



With a 2.4% depreciation of the All-Share index, the Tehran Stock Exchange (TSE) experienced 5 straight months of sell-offs with a sharp decline in trading volumes which fell to a 19 month low. The combination of uncertain outcomes with regards to the nuclear talks as well as the ongoing stagnation in the economy, have contributed to the downward trend of the stock market this past month. As a result, the overall index fell to a level last seen in September 2013. Valuations also showed more signs of weakening as the average price to earnings ratio fell in the last week of the month, meaning that stock prices have fallen to their cheapest level since August 2012. The current negative environment is expected to last until late March when the self-imposed deadline on the nuclear negotiations will be reached which, will possibly provide a more clear picture of the final results of the ongoing talks that have been dragging on for the past year.

### Budget forecasts

Based on Iranian regulations, companies ought to publish an official earnings projection for the following year one month prior to the end of their fiscal year. As the fiscal year for 75% of listed companies ends in late March, they publish their first budgets in the month of February. This was an important occurrence as investors were waiting to receive an official view from companies on the economic circumstances for the coming year. However, the results were not that positive as the total numbers showed that companies have cut the profitability forecasts for the next year by 6% in comparison to their current budgets. Surprisingly, 9 out of the 10 largest industries in terms of market cap, decreased their profitability projections for the coming year which had not happened since 2008. Only pharmaceutical producers increased their forecast for the next year by 12%. Regardless of this, the index of this industry fell by 2.8% this month as the recessionary environment of the market neutralized the positive projections.

### Mining and metals

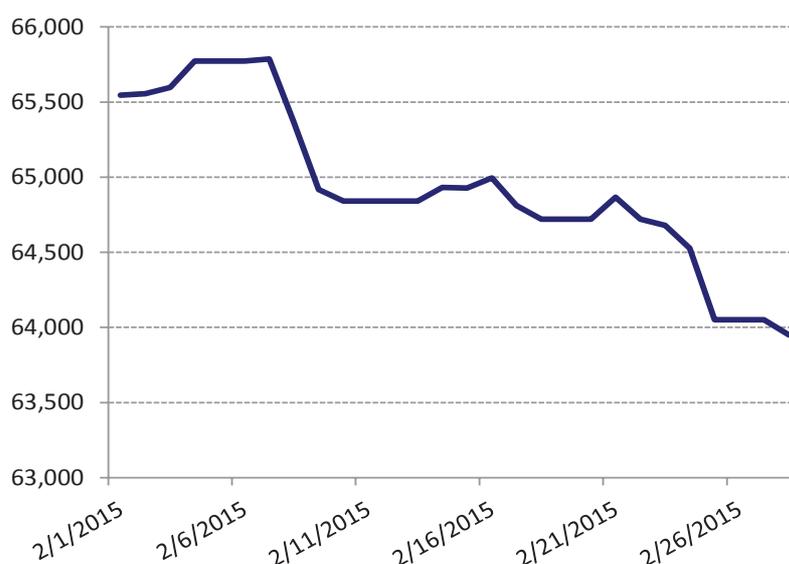
The Iranian government has made two decisions in the month of February which were important for the mining and metals sector. First, the government increased the tariffs on steel imports to the

highest level over the past 10 years. According to this decision, import tariffs have been set at a range of 10% to 20% which takes into consideration the different types of each product. This move has been made in large part in order to control the inflow of cheap steel products from China which have been excessive over the past couple of quarters. The second development is related to the deduction of royalty fees which were approved during the next year's budget discussions in the parliament. Based on that, royalty fees paid to the government by iron ore companies will go down to 18% next year from the current 30%. The 12% deduction of the fees is a significant development for the sector and will compensate for the effect of falling iron ore prices; therefore, the profitability prospects of this sector are expected to more or less remain stable. In spite of the positive fundamental effects of these developments, the stock market didn't react to this news at all and the mining and metals index fell by more than 5%. As a result, iron ore companies were valued at less than 5 times earnings which, were at the cheapest level since their IPO in 2003.

### Banks

For the first time in years, listed banks collectively announced negative adjustments in earnings forecasts for the current year. As a result, as half of the banks published their new forecasts, total profit projections for the sector fell by 7% overall. The interesting point about the reports is the significant shrinkage of the net margin between loan interest and deposit costs. This occurrence has emerged largely because of the decision amongst banks to attract more liquidity in an environment where the central bank of Iran has implemented a severe contractionary policy in order to curb inflation. On the other hand, as inflation has fallen from 35% to below 16% in the past 12 months, the demand for expensive credit facilities has also fallen significantly which has left the banks with difficulties to make money from their expensive resources. Right now, the one year deposit rate is offered from between 22% to 24% by banks while the inflation rate is far below that (around 16%). If the central bank of Iran does not ease monetary policy in the foreseeable future, it seems that Iranian banks are going to face significant challenges down the road. The index of the industry fell by 3.3% in the market in February.

Performance of TSE All-Share Index (February)



Market Statistics (February)

Average P/E	5.1
Trade Volume (\$ Billion)	0.8
Trade Value Monthly Change (%)	12
Market Cap (\$ Billion)	105

Top 5 Traded by Value (February)

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Iran Khodro Industrial Group	44	5
2	Mobile Communications of Iran	42	5
3	Bahman Group Co.	40	5
4	Civil Pension Fund Investment Co.	37	4
5	Esfahan's Mobarakeh Steel Co.	31	4

Top 5 Companies by Market Cap (February)

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	9,253	9
2	Bandar Abbas Oil Refining Co.	5,382	5
3	Mobile Communications of Iran	4,427	4
4	Telecommunication Co. of Iran	4,228	4
5	Esfahan Oil Refining Co.	4,091	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 27,744 as at 28 February 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.

➤ Negotiations between Iran and the EU3+3 have resumed in the Swiss city of Lausanne. The two sides have started negotiations in the hopes of reaching a political agreement as a first step to reaching a final comprehensive deal. The head of Iran's Atomic Energy Organization, Ali Akbar Salehi, met with the US Secretary of Energy to discuss technical terms of the potential agreement while the Iranian Foreign Minister, Javad Zarif, later met his American counterpart, John Kerry, in the lakeside Swiss city on March 16th. Mr. Zarif then left Lausanne to meet EU3 counterparts in Brussels. Negotiations between Mr. Zarif and Mr. Kerry are to be continued until Friday March 20<sup>th</sup>.

➤ 47 Republican Senators in the US drafted an open letter to the Iranian leadership, warning Iran not to make any deals with the Obama administration. The Senators stated that any potential nuclear deal that was not approved by the US Congress would not last and would be terminated by the next US President. The Obama administration reiterated that all matters of foreign policy are handled by the executive branch in the United States and that the move was unconstitutional. The Iranian Foreign Minister also replied to the letter by saying that any deal would be endorsed by the United Nations Security Council and that the termination of the potential comprehensive agreement by the next US administration would be a blatant violation of the United States' international obligations. The letter is one of the matters which are to be discussed during the latest round of negotiations in Lausanne.

➤ After the passing of the former Head of Iran's Assembly of Experts in October, the Assembly was tasked with choosing a new head when they convened in March. Amongst the candidates for the posts were the former Heads of Judiciary, Mr. Mahmoud Hashemi Shahroudi and Mr. Mohammad Yazdi, as well as former Iranian President, Mr. Akbar Hashemi Rafsanjani. Members of the Assembly of Experts casted their votes and Mr. Mohammad Yazdi, 84, was chosen as the fourth Chairman of this Assembly since the Islamic Revolution. Mr. Yazdi, who was able to secure 47 out of a total of 73 votes, is considered to be linked to conservative

factions in Iran's political spectrum. The Assembly of Experts is tasked with choosing, supervising, and potentially dismissing Iran's Supreme Leader under the Iranian constitution. The Assembly convenes every 6 months.

➤ Outspoken Iranian member of parliament, Ali Motahari, was attacked by a group of protesters in the Iranian city of Shiraz. The car carrying Mr. Motahari was damaged and the MP was forced to take refuge in a police station. The protesters prompted Mr. Motahari to cancel a planned speech at Shiraz University. Despite being from the conservative faction, Mr. Motahari has been an outspoken critic of the house arrest of Iranian presidential candidates in the 2009 elections. His views have stirred controversy in the Iranian parliament in the past.

### Foreign Trade

The Customs Administration of Iran released a report on the foreign trade of the country for the 11-month period ending in April 2015. The total exports (excluding oil and natural gas) of the country stood at \$46.3 billion, an increase of 22% compared to the same period a year ago. The total imports were \$48.3 billion, which shows an increase of 12%. The country is running a non-oil trade deficit of \$2 billion during the specified period; however, the number for the same period a year ago was \$5 billion. This is while the trade deficit including oil has always been positive for the country. In total, the foreign trade of Iran increased by \$13.7 billion during this period.

The export of gas condensates increased by \$4.1 billion and that of petrochemical products increased by \$3.2 billion. These two contributed the most to the increase in exports. China, Iraq, and UAE were the biggest importer of Iran's non-oil products with \$8.5, \$5.7, and \$3.5 billion of imports respectively, followed by Afghanistan and India. The destination of 68% of Iran's exports is to the above five countries. The average price of exports for the specified period was \$453 per ton, an increase of 17% compared to a year before.

China and UAE are the largest exporters to Iran with \$11.5 and \$11.2 billion respectively, followed by South Korea, Turkey, and India. The exports of these countries to Iran amount to some 70% of Iran's imports. The average price of imports was \$1268 per ton, a decrease of 13% compared to a year ago. Iran had a non-oil trade deficit with 74 countries and a non-oil trade surplus with 84 countries. The largest trade surplus was the amount of \$5.7 billion with Iraq and the largest trade deficit was the amount of \$7.7 billion with the UAE.

### Construction Activities

According to the Statistical Center of Iran, in the summer of 2014, a total of 2339 construction permits were issued in City of Tehran, showing a decrease of 34% compared to the spring and a decrease of 62% compared to the summer of 2013. The decrease in permit issuance was a country-wide phenomenon as the total number of permits

all across the country decreased by 52% from summer 2013 to summer 2014. This trend shows no signs of heralding a reversal of the recession in this sector. Decreasing property prices since summer 2013 along with tightening monetary policy at the same time, left developers with massive unfinished projects and locked up financial resources due to the increasing cost of new financing. This housing recession has been a burden on Iran's economy, depressing activities in many related sectors and hurting employment. The government, in its recent measures, increased the cap of housing loans and eased requirements for first-time home buyers and young people in the hope of stimulating this sector and also benefiting on the political side. So far, the property market has not moved significantly, neither in terms of price nor in terms of the number of transactions. Furthermore, the cost of financing for developers is still high. Taking into consideration all the above, analysts are not optimistic about a quick turn-around in the near future though they are closely watching market developments. In addition to its economic importance, the real estate sector is closely followed by stock market participants in sectors such as cement, steel, and tile manufacturers as there are many listed companies in these sectors which have suffered from the recent recession and have potential to benefit if the trend reverses.

### 3<sup>rd</sup> Quarter GDP growth

The Central Bank of Iran (CBI) published preliminary GDP growth for the 3<sup>rd</sup> quarter of the Iranian calendar year (ending in December 2014). After 8 consecutive quarters of negative growth up to March 2014, Iran's economy grew for three quarters in a row, though at a slower pace. Iran's GDP grew by 2.8% during the third quarter after growth of 4% and 3.9% during the first two quarters. GDP growth for the 9 month period was 3.6% while it was -2.2% a year ago. The financial services sector, the mining sector, and the oil sector experienced the greatest growth by 15%, 11%, and 8% respectively.

Out of the 2.8% GDP growth in the 3<sup>rd</sup> quarter, 0.8% belonged to the construction sector. However, the contribution of the private sector to the

growth in this sector was actually negative as it shrank by 5.5%, while government construction spending was the main driver of growth in the construction sector. Looking to the demand side of the economy, private and government consumption increased by 5.6% and 0.2% respectively. The formation of fixed capital in the construction sector grew 21.2%, mainly as a result of government spending in construction projects.

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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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