



Khaju Bridge, Isfahan, Iran

Market Overview _____ **2**

After experiencing some short-lived relief in the downward trend in July, the Tehran Stock Exchange (TSE) returned to its decline with the overall index falling by 3% in August. The total daily trade value of the market dropped to below \$30 million in August, a decline of 70% compared to the boom period of the market in the fourth quarter of 2013. The banking sector index decreased by more than 9 percent after quarterly reports of banks showed that their net margins fell from 3 percent to 2.5 percent.

Country Highlights _____ **6**

The most recent and important news about the country will be mentioned in this section.

Economy _____ **7**

GDP growth and inflation, liquidity growth, and Iran's foreign trade will be covered in this section.

After experiencing some short-lived relief in its downward trend in July, the Tehran Stock Exchange returned to its decline with the overall index falling by 3% in August. In an unprecedented occurrence since 2014, the market had a negative performance in all of the trading weeks of the month. As a result, the year to date negative performance of TSE has surpassed 16.7%.

Other signs of a recession have also emerged, with the total daily trade value of the market falling to below \$30 million in August; this indicates a sharp decline of 70% compared to the boom period of the market in the fourth quarter of 2013.

The lack of clarity in regards to the outcome of the decade long nuclear dispute with Western countries has been playing a major role in the hesitation of investors to inject new funds into listed equities. In line with this, since nuclear negotiations in New York had no real outcome and no real development was made, there is no incentive for a sustainable recovery in the stock market in the autumn.

We will now examine some important sectors of the market over the past month.

Cement

Based on its historical performance, due to excess activity in retail construction, summer has always been the best period for cement consumption in Iran. Consequently, the sector performs better in the summer in comparison to other seasons. That being said, it seems that trends in the current year are proving to be an exception to the rule.

The cement sector suffered a significant loss of 8.3% in August after experiencing a 2.4% drop in July. This has been the worst performance of the sector in the past decade for the months of July and August. An 8% decline in domestic consumption due to an economic recession and 17% decline of export volumes to Iraq as a result of security concerns are the two main reasons for the weak performance of this sector in the stock market.

It is estimated that a massive amount of cement (around 14 million tonnes, equivalent to 20% of a year's total production within the country) has been piling up in factories. Taking into account the ongoing slowdown in domestic construction activities and the possible persistence of Iraq's troubles, it can be expected that the troubled outlook for the cement sector will persist in the short term.

Banking

The banking sector, which used to be the largest listed sector in terms of market cap in 2011, has witnessed more than 50% decline in its share of the total market cap, going from 22% of the overall market to 11%. This is due to a combination of factors, such as new IPOs, as well as the poor performance of listed banks.

August was a bad month for banks as the index of the industry sank by more than 9%, resulting in it being the worst performing sector of the market. In addition, this month provided the worst monthly performance of banks in more than 4 years. Year to date performance also shows a worrying loss of 37% on average (more than double of the loss of the broader market).

Analysts believe that the tight monetary policy implemented by the government has caused an increase in the cost of money while the interest rates on loans have not been compensated for. First quarter reports from banks also support this belief, as the net margin of banks have fallen slightly from approximately 3% to 2.5%. Therefore, as the economy's positive momentum is fragile and interest rates on deposits are high, making money through monetary intermediation remain challenging for banks.

Basic metals

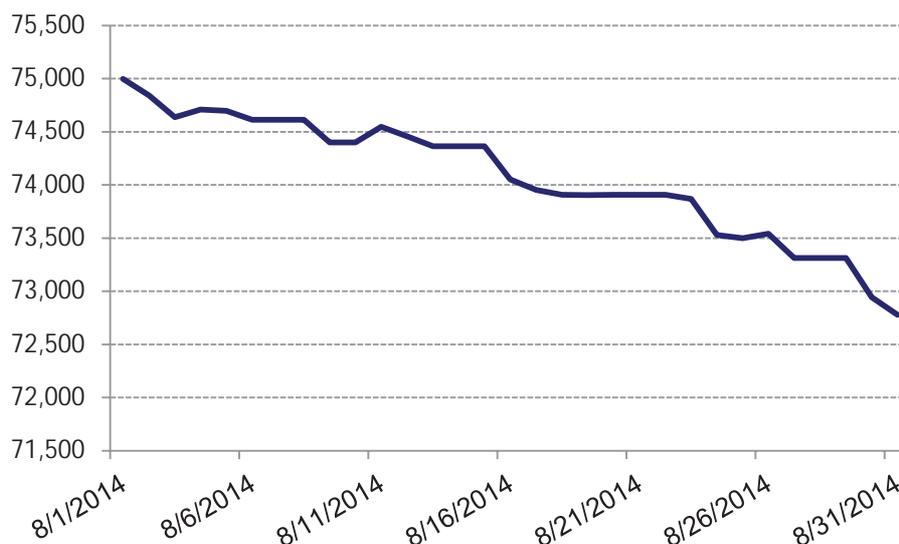
Despite the broad recession in the stock market, the basic metal sector showed some resistance as the index fell by only 1.6%. The upward trend of some basic metal prices globally has helped some companies (except steel) within this sector through providing greater expectations

of increased profitability. A 10% global rally in aluminum, copper, lead and zinc prices in the recent months has boosted investor optimism and all listed Iranian companies which are affected by these commodities rose by a fraction in August. It seems that stocks in this sector likely to grow once the market calms down.

Mutual funds

Domestic mutual funds, which are mainly managed by brokerage companies and investment banks, are relatively young financial products in the Iranian market; they were introduced 5 years ago. Over this period, due to several reasons ranging from the Rial devaluation to the election of the current moderate president, the stock market has generally been very positive. Having said that, since the beginning of 2014, the stock market has entered a steep correction phase for the first time in more than 5 years. In monitoring the performance of mutual funds since the New Year, one can observe that most mutual fund managers have performed badly in this time period. An index which follows the average performance of 74 registered domestic funds indicates a sharp fall of 26% while the overall index of the market is down by 17% over the same period. As a result, these funds have ended up with investors redeeming significant amounts of monies, causing total AUM of these funds to decrease from USD \$400 to \$200 million. It appears that many of these funds were taking a great deal of risk and have had trouble adapting to a less positive market environment. It is worth noting that Firouzeh fund managed by Turquoise partners has been the best performing fund during the same period with 8% total return.

Performance of TSE All-Share Index (August)



Market Statistics (August)

Average P/E	5.5
Trade Volume (\$ Billion)	1.2
Trade Value Monthly Change (%)	- 5
Market Cap (\$ Billion)	126

Top 5 Traded by Value (August)

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Tamin Oil & Gas & Petrochemical Inv. Co.	92	8
2	Mine & Metals Development Inv. Co.	84	7
3	Iran Khodro Industrial Group	68	6
4	Persian Gulf Petrochemical Industry	32	3
5	Ghadir Investent Co.	31	3

Top 5 Companies by Market Cap (August)

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	13,928	11
2	Tamin Oil & Gas & Petrochemical Inv. Co.	5,725	5
3	Bandar Abbas Oil Refining Co.	5,628	4
4	Mobile Communications of Iran	4,841	4
5	Esfahan's Mobarakeh Steel Co.	4,781	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 26,562 as at 31 August 2014. Due to Central Bank's revision on the official exchange rate of the Rial, TSE's market capitalization and trading value in USD have reduced dramatically.



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 3. Email and telephone trading
 4. English-language reporting
 5. Weekly Iran market updates by email
 6. Access to our equity research reports on an increasing database of select companies
 7. A private market update call explaining the highlights of the market on a monthly basis
 8. Quarterly call-in conference with our portfolio manager
-

Firouzeh Asia Brokerage is part of the Turquoise Partners Group and is licensed by Iran's Securities and Exchange Organization (SEO)

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➤ In September, President Rouhani went on a five day tour of the Central Asian states of Kazakhstan and Tajikistan for bilateral meetings as well as to attend the 14th summit of the Shanghai Cooperation Organization. After meeting with his Kazakh counterpart, President Nursultan Nazarbayev, Mr. Rouhani travelled to Tajikistan and attended the 14th summit of the Shanghai Cooperation Organization (SCO). The SCO, founded in 2001, is a political, economic and military organization which is considered by many as the Eurasian alternative to NATO. Russia, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and China are member countries while Iran, Afghanistan, Mongolia, Pakistan and India hold observer status.

➤ The Iranian Foreign Minister, Javad Zarif, travelled to New York for nuclear negotiations with the P5+1 as well as to attend the 69th session of the United Nations General Assembly. While in New York, Mr. Zarif held a number of bilateral meetings with the foreign ministers of the P5+1 group, including with his American counterpart, John Kerry. After extensive negotiations, the sides were unable to reach an agreement regarding the differences that remain on Iran's nuclear program and the removal of sanctions. Upon leaving New York, Mr. Zarif stated that the next round of negotiations will be held in the beginning of October in Europe.

➤ President Rouhani attended the 69th session of the United Nations General Assembly in New York. Mr. Rouhani's trip was closely watched as Iran and the P5+1 states are engaged in the most serious negotiations in a decade to resolve issues remaining in regards to Iran's nuclear program. President Rouhani held bilateral meetings with the Secretary General of the United Nations, Mr. Ban Ki-moon, as well as the Presidents of France and Austria. Mr. Rouhani also held a bilateral meeting with the British Prime Minister, David Cameron. This was the first meeting between an Iranian President and a British Prime Minister since the Iranian revolution of 1979.

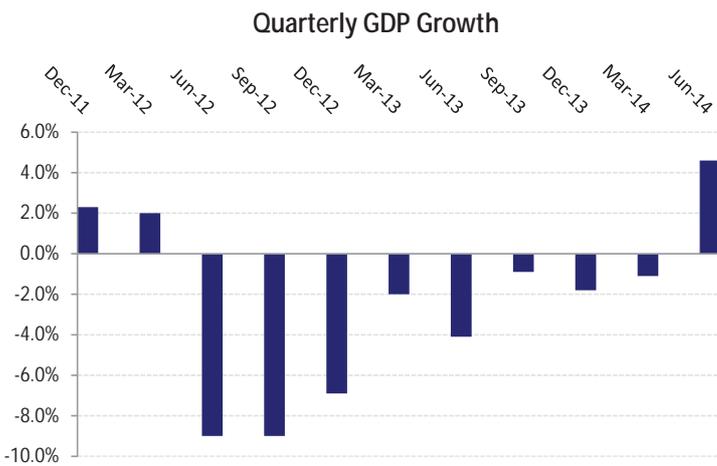
➤ After leaving New York, President Rouhani travelled to the Russian city of Astrakhan to attend the summit of Caspian Sea littoral states. In

this summit, Iran, Azerbaijan, Russia, Kazakhstan and Turkmenistan reached a number of agreements such as extending maritime boundaries to 15 nautical miles in the Caspian Sea. The Caspian Sea littoral states also agreed to prohibit any foreign militaries from having a presence in this land locked body of water. This has potential security implications as both Iran and Russia strongly oppose the presence of NATO and other security forces in the region.

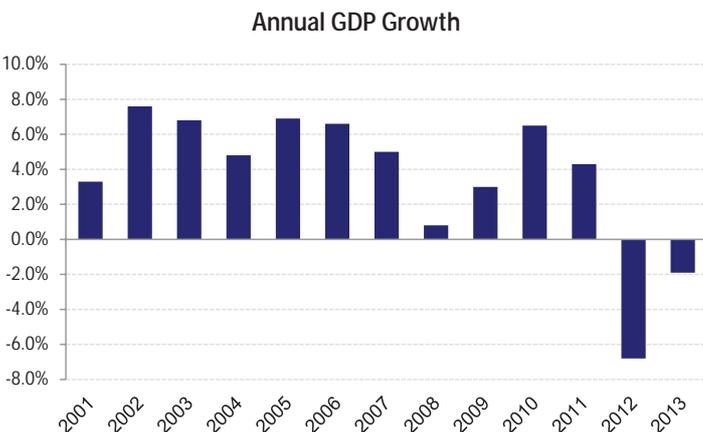
➤ After the downing of Malaysian Airlines flight MH17 over Ukraine, and the increased insecurity that has developed in Iraq and Syria, Iran has been witnessing a sharp increase in the number of civilian airlines that have requested to use Iranian airspace for safety considerations. According to Iranian officials, the number of flights passing through Iranian airspace has increased by 100 percent, and currently, more than 900 flights fly over Iran in a 24 hour period.

GDP Growth and Inflation

After 8 consecutive quarters of negative growth, Iran’s economy grew in the spring of 2014. President Rouhani, in his speech in Khorasan province, was the first official to announce that the GDP growth in the first quarter of the current year was positive. According to a report published by the Central Bank of Iran after Rouhani’s speech, the GDP growth was 4.6 percent with oil and 4.4 percent without oil.



The average GDP growth of the country over the course of the 11 years up to 2011 was 5.1 percent. Since 2012, the country’s economy has been shrinking, partially because of the sanctions. The new government came to office in August 2013 and has been dealing with the problems of recession and inflation. Last August, the point to point inflation rate hit 43 percent. The government has done an outstanding job in controlling inflation, resulting in the point to point inflation rate falling to 14.7 percent in August 2014.



The unemployment rate increased from 10.5 percent at the end of the winter to 10.7 percent at the end of the spring. Meanwhile, the economic activity rate, the ratio of the total number of employed and unemployed to the number of working age population, increased from 35.4 percent to 37.1 percent. Considering this increase in the economic activity rate, the slight increase in the unemployment rate may not necessarily be a sign that the economy is slowing down, as GDP growth numbers suggest. After the peak of 14.6 percent in March 2011, the unemployment rate decreased to levels below 11 percent and has remained there since June 2013.

Non-Oil Exports and Imports

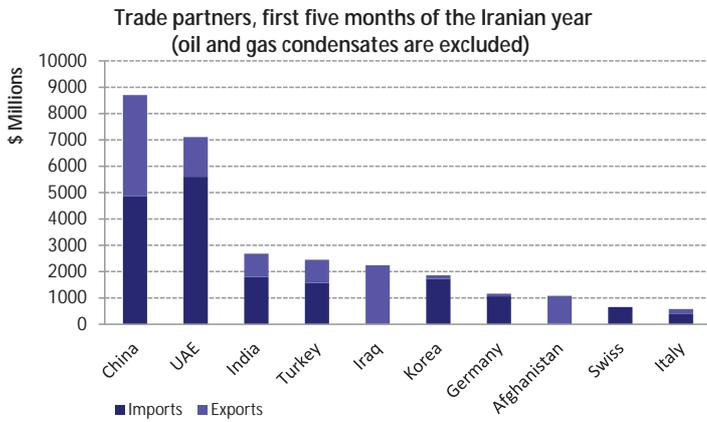
According to a recent report by the Customs Administration of Iran, the total non-oil exports during the first five months of the Iranian calendar year (ending on August 21th) stood at \$19.6 billion, an increase of 21 percent compared to the same period last year. The top five countries that were importing from Iran during this period are China, Iraq, United Arab Emirates (UAE), Afghanistan, and India respectively, with no changes from the previous year. China’s share of Iran’s exports has increased from 21 percent to 28 percent, while Iraq’s share has decreased from 20 percent to 16 percent. Propane and methanol were the top two exported products, comprising of \$908 million and \$717 million respectively.

The total imports during this period amounted to \$22 billion, showing an increase of 34 percent compared to the last year. The ranking of the top importers to Iran remains the same, with the UAE, China, India, and South Korea at the top of the list. The UAE’s share of Iran’s imports has increased from 20 percent to 25 percent and China’s share has increased from 18 percent to 22 percent. This is while the share of imports from India and South Korea has decreased.

The country is running a (non-oil) trade deficit of \$2.3 billion during the first 5 months of the Iranian year. During the same period last year, the trade deficit was \$0.2 billion. It is worth mentioning that the average market exchange rate during this

period was 31900 IRR per USD, and the number for the same period last year was 34100 IRR per USD.

collection of non-performing loans, and the sale of some corporate subsidiaries of banks. He also stated that the first priority in providing loans is the financing of working capital for manufacturers.



Liquidity Growth and Monetary Base

Based on a recent report by the Central Bank of Iran (CBI), liquidity reached 6181 trillion Rials at the end of the first quarter of the Iranian year, showing an increase of 31 percent year on year. Considering the fact that the Central Bank of Iran added five more banks and two more financial institutions into the statistics, the real increase in liquidity is lower than the current stated increase and is estimated to be around 27 percent; this figure is still concerning to market players. The quarterly increase in liquidity is also reported to be 4 percent. Meanwhile, the monetary base grew by 22 percent over a period of one year, but shrank by 2 percent in the first quarter of this current Iranian year.

There has been criticism that the current pace of growth in liquidity will lead to higher inflation in the near future and that such liquidity increases contradict the Central Bank's mandate to control inflation. Valiollah Seif, the Governor of the CBI, mentioned in an interview that the Central Bank has been trying to strike a balance between controlling liquidity growth and dealing with the challenging economic environment. Seif mentioned that, in line with the government's proposal to combat recession and in order to increase the banks' ability to provide loans without using the Central Bank's resources, the following measures are being taken: a capital increase of banks, the sale of some real estate owned by banks, the

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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.

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: info@turquoisepartners.com

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