

# Monthly Newsletter

July 2018

---

*In this issue:*

---

Large-cap commodity equities rerate higher again

---

Iran's Central Bank appoints new governor

---

New 'market-driven' FX rate is expected soon

---

An overview of Pars Paper Industrial Group

---

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

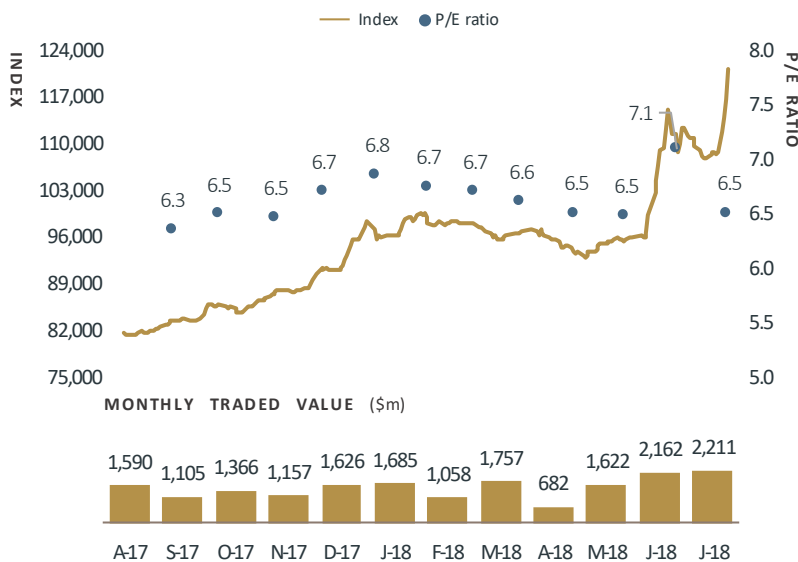


## IRAN EQUITY MARKETS

### 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%

### 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

### 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, though 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.

\$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.

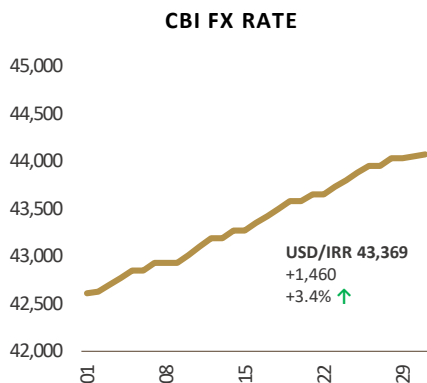
Sources: SEO, Financial Tribune, Boursepress, CBI, Griffon Asset Management.

## 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.

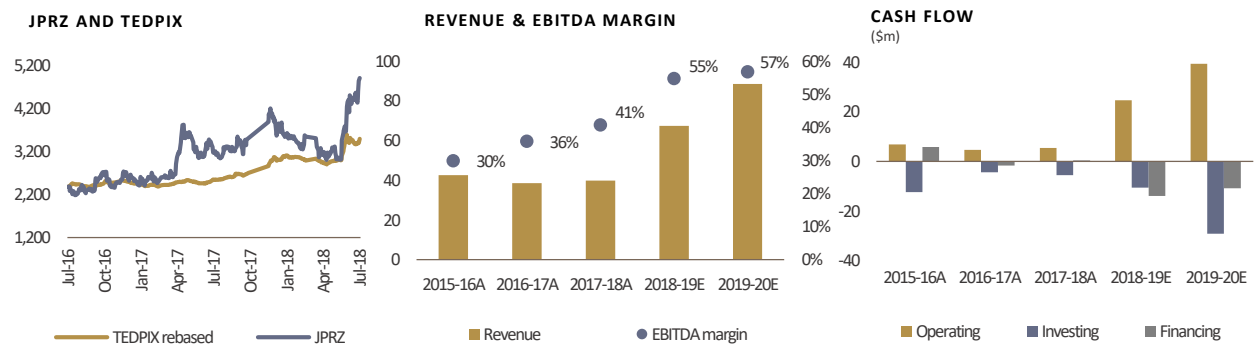
(a) Pars Petrochemical IPO took place in July 2018. All market data represents the period July 1-31, 2018.

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.

## 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.

Modaberan Homa is fully licensed and regulated by the Securities and Exchange Organization (SEO) of Iran.

## 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.

This newsletter is strictly private and confidential, has been prepared by Griffon Asset Management ("Investment Manager") and is being provided to investors in the Fund on a confidential basis. This newsletter is for information purposes only and should not be construed as investment advice. All information provided herein is as of the date set forth on the cover page (unless otherwise specified) and is subject to modification, change or supplement in the sole discretion of the Investment Manager. This information is neither complete nor exact and is provided solely as reference material with respect to the Fund.

This material does not constitute an offering of any security, product, service or fund, including the Fund, for which an offer can be made only by the Fund's Confidential Private Placement Memorandum (the "Confidential Memorandum"). The terms and risk factors of the Fund are set out in its Confidential Memorandum which is available to qualified prospective investors upon request. The contents hereof are qualified in their entirety by the Confidential Memorandum and subscription agreements of the Fund.

The purchase of shares in the Fund is suitable only for sophisticated investors for whom an investment in the Fund does not constitute a complete investment program and who fully understand and are willing to assume the risks involved in the Fund's investment program. The Class A Shares of the Fund are subject to restrictions on redemption, transferability and resale as provided in the Confidential Memorandum and the Fund's constitutive documents. There is no secondary market for an investor's shares in the Fund and none is expected to develop. There is no obligation on the part of any person to register the shares under any statute.

The performance results of certain economic indices and certain information concerning economic trends contained herein are based on or derived from information provided by independent third party sources. The Investment Manager believes that such information is accurate and that the sources from which it has been obtained are reliable. The Investment Manager cannot guarantee the accuracy of such information, however, and has not independently verified the assumptions on which such information is based.

No reliance may be placed for any purposes whatsoever on the information contained in this newsletter or on its accuracy, completeness or fairness. No representation or warranty, express or implied, is given by or on behalf of the Fund, the Investment

Manager or any of their respective affiliates or partners with respect to the accuracy or completeness of the information contained in this newsletter. The aforementioned persons disclaim any and all responsibility and liability whatsoever, whether arising in tort, contract or otherwise, for any errors, omissions or inaccuracies in such information or respective subsidiaries or affiliates may differ significantly, positively or negatively, from forward-looking statements made herein. Due to various risks and uncertainties, actual events or results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements.

As a result, you should not rely on such forward-looking statements in making any investment decision. No representation or warranty is made as to the achievement or reasonableness of, and no reliance should be placed on, such forward-looking statements. Nothing in this newsletter should be relied upon as a promise or representation as to the future.

Certain figures contained in this newsletter have been subject to rounding adjustments. Accordingly, in certain instances, the sum or percentage change of the numbers contained in this newsletter may not conform exactly to the total figure given.

This newsletter may include track record information regarding certain investments made and/or managed by the Investment Manager or its affiliates and/or certain other persons. Such information is not necessarily comprehensive and potential investors should not consider such information to be indicative of the possible future performance of the Fund or any investment opportunity to which this document relates. The past performance of the Investment Manager or its affiliates is not a reliable indicator of, and cannot be relied upon as a guide to, the future performance of the Fund.

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

Investors"); (b) within the United Kingdom, to persons who (i) have professional experience in matters relating to investments and who fall within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "Order"), or (ii) are persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order, and/or (iii) persons to whom it may otherwise be lawfully communicated and (iv) are "qualified investors" as defined in section 86 of the Financial Services and Markets Act 2000, as amended; and (c) other persons to whom it may otherwise lawfully be communicated (all such persons referred to in (a) to (c) above together being referred to as "Relevant Persons"). This newsletter must not be made available to persons who are not Relevant Persons. No person should act or rely on this newsletter and persons distributing this newsletter must satisfy themselves that it is lawful to do so. No steps have been taken by any person in respect of any Member State to allow the Shares to be marketed (as such term is defined in the relevant legislation implementing the AIFM Directive) lawfully in that Member State.

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

The representative of the Fund in Switzerland is Hugo Fund Services SA, 6 Cours de Rive, 1204 Geneva. The distribution of Class A Shares in Switzerland must exclusively be made to qualified investors. The place of performance for Class A Shares in the Fund distributed in Switzerland is at the registered office of the Hugo Fund Services SA.

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.

## Griffon Capital

T: +98 21 26231278

F: +98 21 26231275

E: [info@griffoncapital.com](mailto:info@griffoncapital.com)

Unit 101

No. 38, Golfam Street

Africa Boulevard

Tehran

Iran