GriffonCapital
Asset Management and Private Equity

Monthly Newsletter

November 2018

In this issue:

Stock markets and commodity prices retreat

FX market stabilizes and regulations evolve further

SWIFT access remains intact for some Iranian banks

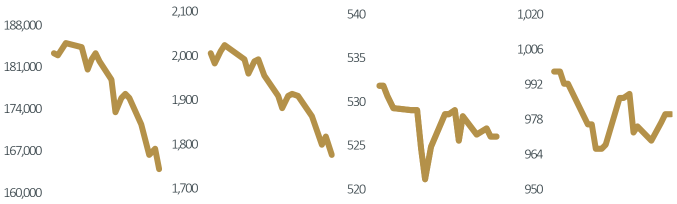
An overview of Razi Glass Group

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

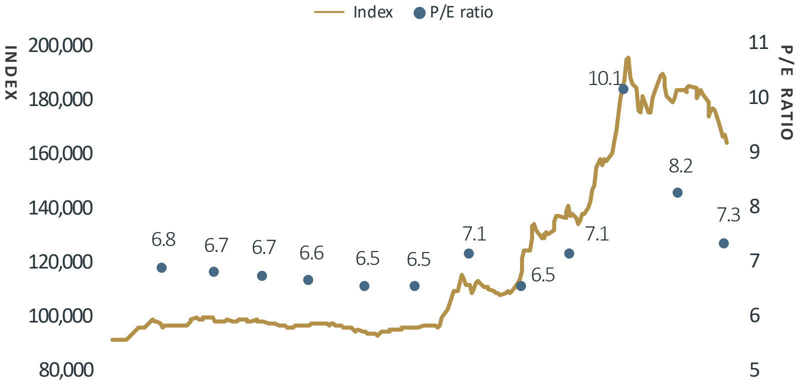
IRAN EQUITY MARKETS

INDICES

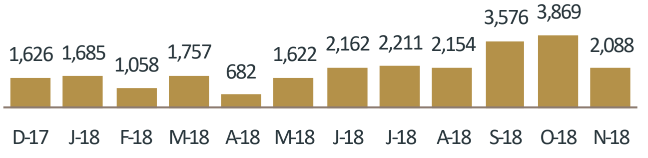
Index	TSE (TEDPIX)	Farabourse (IFX)	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
Monthly Performance	-10.7%	-11.9%	1.0%	2.5%
Last close	163,772	1,778	526	980
Past 12M	79.7%	72.5%	-14.8%	-14.1%
YTD	70.2%	68.0%	-17.5%	-15.3%
P/E (hist.)	7.3x	7.4x	13.4x	12.3x
Div. yield	7.0%	7.5%	4.0%	2.9%



TEDPIX INDEX & P/E (hist.) RATIO



MONTHLY TRADED VALUE ($m)



MARKET CAPITALISATION

Market Cap ($m)		**Value traded** ($m)	
TSE	Farabourse	TSE	Farabourse
78,695	13,306	1,490	599

$1 : 79,132 IRR is the monthly average foreign exchange rate used for this report.
All market data represents the period November 1-28, 2018.
Sources: TSE, IFB, Bloomberg, MSCI, Griffon Asset Management, Bourseview, Sanarate.ir.

MARKETS AT A GLANCE

In November, the stock markets retreated further post the initial corrections in October. The TEDPIX and IFX closed at 163,772 and 1778, moving -10.7% and -11.9% on the month, respectively. Although a correction was to be expected - given the sharp rally since May to adjust for this year's currency devaluation - the extent of this month's pullback surprised most investors especially given this month's positive corporate production and sales reports. Another noteworthy factor driving this month's negative price action is the concern over the fall in the global oil price, which further pressured other commodity prices such as methanol. Separately the Iranian rial significantly strengthened in the free (SANA) market in November (from ~USD/IRR >150,000 to 115,000) nearly halving its discount to the CBI's NIMA secondary exchange rate. This is positive from a macro perspective, though a likely cause for retail outflow from stocks in the short term.

November's ADTV of $116m was much less than the record months of September and October (~$175m). Retail activity (59.3%) dominated institutional activity (40.7%), though to a lesser extent versus last month. The most actively traded sectors were base metals (11.8%), banks (11.7%), chemicals (11.7%), mining (10.9%), refineries (8.0%) and auto (7.8%), which together comprised 61.9% of total trade value.

IRAN EQUITY MARKETS

SECTOR PERFORMANCE [(a)]

BEST PERFORMING SECTORS

Sugar & by-products	↑	5.5%
IT & computers	↑	3.5%
Foods excl. sugar	↑	2.9%
Motor vehicles	↑	0.3%
Pharmaceuticals	↓	-0.1%

WORST PERFORMING SECTORS

Refineries	↓	-20.1%
Chemicals	↓	-14.2%
Metallic ore	↓	-12.9%
Metal products	↓	-12.8%
Base metals	↓	-11.5%

TOP GAINERS AND LOSERS

GAINERS

Pars Agro. [(a)]	*Agriculture*	↑	51.8%
Ghaed Bassir Petrochemichal [(a)]	*Chemicals*	↑	47.6%
Tuka Paint	*Chemicals*	↑	44.2%
Lia co.	*Chemicals*	↑	39.4%
Pars Ceram Sanitary Ware	*Non-metallic ore*	↑	38.8%

LOSERS

Behceram Tile	*Ceramics & tiles*	↓	-38.9%
Zagros Petrochemical Co.	*Chemicals*	↓	-29.6%
Nirou Trans	*Electric machines*	↓	-28.9%
Khazar Cement Co.	*Cements, limes & plasters*	↓	-28.5%
Insurance Industry Investment	*Investment companies*	↓	-27.4%

(a) Ghaed Bassir Petrochemical and Pars Agro were IPOs in November and October 2018, respectively.
$1 : 79,132 IRR is the monthly average foreign exchange rate used for this report.
All market data represents the period November 1-28, 2018.
Sources: SEO, TSE, IFB, Financial Tribune, Farsnews, CBI, Griffon Asset Management, Sanarate.ir.

SECTOR NEWS

Oil & Gas

The National Iranian Oil Products Distribution Company (the state owned sole supplier and distributor of oil products in Iran) announced that car and motorcycle owners will be issued with fuel cards, though details of the plan have not yet been released. The reintroduction of fuel cards to the public will help the state in a bid to curb the smuggling of subsidised fuel.

The US granted 6- month sanction waivers to major customers of Iranian crude oil (starting on 5 November). According to US Secretary of State the 8 countries include: China, India, Greece, Italy, Taiwan, Japan, Turkey and South Korea.

Macro & Banking

On 5 November, SWIFT (the Belgian headquartered, global provider of financial messages) announced its suspension of services to some Iranian banks. However certain Iranian banks' access to SWIFT remain intact. According to Head of Compliance and AML at Middle East Bank - a leading Iranian private bank, renowned for its tight compliance with domestic and international regulations & standards - Iranian banks that are not subject to US secondary sanctions (~14 banks) can continue to use SWIFT.

In the latest CBI foreign exchange directive pertaining to exporters, companies have been categorised based on the value of their annual exports.

IRAN EQUITY MARKETS

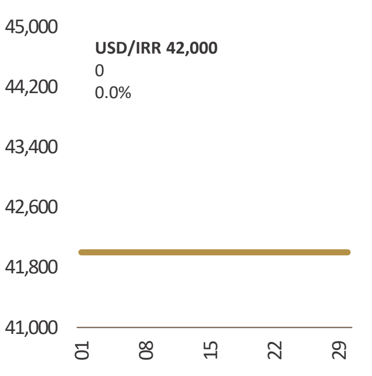
TOP 10 COMPANIES BY MARKET CAPITALISATION

Price values in IRR	Market cap ($m)	Close price		1M	YTD	52 w/h	52 w/l
Khalij Fars Petrochemicals *Chemicals*	5,683 *5.7%*	4,915	↓	-7.0%	66.3%	5,478	2,434
Mobarakeh Steel *Base metals*	4,782 *4.8%*	5,045	↓	-15.3%	83.5%	6,532	2,514
Golgohar Mining & Industrial *Metallic ore*	3,141 *3.2%*	6,904	↓	-12.4%	165.9%	8,518	2,273
NICICO *Base metals*	2,851 *2.9%*	3,760	↓	-12.6%	59.3%	4,777	1,963
Maroon Petrochemicals *Chemicals*	2,546 *2.6%*	50,363	↓	-17.8%	52.6%	69,045	31,657
Pars Petrochemical *Chemicals*	2,524 *2.5%*	33,289	↓	-22.6%	64.8%[a]	44,911	20,201
MCI *Telecommunication*	2,302 *2.3%*	18,976	↓	-0.1%	36.1%	19,759	13,790
Chadormalu Mining & Industrial *Metallic ore*	2,209 *2.2%*	5,218	↓	-9.2%	203.7%	6,207	1,524
Parsian Oil & Gas *Chemicals*	2,205 *2.2%*	4,309	↓	-13.2%	99.5%	5,236	2,048
Jam Petrochemical *Chemicals*	2,161 *2.2%*	17,814	↓	-8.3%	126.7%	19,873	7,572

USD/IRR EXCHANGE RATE, NOVEMBER 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 November 1-28, 2018.
Sources: SEO, CBI, minew.ir, TSE, IFB, Sanarate.ir, Bloomberg, Tehran Times, Griffon Asset Management.

SECTOR NEWS (CONT'D)

Companies that export <$1m/year, are not obliged to offer their hard currency on NIMA, the online FX management system which is supervised by the CBI for secondary exchange rate trading. These small exporters can use the FX for imports or sell their FX on SANA at the free market rate (the average exchange rate from all FX houses which includes some retail trades). Exporters that generate >$1m/year and <$3m/year, must sell at least half of their FX on NIMA and the other half can be traded on SANA and/or used for imports. Exporters of >$3m/year and <$10m/year, must sell at least 70% of their FX on NIMA and use the rest for imports. Large exporters of >$10m/year have to provide at least 90% of their FX on NIMA and utilise the balance for imports.

IPOs

In the consumer electronics sector: Maadiran (10% free float, $60.3m market cap), opened for trading on 26 November and closed 10.2% higher as of 28 November.

In the chemicals industry: Ghaed Bassir Petrochemichal Products (10% free float, $51.8m market cap), opened for trading on 6 November and closed 21.4% higher as of the 28 November. The company produces ABS, a common thermoplastic polymer.

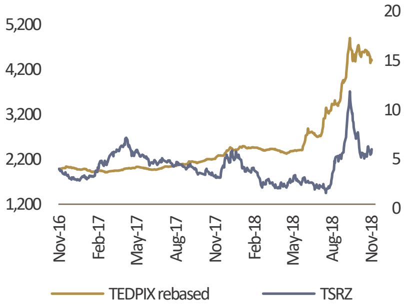
In the mining ore sector: Gohar Zamin (5% free float, $1.3bn market cap) opened for trading on 17 November and closed 25.1% higher as of 28 November.

COMPANY OVERVIEW: RAZI GLASS COMPANY

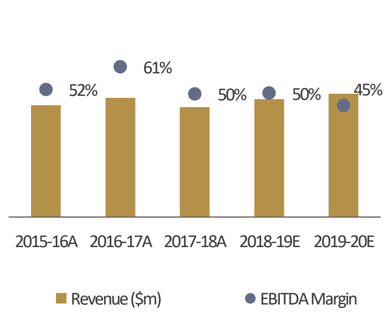
RAZI GLASS COMPANY

Symbol: TSRZ	Market cap.: $24.8m	P/E (18-19E)(b): 5.4x	12-month return: ↑34.8%
Exchange: TSE	Enterprise value(a): $28.4m	5-yr (avg.) dividend payout ratio: 43.7%	EV/revenue (18-19E)(b): 2.4x
Listed since: 2007	% of market : 0.03%	Dividend yield (18-19E)(b): 7.4%	EV/EBITDA (18-19E)(b): 4.7x
Last close: IRR 2,420	Free float: 40%	Avg. daily trade value: $68.1K	ROCE (hist.): 12.0%
90-day change: ↑9.1%	Shares outstanding: 850M	52-wk high/low (IRR): 3,729/1,446	ROE (hist.): 15.3%

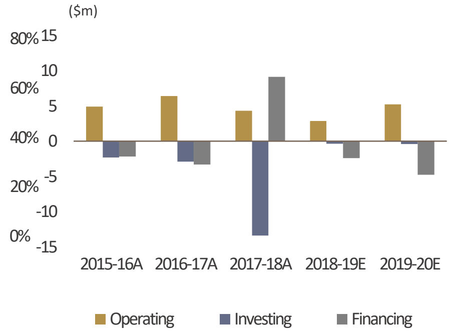
TSRZ AND TEDPIX
Last 2 years



REVENUE & EBITDA MARGIN



CASH FLOW
($m)



FINANCIAL STATEMENTS ($M)

	15-16A	16-17A	17-18A	18-19E(b)	19-20E(b)
Production (tonnes)	18,023	22,578	19,803	23,800	27,000
Revenue	11.3	12.1	11.1	11.9	12.5
Growth %	256.4%	6.6%	-7.9%	7.2%	4.7%
EBITDA	5.9	7.4	5.6	6.0	5.7
Growth %	510.6%	25.3%	-24.4%	8.1%	-6.0%
EBITDA margin	51.8%	60.9%	49.9%	50.3%	45.2%
Investment Income (subsidiaries)	5.4	4.3	3.1	1.0	3.0
Net Income	5.7	7.4	4.0	4.6	6.5
Growth %	85.1%	30.0%	-45.7%	14.3%	41.5%
Net Profit Margin	50.0%	61.0%	36.0%	38.3%	51.8%
Net Debt	(7.0)	(5.1)	(3.0)	2.1	5.5
Capex	0.2	0.3	0.1	0.1	0.2
Dividend	2.1	2.8	2.0	1.8	3.2

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

Razi Glass Co. was established in 1984 and listed on the TSE in 2007. The parent company - Razi - produces pharmaceutical glass and its subsidiaries - Takestan and Behin-Pouyan - produce beverage bottles and glass moulds, whilst also providing maintenance services. In 2017, Razi increased its ownership in the Takestan subsidiary from 52% to 100%. Razi now has a market share of ~60% in the domestic pharma glass market and Takestan is the 4th largest domestic glass producer in the food & beverage market. Takestan is known as a high-quality glass producer in its respective industry and Razi is the market leader in the pharmaceutical sector. Last year Razi faced a difficult environment as the purchasing power of its customers, especially the pharma industry, weakened and weighed down the company's profits.

In 2014 Razi's thermal furnace (25k tonnes capacity) for pharma glass production was overhauled. This process normally requires suspension of production for about four months. Earlier this year, Takestan's thermal furnace (45k tonnes capacity) for food & beverage glass manufacturing, was also overhauled and the refurbishment completed this month. The company's key competitive advantages include its multi-industry coverage and flexibility to substitute production lines between industry products as per market demand/supply. The company generates 19% of its revenues from exports. Its main raw materials include cullet (crushed waste glass) and sodium carbonate which are both sourced locally. Raw material comprise 26% of COGS, with overheads costs constituting another 45%.

There are several factors driving the growth of the industry: population growth, increasing GDP per capita, greater customer awareness of hygiene standards as well as better packaging and availability of higher end luxury products for glass packaging. Whilst there is a competitive and capital intensive landscape (growth & maintenance capex), this sector benefits from rich low cost (calcium carbonate) mines and low gas energy prices. Following several years of no capacity expansion in this industry, the ensuing high returns and margins attracted new players and additional production capacity. This has resulted in increased rivalry, price discounts and reduced profit margins. The landscape has started to stabilize and improve slightly. Following the significant devaluation of the Iranian rial producers will likely have further ability to raise their selling prices. Separately the working capital constraints of pharmaceutical customers have improved since the government settled more of its payables.

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

Unit 101
No. 38, Golfam Street
Africa Boulevard
Tehran
Iran