



*Dizin ski resort , Alborz mountains*

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

The Tehran Stock Exchange (TSE) continued its upward trend with positive growth in December, making it the best performing month of the year. The injection of fresh liquidity into the stock market resulted in high trade volumes this month. The foreign exchange market experienced only minor volatility. In addition, the decreased level of political tensions relating to Iran's nuclear program brought a period of calmness into the market.

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

The suspension of the subsidies reform plan and the dismissal of the minister of health and medical education will be discussed in this section.

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

Iran's liquidity level hitting new highs, Iran's producer price index in the first half of 1391 and CBI revising the 2011 growth outlook will be covered in this section.

Following the continuous upward trend of the Tehran Stock Exchange in 2012, TSE All-Share Index grew by 17% in December, making it the best performing month of the year. December's trading volumes also hit an all time record of USD 3.3 billion (based on the official rate), indicating an injection of fresh liquidity into the stock market. The positive trend resulting from bullish investor sentiment has been interpreted in different ways by experts. Many believe that this growth is simply the result of increases in share prices of companies that have benefited from the recent currency devaluations and is therefore justified, while others believe the rapid rate of growth will result in falls in price once the current sentiment evolves.

High volumes of matched supply and demand positions in December portray a significant difference in the viewpoints of analysts regarding the short term outlook of the market. It seems that the level of interest has increased in buyers after TSE's exceptional run of 40% in the past six months, while at the same time the number of sellers have increased, matching supply and demand positions. This trend can result in price corrections in the short term. On the other hand, the foreign exchange market has also experienced only minor fluctuations which indicate a period of calmness. Decreased levels of political tension and in particular reduced tension relating to Iran's nuclear program are the most important factors resulting in the comparative recent stability in foreign currency prices. Experts believe that the recent stability is likely to continue considering that Iran's next round of negotiations with the International Atomic Energy Agency are to take place in the near future.

We shall now examine in greater detail several sectors and events of the market:

### Stock Market Risks and Rewards

In the past few months, the constant positive trend of the stock market has attracted the interest of many investors. The current market climate is partially attributed to increases in prices of products highly dependent on foreign exchange.

As a result, revenues of companies benefiting from the further devaluation of Rial grew at a faster pace in comparison to their costs over the past six months, resulting in high profitability in some leading listed companies. Although, the government authorities have taken initial steps to control prices of products on the Iran Mercantile Exchange (IME), some analysts suggests that further increase in prices are likely to occur with potential devaluation of the unofficial rate of Rial in upcoming months. However, one could not deny the potential risks associated with the rapid growth of the stock market. On one hand, the government is facing an unprecedented cash crunch due to the drop in oil sales and difficulties in repatriating oil money. To overcome this deficit, sooner or later the Iranian government will identify alternative sources of income such as increasing energy prices, increasing industrial feedstock prices and more efficient taxation policies. On the other hand, if the government policies in regards to price controls are strictly implemented, the profitability of listed companies might not grow at the same pace as it did in the past six months. Therefore, analysts are becoming more concerned about the current risks and rewards of the stock market before making investment decisions.

### Petrochemical

The rumor regarding a significant increase in the price of petrochemical feedstock is becoming more of a reality now. In December, Shazand petrochemical company - the largest consumer of liquid petrochemical feedstock (Naphtha) in the country - reported its earnings forecast, assuming a hike of around 50% in the price of its feedstock by using the foreign currency room rate of IRR 24,500 instead of the official reference rate of IRR 12,260. In the meantime, unofficial news regarding a significant price increase in natural gas, the main feedstock for petrochemical production, could be a potential threat to the profitability of these companies. There are rumors that the gas price might increase by 3 times in the near future. Recent published reports along with ongoing rumors in the market indicate that petrochemical companies will no longer have the luxury of purchasing feedstock at preferential local

rate and selling their products at the global market rate. It seems that the government is taking major steps to minimize the gap between the costs and revenues of petrochemical companies (caused by the devaluation of the Rial) by imposing price control policies. Overall, before the release of such news (which was published in the last week of December) stocks of petrochemical companies were amongst the best performers, and the sector index was up 28% in December.

### Mining and Metals

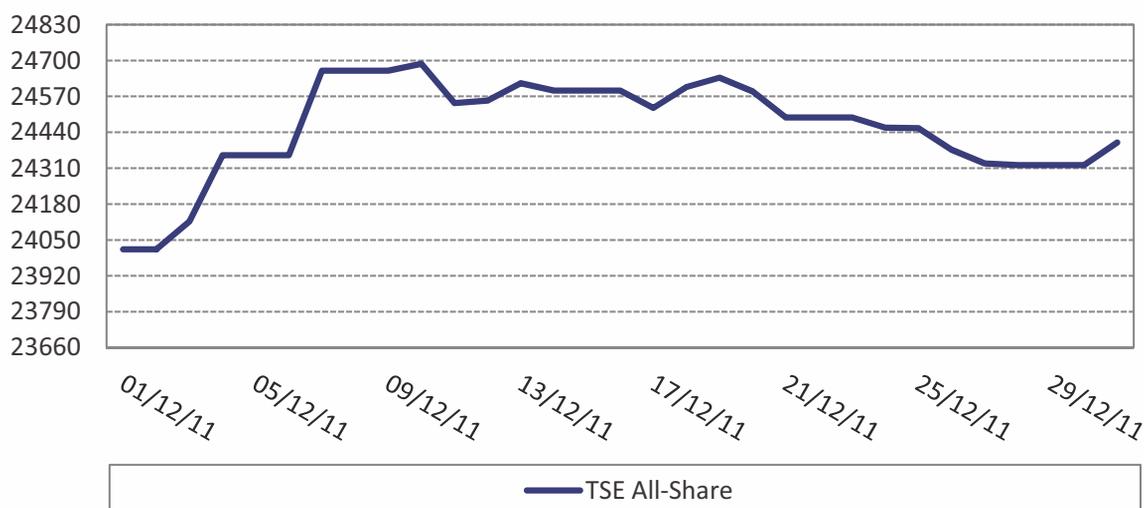
Prices of mining and metal products have been continuously boosted during autumn as a result of the further weakening of the Rial. This trend resulted in heavy criticism due to its inflationary effect and its negative impact on downstream industries to an extent that the Ministry of Industries and Mines took initial actions to control the situation. Ultimately, following a series of negotiations, the government and leading companies in these sectors came to terms on selling their products on the Iran Mercantile Exchange (IME) at the foreign currency room rate (twice the official rate or 50% below the unofficial market rate). As a result of this new plan, the prices of petrochemical and metal products dropped by 15-20% on the IME in November. In December, however, prices began to stabilize resulting to a decrease in demand for both mining and metal products. Some analysts believe that recent trading limitations imposed by the government, particularly the bans on exports, have subdued demand.

Current prices of metal and petrochemical products show that their prices have stabilized more or less at the currency room rate (50% below the unofficial market rate). Therefore, with current price control policies, the likelihood of companies taking advantage of the devaluation of Rial, which was the main driver of the TSE's performance in the past few months, would be limited. However, both the mining and metals sectors showed significant growth in December, and their indexes grew by 23% and 25% respectively.

Overall, December turned out to be a good month for the TSE, with the TSE All-Share Index gaining

17% of its value in Rial terms. Trade volumes increased to USD 3.36 billion (based on official reference rate) in December from USD 1.2 billion in November, reflecting a considerable jump of 175% in comparison to the previous month.

Performance TSE All-Share (December 2012)



Market Statistics	
Average P/E	5.8
Trade Volume (\$ Billion)	3.3
Trade Value Monthly Change (%)	175
Market Cap (\$ Billion)	141

Top 5 Traded by Value

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Telecommunications Co. of Iran	46	10
2	Isfahan Mobarakeh Steel Co.	26	5
3	National Iranian Copper Industries Co.	17	4
4	Ghadir Investment Co.	12	3
5	Omid Investment Co.	10	2

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	National Iranian Copper Industries Co.	11,406	9
2	Isfahan Mobarakeh Steel Co.	10,392	8
3	Telecommunications Co. of Iran	9,493	7
4	Ghadir Investment Co.	6,303	5
5	Gol-e-Gohar Iron Ore Co.	6,144	5

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 31 December 2012

**The suspension of the subsidies reform plan:**

In December, the Iranian Parliament voted in favour of blocking efforts to initiate the second phase of the subsidy reform plan before the start of the Iranian New Year in March 2013. According to reports, 179 MP's voted for the suspension, 17 against and 20 abstained.

The subsidies reform plan was passed by the parliament in 2010 in line with the country's Five Year Economic Development Plan, which was considered as a major undertaking in Iran's recent economic history. The first phase was carried out by President Ahmadinejad where general subsidies on food and energy products were removed, and targeted cash hand outs were made to lower income classes who registered for receiving the direct payments in order to compensate for the price increases and shield the lower income classes from economic pressures. Since its implementation, the subsidies reform plan has been subject to a great deal of discussion and controversy. Within the first few months of its execution, many from within and outside Iran praised the government's ability in removing the subsidies without any significant adverse economic or social effects. However, in light of recent economic challenges, many have started criticising the government for the way it has implemented the first phase of the subsidies removal plan within the past two years. Many argue that the governments' promise of allocating funds to industries, which were challenged with higher production costs as a result energy subsidy removal, did not materialise. Others say that the governments direct pay out of cash to the people has had an inflationary affect on the Iranian economy.

According to MP's, the current economic environment, the fluctuations in the rate of foreign currency and the incorrect implementation of the first phase of the subsidies reform plan can be considered as major reasons for suspending the second phase of the subsidies reform plan.

According to reports, in the second phase of the subsidies reform plan, the government had planned to further increase energy prices and compensate lower income families by providing them with

increased cash hand outs. The government had planned to increase the amount of cash hand outs by up to a factor of five in order to comply with the increase in prices.

The Ahmadinejad administration had planned to implement the second phase of the plan, during which, half of the funds from energy and food subsidies removal would be distributed amongst the public as cash hand outs and the remaining half would go to the industrial sector.

President Ahmadinejad who was behind the first phase of the subsidies reform plan has asked the parliament to reconsider halting the second phase.

**The dismissal of Minister of Health and Medical Education:**

In December, President Ahmadinejad dismissed the Iranian Minister of Health, Mrs Marzieh Vahid-Dastjerdi. Dr. Dastjerdi was the only woman to ever serve in the cabinet since the Islamic revolution in 1979 and was dismissed due to her public criticism of the government's stance regarding the import and pricing of medicine.

Dr. Dastjerdi is known for her support for women's increased participation in the Iranian public life. On various occasions she has been quoted as saying that more women should be involved in the government and they should take a more active role. Dr. Dastjerdi founded the Islamic Association of Physicians in 1993. She was elected to the Fourth Majlis (1992–1996) representing Tehran, and re-elected in 1996. She was elected Chairwoman of the Majlis Committee on Women, Family and Youth in August 1997 and became the Minister of Health and Medical Education in 2009.

Details and explanations for her dismissal were not given but according to reports, the Minister criticized the government by saying that an allocation in the budget of foreign currency which was needed for purchasing medicine from abroad was insufficient. She stated on state television that the governmental hard currency which were supposed to be allocated for importing medicine

from abroad were spent elsewhere. Dr. Dastjerdi indicated that without the allocation of these funds, there would have to be a large increase in the price of medicine and this would add to the pressure of inflation which is currently upsetting the economy. According to reports, no official reason has been given by the government for the dismissal of the Minister. This being said, analysts believe that the President had been critical of the Minister's stance on the allocation of funds and price increases. The President rejected these claims by saying that necessary budget needs had been met.

The supply of medicine in Iran through official channels has been faced with challenges since it has become increasingly difficult to import them under sanctions. Although medicine is not amongst sanctioned items, financial restrictions which have been placed on the Iranian Central Bank, have made it difficult for the Iranian government and private companies to purchase and pay for necessary medical supplies from abroad.

The President has appointed, Mohammad Hassan Tarighat as the interim Health Minister. He has assumed Dr. Dastjerdi's responsibilities as acting Minister.

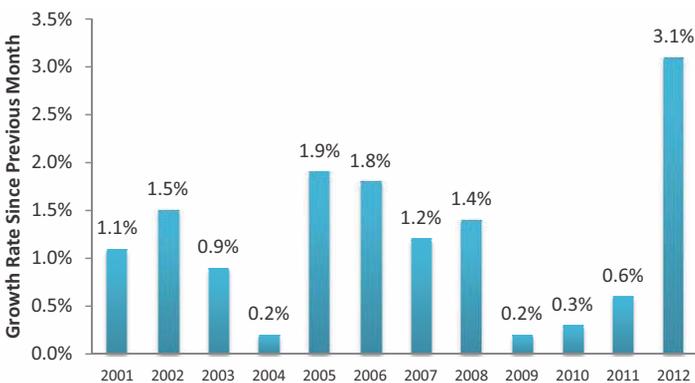
### Liquidity in Iran Hits New Highs

According to the most recent assessments by the Central Bank of Iran (CBI), the country's economy experienced a substantial increase in its liquidity levels during October 2012. From a monthly point-to-point perspective, the report sees a 3.1% jump in October's cash levels compared to the preceding month, amounting to total liquidity of over IRR 4,150 trillion. This is the second highest monthly growth for this variable in 2012 since its 3.4% leap in April 2012, and the largest recorded growth since 2001.

**Monthly Growth of Liquidity in the First Seven Months of 1391**



**Growth Rate of Cash Levels in October (2001-2012)**



As shown in the figure above, the country's monthly liquidity has seen an upward trend in the past few years. The growth in this monetary variable has taken place at a faster pace, particularly in the third quarter of 2012. The figure below illustrates that the total cash levels climbed by 27.6% in July, 25.5% in August and 26.4% in September. The liquidity growth in the second quarter of 2012 had increased at a slower pace, with growth rates of 21.3% in April, 22% in May

and 24.6% in June. Total liquidity was at around IRR 3,740 trillion at the end of the second quarter of 2012, up from IRR 3,520 trillion recorded three months earlier at the first quarter of 2012. The liquidity level amounted to IRR 2,940 trillion at the first quarter of 2011.

**Annual Increase of Liquidity in the First Seven Months of 1391**



Most economists ascribe the deterioration of Iran's liquidity problem to the inept implementation of the subsidy reform plan. Under this program, monthly cash handouts are paid to Iranian citizens as a substitute for eliminating food and energy subsidies. But the Iranian government has encountered many difficulties in making these payments, mainly due to an unprecedented cash crunch resulting from the drop in its oil sales and challenges in repatriating oil money. Therefore, a substantial portion of these payments were generated through hefty borrowings from the Central Bank. The persistence of the government's budgetary woes along with its mounting debt to the CBI are the main drivers of Iran's significant liquidity growth in the past years.

Earlier this year, the governor of the Central Bank of Iran, Mahmoud Bahmani, stated that the CBI is planning to issue IRR100 trillion worth of bonds in order to absorb some of the excess liquidity floating in the market.

### Producer Price Index in the First Half of 1391

The Central Bank of Iran recently updated the country's Producer Price Index (PPI) for the first half of the Iranian calendar year 1391 (March

2012 - September 2012). Note that PPI measures the average change in sale prices for domestic producers of goods and services over time.

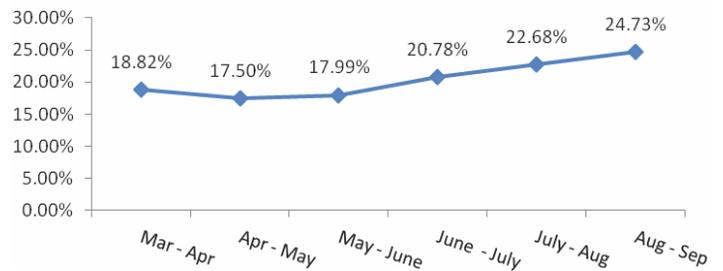
According to the new data, Iran's PPI has continued its more or less upward trend over the past two years. During the first six months of 1391, PPI grew by an average of 20.5% compared to the same period last year. Monthly PPI rose at a slower pace in the second quarter of 2012, fluctuating between 1.6% and 1.4%. But the index picked up in the third quarter of 2012 and stood well above its second quarter levels. Despite the higher level of index in the third quarter, PPI's growth rate declined each month during this period, dropping from 3.3% in July 2012 to 2.7% in September 2012.

By and large, the Food industry (including Agriculture, Hunting, Forestry and Fishery) experienced the largest monthly growth in prices during August 2012. In August, the PPI for this sector grew by 3.8% in comparison to the month before and recorded a growth rate of 39.6% compared to the same period of the previous year. Rising prices in forage plants, fruits, grains, milk and egg had a significant influence on the contribution of this industry to the PPI figure this month.

The PPI for the Manufacturing and Services sector (which includes Hotels and Restaurants, Transport, Storage and Communication, Education, Health, Social Work and Public Services) grew by just 23.6% and 14.8% respectively, comprising a smaller chunk of the PPI compared to the Food sector.

During the first half of 1391, the average growth rate of prices slowed down each month, sliding from 32.4% in April to 24.6% in September. In addition, the average annual growth rate of prices for the Food sector, Manufacturing sector and Services were at 25.5%, 29.1% and 14.8% respectively. This indicates that although the Food Industry saw the largest increase in prices on a Point-To-Point basis, the average price increase in the manufacturing sector was the highest amongst the three.

### PPI Growth Rate Compared to the Same Month Last Year



### CBI Revises 2011 Growth Outlook

The Central Bank of Iran has announced that it is cutting the country's 2011 GDP growth forecast to 3%. The new number falls short of the 5.2% rate forecasted by the Statistical Center of Iran earlier in November 2012, but remains slightly above IMF estimates, which believed that Iran's economic growth had merely scratched the 2.5% mark in 2011.

The downward revision to this number has cast a shadow of doubt on the 2012 GDP and the country's economic performance. The IMF, for example, predicts Iran's economic growth rate to be around -0.49% in 2012. The World Bank, similarly forecasts a -1% economic growth for Iran in 2012.

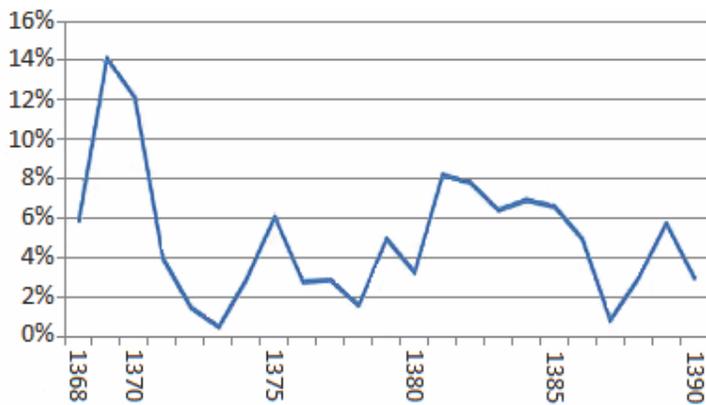
Iran has gone through turbulent economic times over the past decade or so. In the early years of this decade, economic growth was frequently above 6%. In fact the country experienced a decade-high record of 8.1% in 2002 (the highest rate since 1992). But the country's GDP growth started to descend from early 2002 and dropped to just below 1% in 2008 – its lowest level since 1995.

Matters improved for a brief time in 2009 and 2010 when increased expenditure in an ongoing government-backed housing plan (known as the Mehr Housing Plan) surpassed market expectations, and gave hope for further economic growth, but not for long. By the end of 2010, Iran's economic growth rate stood at 5.8%, plunging back to 3% the following year.

The exact amount of the GDP growth rate for 2011 has not yet been announced by the Central Bank,

nor has it been published in the form of a statistical report. However, data is available for the first six months of 1391 (2011). According to a report published by the Central Bank, the country's GDP stood at IRR2.91 trillion in the first six-month of 1391. This number corresponds to a 4.2% growth over the IRR2.79 trillion figure realized for the same interim in 1389.

**Iran's Economic Growth  
(1989 – 2011)**



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

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