



Tehran Orchestra Symphony at Vahdat Performance Hall

## Market Overview 2

The market recorded a drop of 3.7% in May with more than 11% plunge from its peak on April 6<sup>th</sup>. Daily trade value reached their lowest level in 30 months and the total market cap fell below \$100 billion for the first time in more than 2 years. The Annual General Meeting (AGM) season also kicked off in May and more than 50 listed companies held their annual meetings. The common message which came out of the AGM's was that most companies are facing difficulties with full warehouses, problems in selling products and cash flow difficulties. The Securities and Exchange Organization (SEO) announced a new set of rules and regulations in May. The daily price fluctuation limit increased from 8 % to 10% which means that a single stock can fluctuate from -5% to +5% in value relative to the last closed price. This is considered a good development for the Iranian market which is trying to move towards a more liberalized environment.

## Country Highlights 5

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

## Economy 6

Key macroeconomic variables forecast, latest updates on Tehran real estate market and Iran's latest developments in OPEC will be detailed in this section.

The downward trend in the Tehran Stock Exchange continued in May as the overall index fell by 3.7%. The market has plunged more than 11% as the decline carried on since the market peaked on April 6<sup>th</sup>. Daily trade value fell to its lowest level in 30 months and the total market cap fell below \$100 billion for the first time in more than 2 years. The sharp fall began after some questions were raised in relation to the nuclear negotiations. The momentum gained during the first five days in Lausanne just after the Iranian New Year was interrupted by doubts in relation to the outcome of the nuclear talks.

Analysts believe that the progress in negotiations has been insufficient despite the fact that Iran, the US and the P5+1 group have held high level meetings on a regular basis since April 2<sup>nd</sup>. General perception is that one complicating factor may have been the public statements issued by both Iranian and US officials which, seem to show that there are still some disagreements on a number of key issues. With a few days remaining before June 30<sup>th</sup>, the expiration date for the current interim agreement, investor minds are occupied with the question of whether or not a comprehensive deal will be made.

On a more domestic note, more than 50 companies held their annual meetings as the AGM season kicked off in May. It seems that the main challenges facing companies are full warehouses, cash flow problems and difficulties with selling products. This shows the short-lived recovery of 2014 and the struggle for the Iranian economy to keep the positive momentum in 2015. This is again linked to the impact of uncertainties coming from the nuclear negotiations which, with no definitive outcome, have, to some extent, limited economic activity.

Covered below are developments in selected listed sectors:

### **Telecommunications**

Amongst the 10 largest sectors in terms of market cap, with a fall of 12.8%, telecom had the worst performing month. The decline happened right after the Telecommunication Company of Iran (TCI)

announced the step down of its CEO due to some conflicts within the board. Increasing calling rates for landline users has been a topic of regular discussion between the government and the telecom company for some time. Since the new moderate government has taken office, disputes have become a bit more heated between the ministry and the telecom company. On one hand, we have the government saying that the lack of sufficient investment in network expansion and improvement in services has caused TCI to go down in quality since its privatization in 2000, while, on the other hand, we have TCI with negative margins, complaining about fixed calling rates. This led to this year's controversial AGM for TCI where one of its major shareholders (the government) failed to show up and the meeting was held in the presence of only 51% of the company's shareholders.

### **Real Estate**

After a year-long debate, the Monetary and Credit Council of Iran approved a significant increase in real estate loans for retail customers. Back in 2007 when real estate prices jumped by 86% country-wide, the council barred all non-specialized commercial banks from giving out loans to real estate buyers. The prohibition lasted for 7 years until the council removed the ban this May. This means that from now on, all commercial banks are allowed to finance the purchase of property with a cap of \$20,000 for each unit. The government owned specialized Housing Bank which already had permission to give out loans, is now allowed to provide up to \$26,000 to first time buyers (the cap being \$12,000 before). Even though, in a city as expensive as Tehran, these loans can only cover a small portion of the costs of a unit (about 30%). This change was a good sign for the real estate sector which has been in a recession for more than 2 years. Stock prices in the sector went up by 4.6% in late May as a reaction to the news but the index remains down by 7.6% on a monthly basis.

### **Petrochemicals**

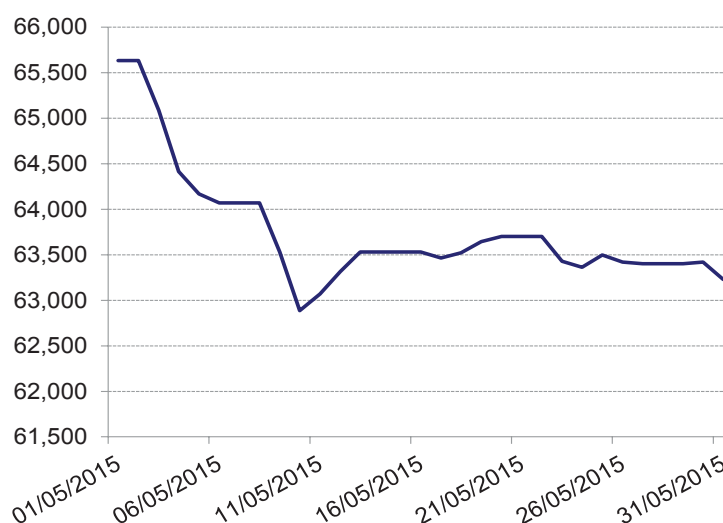
Disputes on the natural gas feedstock prices picked up again in May after the petroleum minister announced that the government is refusing to

deliver natural gas to petrochemical plants for any price below 13 cents per cubic meter. This was against the demands of the petrochemical companies which were hoping to bargain a price of 8 cents per cubic meter. In 2013, the parliament of Iran increased gas prices by 5 times to 13 cents and then went back on its decision after being faced with resistance from the petrochemical industry. This resulted in the parliament's approval of a new plan, putting the government in charge of determining the price. Having said that, it seems that the petroleum minister is unwilling to provide any discounts for producers. The petrochemical sector, currently projected to have \$4 billion of net earnings, may face a 5 to 10% negative adjustment if the minister remains inflexible on his pricing position. In the month of May, the index slid by 3.5%.

### Regulations

In May, the securities and exchange organization (SEO), announced a new set of rules and regulations. The limit for daily price fluctuations increased from 8 % to 10% meaning that a single stock can fluctuate from -5% to +5% in value relative to the last closed price. This is considered as a good development for the Iranian market as it is trying to move towards a more liberalized environment. The SEO also declared that company reports no longer need to be pre examined by them before publishing their financial reports. As a result, there will be no time gap between producing and releasing reports which will likely lead to more transparency and efficiency in the provision of financial data.

Performance of TSE All-Share Index (May)



Market Statistics (May)

Average P/E	5.7
Trade Value (\$ Billion)	0.7
Trade Value Monthly Change (%)	- 55
Market Cap (\$ Billion)	97

Top 5 Traded by Value (May)

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Mobin Petrochemical Co.	168	23
2	Esfahan Oil Refining Co.	44	6
3	Tamin Petrochemical Co.	37	5
4	Islamic Rep. of Iran Shipping Lines	33	5
5	Saderat Bank	27	4

Top 5 Companies by Market Cap (May)

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	9,042	9
2	Mobile Communications of Iran	3,664	4
3	Tamin Petrochemical Co.	3,573	4
4	Esfahan's Mobarakeh Steel Co.	3,506	4
5	Parsian Oil & Gas Development	3,363	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 28,828 as at 31 May 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.



➤ The Iranian president held a press conference on the anniversary of his election in June 2013. During the press conference, Mr. Rouhani stated that his administration has successfully stabilized the economy from the date he took over the Iranian executive branch. The president mentioned that his government was faced with an inflation rate of more than 40% and an unstable foreign exchange market as well as the country being in recession when his cabinet's work started; in comparison now, the inflation rate has been brought down to 15% and the foreign exchange market has been stabilized. Mr. Rouhani also elaborated on the nuclear negotiations between Iran and the EU3+3 by stating that Iran is very serious about reaching a negotiated solution to the nuclear dossier. The Iranian president mentioned that many differences still remain between Iran and the EU3+3; however, if new demands are not raised by the Western countries involved, reaching a solution before the June 30<sup>th</sup> deadline is possible. Mr. Rouhani stated that the reason the negotiations have taken so long is that some members of the EU3+3 have been trying to renegotiate and raise new issues regarding previously agreed upon subjects. The president also stated that sanctions have not been successful against the Iranian nation and they will not be successful in the future either. He also stressed that no country in the world will attain economical growth by having its doors closed to the global economy.

➤ The Iranian Supreme Leader, Ayatollah Ali Khamenei, met with graduates of Imam Hussain Military College during which he gave a speech covering domestic and international issues. Ayatollah Khamenei stated that the way to proceed in regards to the nuclear negotiations is for the Iranian delegation to resist excessive demands made by members of the EU3+3. The Iranian Supreme Leader further mentioned that Iran will not allow inspections of its military sites under the cover of nuclear inspections and he also ruled out permission to interview Iranian nuclear scientists as has been demanded by EU3+3.

➤ The Iranian negotiating delegation has kick-started the latest round of nuclear negotiations

with the EU3+3 countries at the deputy level in the city of Vienna. The negotiations, which are to continue until the self-imposed deadline of June 30, are meant to finalize a comprehensive deal which can resolve the 12 year standoff between Western powers and Iran regarding its nuclear program. The Iranian deputy foreign minister and top negotiator, Abbas Araghchi, stated that the talks will focus on narrowing the differences that currently exist between the negotiating parties. He also elaborated that the more crucial sticking points will most likely be left to be dealt with by the foreign ministers of Iran and the EU3+3 during the last few days before June 30<sup>th</sup>. The top Iranian negotiator also stated that Iran remains serious about reaching a solution before the deadline, but it does not see itself as time bound in its drive to reach a good deal.

➤ Mr. Hamid Baghaei, deputy to Mahmoud Ahmadinejad, the former Iranian president, was arrested by the order of the Iranian judiciary. Although the charges against Mr. Baghaei have not been made public, Iranian media suggests that his disregard for being summoned to the judiciary in the past for questioning has been the cause of his arrest. Mr. Baghaei served as deputy to former Iranian president Mahmoud Ahmadinejad and was also the head of Iran's Cultural Heritage, Handicrafts and Tourism Organization. Last year, Mr. Ahmadinejad's Vice President, Mr. Rahimi, was also arrested and was later charged and sentenced to jail.

### GDP growth forecast, inflation & foreign exchange strategy

The International Monetary Fund (IMF) staff visited Tehran to discuss the recent developments in the Iranian economy with the Central Bank of Iran (CBI) authorities. In this visit, the near-term outlook and Iran's macroeconomic strategy were carefully reviewed. According to the IMF statement, macroeconomic policies and reforms resulted in an inflation decline while economic activities started to rebound gradually. Moreover, both the CBI and IMF expect growth in the real GDP of Iran even without the lifting of sanctions. According to Dr. Komeijani, the Deputy Chairman of the CBI, the Iranian economy could witness a growth of between 0.6% and 1% in the year 1394 (March 2015 to March 2016) assuming no changes in sanctions until March 2016.

Reducing the inflation rate and stabilizing exchange rates over the past two years have enabled CBI authorities to prepare for the post sanctions economic environment, particularly in managing the foreign exchange and money market. The sharp drop in global oil prices and regional instability herald significant challenges to the economic outlook of all countries in the region, and oil exporting countries in particular. The IMF recommended that the fiscal policy should limit the budget deficit to close to 2.5% of GDP while monetary policy should keep up with a prudent level of liquidity growth targets. Keeping the foreign exchange market flexible to absorb the shocks stemming from the oil price decline is the other key area that was addressed by IMF and CBI officials.

According to IMF and CBI officials, if the sanctions are removed, the economy will struggle to deal with the immediate impact during the initial months of removal, although the impact could result in a 2.5% to 3% growth rate for the year 1394 (March 2015 to March 2016). Under the removal of sanctions scenario, the banking system expects frozen foreign assets to be released immediately. Furthermore, introducing international credit card systems and resuming contact with

foreign banks would also become possible in time.

The CBI forecasts that by March 2017, the inflation will reach to a single digit number; meanwhile, the policy makers have been successful in decreasing inflation from a rate of 45% in 2013 to 15.5% in April 2015, on a point to point basis.

### Real Estate Market in Tehran

The CBI's report included statistics regarding the housing market in Tehran for the second month of the Iranian year (21 April to 21 May 2015). The highest transaction value was in district 3 (north of Tehran) at 78.9 million Rial (\$2391 at free market rate of 33,000 IRR/USD) per square meter and the lowest value was in district 18 at 21.1 million Rial (\$639) per square meter. In terms of transaction values (Price \* Square meter), 48.2% of the total transactions valued at less than 2,200 million Rial (\$66,000) while 6% of total transactions were valued at more than 9,800 million Rial (\$297,000) during this period. The average rent of residential units increased by a relatively low rate of 11.9% in comparison to the same period last year. This decline could be a result of the falling inflation rate over the past 2 years. According to the CBI, the share of housing expenditure is one of the highest in the household total expenditure basket at 28.4%.

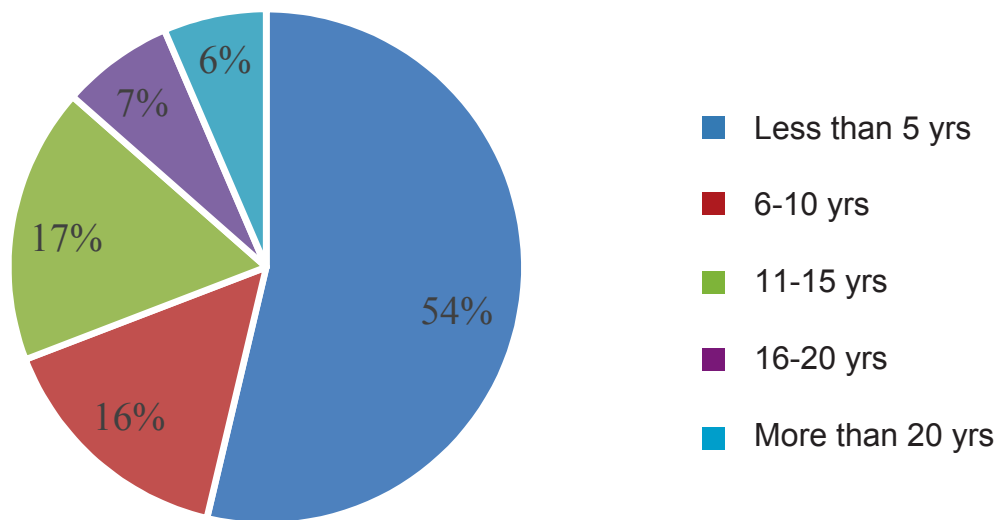
The number of transactions declined by 41% in the second month of the Iranian calendar year (ending in 21 May 2015) compared to the same period last year, while the average transaction price remained almost flat with a minor decline of 0.2%. The volume of transactions in the first two months of the current Iranian calendar year declined significantly by 38.9% compared to the same period last year. CBI analysts believe that the public concerns over the second stage of the subsidy reform scheme implementation was the key element in the housing transaction increase in the first two months of last year (Table 1).

Table 1. Number of transactions & average price per square meter 2015 vs. 2014

	21 Apr to 21 May 2015	21 Apr to 21 May 2014	Change
No. of Transactions	24168	14265	-41%
Average Price per Square Meter	\$1184	\$1181	-0.2%

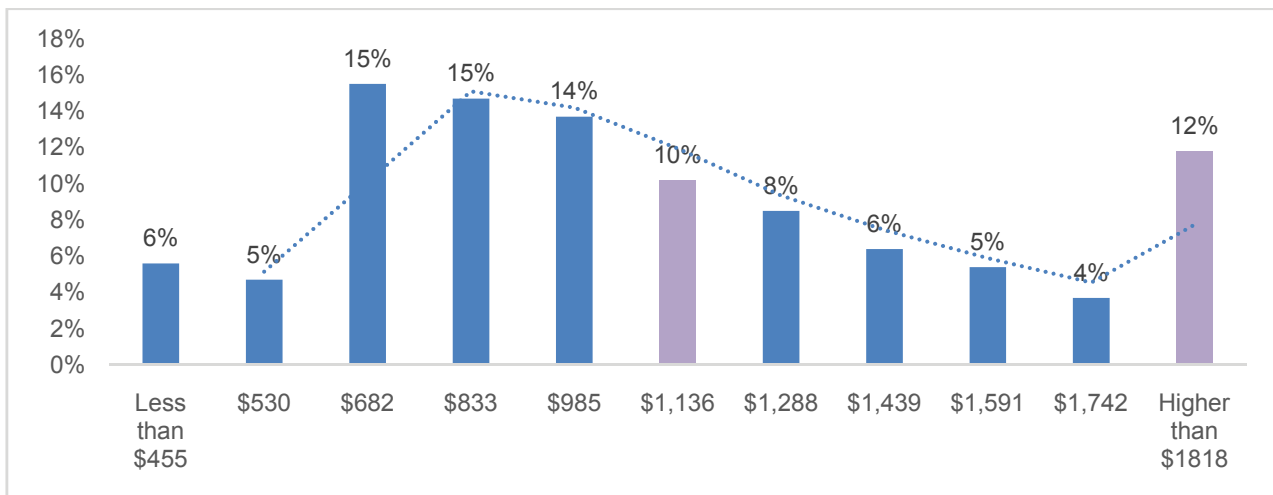
More than 50% of residential units are less than 5 years of age in Tehran (Figure. 1)

Figure 1. Age of residential units in Tehran ending 21 May 2015



12% of transactions occurred in high price range (higher than \$1818 per square meter), showing a greater share in demand compared to the average price range group that has a 10% share of demand (Figure. 2)

Figure 2. Percentage of residential trades in average price (per square meter)



According to the statistics of this report, the property market in Tehran has not moved significantly in terms of price but has witnessed a decline of 41% in number of transaction. The recent approval of the Monetary and Credit Council of Iran to increase the real estate loans for retail customers and allowing all commercial banks to finance the purchase of properties with cap of \$20,000 for each unit, could be a great development in the construction and real estate sector. However, analysts believed that those loans can only cover a small portion of the cost of a unit in a city like Tehran.

**Iran’s oil and gas reserves and latest developments in OPEC**

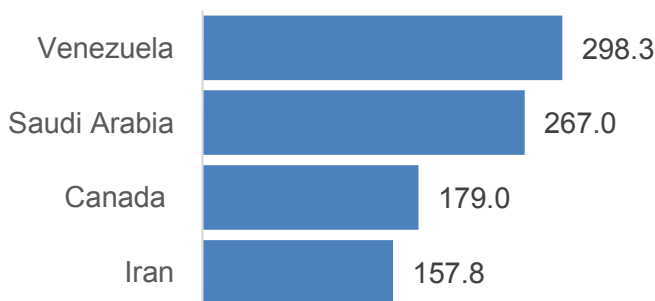
In May 2015, Iran became the third leading oil producer within the Organization of Petroleum Exporting Countries (OPEC), outpacing the United Arab Emirates. According to the latest OPEC monthly oil market report, Iran ranked as the third largest producer after Saudi Arabia and Iraq by producing 2.845 million barrels per day (mbd). OPEC supplied 32.9% share of global production in May that inched up by 0.1 percentage point compared to the previous month. According to the Iranian petroleum minister, Bijan Namdar Zanganeh, Iran’s oil production would increase by up to one million barrels per day within six months once the sanc-

tions are lifted. Iran’s ambitious target is to increase its production capacity to 5 million barrels per day by 2020. During the last OPEC session, the country’s petroleum minister emphasized that it is Iran’s right to take back its market share that it used to have before the sanctions period. Iran’s crude production has been reduced from 3.6 mbd to 2.8 mbd as a result of EU and US sanctions. Crude exports stand at about 1.1 mbd while Iran pre-sanctions exports were more than 2 mbd.

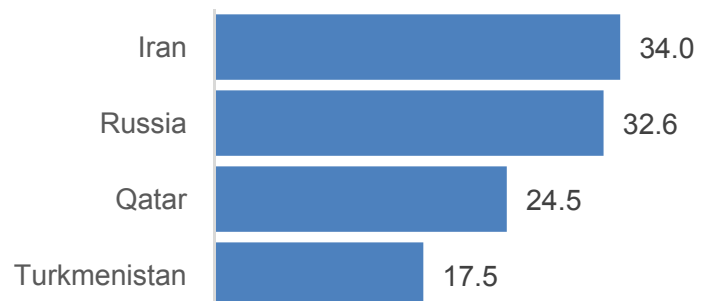
The country’s petroleum minister called on OPEC members to show unanimity to balance their strategy regarding the crude supply after the Iranian share has reverted to its pre-sanctions level. OPEC produced higher than its output ceiling of 30 mbd since last year putting more pressure on global oil prices. If the sanctions negotiations improve, the fall of the crude price due to the increasing supply from Iran in the short to mid-term would be possible.

According to the latest BP’s annual statistics reports, Iran ranks 4<sup>th</sup> in oil reserves after Venezuela, Saudi Arabia and Canada with 157.8 billion barrels as of 2014. In terms of gas, 0.2 trillion cubic meters of gas reserves have been added to Iran’s proven reserves by the end of 2014, positioning Iran as holding the largest proven gas reserves in the world. (Figures 3 & 4)

**Figure 3. Proven oil reserves ending 2014 – billion barrels**



**Figure 4. Gas reserves ending 2014 – trillion cubic meters**





## About Turquoise

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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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