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TURQUOISE PARTNERS

Haft-Seen table, set up as part of Iranian New Year, Norouz, celebrations

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Chief Editor: Ramin Rabii
Authors: Shervin Shahriari, Sanam Mahoozi, Ali Mashayekhi

Turquoise Partners, No. 17 East Gord Alley, Bidar St., Fayyazi (Fereshteh) Ave.
Tel : +98 21 220 35 830 Fax : +98 21 220 49 260
Email : info@turquoisepartners.com
To find out more about Turquoise Partners, visit our website at: www.turquoisepartners.com.

So far this year, the Tehran Stock Exchange (TSE) has delivered one of its most volatile periods in its history. Following an exceptional performance in January, investors witnessed widespread price corrections and a significant decline in trade volumes (excluding IPOs and block trades) in February. The TSE All-Share Index lost 2.2% of its value in Rial terms. Aside from the general risk aversion and the cautious sentiment of most investors, analysts have identified two main reasons for the price corrections in February.

Firstly, two large IPOs took place in February, which absorbed over $250 million of liquidity from the market. Many investors reduced their existing holdings in the hope of achieving short-term gains from the IPOs. In particular, in the second week of February and prior to the IPO of Parsian Holding Co. (see below), the TSE main index lost 2% of its value, due to widespread sell-offs. Secondly, many companies released very conservative budgets for the next Iranian fiscal year. In particular, budgets of exporting companies and those companies with exposure to the exchange rates were formulated based on the official Central Bank exchange rate, despite an average 50% lag in the official rates versus the market rates. While the general consensus expects most of such companies to outperform their budgets next year, the overly cautious budgets have led to the less risk-averse investors replacing some of their equity holdings with fixed income (which now yields up to 20% per annum) and other asset classes.

At the end of February, the weighted average price to earnings ratio (P/E) of the market stood at 6, its lowest level for almost 18 months. With the annual inflation rate surpassing the 25% mark and the increase of up to 3% in the interest rates at the end of January, analysts expect the market P/E to fall below its 10-year average of 5.5 in the coming months, as companies revise their earnings forecasts, while prices remain relatively stable.

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

Initial Public Offerings

Isfahan Zob Ahan:

On 8th February, a 3.2% stake in Isfahan Zob Ahan (Iron Smelting) Co, was sold on the Iranian Over-The-Counter market, Farabourse, at a market capitalisation of approximately $835 million and as part of the ongoing privatisation programme. This came a week after a failed attempt by the government at selling 7% of the shares in Zob Ahan at a market capitalisation of $960 million (which was deemed as too expensive by the market). With an annual production capacity of 2.5 million tonnes, Zob Ahan is Iran's third largest steel and by-products producer and is directly controlled by the Ministry of Industries & Mines. Despite its large market capitalisation, Zob Ahan could not be listed on the TSE's main board, as the company has an accumulated loss of approximately $540 million and is expected to report a loss in the region of $90 million this year. Nevertheless, Zob Ahan is expected to benefit from the increased selling price of its products next year and generate net earnings in the region of $285 million. Shares of Zob Ahan lost 4.2% of their IPO value by the end of February.

Parsian Holding Co:

On 15th February, a 10% stake in Parsian Holding Co. was offered and successfully sold within seconds on the TSE main board. Parsian is the largest listed holding company of petrochemicals and controls the world's largest producer of methanol (Zagros Petrochemical) and the world's largest producer of urea (Pardis Petrochemical). The IPO took place at an astonishingly low forward P/E of 3.1 and a market capitalisation of $2.3 billion. Unsurprisingly, the offering attracted significant investor interest, such that the stock price finished the month 17% higher than the IPO value. Parsian Holding is expected to generate net earnings in excess of $745 million this year.

Sugar & by-products

The sugar & by-products has been by far the best performing sector so far this year. In February, strong price rallies across the sector pushed the sector index up by 29%, bringing the year-to-date sector index rise close to 300%. The devaluation of the unofficial rate of the Rial against the US Dollar, together with increased difficulties in importing sugar into the country due to tighter sanctions, have led to the price of raw sugar going up by 80% since the beginning of the Iranian calendar year. This, in turn, has led to an astronomical growth in the profitability of companies in this sector. Nevertheless, many investors believe the recent price rallies to be unjustified and out-of-sync with earnings growth. They argue that because the sector as a whole makes up less than 1% of the equity market, prices are easily manipulated and speculative trades are the main cause of price gains, rather than fundamental reasons. Additionally, they have become increasingly critical of the lack of transparency in these companies' earnings updates and in particular, the real impact of the exchange rate on their earnings. Towards the end of February, the Securities & Exchange Organisation (SEO) suspended the trades in all sugar companies and requested from them further clarification on their sales and earnings.

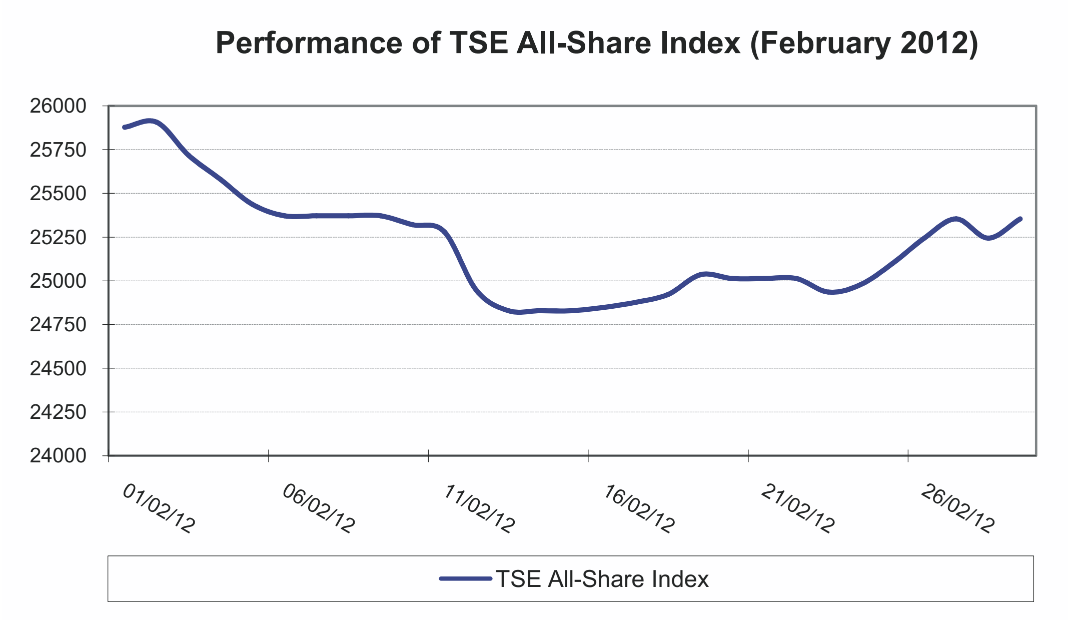
Real Estate Developers

This sector, along with several other construction related sectors, has been among the biggest underperformers of the TSE over the past 2-3 years. The average P/E of the sector has been below 5 for some time. In February, the real estate sector bucked the trend and with strong buying demand from investors, the sector index gained 17% in value. This sector is viewed by investors as relatively low risk, due to its lower-than-the-market average P/E, and a hedge against sectors impacted by sanctions and increased political tensions, such as the exporters and commodity-related companies. The latest unofficial data suggests that the average property price in Iran may have risen by more than 20% in the last 6 months and experts predict that this trend will continue in the next Iranian year. In this sector, Tehran Renovation & Construction Co. was the best performing stock with an 82% price gain over the course of February.

Base Metals

Stocks of this sector had mixed fortunes in February. While the sector index was only down by 0.6%, shares of the National Iranian Copper Industries Co. (NICIC), the largest company by market capitalisation in this sector and the second largest listed company on the TSE, suffered a 6% fall in their value. NICIC's budget for the coming year, which was released this past month, was rather disappointing in the view of many analysts. Revenues for next year have been forecasted to grow by only 1% in comparison to the current year. This forecast is based on the official exchange rate and a global copper price of $7,500 per tonne, both of which seem overly conservative. As a result, NICIC is expected to significantly outperform its budgeted revenues. However, the cost of sales has also risen by 17%, which is the main point of concern for many investors. The budget also shows a 20% decline in net earnings year-on-year. Despite the short term sell-offs, NICIC is still viewed as one of the best long term investments on the TSE.

Zinc and lead producers also reported unimpressive budgets for next year, and apart from the National Iranian Zinc & Lead Co., stocks of zinc and lead producers experienced modest price declines.



Market Statistics	
Average P/E	6
Trade Volume ($ Billion)	1.5
Trade Value Monthly Change (%)	20
Market Cap ($ Billion)	102.7

Top 5 Traded by Value

Rank	Company Name	Turnover Value ($million)	% of Total Turnover
1	Mining & Metals Development Investment Co.	86	6
2	Isfahan Oil Refinery Co.	74	5
3	Behshahr Industrial Development Co.	65	4
4	Mellat Bank	44	3
5	Ghadir Investment Co.	38	3

Top 5 Companies by Market Cap

Rank	Name of Company	Market Cap ($Million)	% of Total MC
1	Telecommunications Co. of Iran	11,865	12
2	National Iranian Copper Industries Co.	6,629	6
3	Isfahan Mobarakeh Steel Co.	5,949	6
4	Pasargad Bank	4,098	4
5	Ghadir Investment Co.	3,869	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 12260, as at 29 February 2012

Latest Developments on Iran's Nuclear Dispute

In February, a group of inspectors from the International Atomic Energy Agency (IAEA) made a visit to Iran for the inspection of some of Iran's nuclear facilities. Earlier in January, high-level representatives of the IAEA came to Tehran for a 3-day visit in an attempt to resume the dialogue between Iran and the West, which had stalled over a year ago. During the latter visit, a request by the inspectors to gain access to Parchin, a military site outside of Tehran, was denied by Iran. Consequently, the visit was cut short by the inspectors after 2 days. In a report published last year, the IAEA had indicated that it had reasons to believe that Iran had built facilities at the site for testing highly explosive material, which may be linked to the development of nuclear weapons. In 2005, IAEA was granted access to this site twice, following a similar report that was published in 2004. However, the nuclear watchdog reported that it did not observe any unusual activities during its two visits.

The visit was deemed as a failure by the West, particularly the US. However, Iran was quick to respond to the Western criticism. On 6th March, Iran issued a statement, arguing that Parchin is a sensitive conventional military site and any visit can only be made by prior arrangement. It added that Iran would allow one more visit to the site, if necessary arrangements are made with the Iranian military forces.

The two visits came following a series of unprecedentedly tough new sanctions imposed by the US, the EU and a number of other states against Iran. On 23rd January, the 27 EU member states agreed on an embargo of Iranian crude oil, which will commence on 1st July. Also, a number of European countries including the UK and France, imposed sanctions on the Central Bank of Iran. On 6th February, the US also approved sanctions against the Central Bank, a bill which had been opposed by President Obama a few months earlier. Additionally, the US has been increasingly pressuring other countries to stop or reduce their purchases of Iranian oil, including some of the key Asian buyers of Iranian oil such as China, India, South Korea and Japan. Iranian officials have, on numerous occasions, insisted that the sanctions will have no impact on the sale of crude oil and that they will be able to find new buyers for their oil. On 23rd March, Petronas of Malaysia unexpectedly announced its plans to stop purchasing of crude oil from Iran. While Petronas only purchases 50,000 barrels of oil per month from Iran and is not considered a major customer, this decision is seen as a major shift in the relationship between Iran and Malaysia.

A new round of talks is expected to take place between Iran and the so-called 5+1 Group (consisting of the US, UK, France, Russia, China and Germany) in April in Istanbul. Ahead of the talks, the two sides have somewhat softened their tone. Earlier in March, the US granted exemption against the oil embargo on Iran to Japan, South Korea and a number of other countries, after they agreed to reduce their crude oil imports from Iran by 15-20%. Also, during a speech on 9th March, Iran's supreme leader Ayatollah Khamenei welcomed Obama's dismissal of plans for any military action against Iran. Although this, in itself, is of little significance, it is a notable and an unprecedented change of tone by the supreme leader.

The 9th Parliamentary Elections

On 2nd March, election for the ninth parliament (also known as the Majlis) of Iran after the Islamic revolution in 1979 took place. According to the official statistics released by the Iranian authorities, 64% of those eligible to vote took part in this election, although this figure was disputed by the opposition groups. Of the 290 seats in Majlis, 225 were taken by candidates who managed to obtain the minimum threshold of 25% of the votes in the first round. The remaining 65 seats will be filled through a second round election.

The ninth election was considerably different in the make up of competing candidates in comparison to previous parliamentary elections. This was because this election was boycotted by reformist candidates. The reformist party has been the main opposition party to the ruling conservative camp (also known as the fundamentalists) for at least the past two decades. However, following the disputed presidential election in 2009, the reformist party was significantly weakened through accusations by the fundamentalists of acting against the interest of the regime and the arrests of many of its key figures, many of whom had previously held important positions in the government. Hence, from the opposition's point of view, the ninth election was very much a one-sided election between the conservative candidates. However, the reality is that over the past 2 to 3 years, a number of groups and divisions have emerged within the conservative camp. These divisions, stemming from domestic tensions, became more apparent due to the increasing rift between President Ahmadinejad and the supreme leader. While officially, the conservative camp was divided into three competing groups (as was discussed in detail in the February edition of Country Overview), the main competition was between the supporters of Ahmadinejad on the one side, and candidates closer to the supreme leader and critical of the government, on the other side. Ahmadinejad and his cabinet have come under strong criticism for their economic and social policies from a wide spectrum of conservatives and many members of the current parliament. Consequently, gaining a majority in the new parliament was of paramount importance for Ahmadinejad so as to strengthen his position for the remainder of the term of his presidency, and also, more importantly, for the next presidential election in 2013, in which a candidate close to Ahmadinejad will likely take part. By law, Ahmadinejad cannot take part in the next presidential election, as he has already served two consecutive terms as president.

The outcome of the election was a clear win for the traditional conservatives, the group closest to the supreme leader. In the Tehran electoral district, Gholam-Ali Haddad Adel, the speaker of the 7th parliament, who is also related to the supreme leader, obtained by far the most votes. Ali Larijani, the existing speaker of the parliament, also came first in the district of Qom, an extremely important district due to its religious power. In the view of some experts, the outcome and the turnout of this election were also important for the supreme leader, as they were a show of power and strength for both domestic and also international audiences.

On 14th March, Ahmadinejad was summoned to the parliament to answer 11 questions set by a group of MP's. His responses to the questions were assessed as unconvincing and in some cases, insulting to the parliament. The general consensus expects the newly elected parliament to take a firmer stance against the government of Ahmadinejad. Some go as far as predicting an impeachment of the president by the parliament. However, the supreme leader has clearly stated that his preference is for Ahmadinejad's presidency to run its normal course to the expiry of his term.

The Aftermath of the Interest Rate Rise

In January, the Central Bank of Iran raised the interest rates on bank deposits and fixed income instruments (as covered in the February edition) for the first time in six years. The government made the decision reluctantly and under significant pressure from various economic experts and authorities, including the parliament.

The interest rate rise has been much needed for some time for two key reasons. Firstly, the state's expansionary budget this year has led to a sharp rise in the inflation rate. Inflation in February was estimated to stand at 23%, up from 15.8% at the same time last year. In particular, the cash handouts of approximately $2.7 billion per month to households, following the partial removal of subsidies last year, has led to a substantial rise in excess liquidity in the economy. Experts estimate that the excess liquidity in the economy has grown by 15% this past year. Furthermore, unofficial reports indicate that the government has overdrawn in the region of $7 billion from the Central Bank (which is effectively new money that has been printed) in order to pay the cash handouts. Secondly, many experts argue that the turmoil in the foreign exchange and gold markets of the past few months, which led to a 40% devaluation of the unofficial rate of the Rial against the US Dollar (and other major currencies), was partially fuelled by the unutilised liquidity injected into those markets by speculators looking for quick gains. Had it not been for below-the-inflation rate-interest rates, some of this liquidity would have been absorbed by the banking system and/or the money market.

As well as the bank deposits, the Central Bank also allowed the coupon rates of all fixed income instruments, including participation bonds, Sukuk and certificates of deposits to go up to 20% per annum. While this is a positive step for new issuances, as it would create more investor demand, it created significant problems for the outstanding instruments, whose coupons were set at 17%, particularly those listed on the Farabourse market. Regulations for fixed income instruments oblige that a market maker always buys back the papers from the sellers in the secondary market at par value (i.e. 1 million Rials per paper) if there are no other buyers present. This means that the traded value of these papers can never go below par (which was needed in this case, in order to adjust the yield to maturity of papers with market rates). Unsurprisingly, following the announcement of the rate change the vast majority of the holders of over $1 billion of listed papers rushed to sell their holdings. To avoid a liquidity crisis for the market makers, the SEO was forced to suspend all trades on the fixed income market for 12 days. State-owned issuers quickly revised their coupon rates to 20%, and eventually, all other issuers decided to follow suit. Although the problem was resolved (at the expense of the issuers), it highlighted the shortcomings of the existing regulations and the need for a review of the procedures.

Between the 31st January, when the interest rate change was announced, and 20th March, the end of the Iranian fiscal year, approximately $8.5 billion worth of new participation papers were issued and successfully sold. These papers were mainly issued by the ministries, including the oil, transportation and energy ministries. In addition, $5.1 billion certificates of deposits were issued by banks. So in total, over $13.6 billion of liquidity was absorbed by these instruments. This proved to be an effective measure in stabilising the foreign exchange and gold markets. The price of gold coins fell by almost 20%. However, experts believe that the inflation rate will continue to rise in the coming months.

Iran's Real Estate Sector in 1390

The real estate boom over the last decade has played a significant role in Iran's economy. Following an extraordinary boom in the Iranian real estate market between 2004 and 2007, activity in this market suddenly slowed down from early 2008. In 2009, construction activity was at its lowest level for the past eight years. Since 2010, this sector has experienced a modest recovery.

The latest official reports indicate that the recovery in the real estate sector has gained pace throughout the Iranian calendar year 1390 (which ended on 20th March). According to the Tehran Municipality, the number of construction permits issued in the first half of 1390 exceed 100,000, which showed a 72% increase from the same period last year. Additionally, construction activity in the first half of this year has been more that that of the previous year's total.

The latest data from the Statistical Centre of Iran shows that the average property price in Iran in February has increased by approximately 10% in comparison to the same point last year. Also, the average residential rental yield has been around 7%. This means that real estate as an investment, with a 17% average return, has underperformed against other asset classes such as gold (70%), hard currencies and also against an annual inflation rate of approxiamtely 23%. However, the modest growth in property prices has made this asset class once again an attractive investment opportunity. According to the Ministry of Housing and Urban Development, in 1390 over $20 billion worth of new investments have been made in the real estate and construction across the country. This accounts for almost a third of all new investments in the country. Also, private sector investment in this sector has grown by 40% year-on-year. According to the Central Bank, the real estate sector accounts for almost 50% of the GDP growth over the past year.

With relative calm returning to the currency and gold markets, experts predict further growth in investments in the real estate sector, and forecast the average property prices to increase by 25 to 30% next year.

Raking of Iran's Top 100 Companies

In February, Iran's Industrial Management Institute (IMI) published annual rankings of Iranian companies by total revenues and net profits for the Iranian calendar year 1389 (2010-2011). Iran Khodro Group, the largest automotive manufacturer in the Middle East, managed to maintain its status at the top of the list with total sales of $11.2billion. In comparison to the previous year, Iran Khodro's sales showed a growth of 8%. Table below lists the top 5 companies in terms of revenues.

Total revenues generated by the top 100 companies stood at $160.6 billion, which shows a 32% growth in comparison to their previous year's total. This growth was helped by a number of factors such as the increase in inflation rate, a dramatic rise in the domestic price of commodities and some goods, due to the devaluation of the unofficial rate of the Rial; as well as expansion plans. In Particular, resource-based companies have significantly benefitted from the latter two. The top 16 companies on the list generated 50% of the total revenues. Gol-e-Gohar Iron Ore company experienced the highest jump in the ranking, moving from 123rd in 1388 to 65th in 1389. Pars Petrochemical Company was the second highest climber, moving up 39 places in the table.

In the raking of companies by net profit, the Telecommunications Company of Iran (TCI), achieved the top position in the table, generating in excess of $1.1 billion net profits. Isfahan Mobarakeh Steel, Mobile Communications of Iran (MCI) and National Iranian Copper Industries Company (NICIC) took the second to fourth positions, respectively.

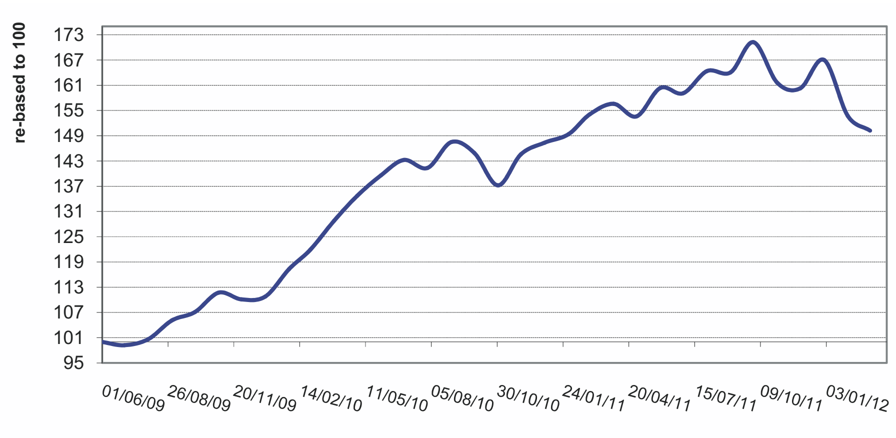
Company Name	Industry	Revenues ($ billion)	Year-on-year Growth
Iran Khodro Group	Automotive	11.2	8 %
Isfahan Oil Refinery	Oil & Gas	9.5	19 %
Saipa Group	Automotive	6.6	16 %
SAPCO Group	Automotive	5.7	19 %
Saderat Bank Holding	Financial Services	5.6	43 %

Investment Objective – The Turquoise Equity Investments seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities listed on the Tehran Stock Exchange (TSE) and other Iranian-based securities. The goal is to provide superior returns, with greater diversification and lower volatility.

Class A — *NAV = 150.2*

Vehicle Domicile	Management Fee	Currency
British Virgin Islands	2.0% p.a	Euro (€)
Launch Date	**Carried Interest**	**Minimum Investment**
01 June 2009	20% (High Water Mark Applies)	€100,000

Class A Performance (Euro) - As at 29th February 2012



Period	Portfolio Return
Last Month	- 2.3 %
Last 3 Months	- 6.3 %
Last 6 Months	- 8.4 %
Last 12 Months	- 2.5 %
Since Inception (01 June 09)	50.2 %

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Turquoise is a boutique investment firm based in Iran. Turquoise creates financial products and offers financial services to select clients and investors who are interested in the Iranian market. Having a qualified and diverse management team with a wealth of international expertise enables Turquoise to benefit from coupling a network of global expertise with an enviable reputation for local knowledge, professionalism and integrity.

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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