



Ghabous Tower, the World's Tallest Brick Building, Northern Province of Golestan

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In August, the Tehran Stock Exchange (TSE) main index had one of its best monthly performances. Gains in the stocks of metals and mining companies and the Telecommunications Company of Iran (TCI), and also the injection of new funds into the equity market, were the main reasons for its outstanding performance.

### Turquoise Iran Equity Investments

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The Turquoise Iran Equity Investments portfolios had a positive month, with the Portfolio One NAV gaining 10.8% in value and Portfolio Two gaining 4.4%. This section provides data and charts on the performance of the portfolios.

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Iran's steel industry, the ECO train line and Iran's imports and exports will be covered in this section.

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In August, the Tehran Stock Exchange (TSE) witnessed one of its strongest monthly performances. The market rally was mainly caused by the gains in metals and mining related companies due to further rises in global commodity prices, as well as a price hike in the Telecommunications Company of Iran (TCI) shares. In addition, analysts state that new funds have been injected into the equity market, resulting in higher demand for equities. Slow parallel markets (such as the real estate market) and lower interest rates for bank deposits are the main reasons for this inflow of fresh money.

Towards the end of the month, however, the market began to stabilise. In the view of most analysts, there was a degree of overreaction to the increase in commodity prices, which led to price bubbles in some related companies. This means that if there is a downturn in global markets, these stocks could experience a slump. Also, September is an important month politically as talks over Iran's nuclear dossier will resume. Consequently, investors took a more cautious stance at the end of the month. Analysts expect the market to go through a correction period in September.

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

## **Basic Metals and Mining**

In August, all zinc and lead producing companies increased their earnings forecasts for the current year. This was due to the sharp rise in the global prices of these two commodities. In addition, the government announced its plans for the sale through an auction of the Angouran mine to the private sector. The Angouran mine suffered a partial collapse in 2006 and is currently undergoing reconstruction. Several companies in this sector are dependent on Angouran for their raw materials. The result was that the companies dependent on this mine gained between 60% and 100% in their share price upon reopening. However, these gains appeared to be viewed as somewhat of an overreaction, and consequently the stocks experienced selling queues in the final week of the month.

The National Iranian Copper Industries Co. (NICIC) also raised its earnings forecast by 22% in August. The stock reopened 44% higher in value. NICIC is the second largest listed company on the TSE.

The basic metals sector index gained 30% in value in August.

## **Cement**

This sector was one of the best performing in August. The first quarter earnings results released in August revealed that the majority of companies in this sector have outperformed their budgets. Nevertheless, most companies in this sector took a conservative approach and did not raise their earnings forecasts for the year. Among these, companies situated close to the Iranian borders had the strongest performance. Following a slowdown in domestic consumption last year, the government removed the export tariff, which had previously been set at \$100 per tonne.

The cement sector gained 25% in value in August. This was the best monthly performance of this sector for the past 3 years.

## **Telecom**

In August, TCI once again made the headlines, with the company raising its earnings forecast by 20%. The management gave higher than expected revenues and changes in tax policies as the reasons for the revision in earnings. In addition, further announcements were made regarding the sale of a 50% plus one share stake in the company in September. The management indicated that two consortiums had formally expressed their interest in the deal. The base price for the deal was set at \$7.8 billion.

On 26<sup>th</sup> August, TCI reopened for trading 35% higher than the closing price. As a result, the TSE main index gained 5.4% in value, its highest daily gain in more than a year. TCI is the largest listed company on the TSE, comprising 15% of the market. After this, profit taking and doubts about the certainty of the block sale resulted in a heavy selling queue in the stock for the remainder of the month.

### Latest on the Economic Reform Plan

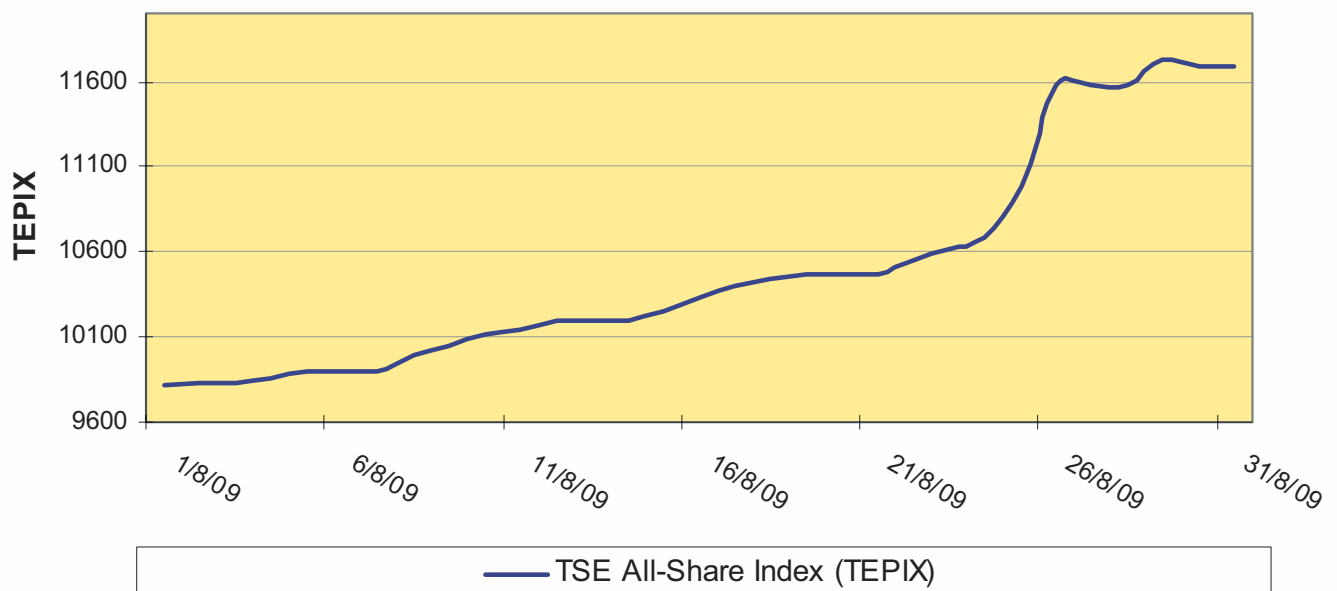
The economic reform plan was first introduced by the government last summer. This plan involves structural changes in 7 different spheres, including the taxation and the banking system. The part of this plan that is likely to have the most impact on the capital market is the so-called “targeted subsidies” plan. The government’s proposed plan involves the removal of subsidies on energy and various other goods and services, and compensating for the increased expenditure of families and industrial companies through cash payments and other methods.

Since its introduction, this plan has sparked much debate between its supporters and the opposition. The government’s initial plan was rejected by the parliament in March. After much discussion between the government and the parliament’s economic reform plan committee, the revised plan was submitted to the parliament for voting in an open session. The new plan proposes that price corrections should take place over a period of 5 years. Of the proceeds from the removal of subsidies, 50% will be repaid to families, 30% will be allocated to industrial companies and the remaining 20% will go to the government.

The removal of energy subsidies will increase production costs for manufacturing companies. The impact will be greater for cement, steel and other high energy consuming sectors. The plan, as it stands, does not specify how and to what degree the increased costs will be compensated.

Overall, the TSE experienced a very positive month, with the TSE All-Share index (TEPIX) gaining 19.7% in value. Trade volumes stood at \$1.2 billion, a 31% fall from the previous month.

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

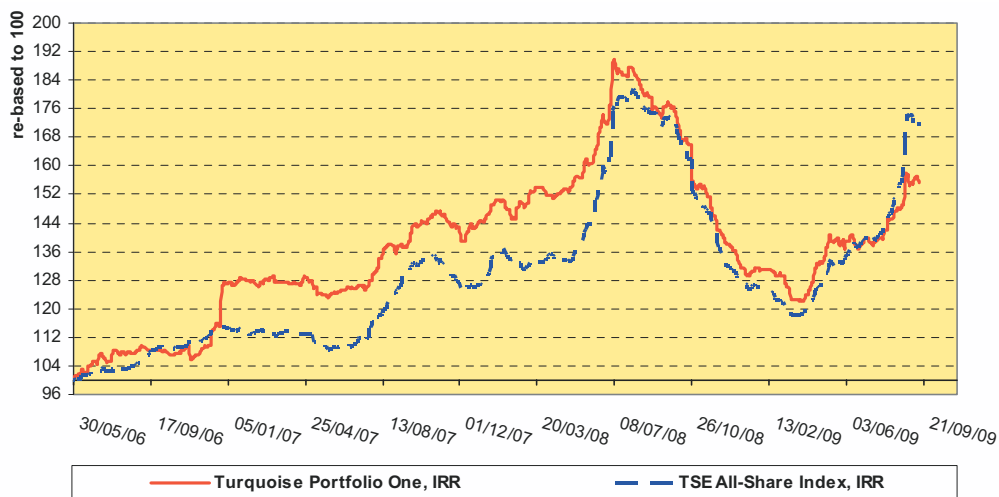


**Investment Objective** – The Turquoise Equity Investments seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in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

## Portfolio One

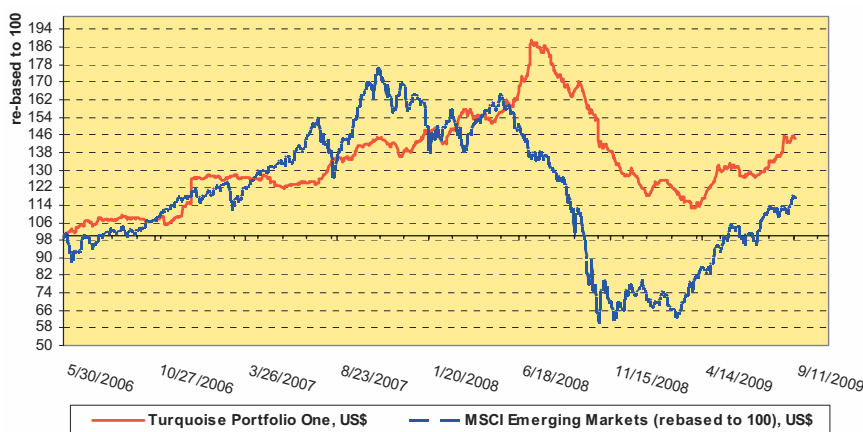
<b>Investment Vehicle</b> Pars Pelican Firouzeh	<b>Currency</b> Iranian Rial (IRR)	<b>Management Fee</b> 2.5% p.a	<b>NAV Calculation</b> Daily
<b>Vehicle Domicile</b> Iran	<b>Benchmark</b> Tehran Stock Exchange All-Share Index (TEPIX), IRR	<b>Carried Interest and Hurdle</b> 20% - 8%	<b>Liquidity</b> Quarterly
<b>Launch Date</b> 30 May 2006			<b>Minimum Investment</b> US\$100,000

### Turquoise Portfolio One vs. TSE All-Share Index (TEPIX), Iranian Rial - As of 15<sup>th</sup> September 2009



	Jun 09	Jul 09	Aug 09
<b>Turquoise Portfolio One</b>	↑ 0.5 %	↑ 1.7 %	↑ 10.8 %
<b>TEPIX</b>	↑ 4.3 %	↑ 4.0 %	↑ 19.7 %

### Turquoise Portfolio One vs. MSCI Emerging Markets, US Dollar - As of 15<sup>th</sup> September 2009

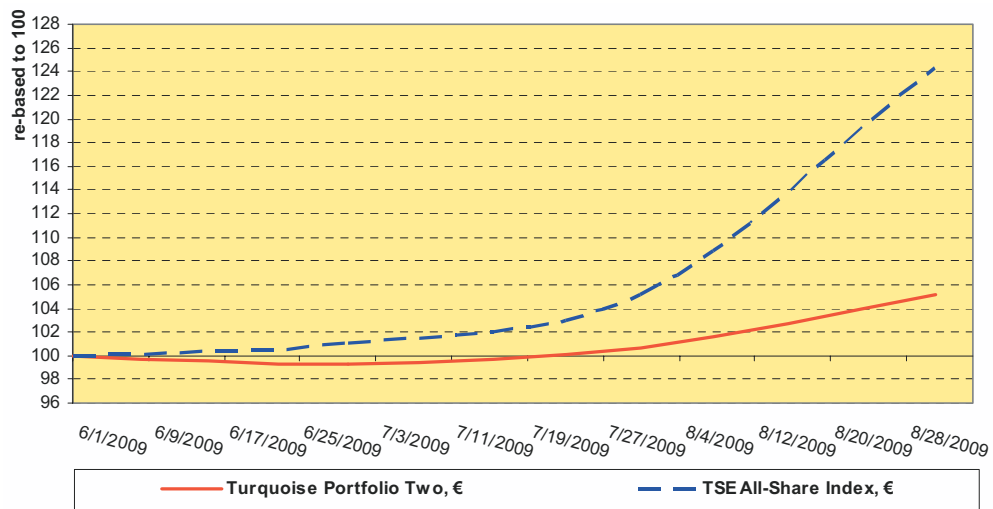


As of 15 September 2009	
Period	Portfolio Return
Last Month	↑ 4.9 %
Last 3 Months	↑ 12.3 %
Last 6 Months	↑ 23.8 %
Last 12 Months	↓ 11.1 %
Since Inception (30 May 06)	↑ 55.4 %

## Portfolio Two

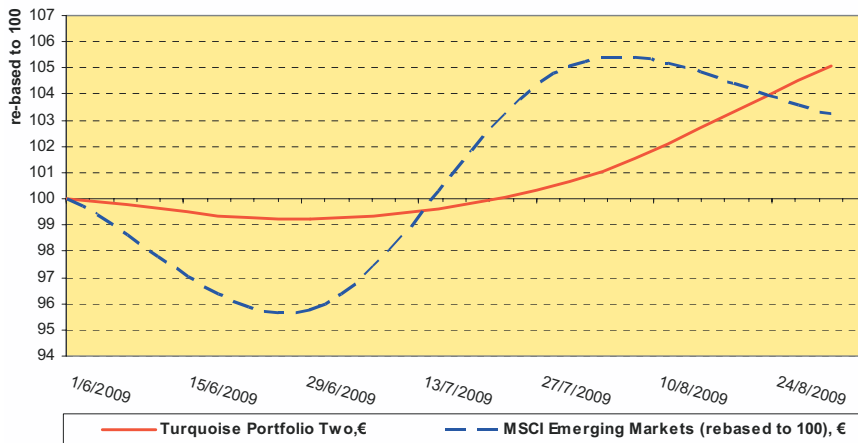
<b>Investment Vehicle</b> Turquoise Partners Ltd.	<b>Currency</b> Euro (€)	<b>Management Fee</b> 2.0% p.a	<b>Liquidity</b> 3 years lock-up with annual liquidity provisions
<b>Vehicle Domicile</b> British Virgin Islands	<b>Benchmark</b> Tehran Stock Exchange All-Share Index (TEPIX), €	<b>Carried Interest and Hurdle</b> 20% - N/A	
<b>Launch Date</b> 01 June 2009		<b>NAV Calculation</b> Monthly - by Administrator	<b>Minimum Investment</b> €200,000

### Turquoise Portfolio Two vs. TSE All-Share Index (TEPIX), Euro - As of 31<sup>st</sup> August 2009



	Jun 09	Jul 09	Aug 09
<b>Turquoise Portfolio Two</b>	↓ 0.8 %	↑ 1.4 %	↑ 4.4 %
<b>TEPIX</b>	↑ 0.1 %	↑ 4.1 %	↑ 18.2 %

### Turquoise Portfolio Two vs. MSCI Emerging Markets, Euro - As of 31<sup>st</sup> August 2009



As of 31 August 2009	
Period	Portfolio Return
Last Month	↑ 4.4 %
Last 3 Months	↑ 5.1 %
Last 6 Months	N/A
Last 12 Months	N/A
Since Inception (01 June 09)	↑ 5.1 %

Iran's latest post-election developments and the opening of the first international retail supermarket in Iran will be discussed in this edition of Country Overview.

Iran's 10<sup>th</sup> presidential election in June was the most eventful election of the Islamic Republic's history. The official results released by the Interior Ministry showed a landslide victory for the incumbent president, Ahmadinejad. However, the integrity of the announced result was strongly disputed by the defeated candidates, especially Mousavi. This led to widespread protests across the country and violent clashes between the riot police and protesters. There were also mass arrests ranging from ordinary protesters through to key political figures.

In early August, Ahmadinejad's second term was endorsed by the Supreme Leader, Ayatollah Khamenei, in a ceremony. Two days later, he took his oath of office in front of the members of parliament and received official parliamentary approval for his presidency. Ahmadinejad's cabinet appointments also proved controversial. His decision to appoint Rahim Mashaei as his first Vice President angered many clerics and politicians, including those in the Conservative camp. Rahim Mashaei has been widely criticised by various clerics for attending and hosting ceremonies in which women performed traditional dances and played musical instruments; he was also criticized for calling the people of Israel friends of the Iranians. However, Ahmadinejad was forced to remove him after the Supreme Leader expressed his disapproval of his choice in a letter.

A notable feature of Ahmadinejad's proposed cabinet was the appointment of three female ministers. Two weeks after receiving his parliamentary approval, Ahmadinejad submitted his list of 21 proposed ministers to the parliament. After assessments of eligibility, 18 ministers received approval from the parliament. Of the three rejected ministers, two were female. Thus, Dastjerdi, the proposed Health Minister, became the first female minister in Islamic Republic's history.

Meanwhile, Mousavi, Ahmadinejad's main defeated rival in the election, announced his plans for establishing a new political front titled, Rahe Sabze Omid (meaning green path of hope). According to his statement, Khatami, Iran's ex-president, and Karroubi, one of the defeated candidates, will both be members of the new opposition group.

In August, Iran's first hypermarket was officially opened. Hyperstar, located in the west of Tehran, is the first international retail supermarket to enter the Iranian market. Hyperstar is a joint venture between the MAF of the UAE (75%) and the giant retailers, Carrefour Group of France (25%). Construction of the store has taken two years to complete at a total cost of \$60 million. According to the Iranian foreign investment organization (OIETAI), there are plans for 3 more stores in Tehran and further stores in several major cities. Their total investment in Iran is expected to be around \$400 million, and the return on investment is expected to take 7 years.

According to the store's management, Hyperstar has attracted significant interest from customers since its opening. In the first week and on a single day, approximately 60,000 people visited the store. The management has set the key strategy of Hyperstar as lowering product prices in the Iranian market.

With a population of nearly 70 million and an underdeveloped retail market, Iran has one of the largest and most lucrative Fast Moving Consumer Goods (FMCG) markets in the Middle East and North Africa region. The young and educated population means that there is high demand for diversity in products and for luxury goods. A number of retail chain stores such as Refah (nationwide) and Shahrvand (Tehran) exist in the Iranian market. However, their customer services are below international standards and their product prices are relatively uncompetitive. As a result, they have not been able to absorb a notable share of the market. Small local stores and markets still dominate the Iranian FMCG market.

### Iran's Steel Industry

The steel manufacturing industry in Iran dates back to 1972, when the Isfahan Steel Company (Zob Ahan) and the National Iranian Steel Industries Group were founded. After this, several other state-owned and privately-owned steel manufacturers entered the market. Today, Mobarakeh Steel Complex is the largest raw steel manufacturing unit in Iran with a capacity of 4.4 million tonnes per annum. Khouzestan Steel is the second largest unit with an annual production capacity of 2.2 million tonnes. Isfahan Steel Company (Zob Ahan) is also a major producer of steel products with a capacity of 2.6 million tonnes per annum.

Over the years, the Iranian steel industry has grown significantly. The market has transformed from being heavily dependant on imports to a position whereby more than 50% of consumption demand within Iran comes from domestic manufacturers. In 2008, Iran's total production amounted to 10 million tonnes, making Iran the second largest manufacturer in the Middle East and 19<sup>th</sup> in the world. Annual production is expected to reach 12 million tonnes by the end of 2009 (approximately 1% of global production). Since 1992, Iran has also exported steel products. Total exports peaked at 1.5 million tonnes in 2005. However, it fell back sharply after that due to increased domestic demand. In 2008, Iran consumed approximately 19 million tonnes of steel. More than half of this total was utilised by the government and the remainder was used in sectors such as automotive manufacturing and real estate. This means that Iran's per capita consumption of steel was 270 kilograms, a figure comparable to industrialised economies.

Over the past two decades, the steel product pricing mechanism has experienced various changes. Between 1990 and 1993, the price was market driven. For the next 10 years, the steel price was determined by the government and was occasionally rationed. Typically, government prices were at a discount to global prices. This led to the creation of a black market. With the establishment of the Iranian Mercantile Exchange in 2003, all steel trades were moved from unofficial markets to the commodities exchange. Shortly afterwards, prices were also liberalised. This was a major improvement for the Iranian steel industry, as product pricing became more transparent. Consequently, steel manufacturers benefited from global price rises between 2004 and 2007. Likewise, the sector was among the worst affected by the global economic crisis in 2008, when global steel price fell from highs of above \$1,000 per tonne to near \$300. Another important milestone was the privatisation of three major steel manufacturers, namely the Mobarakeh, Khouzestan and Khorasan companies, through listings on the exchange in 2007.

The Iranian steel makers have a competitive advantage in the price of iron ore, their raw material. Currently, iron ore prices are set by the government and despite an average annual rise of 10% over the past few years, the iron ore price in Iran remains considerably below the global price. In addition, steel companies benefit from government subsidies on their energy costs. The latter could also serve as a risk for the sector, should the government remove subsidies without appropriate compensation, as part of the economic reform plan (see Market Overview section). Another risk for the steel sector is competition from imports. Currently, there are no tariffs for the import of steel into Iran. Over the past year, risks to the sector have increased due to a slowdown in demand. This slowdown was caused by a reduction in governmental development projects and a slow real estate construction market.

The government's long term plan is to increase production capacity to 29 million tonnes. It is estimated that this will require approximately \$2.5 billion in investment. There are currently 8 provincial plans being implemented by the government, which will increase production by 6.4 million tonnes. The Iranian private sector has made considerable investments into these plans. The government is also hoping to attract foreign investment for 3 million tonnes of production. But for this long term plan to materialise, the iron ore sector needs to develop at the same pace. Iran has estimated iron ore reserves of 2.2 billion tonnes.

Experts have a positive long term outlook on the Iranian steel industry. Strong domestic demand and growing neighbouring markets are likely to keep the steel manufacturing sector buoyant for the foreseeable future.

### **ECO Train Line**

In August, an international freight train line connecting Islamabad to Istanbul via Tehran became officially operational. The first so-called “ECO train”, carrying 20 containers, arrived in Tehran on 14<sup>th</sup> August. According to officials, the new train line is aimed at promoting economic ties and development within the Economic Cooperation Organisation (ECO). This regional organisation was founded by Iran, Turkey and Pakistan in 1985. It currently has 10 members.

The ECO train is estimated to be capable of carrying 8 million tonnes of goods each year. The 6,500 kilometer distance is covered in 15 days. Prior to this, goods from South East Asia were transported by sea and took 30 days to arrive in Istanbul.

In the past month, the Iranian Roads and Transportation Minister also announced that contracts worth €17 billion have been signed with foreign investors for the development of Iran’s rail network. He estimated that upon completion of these projects, 10,000 kilometers of new railway lines will be added to the Iranian rail network.

### **Iran’s Imports and Exports**

According to the latest statistics from the Iranian chamber of commerce, Iran’s total non-oil and gas exports in the first quarter of Iranian calendar year 1388 (which commenced on 21<sup>st</sup> March) amounted to \$4.9 billion, and comprised of 11.5 million tonnes of goods. This is a 20% fall in US Dollar terms and a 13% increase in weight terms in comparison to the same period last year. Iraq, China and the UAE were the main destinations for Iran’s exports.

Iran’s imports in this quarter amounted to \$11.7 billion, and comprised of 12.3 million tonnes. This means that imports fell by 11% in monetary terms and rose by 36% in weight terms. The UAE, Germany and China were the main sources for Iran’s imports.



## 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.

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