GriffonCapital

Asset Management and Private Equity

Monthly Newsletter

September 2018

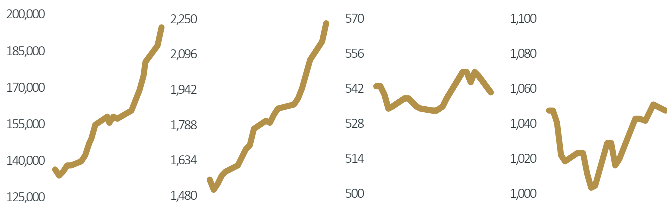
In this issue:

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

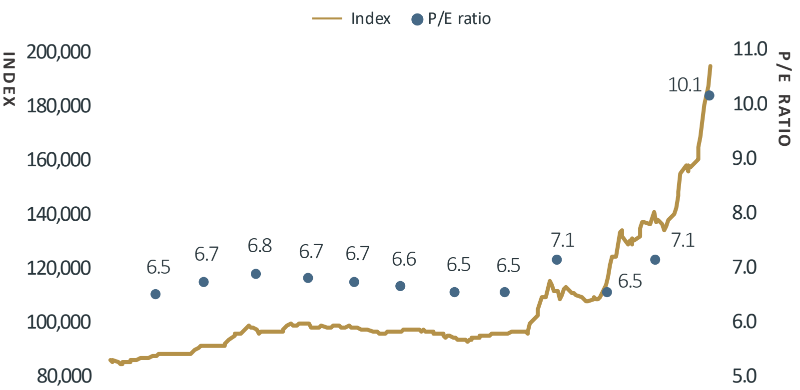
IRAN EQUITY MARKETS

INDICES

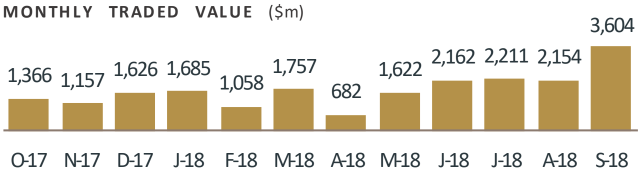
Index	TSE (TEDPIX)	Farabourse (IFX)	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
Monthly Performance	41.9%	43.2%	-0.5%	-0.9%
Last close	195,104	2,229	540	1,048
Past 12M	127.3%	131.9%	-10.1%	-3.0%
YTD	102.8%	110.6%	-15.3%	-9.5%
P/E (hist.)	10.1x	12.2x	14.4x	13.8x
Div. yield	6.0%	6.2%	3.9%	2.6%



TEDPIX INDEX & P/E (hist.) RATIO



MONTHLY TRADED VALUE ($m)



MARKET CAPITALISATION

Market Cap ($m)		Value traded ($m)	
TSE	Farabourse	TSE	Farabourse
92,743	15,126	2,774	830

MARKETS AT A GLANCE

In September, the stock market's ongoing rerating accelerated as the TEDPIX posted its sharpest monthly gain in 15 years. The TEDPIX and IFB gained 41.9% and 43.2% respectively – again exhibiting their hedging potential for this year's currency devaluation – as the market players begin to price in next fiscal year's earnings based on the much weaker Iranian rial. Retail activity and trading volumes also spiked higher, as the market's trailing P/E ratio expanded notably. The market's significant positive adjustment has now widened to domestic-facing sectors as well – the exporting- and/or commodity-related companies were the initial focal point, having led the market in the prior months.

In the currency market, the Central Bank of Iran's (CBI) recognised official rate (limited to core and strategic goods) and secondary market rate (on the online 'NIMA' trading platform) continue to coexist and are increasingly utilised by their respective approved participants.

September's ADTV stood at $171.6m, the highest recorded in the last two years. Retail activity (66.7%) markedly surpassed institutional activity (33.3%). The most actively traded sectors were chemicals (18.4%), base metals (14.0%), refineries (8.5%), banks (6.6%), and autos (6.4%), which together comprised 53.9% of total trades.

$1 : 80,252 IRR is the monthly average foreign exchange rate used for this report.
All market data represents the period September 1-30, 2018.
Sources: TSE, IFB, Bloomberg, MSCI, Griffon Asset Management, Bourseview, Sanarate.ir.

IRAN EQUITY MARKETS

SECTOR PERFORMANCE[a]

BEST PERFORMING SECTORS

Ceramics & tiles	↑	78.0%
Construction & real estate	↑	75.8%
Non-metallic ore	↑	67.9%
Sugar & by-products	↑	66.7%
Foods excl. sugar	↑	63.7%

WORST PERFORMING SECTORS

Base metals	↑	27.7%
IT & computers	↑	29.2%
Chemicals	↑	37.0%
Banking	↑	42.8%
Conglomerates	↑	43.4%

TOP GAINERS AND LOSERS

GAINERS

Shahdiran	*Food stuff excl. sugar*	↑	170.8%
Zahravi Pharmaceutical	*Pharmaceuticals*	↑	166.3%
Ilam Cement	*Cement*	↑	140.4%
Tabas Coal Co.	*Coal & lignite mining*	↑	140.3%
Daru Pakhsh Pharma	*Pharmaceuticals*	↑	140.0%

LOSERS

Mobin One Kish	*Telecoms*	↑	2.0%
Iran Merinos	*Textile*	↑	2.1%
Western Azerbaijan Pegah Milk	*Food stuff excl. sugar*	↑	3.3%
Vehicle Axle Manuf.	*Motor vehicles*	↑	3.6%
Rail Sair Kosar	*Railroads*	↑	3.7%

SECTOR NEWS

IME
Following the government's decision to remove price caps, commodity trading on the Iran Mercantile Exchange (IME) is now based on competitively-set, market-driven prices. This includes petrochemical products, refined oil, steel, copper and aluminium.

Cement
In the first six months of the current fiscal year, domestic cement prices increased by 12%. Furthermore, due to the devaluation of the rial, cement companies have increased their export prices from 40% to 100% on a year-on-year basis.

IPOs
This month there were two IPOS – one on the TSE and the other on the IFB.

Atrin Nakh Qom ($10.9m market cap) is a specialised producer of polyester, polyamide and twisting filament yarn in Iran. The company started trading on the TSE on 11 September and closed 79.3% higher as of 30 September.

Kish Parsian E-commerce Co. ($11.3m market cap) performs the electronic banking-related activities for Parsian Bank, other banks, and merchants. These activities include importing and installing point-of-sales (POS) systems and ATMs as well as providing after-sale services. It debuted on the IFB on 22 September and closed 33.8% higher as of 30 September.

$1 : 80,252 IRR is the monthly average foreign exchange rate used for this report.
All market data represents the period September 1-30, 2018.
Sources: SEO, TSE, IFB, Financial Tribune, Farsnews, CBI, Griffon Asset Management, Sanarate.ir.

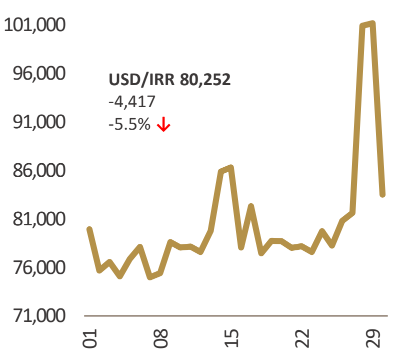
IRAN EQUITY MARKETS

TOP 10 COMPANIES BY MARKET CAPITALISATION

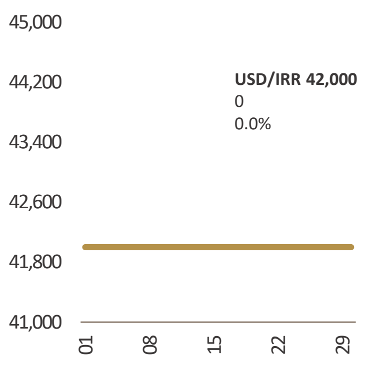
Price values in IRR	Market cap ($m)	Close price		1M	YTD	52 w/h	52 w/l
Khalij Fars Petrochemicals	6,440	10,337	↑	32.9%	82.1%	10,337	4,542
Chemicals	*5.5%*						
Mobarakeh Steel	5,902	6,315	↑	36.6%	129.7%	6,315	1,781
Base metals	*5.1%*						
Golgohar Mining & Industrial	3,765	8,394	↑	52.2%	223.3%	8,394	2,039
Metallic ore	*3.2%*						
NICICO	3,544	4,740	↑	19.6%	100.8%	4,740	1,758
Base metals	*3.0%*						
Maroon Petrochemicals	3,441	69,045	↑	37.1%	109.2%	69,045	26,777
Chemicals	*3.0%*						
Pars Petrochemical	3,247	43,433	↑	29.3%	115.0%[a]	43,433	20,201
Chemicals	*2.8%*						
Parsian Oil & Gas	2,633	5,217	↑	27.9%	141.5%	5,217	1,718
Chemicals	*2.3%*						
Tapico	2,600	2,560	↑	55.4%	93.0%	2,560	1,117
Chemicals	*2.2%*						
Bandar Abbas Oil Refining	2,419	14,065	↑	42.8%	115.0%	14,065	4,533
Petroleum products	*2.1%*						
Esfahan Oil Refining	2,368	9,501	↑	72.2%	120.7%	9,501	2,904
Petroleum products	*2.0%*						

USD/IRR EXCHANGE RATE, SEPTEMBER 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 September 1-30, 2018.
Sources: SEO, CBI, minew.ir, TSE, IFB, Sanarate.ir, Bloomberg, Tehran Times, Griffon Asset Management.

SECTOR NEWS (CONT'D)

Macro & Banking

The details of the government's consumer credit program have been revealed. It will be in the form of a subsidy that will be credited (~$36 on a monthly basis) to the bank accounts of registered low-income households. At the point of sale, the account holder can partially pay for the qualified goods (basic needs such as food and detergents), and the balance will be paid by government subsidy.

The Iranian parliament approved two bills (AML and Palermo) linked to the Iran Action Plan with the Financial Action Task Force (FATF). The FATF has given Iran until October to complete the reforms.

The Ministry of Economic Affairs and Finance has proposed the introduction of a new Treasury instrument to facilitate the government's debt swap plan for the private sector. Unlike the current listed Islamic T-Bills, these would not be tradeable. Creditors to the state would be able to apply for these Treasury notes only for the purpose of settling their own debt within the banking system. Banks could in turn use the treasury notes to settle their liabilities to the CBI.

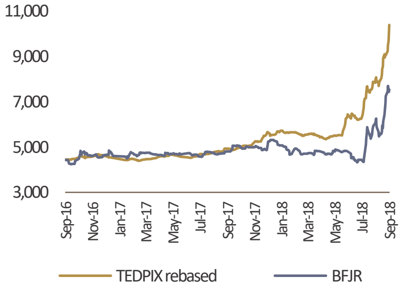
The EU and all other remaining signatories of the JCPOA announced a proposal at the United Nations to establish payment channels – notably a special purpose vehicle (SPV) – to facilitate payments related to Iran's exports, including oil.

COMPANY OVERVIEW: FAJR PETROCHEMICAL CO.

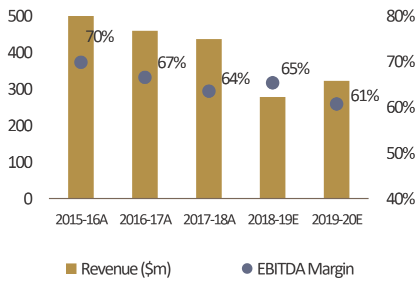
FAJR PETROCHEMICAL

Symbol: BFJR	Market cap.: $612.5m	P/E (18-19E)[b]: 3.9x	12-month return: ↑57.0%
Exchange: TSE	Enterprise value[a]: $630.2m	5-yr (avg.) dividend payout ratio: 60.0%	EV/revenue (18-19E)[b]: 2.3x
Listed since: 2016	% of market : 0.6%	Dividend yield (18-19E)[b]: 18.1%	EV/EBITDA (18-19E)[b]: 3.5x
Last close: IRR 7,539	Free float: 9%	Avg. daily trade value: $629.3K	ROCE (hist.): 43.2%
90-day change: ↑74.0%	Shares outstanding: 6.5Bn	52-wk high/low (IRR): 7,796/4,181	ROE (hist.): 43.4%

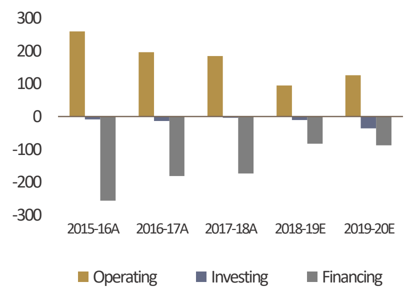
BFJR AND TEDPIX
Last 2 years



REVENUE & EBITDA MARGIN



CASH FLOW
($m)



FINANCIAL STATEMENTS ($M)

	15-16A	16-17A	17-18A	18-19E[b]	19-20E[b]
Revenue	511.4	459.2	436.8	277.8	322.4
Growth %	-8.2%	-10.2%	-4.9%	-36.4-%	16.0%
EBITDA	357.3	305.6	277.7	181.7	195.9
Growth %	-15.6%	-14.5%	-9.1%	-34.6%	7.8%
EBITDA margin	69.9%	66.6%	63.6%	65.4%	60.8%
Net Income	219.8	204.6	173.7	156.3	185.0
Growth %	-12.8%	-6.9%	-15.1%	-10.0%	18.4%
Net Profit Margin	43.0%	44.6%	39.8%	56.3%	57.4%
Net Debt	172.7	101.5	41.2	(38.3)	(74.1)
Capex	8.7	5.1	4.5	3.0	3.4
Dividend	84.5	155.3	114.0	110.6	131.0

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

Fajr Petrochemical Company was incorporated in 1998 to provide utility services to petrochemical companies in the Bandar Imam Special Economic Zone (SEZ) in southwest Iran. Fajr, the only utility service provider in this zone, became operational in 2002. The company rapidly expanded its facilities in site 2 of this economic zone, as the National Industrial Petrochemical Company (NPC) – a subsidiary of the Ministry of Petroleum, responsible for the development and operation of the country's petrochemical sector – boosted its plans for the industry's development in sites 2 and 3 of the zone.

The sale of electricity comprises 53% of the company's revenue. Fajr's electricity production has been running at approximately 40% of nominal capacity. Fajr's power plants consist of 11 turbine units that produce 1147 megawatt-hours (MWh) of power, which it then distributes to its customers. In addition, steam and demineralised water make up 16% and 7% of revenue, respectively. The company's utility prices and rates have remained unchanged since 2013 – at which point it had a 100% domestic price increase. On the other hand, Mobin Petrochemical Co. – the huge and exclusive utility provider to the petrochemical companies in the Pars SEZ – has its revenue denominated in USD; therefore, with the recent devaluation of the Iranian rial, Mobin has seen its rial-equivalent prices (for services and goods) increase strongly in tandem with the strong USD appreciation. Hence it is reasonable to assume Fajr's rial-based prices will either be readjusted significantly higher or its pricing methodology may be shifted to a USD denomination, as in the case of Mobin. Several meetings at National Competition Council have been held to unify the pricing methods of the two peer companies.

Natural gas comprises 40% of Fajr's cost of goods sold (COGS), and is the main fuel for producing electricity. The National Iranian Gas Company supplies natural gas – the price of which has been fixed since 2013 – to both Fajr and Mobin. In the two years ahead – given Mobin's 140% equivalent domestic price increases since 2013 – we have conservatively predicted 50% y/y and 30% y/y price increases in domestic prices (services and goods) for 2018-19 and 2019-20, respectively. The price of feedstock (natural gas) has been projected to increase by the same proportion.

This fiscal year Fajr has paid off about €55 million of debt at the official exchange rate of EUR/IRR 51,686, eliminating this currency exchange risk.

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).

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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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