



*A pomegranate farm in Kashan*

## **Market Overview** \_\_\_\_\_ **2**

This month, the TSE continued its resilient upward trend in the face of adversity from the global economic downturn. In this edition, the banking and insurance, base metals and petrochemicals sectors are analysed, along with two new entrants into the OTC market.

## **Country Overview** \_\_\_\_\_ **5**

The banking scandal and the sweeping reforms of the banking system in its aftermath along with the lifting of EU travel bans on several Iranian officials will be discussed in this edition of Country Overview.

## **Economy** \_\_\_\_\_ **7**

Iran's landmark construction of the first heavy oil refinery in the Middle East, the IMF quarterly report's forecast of a sharp drop in inflation next year, Iran becoming the top buyer of Brazilian beef and two major banks' legal battles against EU sanctions will be covered in this section.

## **Special Report: Bourse, Banking, Insurance and Privatisation Expo** \_\_\_\_\_ **10**

Key highlights from Iran's bi-annual Bourse, Banking, Insurance and Privatisation Expo held at Tehran's International Exhibition Centre will be covered in this report. The event saw Turquoise Partners unveiling its brokerage arm of the business with live demonstrations of online trading to the investment community and public.

## **Turquoise Iran Equity Investments** \_\_\_\_\_ **12**

This section provides data and charts on the performance of Turquoise Iran Equity Investments Class A for the month of August.

Following on from a positive month in August, last month continued this trend with a positive growth of 3.8% in Rial terms. Year-to-date growth in the TSE index has been 42%, which has given Iran's bourse first place in the World Federation of Exchange's (WFE) rankings.

This performance has been in light of a global downturn; September was a month in which most global markets slumped, yet Tehran's bourse continued its rise. This performance can be partially attributed to two factors:

Firstly, since the start of the year, the average sale price of crude oil has been over \$100 per barrel and this has shown no signs of falling despite the global economic downturn. This has helped boost Iran's economy and crude oil revenues during this period have reached an all-time high, breaking all previous records.

Secondly, commodity exporters have benefitted from the difference between the official Central Bank rate and the unofficial exchange rate, resulting in a hike in their profits.

Given the current sell-offs taking place in global markets, negative sentiment from domestic investors influencing the TSE remains an ongoing threat. The fact that market gains are being made during months where trading volumes have been light is also a cause for concern. Trading volumes have fallen by 28% in this month alone to 1.29 billion trades.

We will now examine various sectors on the TSE:

### **BANKING**

The banking sector was influenced by two factors this month, one positive and one negative. The positive news was that the Governor of the Central Bank of Iran signaled that interest rates need to rise to tackle inflationary pressures. Year-on-year inflation is running at 22% which means that, in real terms, Iran has negative interest rates, which was seen as being the Governor's reasoning behind the announcement.

Bahmani put forward his proposal to the Credit

and Monetary Council but this was subsequently rejected. The market, however, ignored this rejection and has concurred with Bahmani that this rate increase will be approved in the near future. Investors showed their confidence in this, as was shown by the increase of the price of the banking sector index of stocks by 7.5% in the first half of September. Regrettably, this positive performance proved to be short-lived when Iran uncovered a \$3bn fraud later the same week, involving four major banks, including Bank Saderat. Several arrests were made and the government pledged its commitment to hold those responsible to account. Bank Saderat subsequently lost 10.3% of its value and this revised down the growth for the banking sector to an overall 3% for the month.

On a separate note, this was an interesting month for EN Bank shareholders. The bank's stock surged 10% due to the continuation of a longstanding battle between two of the bank's major shareholders who are battling for the controlling stake in the bank. This month, a purchase of 1% of free float resulted in the bank's market capitalisation rising to \$3.5 billion and moved the bank up from 7th largest bank to a current position of 4th largest bank on the TSE in terms of market capitalisation. Many analysts see this as an unreasonable jump, as the current PE of 8.8 for the bank, 2.2 higher than the industry average, fails to justify this.

### **BASE METALS**

Despite a poor month for base metals in global markets, Iran again defied this trend and the sector increased by 1.5%. On Iran's Metal Exchange, base metal producers are now using the unofficial rate (as opposed to the Central Bank rate) when selling their products which resulted in the growth in the sector. In global markets, a 10% sell off was seen in the base metal sector yet this did not happen in Iran. As a result, the two largest players in this sector, Mobarakeh Steel and National Iranian Copper Industries (NICIC) were only hit lightly this month by small drops of 0.1% and 3.3% respectively. In the final week of September, Iran's second largest steel manufacturer, Khuzestan Steel, announced that the price of their steel billets in Quarter 2 rose by 10%. All of their production of steel billets are sold

on the domestic market. They forecast a further rise of 10% in their products in Quarter 3, following a lifting of price restrictions in this sector. Khuzestan Steel's share price rose by 9.6% following on from this announcement. This event bears great significance for iron ore producers such as Gol-e-Gohar and Chadormalou, Iran's two largest iron ore producers, since the price of iron ore is directly influenced by the price of steel billets. Therefore, one could expect a positive effect on the share price of iron ore stocks.

### INSURANCE

The insurance sector was the third best performing sector of the TSE this month, with the index growing 11.5%. The reason for this growth may be attributed to the settlement of a longstanding dispute between the insurance industry and the State over the increase in blood money, paid out by insurers in the case of fatalities. Initially, the State had ordered that this be increased by 100% from \$45,000 to \$90,000. This resulted in a protracted negotiation process between the State and the insurance industry, which culminated in both sides eventually agreeing on a 50% increase to \$67,500. This also signaled the green light to insurance companies to raise their motor premiums accordingly in line with the rise in blood money.

The market interpreted this announcement as a positive one as it would increase turnover of the companies in this sector. The best performer in this sector was Alborz Insurance which soared 38% in the month, earning it the title of best performing stock in the TSE overall in September.

### PETROCHEMICALS

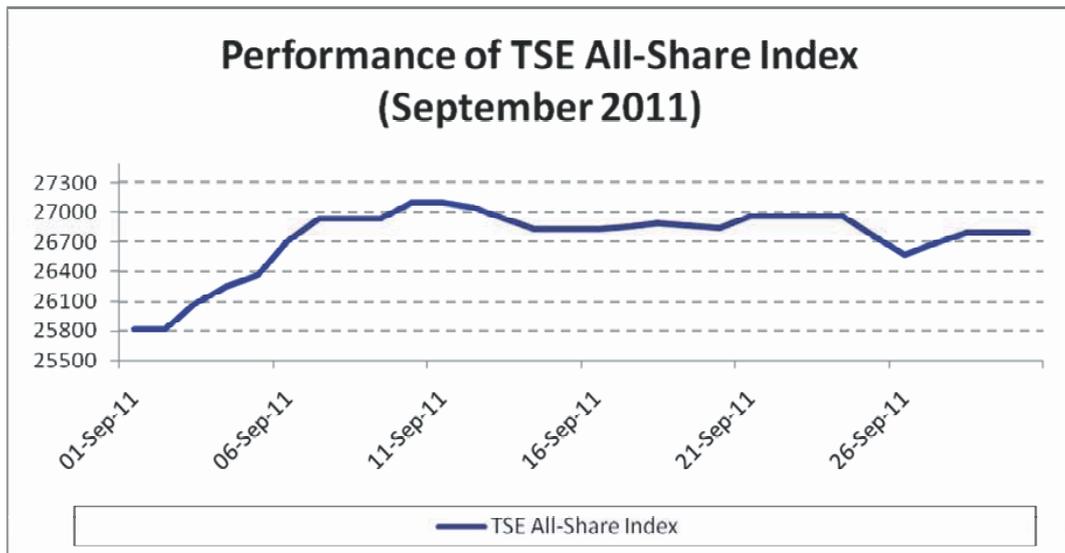
This month on the Iran Commodities Exchange it was announced that petrochemical companies can sell their products at 5% below the FOB rate for the Persian Gulf. This was seen as good news as prices were updated to this year's prices. Prior to this, companies operating in this sector had been selling petrochemical products at the previous year's prices, set before oil topped \$100 per barrel. As a result, the prices of their petrochemical products sold on the Commodities Exchange rose by 10% and the sector index rose by 7.2% on the TSE.

Arak Petrochemicals, 70% of whose sales are to the domestic market, reaped most of the benefits of this announcement and their share price rose 10%. Khark Petrochemical, the largest company in this sector, trailed Arak, with a 7.4% increase in their share price. Khark, due to all of its products being exported, was not affected by this announcement, but made gains on the back of the unofficial exchange rate and the sustainability of crude prices on oil markets.

### OTC

The OTC saw two new entrants this month. The first of these was Midco Holdings, a newly-established metals and mining business. Although the company is not currently fully operational, the company has several huge projects in the pipeline which it believes will earn it the title of largest mining holding company in the Middle East by 2014. Midco is aiming to have a capacity of 4 million tonnes of iron ore, 5 million tonnes of pig iron, 2.7 million tonnes of raw steel, 800,000 tonnes of coal and 50,000 tonnes of copper cathode by 2014. The company undertook the price setting process on the OTC with the market placing a value of \$1.14 billion on the company. The PE ratio of the company at the closing price of the first day was 54 and the projected net profit for the current Iranian year is \$21 million. The second entrant was the IPO of the largest private computer software producer in Iran, Hamkaran Systems. This company has 7,000 customers, the majority of which are large, institutional customers, who make use of the firm's accounting and payroll software. This company has a 40% market share of this business in Iran and was IPO'd at a market capitalisation of \$210 million. 5% of the company was offered on the first day at a PE of 16, which is double the industry average. As a result, the company can be viewed as having a high valuation. The forecasted net profit for the current Iranian year is \$13 million.

Overall, the month of September was considered to be a period of growth in the market. The index grew by 3.8% although the volume of transactions decreased sharply by 28%, reaching \$1.29 billion.



Market Statistics	
Average P/E	7.6
Trade Volume (\$ Billion)	1.3
Trade Value Monthly Change (%)	-28.0
Market Cap (\$ Billion)	119.0

Top 5 Traded by Value			
Rank	Company Name	Turnover Value (\$million)	% of Total Turnover
1	Karafarin Bank	160	12
2	Pasargad Bank	111	9
3	Isfahan Mobarakeh Steel Co.	100	8
4	National Iranian Copper Industries Co.	60	5
5	SADRA	57	4

Top 5 Companies by Market Cap			
Rank	Name of Company	Market Cap (\$Million)	% of Total MC
1	Telecommunications Co. of Iran	14,762	12
2	National Iranian Copper Industries Co.	7,802	7
3	Isfahan Mobarakeh Steel Co.	7,639	6
4	Pasargad Bank	5,654	5
5	Ghadir Investment Co.	4,923	4

This month, Iran's political and economic stage was rocked by the uncovering of the largest banking fraud in Iran's history.

The financial fraud estimated to be just under \$3bn has shaken the government of President Mahmoud Ahmadinejad.

The fraud has become part of an increasingly ugly split in the conservative elite that runs Iran. Ahmadinejad has rejected claims from his hardline rivals that the investment company at the centre of the scandal has links to his key aide, Esfandiar Rahim Mashai. Mashai is the focus of fierce criticism by conservative politicians and clerics. This, however, failed to satisfy members of parliament who have already threatened to impeach the president over other issues and critics who accuse him of being in the thrall of a "deviant current" of advisors seeking to undermine the authority of Supreme Leader Ayatollah Ali Khamenei.

With the government seeking to assert its authority in the case, the Economy Ministry has announced on its website that an ad hoc governmental committee has instructed the Central Bank of Iran to remove the head of the bank at the centre of the allegations, Bank Saderat, and also the head of the smaller Bank Saman.

The Chief of state-owned Bank Melli, Iran's biggest bank, handed his resignation to the Economy Ministry. He later left Iran for Canada and has refused to return to Iran for questioning on his involvement.

At least 19 people have been arrested so far this month for the alleged scam which the judiciary said involved the fraudulent opening of bank letters of credit by the Amir Mansour Aria investment group.

It is reported that Aria used the credit to buy state-owned companies such as the Khuzestan Steel Company and used the funds to set up banking operations.

The financial scandal has erupted in the run-up

to parliamentary elections in March and is set to become a central issue. With Iran's reformists sidelined after the government crushed huge demonstrations following Ahmadinejad's disputed re-election in 2009, the March vote will largely be fought between rival conservative factions.

The embezzled money, just under \$3bn, amounts to almost double the capital of any leading Iranian bank.

Upping the pressure on Ahmadinejad, twenty members of Iran's parliament have signed a petition to impeach Economy Minister Shamseddin Hosseini over the affair.

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Also this month, the European Union has been criticised for lifting travel bans on three senior Iranian officials after they were promoted.

Iran's foreign minister, Ali Akbar Salehi, the Nuclear Chief, Fereidoun Abbasi-Davani, and the Oil Minister, Rostam Ghasemi, were all previously subject to EU travel bans but have had their restrictions completely or temporarily lifted.

When Salehi, a former head of Iran's atomic energy organisation, was appointed by President Mahmoud Ahmadinejad as the country's Foreign Minister in January, questions were raised about his ability to engage with the international community. However, the EU foreign policy chief, Catherine Ashton, soon signalled that Salehi's travel ban could be lifted in hope of an agreement with Iran over its nuclear programme. In May, the EU suspended his travel ban to let him carry out his role as an "interlocutor" with other countries.

Abbasi-Davani, a nuclear scientist who survived an assassination attempt last November that killed one of his colleagues, was given Salehi's previous job. Abbasi-Davani was allowed to travel to Vienna in September.

Last month, Rostam Ghasemi, a former commander of the elite Revolutionary Guards, took over the

presidency of OPEC after he became Iran's Oil Minister. Iran currently holds the presidency of the oil cartel and Ghasemi is expected to appear at an OPEC meeting in Vienna in December. EU regulations say sanctions should not apply "to cases where a state member is bound by an obligation of international law".

Some analysts see the reason behind the EU easing travel restrictions on Iranian officials being their wish to secure a future visit to Tehran by a group of Members of European Parliament.

### Iran Building First Heavy Crude Refinery

This month, it was announced that Iran is constructing its first refinery capable of processing heavy crude oil on Qeshm Island, an Iranian free-trade zone located in the Persian Gulf.

The refinery will have an output capacity of as much as 30,000 barrels a day of light oil products and is anticipated to come online within the next two years. The refinery's throughput will come from Iran's Soroush and Norooz fields. The output of the two fields has a higher density than other grades, making the oil more difficult to refine and currently the fields' output is only shipped to Asia and the Mediterranean. The aim is that, upon the completion of the Qeshm refinery, Iran will then be able to sell refined oil products in both Asian and European markets.

Iran is currently OPEC's second-largest oil producer and began construction of the Qeshm refinery about six months ago.

Iran's recoverable oil reserves are currently estimated at over 150 billion barrels with the volume of recoverable heavy and super heavy crude estimated at over 70 billion barrels. Complicating the picture, many light crude Iranian oil fields including Ahwaz, Maroun, Aghajari, Bibi-Hakimeh, Gachsaran and Pazanan are experiencing declines in production.

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### IMF Report Forecasts Sharp Fall in Inflation

The International Monetary Fund has predicted that the inflation rate in Iran will decrease by around 10% in 2012 from the estimated figure of 22.5% in 2011.

In its quarterly World Economic Outlook report, the IMF said that Iran's inflation will reach 22.5% by the end of 2011, showing a 10.1% increase in comparison to 2010. The growing trend of inflation in Iran in 2011 has been the direct impact of the subsidy reform plan, which started back in December 2010.

It is projected that through the stabilisation of the subsidy reform plan, Iran's inflation will then fall 10% in 2012 to reach 12.5% by the end of that year. The decreasing trend will continue in 2013 and the inflation rate will drop to an unprecedented record of 7%.

According to the report, the growth forecast for Iran in 2011 is around 2.5%, which will increase to 3.4% in 2012.

The report points out that while governments of the region recently have been under pressure to increase current spending to support both increased social spending and commodity subsidies, Iran is an exception due to the implementation of the subsidy reform plan.

The IMF forecasts that growth in oil-exporting countries of the Middle East and North Africa region, including Iran, will reach 5% this year and will drop slightly to about 4% in 2012, as uncertainty over the global economy prevails.

The IMF also asserted that oil importers, mainly those hit by a wave of pro-democracy uprisings over the past months, will continue to have a subdued outlook. It put the overall growth forecast for this category at 1.4% this year, down from 4.5% in 2010.

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### Iran Top Buyer of Brazilian Beef

Iran has eclipsed Russia to become the biggest buyer of beef from Brazil, the world's largest beef exporter, strengthening the countries' controversial ties and deepening Brazilian President Dilma Rousseff's foreign policy dilemma.

According to the Association of Brazilian Beef Exporters, Brazil sold \$61.7m of beef to Iran in August, making it the biggest market for Brazil's key beef exports for the first time on record. The news reinforces Iran's strong commercial partnership with Brazil, which has become much closer in recent few years.

After former president Luiz Inácio Lula da Silva angered Washington last year by holding talks with Mahmoud Ahmadinejad over the Iranian nuclear programme, President Rousseff vowed to take a tougher stance on Iran, particularly on human rights issues.

Like other emerging markets, Brazil is torn between adopting a stronger foreign policy and protecting lucrative commercial ties which could help consolidate the country's powerful new position in the global economy.

Brazil's beef exports to Iran have increased more than 300-fold in the past decade as population growth and political and economic developments fuelled demand for this commodity.

Although Brazil also exports vast quantities of sugar and soybeans to Iran, beef is the principal export, making up about 37% of the value of total shipments to the country in the first six months of 2011.

Russia ranked as Brazil's biggest export market for beef in 2010, but orders have dropped sharply over recent months as a result of its import bans on Brazilian beef due to alleged safety concerns, allowing Iran to take the top spot.

Brazil has increasingly had to turn to emerging markets such as Iran and Russia to buy its exports, as growth slows across the developed world. The European Union was Brazil's biggest customer for beef for decades but after the global financial crisis hit in 2008, beef exports to Europe fell sharply and reached only \$713m last year.

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### **Iranian Banks Fight EU Sanctions**

Also this month, two Iranian banks, Europaeisch-Iranische Handelsbank AG (EIH) and Bank Mellat, have separately filed legal actions against the EU sanctions imposed upon them.

German trading bank Europaeisch-Iranische Handelsbank AG (EIH) filed a suit at the European

Court of Justice challenging the EU's decision to freeze its assets after it processed Indian payments for Iranian oil. Sanctions were imposed on the bank in May by the Council of the European Union under 2010 regulations restricting trade and investment in Iran. It came under scrutiny earlier this year when it emerged Berlin had allowed India to pay for oil purchases from Iran via the bank, after India restricted its own direct payments to Iran in order to placate Washington.

EIH Bank maintains that all transactions were either authorised by Deutsche Bundesbank or fell within exceptions to the applicable EU legislation or conformed to the rulings and guidance of Deutsche Bundesbank and the German government. EIH argues that its core business was the facilitation of commercial relations between European and other countries, and Iran. EIH insists that the Indian payments for Iranian oil were only a minor aspect of its activities. The bank has filed the suit in a bid to get the sanctions removed and its assets unfrozen.

Simultaneously, Bank Mellat, one of the largest Iranian private banks, launched an appeal in London's Supreme Court against sanctions levied against it. The bank has brought proceedings against the British Government and the European Council in respect of the effect of sanctions which the Council has imposed against Iran as consequence of the Iranian nuclear program.

In 2009, the bank was subjected to sanctions enacted by the Financial Restrictions (Iran) Order 2009 which falls under the Counter Terrorism Act 2008.

The effect of the Order is to prevent the bank from operating in the financial sector in the United Kingdom on the basis that it has been involved in financing entities that are involved in nuclear proliferation programs. The bank argues that Treasury failed to give it notice of its intention to make the Order nor did it offer it a chance to make representations.

The bank denies all involvement in any nuclear proliferation and argues these sanctions breach

its rights under the European Convention of Human Rights. Specifically the bank argues that the Treasury's Order was irrational, unlawful, procedurally unfair, disproportionate and the Treasury failed to give adequate reasons. The bank filed an application to the English High Court that the Order be set aside and requested damages under the Human Rights Act 1998. The High Court did not dismiss the Order and found that it was procedurally and substantively lawful. However, permission was given to the bank to appeal to the Court of Appeal.

The Court of Appeal dismissed the bank's appeal but stated that an appeal to the Supreme Court could be made on the basis that the procedural grounds of the bank's application merits serious consideration. The Supreme Court trial is expected to be scheduled for 2012.

The bank has also brought separate proceedings against the European Council in respect of EU Regulations imposing sanctions on it. The European Council has admitted it made a mistake of fact in deeming the bank to be state owned when it is in fact privately owned. The cases are due to be held in 2012, with the outcomes of these cases being internationally awaited.



### Insurance & Privatisation Exhibition

In September, Tehran's International Exhibition Centre hosted the Fifth Annual Exhibition for Bourse, Banking, Insurance and Privatisation. Major banks, insurance companies, investment firms and brokerages were well represented at the exhibition, as were Tehran's core financial institutions such as the Tehran Stock Exchange (TSE) and the Securities and Exchange Organisation (SEO).

Turquoise Partners took part in this exhibition for the third consecutive year. It gained a lot of publicity this year, due to the group's significant presence as well as its diversification into investment banking, private equity and brokerage, in addition to the core asset management business.

Turquoise's Investment Banking division, Asset Management Division and the Brokerage arm of the business, Firouzeh Asia Brokerage, were all present at the exhibition.

The exhibition was inaugurated on 15th September and lasted for four days. The Turquoise team spent the first day talking to potential clients and visitors to the exhibition and introducing the Firouzeh Asia brokerage to the public. The brokerage staff delivered several educational presentations throughout the day, highlighting the ease with which brokerage customers can register and use online trading via its website.

Notable visitors to the Turquoise Partners stand were the Tehran Stock Exchange's Managing Director, Dr Hassan Ghalibaf, and the Director of the Securities and Exchange Organisation, Dr Ali Salehabadi.

The subsequent two days were spent with Turquoise Partners and Firouzeh Asia Brokerage delivering presentations on the broad range of bespoke services that can be provided to our clients. Turquoise's asset management team also attracted new clients to the one-year old domestic fund, which has delivered strong returns for investors.

During this exhibition, Turquoise's Managing



Director Ramin Rabii and Firouzeh Asia's Managing Director Mehdi Shaabani were interviewed by numerous media outlets. A press conference was held at the exhibition, attended by more than forty journalists.

On the fourth and final day of the exhibition, Turquoise's stand was visited by Economy Minister Hosseini. This event was covered by most leading newspapers and was widely broadcast over the news.



**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 = 171.2**

**Vehicle Domicile**  
British Virgin Islands

**Management Fee**  
2.0% p.a

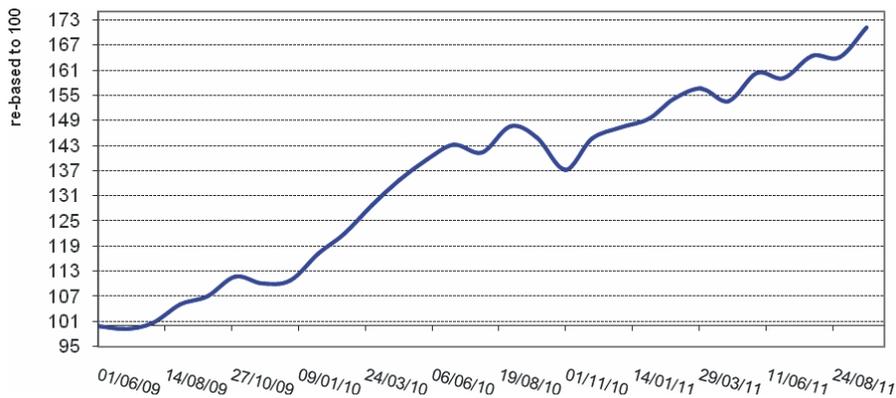
**Currency**  
Euro (€)

**Launch Date**  
01 June 2009

**Carried Interest**  
20% (High Water Mark Applies)

**Minimum Investment**  
€100,000

### Class A Performance (Euro) - As at 30<sup>th</sup> September 2011



Period	Portfolio Return
Last Month	4.4 %
Last 3 Months	7.6 %
Last 6 Months	9.3 %
Last 12 Months	18.2 %
Since Inception (01 June 09)	71.2 %

For subscription and further information on our investment products please contact Eddie Kerman on (+44) 20 74 93 04 12 or email [eddie.kerman@turquoisepartners.com](mailto:eddie.kerman@turquoisepartners.com). For more information about Turquoise Partners please visit our website at: [www.turquoisepartners.com](http://www.turquoisepartners.com)

## About Turquoise

Turquoise is a boutique investment firm 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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