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Foreign ministers of Iran and the P5+1 Group, Geneva

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Market Overview

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Country Overview ______5

The nuclear agreement between Iran and the P5+1 will be discussed in this section.

Economy —____

The National Development Fund, the selective elimination of cash handouts, the unrealized potential of the country's mining sector in economic growth, and Iran's automotive industry in the first six months of 1392 will be covered in this section.

Radman Rabii Ehsan Ghamarian Market Overview Volume 8, No. 86

Following the political news surrounding the first conversation between the Iranian and American presidents in the past 35 years, the Tehran Stock Exchange (TSE) experienced a boom in October. During this month, a pool of liquidity flew into the stock market and the main index grew by 12% in Rial terms. As the current economic environment of the country has remained the status quo in the past month, this growth can solely be attributed to the more optimistic political climate and the consequent flow of fresh liquidity into the stock market. These developments have helped bring about the highest average daily trade value (more than USD 200 million a day) in the history of the TSE. Another development in October was the release of the six month corporate earnings reports. These reports deflated some of the enthusiasm in the market as their profitability figures were not congruent with investors' expectations. As a result, these reports pulled back some of the optimism and steered expectations back towards a more realistic setting. Based on the financial information of companies and the implausibility of further depreciation of the Rial (which has been the main stimulus behind the market growth in the past 16 months) the market is expected by many to be relatively calm and stable in the near future.

Some of the key events and sectors will be examined below:

Petrochemicals

The steep devaluation in the Rial's value over the past two years has caused significant imbalances in the production cost and revenue streams of some major industries. As a result, the revenues of some of these industries (such as petrochemicals) have soared significantly. Given the relative stability of the costs of raw materials, these revenue gains have been concurrent with only a modest growth in costs and have hence been directly translated into rather unconventional profit margins for the companies in this sector. Meanwhile the government, as the main supplier of feedstock, has been plagued with the aftermath of the budget deficit caused by increases in costs (due to the depreciation of the Rial). As a result, following the integration of the official currency room rate (known as the official

rate since March 2013) into the economic system last October, there have been proposals regarding adjustment of the cost of feedstock in accordance with the significant growth of sales prices. Since then, rumors have been spreading that the price of gas used by petrochemical companies may increase two- to five-fold. However, with the 10th government nearing the end of its term and the inefficiency of the state's bureaucratic system, such fundamental ambiguities have persisted for about a year now. So far, petrochemical companies have been relying on the traditional 2.7 cents gas price and have presented the market with rather promising six months reports. The sector index marked a growth of 17% in October and was the star performer among all sectors. However, such optimistic sentiment is expected to dampen when the price of gas is determined for petrochemical companies (it will probably be finalized next month).

Base Metals

A major proportion of such companies in the Iranian capital market sell their products on the Iran Mercantile Exchange (IME). As such, studying the trend of transactions on the IME market is essential for estimating the future performance of such companies. The current prices of basic metals compared to their prices in the spring show that steel ingot and rebar have recorded the biggest slump with a fall of more than 5% in their prices. Therefore, if the current situation persists and exchange rate remains stable, companies in this industry will have a tough time in the second half of the year in comparison to the first six months. In regards to copper and aluminum, their current prices have dropped by around 5% compared to their average in the spring. Influenced by the general positive market sentiment, the base metal index recorded growth of 8% in October. Nevertheless, given the climate of the market and the relative fall in prices of basic metals on the IME, it is unlikely for the massive leaps in the profitability of this industry to be repeated in the near future.

Other Industries

The continuous growth in stock prices and the

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prevalence of optimistic rumors about companies' performances had created high hopes amongst shareholders. However, the six months corporate earnings reports of some listed companies failed to meet investor expectations. The most shocking news was about the refineries, the largest industry in the capital market. Not only was no signs of any positive earnings adjustments seen in their reports, companies in this sector (even the best performers) were unable to cover 50% of their forecasted profits in the first half of the year. The natural reaction of the market towards these reports was a fall in stock prices of companies in this sector. The oil products sector index dropped by 10% at the end of October compared to its highest point on October 19th.

The automotive sector which, with a growth of 100%, was the star performer of the market in the first six months of the year, also reported losses and a significant decline in its production. These reports confirmed the existence of financial issues in the automotive companies and showed that the sector is in crisis. These reports indicated that the automotive industry's problems are too fundamental to be resolved merely by a more positive psychological market climate and require serious economic measures (such as an injection of liquidity). The sector's index had increased by 10% by mid-October. However, the release of the report made the industry's growth ebb and end up at around 3% for the month.

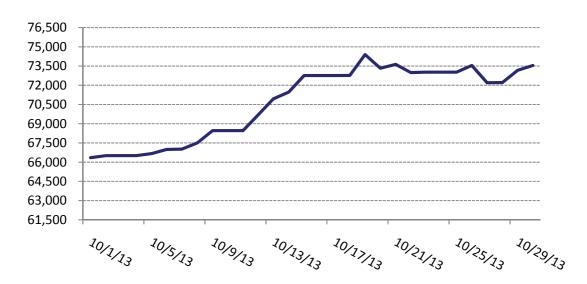
The pharmaceutical industry can safely be deemed the only industry with an astounding performance in this period. This industry experienced very notable positive adjustments and reported acceptable profit coverage. It seems that the industry has managed to successfully adapt itself to the current challenging circumstances, despite international sanctions and the heavy dependence of pharmaceutical companies on imported raw materials. The index of this sector grew 8% in October.

The cement and banking industries did not perform beyond investors' expectations. With a satisfactory growth rate, these industries generally postponed any positive earnings adjustments. The banking industry's index showed an average growth of 12% in October, and the sector was amongst the star performers in terms of profitability.

All in all, October started with a significant rise and ended with relative calm, with the TSE All-Share index marking an overall growth of 12%.

Market Overview

Performance of TSE All-Share Index (October)



Market Statistics				
Average P/E	7.1			
Trade Volume (\$ Billion)	3.6			
Trade Value Monthly Change (%)	95			
Market Cap (\$ Billion)	144			

Top 5 Traded by Value					
Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover		
1	Bandar Abbas Oil Refining Co.	348	10		
2	Persian Oil and Gas Development Co.	248	7		
3	Tamin Petrochemical Co.	238	7		
4	Isfahan Mobarakeh Steel Co.	207	6		
5	Persian Gulf Petrochemical Industry	179	5		

	Top 5 Companies by Market Cap					
Rank	Company Name	Market Cap (\$Million)	% of Total MC			
1	Persian Gulf Petrochemical Industry	14,618	11			
2	Bandar Abbas Oil Refining Co.	8,685	6			
3	Isfahan Mobarakeh Steel Co.	6,477	5			
4	Tamin Petrochemical Co.	5,636	4			
5	National Iranian Copper Industries Co.	5,388	4			

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 24790, as at 31 Octobber 2013 Due to Central Bank's revision on the official exchange rate of the Rial, their equivalent value in USD has reduced dramatically.

Nuclear agreement between Iran and the P5+1:

The P5+1 group and Iran met twice during the month of November in the Swiss city of Geneva in order to bridge the differences that remained prior to reaching an initial agreement concerning the Iranian nuclear programme. Since the election of President Rouhani, the delegations met three times in the span of two months in order to push for an agreement which was finally reached on the 24th of November. The breakthrough first-step agreement, which was achieved after five days of continuous and intense negotiations, was reached despite ten years of disputes over Iran's nuclear dossier.

After the first positive meeting in October, both the P5+1 and Iran met in Geneva on the 7th and 8th of November in the hope of reaching a breakthrough agreement that would result in Iran implementing confidence building measures by limiting certain nuclear activities and the West easing sanctions. Hopes of reaching an agreement surged when Foreign Ministers of the P5+1 countries, excluding the Chinese Foreign Minister, flew unexpectedly to Geneva in order to facilitate the deal making process. The negotiators however, were unable to reach an accord apparently because the French delegation was unhappy with the contents of the draft agreement. The negotiating parties decided to hold another round of talks starting on the 20th of November. The Iranian foreign minister said that he was not disappointed with the outcome and that he considered both sides to be on the same wavelength. The West also considered this meeting to have been positive and according to the US Secretary of State, both sides are much closer towards reaching an agreement than they have ever been before.

One of the other outcomes of the first meeting was the direct negotiations between the Iranian Foreign Minister, Mr. Zarif and the US Secretary of State, John Kerry; these meetings together lasted for more than 8 hours. The optimism that was caused by the unscheduled presence of the Foreign Ministers during the meeting in early November resulted in increased expectations for the second meeting as it was reported the parties were extremely close to reaching an agreement.

The second meeting which started on the 20th of November commenced with the Iranian Foreign Minister, Mr. Javad Zarif, meeting with the EU's High Representative for Foreign Affairs and Security Policy, Lady Catherine Ashton and diplomatic representatives from the P5+1 countries. Over the course of the first three days, various comments emerged from diplomats who called the talks positive and said that a possible deal was in reach; however, they also highlighted the existence of a few important points which the parties could not yet agree on. Analysts were observing the progress of the talks and the possibility of a further unscheduled attendance by the Foreign Ministers of the P5+1. Finally, the news of confirmed attendance by the Foreign Ministers came on Friday November 23rd; this was regarded as a positive sign.

The last day of negotiations seemed to be the most serious and yet the most positive round, as on the early hours of November 24th, Ms. Ashton's Spokesperson, Mr. Michael Mann, broke the news of an agreement on his Twitter account. Soon afterwards, Mr. Zarif attended a short press conference during which he stated that the sides had reached a first-step agreement to limit certain activities surrounding the Iranian nuclear programme in return for easing of some sanctions placed on Iran by the US and EU.

The most noteworthy points of the agreement were that Iran would voluntarily stop uranium enrichment above 5%, suspend further work at the Heavy Water Reactor at Arak, and provide daily access to IAEA inspectors to monitor its enrichment facilities while on the other hand. the P5+1 would transfer a portion of frozen Iranian funds to the country, eliminate sanctions on the trade of gold and precious metals, and the Iranian auto sector, as well as on the trade of Iranian petrochemical products. This agreement will be implemented for a period of 6 months in order to give the parties time to reach a comprehensive agreement after which Iran's nuclear programme would be treated as any other signatory of the Non-Proliferation Treaty and all UN Security Council and unilateral sanctions would be removed.

Officials, however, reacted differently to this agreement in their respective capitals to respond to the potential critics of this accord at home. President Rouhani stated, in a live televised press conference, that Iran had secured its nuclear rights with this agreement and the sanctions regime against Iran had been shaken. President Obama, on the other hand, stated in Washington that this deal does not include a recognition of Iran's right to enrich uranium and impedes Iran's alleged efforts in producing a nuclear weapon. Internationally, there was an almost unanimous support for this agreement while Israel was alone in officially calling this accord a mistake. Iran and the P5+1 have however stressed that the most difficult tasks and rigorous negotiations lie ahead and that reaching this initial agreement was only a first step.

Balance Sheet of National Development Fund

The National Development Fund (NDF), Iran's sovereign fund, released a report on its income and expenditure earlier this year. This report was published by Mohammad Reza Farzin, the former president of the development fund, a day after the fund was handed to the new president, Safdar Hosseini. According to this report, which spanned from 1389 to the fifth month of 1392, the fund received USD 54.6 billion over the period. Of this sum, the outflow of the fund was USD 19.77 billion and USD 33.2 billion is still available in the fund. The fund received its highest inflow in 1390 amounting to USD 21 billion. That year alone constituted 38% of the overall payments that the fund received over the administration of the 10th government.

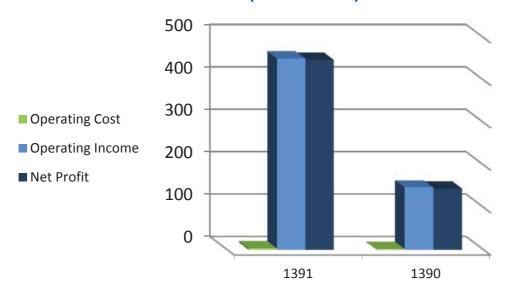
NDF Statement of Performance from 1389 to Mid-1392

	Fund Inflow (USD billion)	% of Total Inflow	Fund Outflow (USD billion)	Ending Balance (USD billion)
1389	14.104	26%	-	14.104
1390	20.782	38%	4.60	30.286
1391	15.084	27%	11.305	32.436
First five months of 1392	4.63	9%	3.866	33.2
Total	54.6	100%	19.771	

The most important components of the current asset portion of the development fund's balance sheet are cash, current facilities (short term - working capital) and receivables. The total value of NDF's current assets was USD 34.215 million at the end of 1390. With an increase of 25%, the value of current assets hit USD 42.631 million by the end of 1391.

Operating income of the NDF also showed a growth rate of 200% in 1391 compared to the year before. The operating income of the NDF was USD 146 million in 1390 and hit USD 450 million by the end of 1391. This marked a net profit of USD 447 million on the operations carried out in the NDF in 1391.

Summarized Income statement of NDF over 1391 fiscal year (Million Dollar)

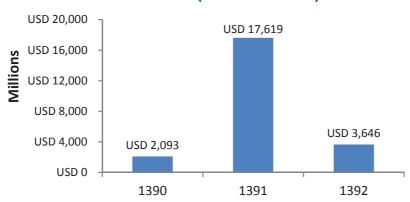


Another important component in the balance sheet of the fund is long term loans, which are considered non-current assets. According to the NDF's constitution, one of the main applications of available resources is to give loans to economic projects in the private sector. These are long-term loans dedicated to projects which provide a minimum yield. According to the fund's balance sheet, the amount of these loans was USD 2,684 million at the end of 1390 fiscal year. This figure

grew to USD 6,841 million by the end of 1391, an increase of 150%.

This growth in the fund balance was accompanied by an increase in the fund's expenditure focused on various sectors of the economy. The value of approved projects in the fund was USD 2,093 million in 1390. This figure grew to USD 17,619 million in 1391.

Performance of NDF's dollar loans (1390- Mid 1392)



Over the past two and a half years, the fund allocated USD 21,546 million to mining and industry (including the gas, oil and petrochemical industries), USD 566 million to housing and construction, USD 233 million to water and agriculture, USD 686 million to transportation and USD 193 million on the export of technical services. During the same period, the fund allocated 92% of its resources to mining and industry (including the gas, oil and petrochemical industries).

Composition of fund allocated to approved plans by sector (1390 – Mid 1392)

	1390 1391		1392					
Sector	No. of approved projects	Value (USD m)	No. of approved projects	Value (USD m)	No. of approved projects	Value (USD m)	Total (USD m)	% Total
Mine and Industry*	75	1,516	157	16,784	61	3,245	21,545	92%
Housing and Construction	22	369	17	197	0	0	566	2%
Water and Agriculture	16	208	4	24	0	0	232	1%
Transportation	0	0	2	292	3	393	685	3%
Export of Technical Services	0	0	1	190	1	3	193	1%
Other	0	0	6	129	2	41	170	1%
Total	113	2,093	187	17,616	67	3,682	23,391	100

^{*} This figure is inclusive of plans approved in oil, gas and petrochemical industries.

The sub-section breakdown of the fund shows that 50% of the fund's resources were allocated to oil and gas since the birth of the fund until mid-1392.

Composition of fund allocation to mine and industry

Section	Value (USD m)	Share
Oil and Gas*	10,795	50%
Upstream Petrochemical Industry	3,326	15%
Power Plant	2,380	11%
Steel	1,706	8%
Cement and Concrete	456	2%
Other	2,880	13%
Total	21,543	100%

^{*} This figure is inclusive of up- and mid-streams in the oil and gas industry

Selective elimination of cash handouts

According to reports, the Iranian government has decided to review a plan to eliminate cash handouts to 30% of the current recipients with higher income. The cash handouts program was implemented during the Presidency of Mahmoud Ahmadinejad as part of a plan to reform government subsidies which had been in place since the initial days after the Islamic Revolution of 1979. The subsidies reform plan included the removal of subsidies on energy products as well as basic goods and food essentials, while providing cash handouts instead to the economically vulnerable to compensate for the price increases.

As the large number of recipients for these cash handouts have placed a burden on the government, and due to the increase in liquidity and inflation that has been caused by the distribution of cash among the public, the new Iranian government aims to reduce these effects by cutting the cash handouts for wealthier classes. The Iranian Parliament also voted in favor of removing these cash handouts. However, the identification of the three higher income classes as well as the methodology for the execution of this plan have yet to be discussed. This move would also help the budget deficit which the government is currently dealing with.

Other reports during the month of November also suggested that the government is looking to eliminate cash handouts within the current format starting from after the Iranian New Year in March. Officials stated that the handouts may be changed to other forms of financial assistance for lower income families. such as the distribution of credit for the purchase of food and other essentials. Experts state that, as the implementation of new measures regarding the subsidies reform plan is going to have vast economic and social consequences, it may take some time for any new plan to be executed. However, since the government has lost a large portion of its oil revenues due to US and EU sanctions and is facing a budget deficit, the continuation of the cash handouts in the future is unlikely.

Unrealized potential of mining sector in economic growth

With a multitude of different minerals, Iran has enormous potential in its mining sector. According to the Ministry of Industry, Mine and Trade (MIMT), Iran has 62 known types of minerals and ranks 10th in the world in terms of mineral variety. In addition, the country has 37 billion tons of proven reserves and 57 billion tons of potential reserves, and ranks 15th in the world in terms of quantity of mineral substances. Out of the 5,700 historically operating mines in Iran, 4,600 are currently operating. Recently, there has been a lot of debate around the importance of the mining industry in realizing economic growth and fixing Iran's underutilized potential in this sector.

According to a report published by the Iron Ore Producers and Exporters Commission (IROPEC), only 5% of the iron ore mines are run by the private sector. Of the remainder, 91% are run by only 7 companies in the public sector and 4% are run by the unions. These figures are almost the same in other areas of the mining industry. All the while, the ratio of production to reserves is 0.8% in the public sector and 5.21% in the private sector. In other words, productivity is 5 times higher in the private sector. With redeployment of oil money becoming more and more difficult due to the effect of sanctions, the 11th government has as part of its agenda, the intention of using the mining industry to boost the country's liquidity.

In comparing the ratio of production to reserves in 4 countries, namely China, Australia, India and Iran, we can see that China has 8.3% of the world's reserves while it produced 37.5% of the world's iron ore in 2010 alone. Production in India is also more than its share of reserves. However, Iran and Australia produce Iron ore in an amount proportional to their reserves. These figures show that, contrary to common belief, Iran is not overexploiting its reserves. The performance of the National Geology and Mineral Exploration Organization (NGEMO) was also guestioned in the same conference. IMIDRO (Iranian Mines and Mining Industries Development and Renovation) acknowledged that the NGEMO suffers from a severe budget shortage. In 2012, USD 24 billion was spent on mineral exploration throughout the world, when Iran spent only 300 billion Rials on exploration in the same year.

According to IROPEC, Iran has 11% of the world's mines while it has only 1% of the world's population. The absence of a proper strategy is the main obstacle that different sectors of industry, and especially the mining industry, are plagued with. As a result, Iran, with massive reserves of iron ore, produces only 15 million tons of steel per year, while Korea, with no reserves, produces 55 million tons annually.

Automotive Industry in the first six months of 1392

According to the first six months report, the production rate of passenger cars has declined by 37.3% compared to the same period last year. However, although the production levels are still low, figures show that production has had a minor boost in Shahrivar (September) with three major car producers managing to increase their production rate over the month. According to the report, production of Tiba, Runna and Peugeot Pars increased in the first six months of 1392. However, the production of other models showed a decline over the same period. As such, it is safe to say that, even with some promising signs, the automobile industry is still grappling with underproduction. Such underperformance can be attributed mainly to international sanctions

and financial problems. Currently, due to strict sanctions, obtaining necessary car parts is either impossible or very expensive for Iranian manufacturers. This situation has especially deteriorated due to the recent US sanctions on the Iranian automobile industry. These sanctions impede trade between Iranian manufacturers and their foreign counterparts. Even Chinese suppliers no longer provide Iranian manufacturers with their required parts like they used to. Moreover, an improvement in production volume is even less likely if Iranian manufacturers fail to resolve their financial difficulties. At the same time, hope has sprouted in the last couple of weeks following the promising political developments between Iran and the West signaling the removal or abatement of sanctions on the automobile industry.

According to published statistics, Iran's top three automobile manufacturers produced 232,302 passenger cars in the first half of 1392. In this period, the production volume of Iran Khodro, Saipa and Pars were 108,258 units, 93,282 units and 30,762 units respectively. These figures show that Iran Khodro's production dropped by 41.5%, Saipa's production by 7.3% and Pars's production by 63.5%.

Imports of automobiles have risen. The import rate of automobiles rose by 15.4% in the first 6 months of 1392 compared to the same period last year. 8.1% of this rise took place in the first five months of 1392 and 7% of it occurred only in the sixth month of the current year. In this period, 22,222 units were imported to the country; this is a high number considering the devaluation of the Rial and prohibitions that are in place. This rise in imports occurred despite the government's new legislation requiring importers to recycle more cars against every car they import.

Overall, the under-production of Iranian manufacturers has resulted in imports rising and exports falling in the first six months of 1392. According to the Customs Administration report, exports of automobiles fell by 81.03% in 1392. The year-to-date report published by the Customs Administration show that the country has exported only 5,208 units.

About Turquoise

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Turquoise publishes this electronic newsletter, *Iran Investment Monthly*, with the aim of keeping its recipients updated on the latest macroeconomic developments in Iran, providing an in-depth analysis of the Tehran Stock Exchange as well as introducing new financial products and private equity opportunities to potential investors.

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