

# Monthly Newsletter

July 2018

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*In this issue:*

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Large-cap commodity equities rerate higher again

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Iran's Central Bank appoints new governor

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New 'market-driven' FX rate is expected soon

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An overview of Pars Paper Industrial Group

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



## IRAN EQUITY MARKETS

### INDICES

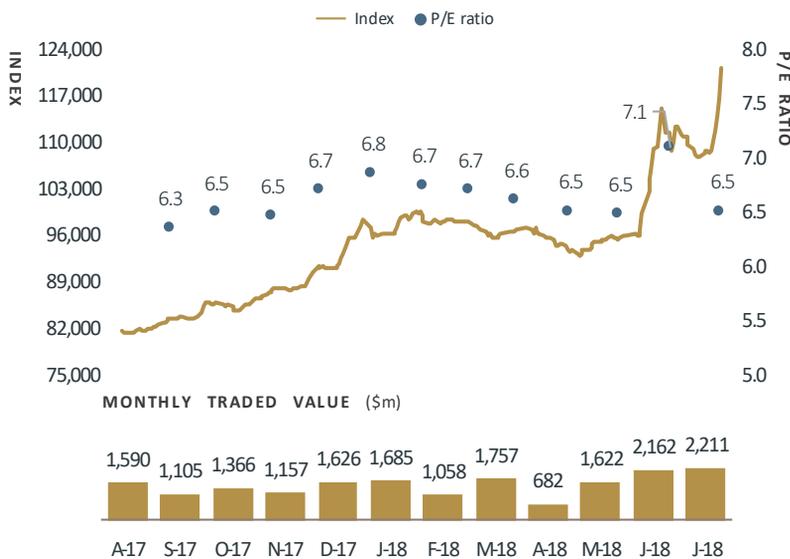
Index	TSE (TEDPIX)	Farabourse (IFX)	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
	8.6% ↑	10.1% ↑	3.9% ↑	1.9% ↑
Monthly Performance				
Last close	121,173	1,395	576	1,090
Past 12M	48.6%	50.1%	0.3%	2.2%
YTD	25.9%	31.8%	-9.7%	-5.8%
P/E (hist.)	6.5x	7.5x	13.7x	13.8x
Div. yield	9.5%	9.6%	3.9%	2.6%

### MARKETS AT A GLANCE

In July, as in June, the stock markets rerated sharply higher – the TEDPIX and IFX closed 8.6% and 10.1% higher, respectively, both indices again making all-time highs. The ‘pricing in’ of the ongoing devaluation of Iran’s currency is again the underlying cause of the sharp gains. Despite the government’s attempts in April 2018 to unify the dual exchange rate structure, the difference between the illegal black-market FX rate, which surpassed USD/IRR 100,000 this month, and the Central Bank of Iran’s (CBI) “unified” FX rate of 44,070 (at month end) is now unmanageable – and the market continues to expect the imminent arrival of another legal and market-driven foreign exchange rate. The main beneficiaries have been the large-cap commodity-related companies – namely the refiners, petrochemicals, metals and miners. The market is now increasingly assigning a higher probability that many of the exporting and/or commodity companies will soon realise some (if not all) of their revenues at a newly recognized market-orientated FX rate.

July’s ADTV, at \$100.5m, was lower than June’s \$127.2m, thought still the second-highest month since May 2017. The most actively traded sectors were chemicals (25.6%), base metals (17.9%), autos (6.1%), mining (5.7%) and refineries (4.9%), which together comprised 60.2% of total trade value.

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



### MARKET CAPITALISATION

Market Cap (\$m)		Value traded (\$m)	
TSE	Farabourse	TSE	Farabourse
106,760	17,422	1,747	464

\$1 : 43,369 IRR is the monthly average foreign exchange rate used for this report.

All market data represents the period July 1-31, 2018.

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

## IRAN EQUITY MARKETS

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

## BEST PERFORMING SECTORS

Refineries	↑	19.5%
Chemicals	↑	16.7%
Metallic ore	↑	12.9%
Base metals	↑	12.4%
Conglomerates	↑	11.8%

## WORST PERFORMING SECTORS

Ceramics & tiles	↓	-13.4%
Rubber & tyre	↓	-13.2%
Machinery	↓	-10.0%
Construction & real estate	↓	-8.5%
Transportation & storage	↓	-6.6%

## TOP GAINERS AND LOSERS

## GAINERS

Esfahan Petrochemical Co	Chemicals	↑	69.3%
Rishmac Production & Export	Pharmaceuticals	↑	54.7%
Pars Petrochemical <sup>(b)</sup>	Chemicals	↑	45.0%
Gadir Petrochemical <sup>(b)</sup>	Chemicals	↑	42.7%
Tabriz Oil Refining	Petroleum products	↑	42.5%

## LOSERS

Day Bank	Banking	↓	-45.5%
Shahroud Northeast Industrial	Coal & lignite mining	↓	-25.4%
Alvand Tile & Cermic Industries	Ceramics & tiles	↓	-21.7%
Behpardakht Mellat	IT & computers	↓	-21.4%
Pars Darou	Pharmaceuticals	↓	-21.1%

## SECTOR NEWS

**Steel**

The Ministry of Industry, Mine and Trade (MIMT) has prepared a new trading and pricing mechanism for steel products (both semi-finished and finished) on the Iran Mercantile Exchange (IME). According to the proposed framework, prices will be determined based on the regional CIS prices multiplied by the CBI's FX rate and a further available threshold of ±5 percent to allow for competing bids and offers.

**Tyres**

Earlier this year the MIMT introduced a new rule to increase tyre import tariffs from 32% to 40%. More recently it announced that the import of three sizes of radial tyre – 13, 14 and 15 inches – is to be prohibited because they are already manufactured domestically. If imports are restricted either by even-higher-import tariffs or outright bans, local firms will be able to increase their production and sales to meet local demand, whilst improving their profit margins.

**Banking and Macro**

Abdolnasser Hemmati is the newly-appointed CBI governor, replacing Valiollah Seif following the end of his five-year term.

Dr. Hemmati is a veteran banker and holds a Ph.D. in Economics from the University of Tehran. From 1994 to 2006 he served as the head of the Central Insurance of Iran, the sole regulator of Iran's insurance industry.

\$1 : 43,369 IRR is the monthly average foreign exchange rate used for this report.

(a) Smaller sectors (i.e. those comprising less than three companies) have been excluded.

(b) These stocks were two of the IPOs that took place in July 2018.

All market data represents the period July 1-31, 2018.

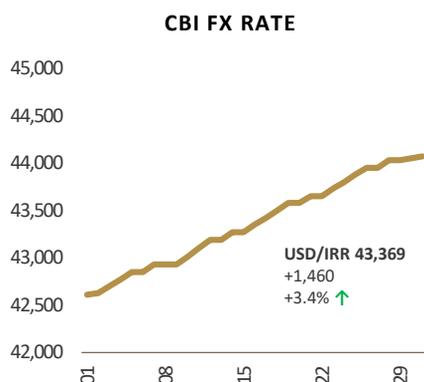
Sources: SEO, Financial Tribune, Boursepress, CBI, Griffon Asset Management.

## 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
<b>Khalij Fars Petrochemicals</b> <i>Chemicals</i>	7,954	6,899	↑	14.7%	21.5%	6,899	4,155
	6.0%						
<b>Mobarakeh Steel</b> <i>Base metals</i>	7,813	4,412	↑	17.2%	60.5%	4,412	1,562
	5.7%						
<b>NICICO</b> <i>Base metals</i>	4,706	3,322	↑	5.5%	40.7%	3,447	1,638
	3.5%						
<b>Golgozar Mining &amp; Industrial</b> <i>Metallic ore</i>	4,577	5,385	↑	18.2%	107.4%	5,385	1,914
	3.4%						
<b>Maroon Petrochemicals</b> <i>Chemicals</i>	4,493	47,578	↑	20.8%	44.2%	47,578	25,133
	3.3%						
<b>Pars Petrochemical<sup>(a)</sup></b> <i>Chemicals</i>	4,256	30,042	↑	48.7%	N.A.	30,042	20,201
	3.1%						
<b>MCI</b> <i>Telecommunication</i>	3,266	14,407	↑	2.6%	3.3%	14,847	11,931
	2.4%						
<b>Tapico</b> <i>Chemicals</i>	3,254	1,691	↓	-2.8%	16.8%	1,839	1,219
	2.4%						
<b>Parsian Oil &amp; Gas</b> <i>Chemicals</i>	2,997	3,134	↑	15.1%	45.1%	3,134	1,599
	2.2%						
<b>Jam Petrochemical</b> <i>Chemicals</i>	2,960	13,060	↑	17.3%	66.2%	13,060	6,753
	2.2%						

### USD/IRR EXCHANGE RATE, JULY 2018



### SECTOR NEWS (CONT'D)

Before being appointed CBI governor, Dr. Hemmati also briefly served as Iran's ambassador to China, following stints as CEO of the state-owned Melli Bank for three years (one of Iran's largest banks) and of the private Sina Bank for nearly seven years. Dr. Hemmati is best known for his work in the privatisation of the insurance industry.

The CBI's new FX policy is eagerly anticipated in light of the uncertainty prevailing in the FX market - mainly due to the scheduled start of the first set of US sanctions on 6 August. The CBI's official USD/IRR rate of 44,070 continues to be limited in terms of its use and availability.

### IPOS

This month there were several IPOS. One was for Pars Petrochemical Company (5% free float), which produces ethane, propane, butane, and styrene monomer. The company began trading on the TSE on 11 July and closed 48.7% higher as of 31 July. Another IPO was for Ghadir Petrochemical Company (13.5% free float, \$67.1m market cap), which produces PVC. It debuted on the IFB on 4 July and closed 42.7% higher as of 31 July. There were also a couple of IPOS on the IFB, in the agricultural sector, namely animal husbandry firms: Ghiam Agriculture and Binaloud Agriculture.

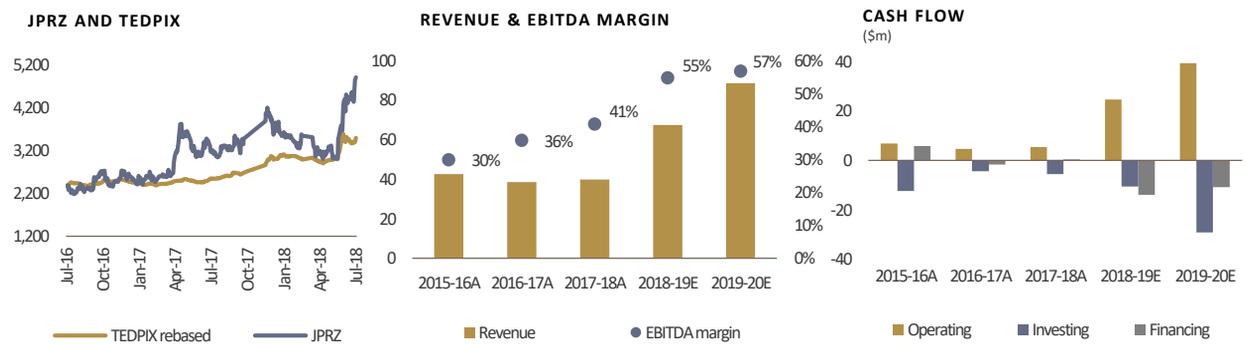
(a) Pars Petrochemical IPO took place in July 2018. All market data represents the period July 1-31, 2018.

Sources: SEO, CBI, Tasnim, Tehran Stock Exchange, Madan24, Griffon Asset Management.

## COMPANY OVERVIEW: PARS PAPER

### PARS PAPER INDUSTRIAL GROUP

Symbol: JPRZ	Market cap.: \$144.9m	P/E (18-19E) <sup>(b)</sup> : 4.6x	12 months change: ↑54.4%
Exchange: IFB	Enterprise value <sup>(a)</sup> : \$140.9m	5-yr (avg.) dividend payout ratio: 38.4%	EV/revenue (18-19E) <sup>(b)</sup> : 2.1x
Listed since: 2016	% of market : 0.13%	Dividend yield (18-19E) <sup>(b)</sup> : 10.8%	EV/EBITDA (18-19E) <sup>(b)</sup> : 3.8x
Last close: IRR 4,829	Free float: 34.1%	Avg. daily trade value: \$526,227.3K	ROCE (hist.): 54.4%
90-day change: ↑54.0%	Shares outstanding: 1.3 Bn.	52-wk high/low (IRR): 4,841/2,950	ROE (hist.): 29.9%



### FINANCIAL STATEMENTS (\$M)

	15-16A	16-17A	17-18A	18-19E <sup>(b)</sup>	19-20E <sup>(b)</sup>
Production (tonnes)	69,320	65,568	69,434	74,663	73,102
Revenue	42.5	38.5	39.8	67.3	88.4
Growth %	33.1%	-9.3%	3.3%	69.2%	31.4%
EBITDA	12.7	13.8	16.2	36.8	50.2
Growth %	40.5%	8.4%	17.4%	127.7%	36.3%
EBITDA margin	29.9%	35.8%	40.6%	54.7%	56.8%
Net Income	9.8	13.5	11.8	31.4	51.3
Growth %	21.4%	38.6%	-12.4%	165.4%	63.3%
Net profit margin	23.0%	35.1%	29.8%	46.7%	58.1%
Net debt	11.1	7.4	7.8	(0.4)	(21.3)
Dividend	0.0	3.6	5.9	15.7	25.7
Capex	12.5	5.3	5.9	6.7	8.8

### COMPANY OVERVIEW

Pars Paper Industrial Group was founded in 1970 and is located in the province of Khuzestan. It was the first company in Iran to produce paper and paper board from virgin pulp. The company under state ownership was loss making; the government transferred its ownership to the private sector in 2013. Extensive capex-led renovations and upgrades led to higher productivity, and the company was listed on the IFB in 2016. The significantly improved volume and quality of production has enabled the company to export most of its production to around 15 countries, including China, India, Syria and Taiwan.

Today, Pars Paper uses bagasse (a residue by-product of sugarcane) to make paper, paper board and virgin pulp in mills located near its production facilities. There are no other operating facilities equivalent to Pars Paper in Iran. The firm produces about 75,000 tonnes per year mainly of two products: sanitary paper and virgin pulp. Currently, due to the Chinese ban on import of waste paper, the price of global pulp has risen and Pars Paper is ramping up its exports: 51% is exported as virgin pulp whilst 49% is sold locally as sanitary and fluting paper. In the last fiscal year 19% of production was virgin pulp, of which only ~25% was exported. Pars Paper's exports also have the benefit of access to the free market for FX rates. Given the sharp falls in the Iranian currency in the last six months, Pars Paper's operational margins and profitability have increased meaningfully.

The company has also initiated a development plan to produce disposable tableware (predominantly for export) from bagasse virgin pulp. This will be structured and operated as a separate subsidiary company. It is not expected to operate at full nominal capacity until after 2020. The profit for this new business is expected to be ~\$6.6m in the next fiscal year.

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 foreign exchange rate. (a) The enterprise value (EV) calculation is based on net debt from 2017-18 semiannual audited annual reports. (b) 2019 and 2020 numbers are based on Griffon Asset Management's expectations. Sources: Annual company accounts (Codal), company website, 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.

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.

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\*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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