

**HAPPY PERSIAN  
NEW YEAR  
1388**



Goldfish for "Haft-Seen" Table, Which is Set Up as Part of the Iranian New Year, Norouz, Celebrations

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*Chief Editor: Ramin Rabii  
Consulting Editor: Eddie Kerman  
Authors: Shervin Shahriari  
Ali Mashayekhi*

*Turquoise Partners, No. 58 East Gord Alley, Bidar St., Fayyazi (Fereshteh) Ave.  
Tel : +98 21 220 35 830 Fax : +98 21 220 49 260  
Email : [ramin.rabii@turquoisepartners.com](mailto:ramin.rabii@turquoisepartners.com)  
To find out more about Turquoise Partners, visit our website at:  
[www.turquoisepartners.com](http://www.turquoisepartners.com).  
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In February and with the approach of the Iranian New Year (21<sup>st</sup> March), companies listed on the Tehran Stock Exchange (TSE) generally begin to publish their earnings forecasts for the coming year. In accordance with exchange regulations, if the earnings forecast of a company shows a 10% deviation (either positive or negative) from the current year's earnings, trading in that stock will be suspended prior to the new forecasts becoming public.

In February, trading in stocks of most commodity producing and consuming companies was suspended for the release of their earnings forecasts. Furthermore, the uncertainties surrounding both the government's budget for next year and also the plan to remove energy subsidies, resulted in investor caution. This is because both of these issues could have important implications for the capital market. As a result, trade volumes (excluding block trades) reached their lowest levels this past year. One of the key events in February on the TSE was the IPO of Bank Mellat, as part of the ongoing privatisation program.

Following the meltdown in global commodity prices in the late summer, commodity producing companies posted significantly weaker forecasts in comparison to the current year's results. Among these, the National Iranian Copper Industries Company (NICIC) and the petrochemical companies posted the weakest results. The picture was very different for commodity consuming companies. Most of these companies forecasted a growth in their earnings for next year due to cheaper raw materials.

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

### **Initial Public Offering of Bank Mellat**

On the 18th of February, a 5% stake in Bank Mellat was offered on the TSE. This was the first state-owned bank to undergo privatisation. With a share capital of \$1.3 billion and 1875 branches, Mellat is Iran's second largest bank and has a 23% share of Iran's huge retail banking market. The IPO took place at a price of 1050 Rials per share, placing the market cap at \$1.4 billion. This price put the Price to Earnings ratio (P/E) of the stock at 5.5, while the weighted average P/E of the banking sector was 4.2. On the first day of the offering, approximately 53% of the offered shares were bought by the market. The remaining shares were offered on the following day and were fully bought by institutional investors.

### **Pharmaceuticals**

Companies in this sector have benefited considerably from lower prices of chemicals and other raw materials in the second half of the year. Also, prices of all generic and most patented drugs are set by the government and are unlikely to suffer any notable reductions next year. As a result, companies in this sector have, on average, predicted a 14% growth in their earnings for next year.

In February, most stocks in this sector enjoyed higher trading volumes in comparison to previous months. Also, a number of these stocks had buying queues towards the end of the month. Overall, the sector index gained 0.2% in value.

### **Household Cleaning Products**

Despite the substantial decline in the prices of the raw materials of these companies, there has been little change in the sale price of their products. The price of washing detergent, the main product of the majority of companies in this sector, has only fallen by 15%. In February, the market witnessed price rallies in several stocks in this sector. As a result, the sector index gained 5.5% in value. However, most of these stocks are relatively small and somewhat illiquid.

Analysts are cautiously bullish on this sector. They assert, however, that two key risks exist within the sector. Firstly, despite the fact that the sale price of washing detergent was liberalised last summer, the government continues to interfere in the market. Consequently, the risk remains of the government enforcing a significant price reduction. Secondly, the market for most household cleaning products has reached saturation and is very competitive. This is likely to slow down growth in these companies. Nevertheless, there are attractive opportunities for market consolidation.

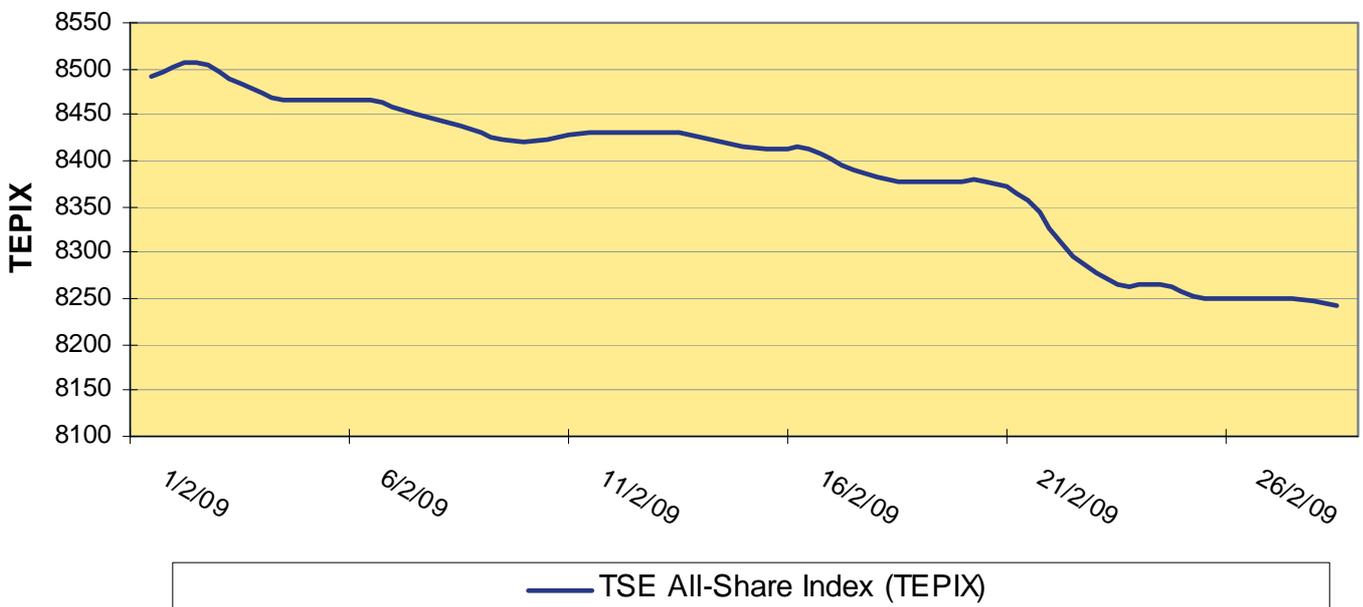
**Telecom**

Shares of the Telecommunications Company of Iran (TCI), the largest listed company on the TSE, have now been closed to trading for over 4 months. The stock was suspended for its Annual General Meeting in November. The submission of the financial information that TCI was required to provide to the exchange before reopening, was delayed for several months. This was due to the complexities associated with the reporting of this company. Finally in February, the second and third quarter results of TCI were published by the exchange. However, the stock remained closed due to transparency issues.

Analysts believe that despite the part-privatisation of TCI, this company continues to operate in a similar fashion to a state-owned entity regarding its budgeting, capital expenditure and tax treatment. Also, there is limited transparency in the financial statements of the company. Therefore, at the request of the shareholders and with the consent of the exchange regulator, TCI will remain closed to trading until additional information has been released by the company. Analysts remain bullish on this stock, but stress that TCI will not be able to fully realise its potential until it is wholly privatised.

Overall, the Tehran Stock Exchange had a slow month, with the TSE All-Share Index (TEPIX) losing 3.1% in value. Trade volumes amounted to \$208 million in February; however, approximately \$125 million of this was in block trades.

**Performance of TSE All-Share Index (February 2009)**

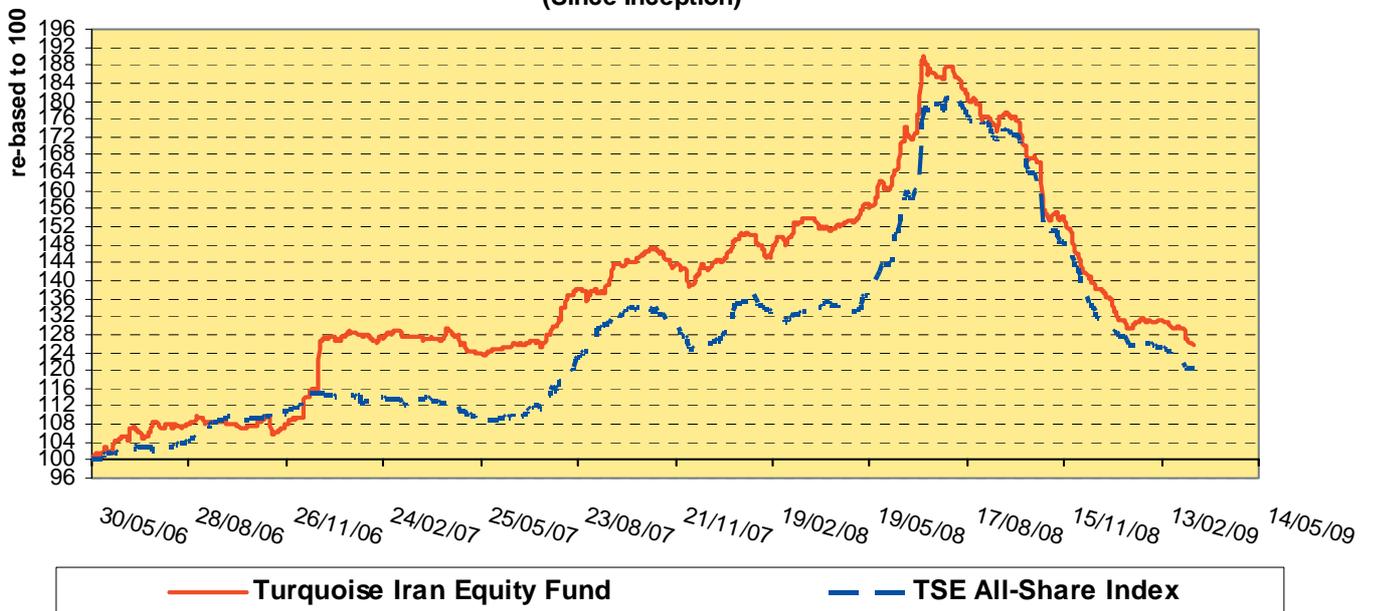


**Investment Objective** – The Turquoise Equity Fund seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities 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. The base currency of the Fund is Iranian Rial.

**Monthly Report** – The Net Asset Value (NAV) of the Turquoise Fund fell slightly by approximately 0.8% in February to stand at 129.6 by the end of the month. Also, most market indices continued to fall over the course of the month, with the TSE All-Share Index (TEPIX) losing 3.1% in value.

The charts below provide an update up until the middle of March, on the following: the performance of the Fund against both the TEPIX in local currency and also the MSCI Emerging Market index in USD, as well as the overall performance of the Fund in USD, Euro and GBP. The performance table also displays the historical performance of the Fund.

**Turquoise Portfolio vs. TSE All-Share Index (TEPIX)  
(Since Inception)**



	Dec 08	Jan 09	Feb 09
<b>Turquoise Fund</b>	↓ 7.5 %	↓ 2.4 %	↓ 0.8 %
<b>TEPIX</b>	↓ 8.5 %	↓ 1.7 %	↓ 3.1 %

## Performance

As of 15 March 2009

Period	Fund Return
Last Month	↓ 4.0 %
Last 3 Months	↓ 9.1 %
Last 6 Months	↓ 28.2 %
Last 12 Months	↓ 17.9 %
Since Inception (30 May 06)	↑ 25.5 %

### Turquoise Performance vs. MSCI Emerging Markets



### Turquoise Performance in US Dollar (US\$)



### Turquoise Performance in Euro (€)



### Turquoise Performance in British Pound Sterling (£)



Gerhard Schroeder's visit to Iran and the launch of Iran's first satellite into Earth's orbit will be the focus of this edition of Country Overview.

In February, the former German Chancellor, Gerhard Schroeder, visited Iran. Although he was invited by Dr. Samii, a famous Iranian neurosurgeon, to attend an international neurology conference in Tehran, he also met a number of senior officials in Iran. On 21<sup>st</sup> February, he met Mr. Ahmadinejad, Iran's President. The meeting took place behind closed doors and according to a statement released afterwards, the two discussed various regional and international issues and explored methods of cooperation to address the global crisis. Prior to this meeting and during a speech to the Iranian Chamber of Industry and Commerce, Schroeder had criticised some of Ahmadinejad's foreign policies and his denial of the Holocaust. He added that Iran viewed the possibility of resuming diplomatic relations with the West positively and urged Iran to accept US President Obama's offer to open a dialogue. He also stressed the important role of Iran as an influential regional power and stated that Iran could play a positive role in Afghanistan. Schroeder's meeting with Ahmadinejad was criticised by the Central Council of Jews in Germany.

In a meeting with Mr. Ali Larijani, Iran's Speaker of the Parliament, Schroeder discussed Iran's nuclear program and supported the idea of an international nuclear consortium in Iran. Iran had previously made an offer to the United Nations to build an international enrichment facility inside Iran. This offer was an attempt to resolve the controversy surrounding its nuclear program. He also met Ayatollah Rafsanjani, head of the Expediency Council and President between 1989 and 1997.

One of the more amicable of Schroeder's meetings was with Mr. Khatami, Iran's former President. Historically, the two countries have enjoyed strong economic ties and Germany has been Iran's biggest European trading partner. Iran's imports from Germany amount to approximately \$10 billion. Khatami, who speaks fluent German, asserts that relations between the two countries were at their peak when the two politicians were in office. Experts explain that the US-oriented stance of Schroeder's successor, Angela Merkel, has created a degree of tension between the two countries. Nevertheless, economic ties between Iran and Germany remain strong.

In the first week of February, Iran launched a rocket carrying a domestically-built satellite called Omid (meaning Hope) into space. This launch coincided with the 30<sup>th</sup> anniversary of the Islamic revolution and attracted huge media coverage all around the world. Reports suggest that Omid, a small test satellite, is equipped with experimental satellite control devices and power supply systems, and is designed to gather information and to test equipment. According to the Iran Space Agency, Omid is capable of orbiting the Earth 15 times every 24 hours. It will remain in orbit for approximately 3 months before falling back down into the Earth's atmosphere.

The success of the launch was confirmed by NASA and several other international organisations. Previously, Iran had tested the propulsion unit for the launch of the satellite. In August 2008, Iran reported that a satellite carrier rocket had been successfully tested; however, the success of that test was disputed by the US. The US and EU officials have expressed concern about these developments, arguing that Iran's technological progress in space propulsion could have military implications. However, these claims have been dismissed by Iran. Iran plans to expand its space programme and send more satellites into space. The reasons that Iran gives for putting its own satellites into orbit are to study natural disasters (such as earthquakes), to help its disaster management programmes, and to improve its telecommunication facilities.

### Iran's Housing Contract in Basra

According to the Basra Investment Commission, an Iranian firm called Karam has won a major development contract in the Southern Iraqi city of Basra. The contract has a total value of \$1.5 billion. It will entail the construction of 5,000 housing units, 3 hotels, 2,000 commercial units and a number of schools, supermarkets and health centres. According to media reports, British and American companies were reluctant to bid for the project because of security issues in the city.

Since the US-led invasion of Iraq in 2003, Iranian firms have dominated the construction and development sectors within Iraq. However, this contract is the largest that has been awarded to an Iranian company. This contract followed a visit to Baghdad by the Iranian Foreign Minister, Mr Mottaki, to discuss economic and political cooperation with Iraq. Since 2003, Iran has been continuously expanding its economic ties with Iraq. The two countries share a 1,200-kilometer border, and trade between them grew from USD 1.5 billion in 2006 to \$2.8 billion in 2007. The volume of trade was predicted to have reached \$4 billion by the end of 2008.

### New Financial Institutions in Iran

The Economic Minister, Mr Hosseini, announced that two new financial institutions had officially commenced their operations in February. In a joint venture between the Ministry of Economy and Financial Affairs, the Central Bank and all of the banks and insurance companies active in the Iranian market, Iran's credit rating institute and a centre for a comprehensive database of all financial services customers were created earlier this year. Last year, the government endorsed a bill for the implementation of a credit rating system within the financial services industry. According to the Ministry of Economic and Financial Affairs, all 19,000 bank branches in Iran will be directly connected to the customer database in the near future.

Historically, due to the lack of a unified credit rating system within the banking sector, all decisions regarding customer lending were made by branch managers. As a result, the banking system was vulnerable to high levels of credit risk, fraud and mismanagement of financial resources. This new development has been hugely welcomed by experts. They explain that the new credit rating system will not only increase transparency in the financial services sector, but will also result in a reduction in doubtful debts and write-offs within the banking sector. Statistics released by the Central Bank show that doubtful debts in the Iranian banking sector amount to \$40 billion.

### Iran's Human Development Index

The latest human development report published by the United Nations shows that Iran's ranking in its pace of development over the past 30 years is 4<sup>th</sup> out of 179 countries. Also, Iran's overall ranking has improved from 110<sup>th</sup> in 1979 to 84<sup>th</sup> this year. This report ranks all countries based on an index known as the Human Development Index (HDI), with 1 being the highest and 0 being the lowest scores. This index takes into account factors such as life expectancy, quality of education system, actual income and income per capita of individual countries.

According to this report, Iran's HDI, which stood at 0.559 in 1980, has increased by 21.8% to reach 0.777 this year. GDP per capita has also increased from \$2,970 in 1977 to \$10,031 today. One of the most notable improvements is in the literacy rate. The literacy rate among Iranians aged 15 or above was less than 48% in 1977, but it has now risen to approximately 85%.

### Central Bank's Proposed Monetary Policy

In February, the Central Bank published its proposed fiscal and monetary policies for the next Iranian calendar year (commencing 21<sup>st</sup> March). Since the government of President Ahmadinejad took office in 2005, the Bank has been under immense pressure from the government to cut interest rates, despite the growing inflation rate. The Bank strongly resisted the government's demands, which resulted in two Central Bank governors losing their jobs within 3 years.

This year, there seems to be a change in the government's attitude towards interest rates. The Bank's proposed policy for the coming year indicates an increase in lending rates for a number of industry sectors. The Bank recommends that while the lending rate for real-estate development, agriculture and manufacturing should remain constant at 12%, lending to the services sector, and for trade and imports should be at a rate of 22%. At the same time, the introduction of one-year term deposits with an interest rate of 19% suggests that the Bank's intended policy is to increase rates.

This comes at a time when the inflation rate is falling rapidly. The latest Central Bank statistics show that the inflation rate, which peaked at approximately 30% in the late summer, fell to 21% in February. At the same time, the Central Bank has implemented strong measures over the past year or so to reduce excess liquidity in the economy. This excess liquidity is a consequence of governmental overspending of oil surplus revenues. Some experts express concerns over the Bank's policies. They argue that at a time when the economy is showing signs of a slowdown, increasing interest rates and draining liquidity from the economy could hamper economic growth even more. Nevertheless, the governor of the Central Bank asserted that the Bank would follow an expansionary policy next year and would also implement an economic stimulus package for the manufacturing and industrial sectors.

One of the notable features of next year's package is the promotion of electronic banking. The Central Bank indicates that a new payment, clearing and settlement system will be introduced in the near future and it is encouraging all banks to adapt to the new system. The Bank claims that the new system will improve the speed and efficiency of bank transactions and reduce operational costs.

The Central Bank's proposal will be reviewed by the government and will become enforceable after amendments and a final endorsement.

## About Turquoise

Turquoise is a boutique investment bank based in Iran with offices in Tehran and London. 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 based both in Europe and in Iran enables Turquoise to benefit from coupling local knowledge and presence with global expertise.

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.

*Iran Investment Monthly* is distributed exclusively amongst Iran analysts and potential investors who have worked closely or have been in contact with Turquoise Partners. Subscription to this newsletter is by referral only or through an online request sent to: [ramin.rabii@turquoisepartners.com](mailto:ramin.rabii@turquoisepartners.com)

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