GriffonCapital

Asset Management and Private Equity

Monthly Newsletter

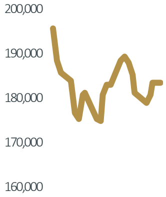
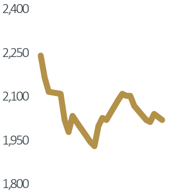
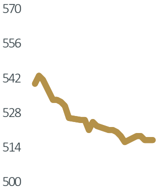
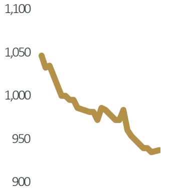
October 2018

In this issue:

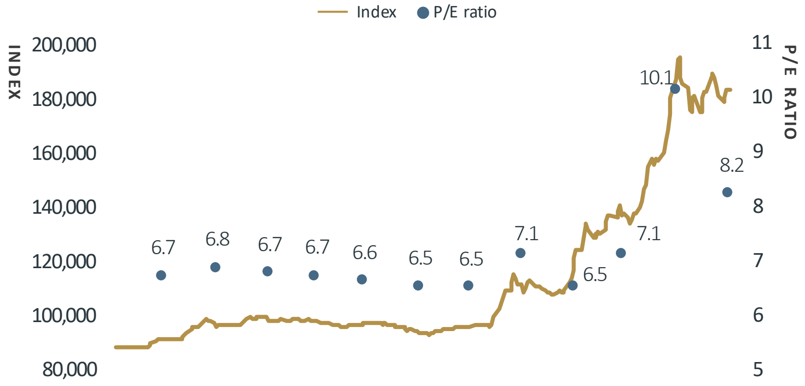
Please see the important Sanctions Disclaimer on pages 7 and 8 of this document.

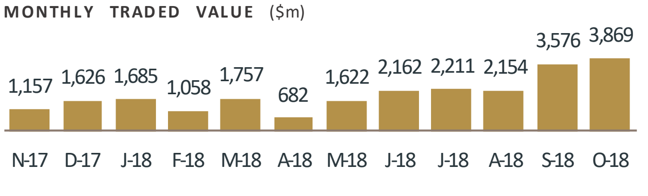
IRAN EQUITY MARKETS

INDICES

Index	TSE (TEDPIX)	Farabourse (IFX)	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
Monthly Performance	-6.0% 	-9.4% 	-4.3% 	-10.7% 
Last close	183,367	2,018	517	936
Past 12M	109.2%	107.5%	-15.6%	-16.3%
YTD	90.6%	90.7%	-18.9%	-19.1%
P/E (hist.)	8.2x	7.9x	14.0x	13.3x
Div. yield	6.4%	6.5%	3.9%	2.7%

TEDPIX INDEX & P/E (hist.) RATIO





MARKET CAPITALISATION

Market Cap ($m)		**Value traded** ($m)	
TSE	Farabourse	TSE	Farabourse
83,234	13,126	2,982	887

$1 : 83,775 IRR is the monthly average foreign exchange rate used for this report.
All market data represents the period October 1-31, 2018.
Sources: TSE, IFB, Bloomberg, MSCI, Griffon Asset Management, Bourseview, Sanarate.ir.

MARKETS AT A GLANCE

In October the stock markets finally paused for breath and corrected from their all-time highs of 197,001 and 2,267 for the TEDPIX and IFX, respectively. The TEDPIX and IFX retreated 6.0% and 9.4% on the month, respectively, having surged 96% and 91% since May 2018.

Corporate earnings were released this month. The half-year reports were generally strong across the board – especially for exporters and commodity-related companies, which benefitted from higher sales prices due to the FX devaluation this year. This caused the market's trailing 12-month P/E ratio to decline from 10.1 to 8.2.

The FX rate in the secondary market (traded on NIMA) was relatively steadier this month. Going forward, the market will focus on two things: the ongoing secondary effects of the FX devaluation on corporate earnings and balance sheets, and the direct and indirect impacts of US sanctions on both corporate profits and the broader macro environment.

At $175.8 million, October's average daily trading value (ADTV) was the highest it has been for two years. Retail activity (63.2%) again markedly surpassed institutional activity (36.8%). The most actively traded sectors were chemicals (15.3%), base metals (13.6%), refineries (12.7%), banks (10.8%), mining (5.9%), and autos (5.7%), which together comprised 64.0% of total trades.

IRAN EQUITY MARKETS

SECTOR PERFORMANCE[a]

BEST PERFORMING SECTORS

Metallic ore	↑	3.3%
Banking	↑	2.6%
Chemicals	↓	-2.1%
Conglomerates	↓	-3.0%
Refineries	↓	-5.2%

WORST PERFORMING SECTORS

Construction & real estate	↑	-26.7%
Foods excl. sugar	↑	-25.1%
Rubber & tyre	↑	-23.8%
Motor vehicles	↑	-22.9%
Leasing	↑	-22.4%

TOP GAINERS AND LOSERS

GAINERS

Kish Parsian E-COM[a]	*IT & computers*	↑	91.3%
Bargh Mapna	*Electric utilitilies*	↑	62.3%
Shirin Khorasan Agro.	*Sugar & by-products*	↑	50.9%
Pars Agro. [a]	*Agriculture*	↑	49.9%
Hafez Tile & Ceramic	*Ceramics & tiles*	↑	42.2%

LOSERS

Iranian Investment Incorporation	*Investment companies*	↑	-45.6%
Takceram Tile	*Ceramics & tiles*	↑	-41.0%
Pasargad Oil	*Petroleum products*	↑	-39.9%
Marjan Kar	*Ceramics & tiles*	↑	-39.4%
Vehicle Axle Manuf.	*Motor vehicles*	↑	-39.0%

SECTOR NEWS

Pharma
The government has authorised the allocation of $500 million from the National Development Fund of Iran (NDF) to the pharma industry. The NDF was established in 2011 in order to use a portion of the country's hydrocarbon revenues to increase the production capacity of other industries to further diversify the country's income streams. This allotment for the pharma sector will settle outstanding payables, that are constraining the pharma sector's working capital requirements and production.

IT
The Communication Regulatory Authority (CRA) reported that as of July 2018, the number of total internet users in Iran had reached 73 million, of which 13 million were ADSL subscribers and 60 million were mobile broadband (MBB) users. The MBB penetration rate was reported at 72% versus 65% at the end of last Iranian year ending March 2018, marking a notable growth in internet penetration in Iran.

Oil
The pricing and trading of refined oil products – i.e. crude oil and five products (gasoline, liquid gas, kerosene, gas oil and fuel oil) – through the National Iranian Oil Refining and Distribution Company will now be based on the secondary market FX rate traded on the NIMA online platform. Previously it was derived from the official CBI rate at USD/IRR 42,000.

(a) Kish Parsian and Pars Agro were IPOs in September and October 2018, respectively.
$1 : 83,775 IRR is the monthly average foreign exchange rate used for this report.
All market data represents the period October 1-31, 2018.
Sources: SEO, TSE, IFB, Financial Tribune, Farsnews, CBI, Griffon Asset Management, Sanarate.ir.

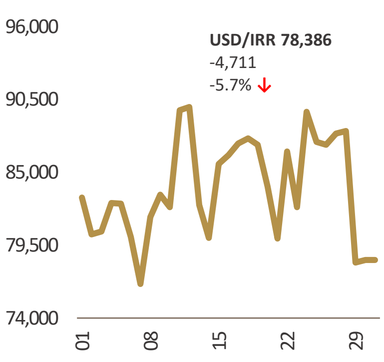
IRAN EQUITY MARKETS

TOP 10 COMPANIES BY MARKET CAPITALISATION

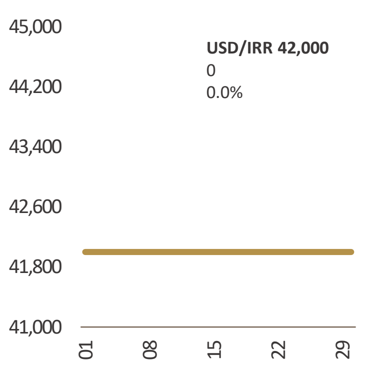
Price values in IRR	Market cap ($m)	Close price		1M	YTD	52 w/h	52 w/l
Khalij Fars Petrochemicals	5,886	5,389	↑	0.1%	82.3%	5,409	2,432
Chemicals	*5.7%*						
Mobarakeh Steel	5,364	5,991	↓	-5.1%	117.9%	6,532	2,132
Base metals	*5.2%*						
Golgohar Mining & Industrial	3,452	8,032	↓	-4.3%	209.3%	8,518	2,039
Metallic ore	*3.3%*						
Pars Petrochemical	3,029	42,296	↓	-2.6%	109.4% (a)	44,911	20,201
Chemicals	*2.9%*						
NICICO	3,018	4,214	↓	-11.1%	78.5%	4,777	1,758
Base metals	*2.9%*						
Maroon Petrochemicals	2,920	61,164	↓	-11.4%	85.4%	69,045	28,213
Chemicals	*2.8%*						
Parsian Oil & Gas	2,480	5,130	↓	-1.7%	137.5%	5,236	1,919
Chemicals	*2.4%*						
Tapico	2,434	2,502	↓	-2.3%	88.6%	2,771	1,117
Chemicals	*2.4%*						
Chadormalu Mining & Industrial	2,342	5,857	↑	3.6%	240.9%	6,207	1,387
Metallic ore	*2.3%*						
Bandar Abbas Oil Refining	2,281	13,847	↓	-1.5%	116.7%	15,876	5,487
Petroleum products	*2.2%*						

USD/IRR EXCHANGE RATE, OCTOBER 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 (NIMA) which is translated into USD/IRR, based on spot EUR/USD rate.
All market data represents the period October 1-31, 2018.
Sources: SEO, CBI, minew.ir, TSE, IFB, Sanarate.ir, Bloomberg, Tehran Times, Griffon Asset Management.

SECTOR NEWS (CONT'D)

Iran light crude oil was sold on the Energy Exchange to private buyers for the first time. 280,000 barrels were sold on the first day of trade, with the price of each barrel set at $74.9. The cargo will be delivered to Kharg Island in the Persian Gulf, which is 25 kilometers off Iran's coast.

Banking and macro
In its October meeting, the Financial Action Task Force (FATF), the global anti-money-laundering body, decided to extend the suspension of counter action against Iran until February 2019. The FATF has asked Iran to complete the outstanding measures by that date so that the country can be permanently removed from the black list.

Separately, as of November 5, all remaining US sanctions that were lifted as part of the Joint Comprehensive Plan of Action (JCPOA – the Implementation Day was on January 2016) will reenter into force.

IPO
This month there were two IPOS on the TSE. In the agricultural sector, Pars Agro (10% free float, $20.3 million market cap) opened for trading on 17 October and was 42.8% higher as of the close on 31 October.

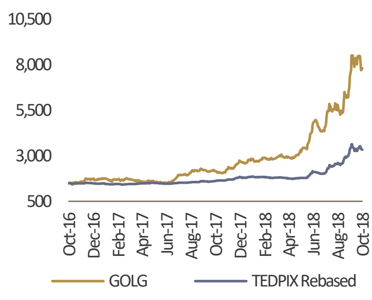
In the pharmaceutical sector, Avicenna Labs (20% free float, $18.4 million market cap) opened for trading on 15 October and was 29.3% higher as of the close on 31 October.

COMPANY OVERVIEW: GOLGOHAR MINING AND INDUSTRIAL COMPANY

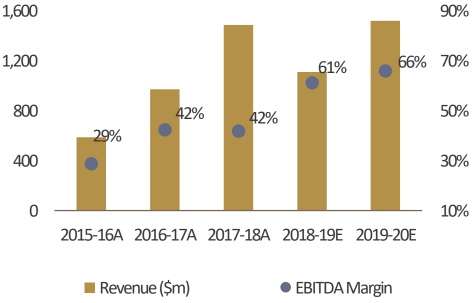
GOLGOHAR MINING AND INDUSTRIAL COMPANY

Symbol: GOLG	Market cap.: $3,501.0m	P/E (18-19E)[b]: 5.1x	12-month return: ↑262.0%
Exchange: TSE	Enterprise value[a]: $3,541.2m	5-yr (avg.) dividend payout ratio: 92.9%	EV/revenue (18-19E)[b]: 3.2x
Listed since: 2004	% of market : 3.5%	Dividend yield (18-19E)[b]: 17.8%	EV/EBITDA (18-19E)[b]: 5.2x
Last close: IRR 7,780	Free float: 20%	Avg. daily trade value: $934.1K	ROCE (hist.): 54.12%
90-day change: ↑130.2%	Shares outstanding: 36Bn	52-wk high/low (IRR): 8,486/2,038	ROE (hist.): 37.70%

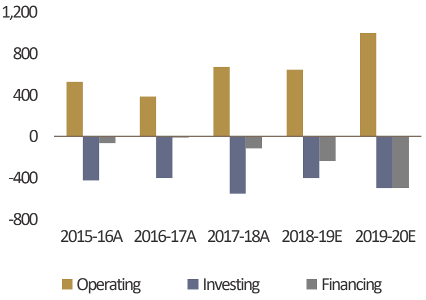
GOLG AND TEDPIX
Last 2 years



REVENUE & EBITDA MARGIN



CASH FLOW
($m)



FINANCIAL STATEMENTS ($M)

	15-16A	16-17A	17-18A	18-19E[b]	19-20E[b]
Concentrate production (m tonnes)	12.6	12.6	14.6	14.6	16.1
Revenue	589.0	972.5	1,487.2	1,112.4	1,520.1
Growth %	(34.5)%	65.1%	52.9%	(25.2)%	36.7%
EBITDA	169.4	411.6	622.0	680.8	1,002.5
Growth %	(48.9)%	142.9%	51.1%	9.5%	47.2%
EBITDA margin	28.8%	42.3%	41.8%	61.2%	65.9%
Net Income	202.5	321.5	617.7	692.6	1,051.6
Growth %	(38.4)%	58.8%	92.1%	12.1%	51.8%
Net Profit Margin	34.4%	33.1%	41.5%	62.3%	69.2%
Net Debt	59.4	259.5	94.0	(265.5)	(534.5)
Capex	140.8	135.9	112.5	16.8	22.9
Dividend	178.5	267.6	569.9	623.3	946.4

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 calculation is based on net debt from 2017-18 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.

COMPANY OVERVIEW

Golgohar Mining and Industrial Company was established in 1992 to produce iron ore concentrate and pellets for steel companies. Golgohar is one of the two biggest iron ore mining companies in Iran, the other being Chadormalu Mining Company. The majority of Golgohar's cost of goods sold (COGS) is composed of extraction costs (paid to contractors), government royalties and depreciation costs. Golgohar has the annual capacity to produce ~14.5 and ~11 million tonnes of concentrate and pellet, respectively, and plans to increase production of both.

Because most of Iran's steel producers use the electric arc furnace (EAF) method (as opposed to the blast furnace method commonly used in the rest of the world), they need pellets and direct reduced iron (DRI) to produce semi/finished steel products. Iran's government has plans to significantly increase domestic steel production to 55 million tonnes (versus ~30 million tonnes potential capacity currently) by 2025, so the demand for iron ore concentrate and pellets is expected to accelerate further in future. Golgohar's domestic market share of iron ore concentrate is more than 30%. The vast majority of Golgohar's iron ore pellets is also sold in the domestic market.

The company's main revenue driver is the domestic price of semi-finished steel bloom. The pricing of concentrate and pellets is announced annually and set as a fixed percentage of Khuzestan Steel Company's bloom price (Khuzestan is the second largest steel producer in Iran). Currently the price of concentrate is set at 12.5% and pellet at 21.5% of the bloom price. Golgohar does not own mines; instead, it pays an annual royalty to the government for the long-term licence. Golgohar's mines are newer, and its reserves less depleted, than those of its main rival, Chadormalu. Golgohar also intends to better manage contractor extraction costs (the largest component of COGS) by adopting a more assertive negotiation policy and utilising newer mines such as Gohar Zamin through its subsidiaries. In addition Golgohar plans to become more vertically integrated by producing DRI and billet in its subsidiaries.

A major medium-term challenge facing the metals and mining industry is the supply of water, which is an integral part of the production process. Golgohar, in a consortium with Chadormalu and National Iranian Copper Industrial Company, is trying to resolve its water-supply issues through a Persian Gulf water supply project.

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 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.

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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.

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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.

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.

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