively traded sectors were base metals (26.4%), chemicals (21.3%), refineries (10.1%), mining (4.9%) and auto (4.1%), which together comprised 66.8% of total trades.

IRAN EQUITY MARKETS

SECTOR PERFORMANCE[a]

BEST PERFORMING SECTORS

Ceramics & tiles	↑	26.0%
Machinery	↑	19.8%
Refineries	↑	19.0%
Non-metallic ore	↑	19.0%
Base metals	↑	17.3%

WORST PERFORMING SECTORS

Electric machines	↓	-0.8%
Transportation & storage	↑	3.5%
Sugar & by-products	↑	3.7%
Foods excl. sugar	↑	5.3%
Metallic ore	↑	5.9%

TOP GAINERS AND LOSERS

GAINERS

North Drilling	*Oil & gas extraction*	↑	112.8%
Behceram Tile	*Ceramics & tiles*	↑	95.4%
Motorsazan Diesel & Gas Engines	*Motor vehicles*	↑	85.9%
Pasargad Oil	*Petroleum products*	↑	82.0%
Abadan Petrochemical	*Chemicals*	↑	63.9%

LOSERS

Electric Khodro Shargh	*Motor vehicles*	↓	-19.1%
Khavar Spring	*Motor vehicles*	↓	-17.8%
Hiweb	*Telecom services*	↓	-16.7%
Darou Pakhsh Pharmaceutical	*Pharmaceuticals*	↓	-16.0%
Shirin Khorasan Agro.	*Sugar & by-products*	↓	-15.6%

SECTOR NEWS

Tyre & Pharma
The government has decided that the CBI's official exchange rate (USD/IRR 42,000) will be allocated to a specific list of core or strategic imports. The list recently included rubber – the raw material for tyre production – as well as other strategic goods such as food and pharma. Also with regards to pharma, the Ministry of Health reported that the official exchange rate will not be extended to medical equipment and pharmaceutical products that are already produced locally.

Metals & Mining
The Iran Mercantile Exchange (IME) has again updated its pricing framework for steel products (semi-finished and finished), taking incremental steps to slowly implement a market-driven price. The prices will be based on the regional CIS prices multiplied by the CBI's FX rate, subject to a further threshold of ±10% to allow for competitive bids and offers. Separately, the copper pricing mechanism on the IME was enhanced further – now effectively reflecting a fully liberalized, market-driven price – such that it has a floor (i.e. minimum pricing – equating to the CBI exchange rate multiplied by LME prices ($) and a 10% premium) but no cap.

Macro & Banking
The CBI has been updating the regulations on procuring foreign currency. This included Abdol-nasser Hemmati, the newly-appointed CBI governor,

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All market data represents the period August 1-29, 2018.
Sources: SEO, TSE, IFB, Financial Tribune, Farsnews, CBI, Griffon Asset Management, Sanarate.ir.

IRAN EQUITY MARKETS

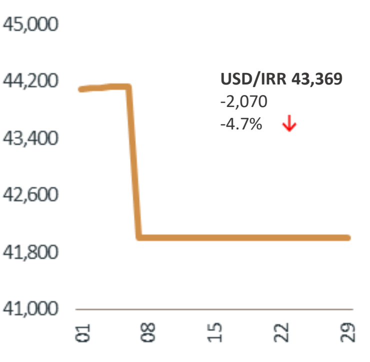
TOP 10 COMPANIES BY MARKET CAPITALISATION

Price values in IRR	Market cap ($m)	Close price		1M	YTD	52 w/h	52 w/l
Khalij Fars Petrochemicals	4,744	7,780	↑	23.7%	37.0%	8,119	4,190
Chemicals	*6.0%*						
Mobarakeh Steel	4,229	4,624	↑	15.3%	68.2%	4,885	1,752
Base metals	*5.3%*						
NICICO	2,900	3,963	↑	31.3%	67.9%	4,191	1,758
Base metals	*3.6%*						
Pars Petrochemical	2,458	33,590	↑	22.4%	66.3%[a]	36,281	20,201
Chemicals	*3.1%*						
Maroon Petrochemicals	2,456	50,355	↑	15.8%	52.6%	54,956	25,133
Chemicals	*3.1%*						
Golgohar Mining & Industrial	2,421	5,514	↑	12.7%	112.4%	6,034	2,039
Metallic ore	*3.0%*						
Parsian Oil & Gas	2,015	4,079	↑	43.2%	88.8%	4,294	1,599
Chemicals	*2.5%*						
MCI	1,856	15,851	↑	10.3%	13.7%	16,344	11,946
Telecommunication	*2.3%*						
Jam Petrochemical	1,679	14,341	↑	20.5%	82.5%	15,668	6,833
Chemicals	*2.1%*						
Bandar Abbas Oil Refining	1,658	9,852	↑	28.7%	50.6%	10,942	4,367
Petroleum products	*2.1%*						

USD/IRR EXCHANGE RATE, AUGUST 2018[b]

SECONDARY MARKET RATE

CBI OFFICIAL RATE



a) Since IPO on 11 July 2018.
b) The secondary market USD/IRR rate is calculated from the EUR/IRR exchange rate on Sanarate.ir which is translated into USD/IRR, based on spot EUR/USD rate.
All market data represents the period August 1-29, 2018.
Sources: SEO, CBI, minew.ir, TSE, IFB, Sanarate.ir, Bloomberg, Tehran Times, Griffon Asset Management.

SECTOR NEWS (CONT'D)

in the first week of August introducing a new secondary-market foreign-exchange rate which can be traded on 'NIMA', an integrated online system. Based on the new policy and supervised by the CBI, all registered exporters can offer their hard currencies to registered importers, with price discovery set through supply and demand.

On the other hand, oil revenues can be used differently – i.e. allocated to import core and strategic goods and staples. However, the authorities have yet to clarify the rate at which petrochemical feedstock – usually different types of natural gas, though some plants also use liquid hydrocarbons such as naphtha – will be formulated going forward. The last directive issued by the government prior to this month's exchange rate changes stated that petrochemical feedstocks are to be calculated with a rate of 38,500 IRR/USD.

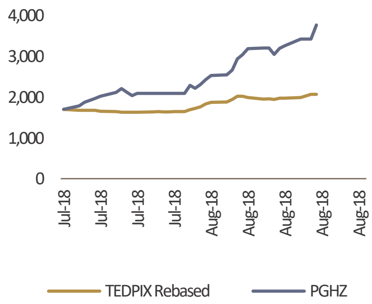
The first batch of re-imposed US sanctions on Iran took effect on 6 August. On 7 August the EU's updated Blocking Statute entered into force to mitigate the sanctions' impact on the interests of EU companies doing legitimate business in Iran. Separately, the EU promised €18m in aid – as part of a larger €50m package – for Iran to help offset the impact of U.S. sanctions. This is reportedly separate from any oil-purchase guarantees and/or preservation of banking channels the EU may propose.

COMPANY OVERVIEW: GHADIR PETROCHEMICAL CO.

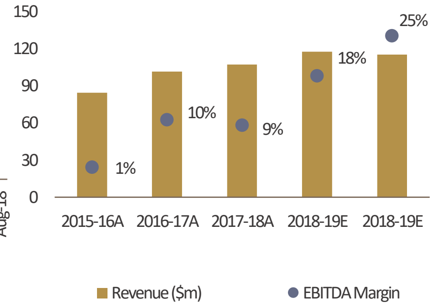
GHADIR PETROCHEMICAL CO.

Symbol: PGHZ	Market cap.: $79.2m	P/E (18-19E)[b]: 3.6x	Since IPO change[c]: ↑121.8%
Exchange: IFB	Enterprise value[a]: $78.6m	5-yr (avg.) dividend payout ratio: 73.9%	EV/revenue (18-19E)[b]: 0.67x
Listed since: 2018	% of market : 0.08%	Dividend yield (18-19E)[b]: 20.4%	EV/EBITDA (18-19E)[b]: 3.7x
Last close: IRR 3,772	Free float: 16.7%	Avg. daily trade value: $634.2K	ROCE (hist.): 12.2%
90-day change: N.A.	Shares outstanding: 1.3Bn	52-wk high/low (IRR): 3,772/1,700	ROE (hist.): 12.9%

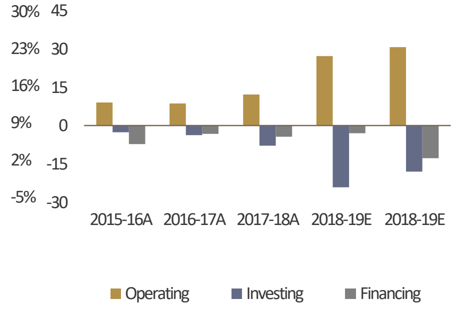
PGHZ AND TEDPIX
(SINCE IPO)



REVENUE & EBITDA MARGIN



CASH FLOW
($m)



FINANCIAL STATEMENTS ($M)

	15-16A	16-17A	17-18A	18-19E[b]	19-20E[b]
PVC Production (tonnes)	113,216	122,262	122,464	122,363	122,363
Revenue	84.4	101.3	106.9	117.5	115.1
Growth %	-3.5%	20.0%	5.6%	9.9%	-2.1%
EBITDA	0.6	9.7	9.1	21.0	29.2
Growth %	-93.4%	1596.8%	-6.3%	129.9%	39.2%
EBITDA margin	0.7%	9.6%	8.5%	17.9%	25.4%
Net Income	(1.0)	5.2	5.2	21.7	33.3
Growth %	-135.4%	-603.8%	-1.7%	321.2%	53.4%
Net profit Margin	-1.2%	5.2%	4.8%	18.5%	28.9%
Net Debt	0.3	(0.8)	(0.9)	(13.4)	(20.1)
Dividend	0.0	4.7	5.0	19.5	30.0

COMPANY OVERVIEW

Ghadir Petrochemical Company is one of Iran's main producers of polyvinyl chloride (PVC). Ghadir's annual production capacity is approximately 120,000 tonnes, which equates to ~16% of Iran's PVC production capacity; by comparison, the biggest players in the PVC market, Arvand and Bandar-Emam Petrochemical Co., hold 46% and 23% of total PVC production capacity, respectively. However, unlike Arvand and Bandar-Emam, which have a portfolio of other products as well, Ghadir has a single-product focus.

PVC is the world's third most widely used polymer, after polyethylene and polypropylene. PVC's alternative substitutes – polyethylene and other polymers – are higher-quality polymers and hence also more expensive.

Ghadir's target market is predominantly domestic – close to 70% of its sales take place on the Iran Mercantile Exchange (IME). Nearly all the PVC it manufactures is S65 grade – a grade is used in the production of many items including tubes, pipes, handbags, clothes and cables. The company's raw material inputs are ethylene and chloride, which are supplied by Bandar-Emam and Maroon Petrochemical Co. It occasionally also purchases semi-finished products, vinyl chloride monomer (VCM) and ethylene dichloride (EDC) from Bandar-Emam as well as foreign companies. Given Ghadir procures some its raw materials from competitors, going forward it has the option to switch suppliers to non-competitor plants, encouraging lower pricing. Nearly 60% of Ghadir's cost of goods is composed of variable costs, namely raw materials. These are translated to Iranian rials at the official exchange rate. In addition, although the company sells chiefly to domestic clients, its revenue streams are FX-denominated at the secondary-market foreign-currency exchange rate – the PVC prices on the IME are set based on global prices. Consequently, the difference between the official and secondary-market FX rates can significantly influence Ghadir's profitability.

This is not a stock recommendation. The above is an introductory information overview.
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) Ghadir began trading on the IFB on 4 July 2018.
Sources: Annual company accounts (Codal),company website, Griffon Asset Management, Sanarate.ir.

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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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).

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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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