



Iran's largest wind farm outside city of Manjil, North of Iran

Market Overview 2

With global prices being as low as they are at the moment, analysts estimate a 50% cut in earnings forecasts for these companies in the current year, in comparison to actual performance for the previous fiscal year. Dominated by bearish sentiment towards commodity producers, the market is experiencing a fall in trade volumes as investors become more defensive and move on to safer investments such as fixed income products and bank deposits. The weighted average forward P/E of the market peaked at 6, before falling to 5.8 in the middle of the month. The final result by the end of the month was a mere 2.8% gain, a number far less than expected considering the positive political sentiment that came from the deal in Vienna.

Country Highlights 4

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

Economy 5

This issue continues analyzing the Iranian post-sanctions economy general profile by highlighting other major developments many researchers and analysts has been considering over the past month.

In the first two trading weeks of July, the Tehran Stock Exchange (TSE) showed a record jump of 7%. This was aligned with the upward trend resulting from the breakthrough in nuclear negotiations between Iran and the EU3+3. Despite popular opinion however, the positive momentum in the stock market did not manage to continue with the overall index losing most of what it had gained in the last two weeks of July. The final result by the end of the month was a mere 2.8% gain, a number far less than expected considering the positive political sentiment coming out of the deal in Vienna. For commodity sectors and exporters, such as petrochemical, iron ore, steel, copper, zinc and aluminum producers, the sharp fall in commodity prices has created an atmosphere of uncertainty and concern with regards to their future prospects for profitability.

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Company Reports

With Iranian listed companies having released their first quarter performances and adjustments to annual profit projections in July, analysts have deemed this quarter as the worst performing since the first quarter of 2009.

In the first quarter of the Iranian year, companies lost 15% of their total earnings in comparison to the same quarter in the previous year, therefore, these companies had little choice but to cut their profit projections by 5% for the whole year. Based on financial analysis provided by Turquoise Partners, companies should expect a further negative adjustment to their budget forecasts due to the fact that in the first quarter, they earned only 20% of total projected profits for the year. The highest profitability projection cuts in comparison to the previous year belong to basic metal and petrochemical companies with a 30% and 5% decrease respectively. Pharmaceuti-

cals was the only industry amongst the 10 largest listed industries with first quarter reports which met investor expectations resulting in an 8% rise in July, recording the best monthly performance on the TSE.

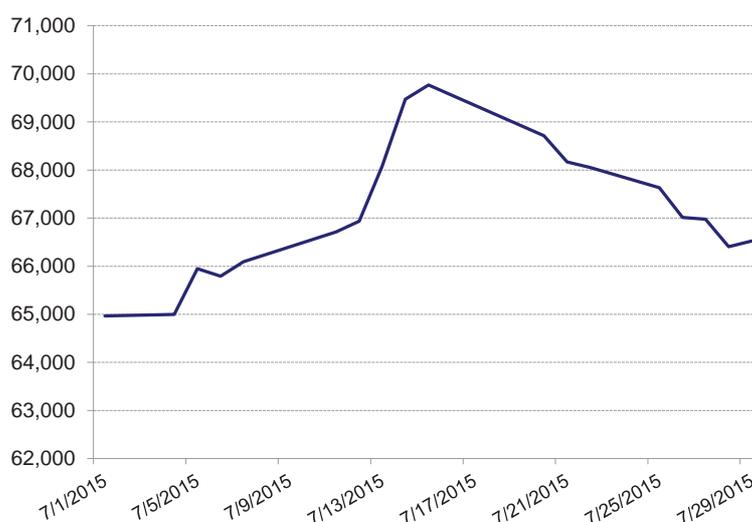
Stock market valuation

By the end of July, the average P/E of the market stood at 5.8 which is close to equal to the average valuation for the market during the past two decades. The highest P/E of 8.9 was seen back in 2004 when foreign investors and international companies had the strongest presence in Iran in recent decades. With the nuclear deal being reached, there is hope for market P/E to reach its previous levels as global players begin to move some money into Iran. This being said, as the average yield of the Iranian stock market (13%) remains way below the bank deposit interest rates (20% to 22%), stock valuations multiples won't be able to increase easily. This is while expectations of 1% economic growth in 2015 together with 5% appreciation of the Rial versus Dollar in the past two years, have slowed down short term profitability growth for companies. That said, with inflation hitting its six year low, hopes are that the Central Bank of Iran will begin to implement a number of easing policies before the year end which, would ultimately decrease interest rates leading to a potential boost in stocks.

Metals and Ores

Commodity producing companies on the TSE performed poorly due to weak signals coming from oil markets and basic metals. Since commodity based companies contribute to more than 50% of the market capitalization of the Iranian stock markets, the bearish global atmosphere towards commodity goods is one of the main factors behind weak performance in July. Consequently, the index tracking performance of Iranian basic metal producers fell by 2.9% and mining sector shrank by 1.9% in value in July. The slump in global steel prices, along with reduction in domestic demand, have caused serious distress for steel producers which contribute to more than 7% of total market capitalization. Furthermore, domestic manufacturers are facing an increased threat from steel importers. In July, the market reacted to rumors related to the introduction of a 30% average tariff on steel imports which is double the number of current tariffs for importing different steel products into Iran.

Performance of TSE All-Share Index (July)



Market Statistics (July)

| | |
|--------------------------------|------|
| Average P/E | 5.8 |
| Trade Value (\$ Billion) | 1.1 |
| Trade Value Monthly Change (%) | 46.1 |
| Market Cap (\$ Billion) | 96.6 |

Top 5 Traded by Value (July)

| Rank | Company Name | Turnover Value (\$Million) | % of Total Turnover |
|------|-------------------------|----------------------------|---------------------|
| 1 | Saderat Bank | 78 | 7 |
| 2 | Mellat Bank | 40 | 4 |
| 3 | Rayan Saipa Leasing Co. | 30 | 3 |
| 4 | Pars Khodro | 29 | 3 |
| 5 | Mobin Petrochemical Co. | 25 | 2 |

Top 5 Companies by Market Cap (July)

| Rank | Company Name | Market Cap (\$Million) | % of Total MC |
|------|-------------------------------------|------------------------|---------------|
| 1 | Persian Gulf Petrochemical Industry | 9,260 | 10 |
| 2 | Tamin Petrochemical Co. | 3,723 | 4 |
| 3 | Mobile Communications of Iran | 3,577 | 4 |
| 4 | Telecommunication Co. of Iran | 3,402 | 4 |
| 5 | Parsian Oil & Gas Development | 3,139 | 3 |

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 29,600 as at 31 July 2015. 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.

➤ In light of the comprehensive nuclear accord which was reached between Iran and the EU3+3 in July, European political and business delegations have travelled to Iran to secure business ties once the sanctions are removed in the coming months. The German delegation was first to visit Tehran, only five days after the Joint Comprehensive Plan of Action (JCPOA) was reached in Vienna on July 14th. This delegation was led by Germany's Vice Chancellor and Economy Minister, Sigmar Gabriel, who travelled to Iran with the hope of regaining some of the market share Germany had lost as a result of EU sanctions. The High Representative of the European Union for Foreign Affairs and Security Policy, Federica Mogherini, also travelled to Iran a few days later to discuss the nuclear agreement as well as potential regional cooperation with Iran. Ms. Mogherini stated that the nuclear agreement could pave the way for more cooperation between Iran and the West. Following Ms. Mogherini, the French Foreign Minister, Laurent Fabius, travelled to Tehran to hold discussions with his Iranian counterpart, Mohammad Javad Zarif, President Rouhani, and other Iranian officials. Even though Mr. Fabius had held a tough stance against Iran during the nuclear negotiations, he mentioned that there will be a large French business delegation visiting Iran in September. Mr. Fabius' trip to Iran, the first visit by a French Foreign Minister in 12 years, was with the aim of discussing various areas of cooperation between Iran and France. He also invited President Rouhani to visit France on behalf of the French President. French companies, Peugeot and Renault played a major role in the Iranian automotive industry before sanctions. The French oil company, Total, was also active in Iran before sanctions were implemented by the European Union. The Italian Foreign Minister, Paolo Gentiloni also visited Tehran on August 5 and met with Mr. Zarif and President Rouhani. He also extended the Italian Prime Minister's invitation to Mr. Rouhani to visit Rome. The Iranian President has accepted the invitation and is expected to travel to the Italian capital in the near future. Finally, the British Foreign Minister, Philip Hammond has also travelled to Tehran to re-open the British Embassy in Tehran. This is the first visit of a British Foreign Minister in 12 years and only the second since the

Iranian revolution in 1979. European countries are rushing to secure business and political interests in Iran as the removal of sanctions would once again enable the two sides to enjoy a broad range of cooperation on various fronts.

➤ The Iranian Foreign Minister, Mohammad Javad Zarif, travelled to a number of regional countries in July and August in order to discuss Iran's bilateral relations with those countries, as well as issues that are currently affecting the region. Mr. Zarif started his trip by visiting Kuwait, Qatar and Iraq in the first round of his regional tour. He then travelled to Lebanon, Syria, Pakistan and India on the second part of his visits. Mr. Zarif has for the most part discussed regional security challenges posed by terrorist groups such as ISIS as well as Iran's recent agreement with the EU3+3 on its nuclear program. Mr. Zarif has called for further cooperation in light of this agreement and has stated that the Joint Comprehensive Plan of Action is proof that issues can be solved through diplomacy rather than conflict and instability. Mr. Zarif also travelled to Russia where he met his Russian counterpart Sergey Lavrov. In a joint press conference, the foreign ministers of Iran and Russia reiterated the need for the timely and full implementation of the nuclear agreement reached in July.

➤ Switzerland became the first country to officially lift its sanctions on Iran following the nuclear deal reached between Iran and the EU3+3. Swiss officials have stated that this move is in support of the comprehensive nuclear agreement and wish to broaden ties with Iran on this ground.

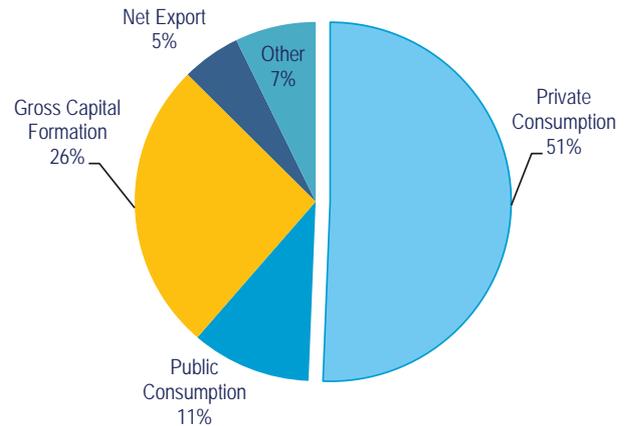
Post Sanction Economy: General overview – Part 2

In the economic section of July 2015, major anticipated developments in the short to medium-term were reviewed briefly through highlighting the role of foreign direct investment growth in the long-run. This issue continues analyzing the Iranian post-sanctions economy by highlighting other major developments many researchers and analysts have been considering over the past month.

Consumption share in GDP after economic windfall is expected to change

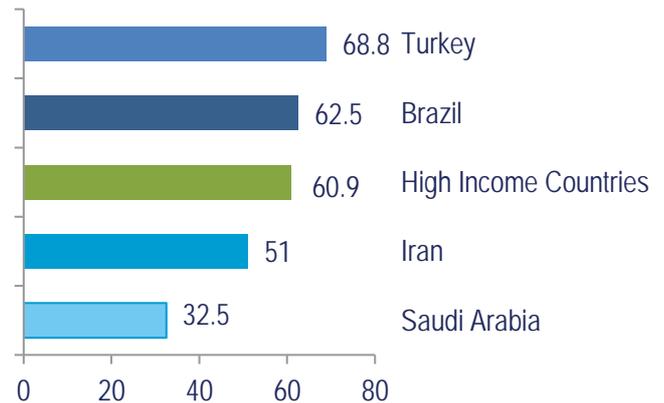
The household total consumption expenditure (private consumption), which is the market value of all goods and services, including durable products (such as cars, washing machines, and home computers), purchased by households stood at 51% of nominal GDP as of the end of March 2015 for Iranian households. Various studies suggest that an increase of general household expenditure is a likely scenario after sanctions removal. Consequently, analysts speculate that the Iranian economy will become the largest Fast Moving Consumer Goods (FMCG) market in the region over the next decade, comparable to countries like Turkey with 69% total consumption ratio to GDP. The size of the FMCG market is estimated to stand at USD 2.6 billion before sanctions relief. The end of international sanctions will release billions of dollars of blocked assets and will reduce the costs of foreign trade for Iranian traders; these are estimated to amount to between a third to a half of the trading goods' value (World Bank, 2015). In addition, Iran is likely to receive an increase of foreign investment in the oil and gas sector fairly quickly; this will enable Iran to regain its extra one million barrels per day share of global oil supply that had been lost in previous years. An increase of the government's revenue will enable Iranian authorities to pursue investment and expansionary budgets that could boost consumption and improve general welfare of Iranian households. Studies from Computable General Equilibrium (CGE) models¹ suggest that general welfare will increase by 2.8% from sanctions removal (World Bank, 2015).

Figure 1. Nominal GDP Breakdown – 1393 (March 2014-March 2015)



Source: Central Bank of Iran

Figure 2. Household Total Consumption (% GDP) - 2014



Source: World Bank

Demographic shift, female economic participation and labor market in post sanctions economy

Iran is going through a major demographic shift in long-term view started from past 70 years. Statistics from recent population censuses highlight the shift as follows:

First, as of today, on average Iranian family size declined from 4.4 to 3.6 in urban areas and from 5.0 to 3.9 in rural areas (Figure 3) and the young population ratio is stabilizing at ratio of 22% (Figure 4). Population analysts suggest that at the current rate of aging, Iran is likely to exhibit healthy working-age population growth of 1.0% up to 2025 (GEMS paper, 2015). Second, women to men students' percentage share is increasing in all univer-

1. Computable General Equilibrium (CGE) models are a class of economic models that use actual economic data to estimate how an economy might react to changes in policy, technology or other external factors.

sity majors except engineering (figure 5). These trends suggest the preference of Iranian households to have a higher female participation in the economy.

However, economic sanctions have put pressure on the female economic participation rate in recent years especially in services sector versus the male participation rate which remained flat across sectors for the last couple of years (figures 6 & 7).

Figure 3. Average household size trend

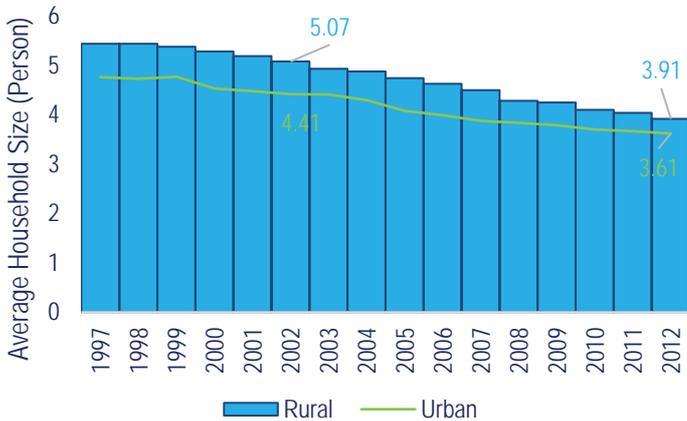


Figure 6. Male Share in Employment by Sector

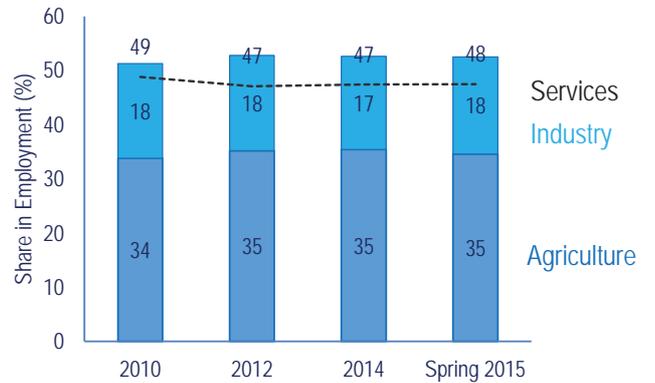


Figure 4. Young Population Ratio*

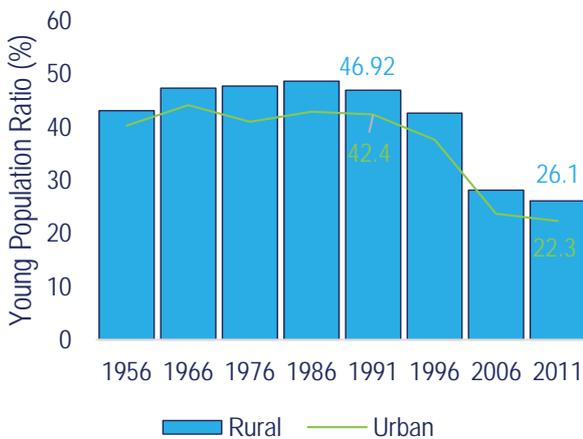
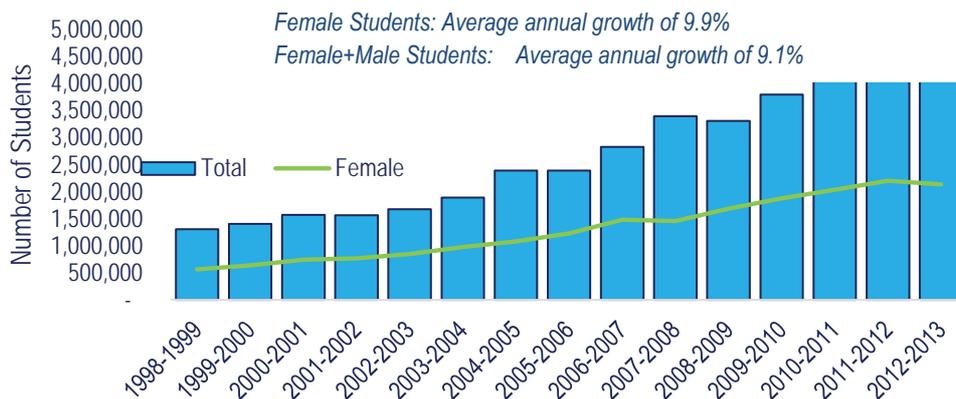


Figure 7. Female Share in Employment by Sector



*Young Population Ratio: population between 0-14 yrs old compared to total population.

Figure 5. Total and female population of students attending universities



Sources: Statistic Center of Iran

According to various studies, women are attracted to job opportunities in the services sector that are aligned with new technologies; these opportunities match their education more closely. Meanwhile, men show more flexibility in choosing their jobs especially in sectors that produce tradable goods. Conversely, the male labor force with higher ability to move amongst various sectors, showed a higher participation ratio during the sanctions years in tradable sectors², compared to previous years. Having said that, studies shows that tradable sectors during sanctions flourished, which forced the government to introduce economic incentives for non-oil sector companies and manufacturers to increase their involvement. Currently, Iranian GDP records the highest share of non-oil sector in its history, namely 90% of GDP at real prices. The revival of investment in the non-oil sector in the post sanctions period will bring job opportunities for women, especially in tourism, banking and high-tech industries. However, it is expected that in the short to mid-term, investments in the oil and gas sector will increase significantly; this will have limited influence on job creation and the declining employment rate. The wages of skilled labor, especially those with knowledge of foreign languages and international commercial standards are expected to rise by 2% in real terms, compared to unskilled labor with a 0.5% increase (World Bank, 2015).

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2.The tradable sector of a country's economy is made up of the industry sectors whose output in terms of goods or services are traded internationally, or could be traded internationally given a plausible variation in relative prices.

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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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