



Officials of Iran & EU3+3 attending press conference post Lausanne agreement

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

The Tehran stock market experienced two volatile months in March and April due to various and sometimes conflicting news with regards to the nuclear negotiations between Iran and EU3+3. The index gained 2.8% in March in the hope of a potential deal. The trend continued in early April following announcement of a joint statement by the negotiating parties. The bull market however, did not last long and index lost almost all that it had gained in the second half of April.

## Country Highlights \_\_\_\_\_ 6

Announcement of a joint statement by Iran and the EU3+3 negotiating teams in Lausanne and the global and domestic reactions to the announcement is covered in this section.

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

Non-oil trade surplus, reduction of banking interest rates, lower PPI growth rate and the reduction in the number of government cash hand-out recipients will be discussed in this issue.

The Tehran Stock Exchange experienced some volatility in March and April 2015. This was due to the significant number of political news which flooded into the market following the nuclear talks in Lausanne. Second half of March was a stressful time for traders as they anticipated results of the nuclear negotiations. Sentiment of cautious optimism was dominant during the negotiations, which resulted in the overall index of the TSE to rise by 2.8% in March. The uptrend gained significant momentum as the final statement of talks was released on April 2<sup>nd</sup>. As a result, the main index jumped by 7.5% in the first trading week of April which was recorded as the best ever weekly performance. Having said that, the boom in the market didn't last long as the index lost all that it had gained towards the end of the month.

High interest rates and the lack of earnings growth prospects for the companies were the main contributors to the weak performance of the stock market which, led investment appetite in the stock market to diminish. In addition, institutional players like pension funds and the social security organization have been under pressure to sell and raise money in the bull market due to payment liabilities.

Forward price to earnings ratio of the market retreated to 5.7 by end of April after topping 6 in the middle of the month for the first time in a year. It seems like the Iranian market needs new incentives such as interest rate cuts and finalization of the nuclear deal by June 30<sup>th</sup> in order to gain upward momentum.

Below you will find some important developments of different sectors over the reported period:

### Earnings forecasts

As the Fiscal year for 80% of the Iranian listed companies ends on March 21<sup>st</sup>, the companies are mandated to publish their financial forecasts for the coming year. Based on the results, total projected profits for all listed companies are expected to be \$17b for the year ending March 2016, indicating a 9% drop compared to the previous year. It's the first time since 2009 that earn-

ings forecasts are projected lower than figures in their previous year. Petrochemicals and refineries have cut their earnings forecast by 19% and 50% respectively given the fact that the recent trend in oil market will possibly have a negative impact on their revenues. Therefore, refineries were the worst performing group in March as their stock prices fell by 48%, the highest monthly decline ever for a single listed industry on the TSE.

### Banks

Banks were the best performing group amongst 10 largest listed industries in March and April, jumping by 17% on average. The Banking industry was seen widely as the main benefactor of a possible sanctions relief in the eyes of analysts.

In the last week of April, The Money and Credit Council of Iran had an important meeting. They decided to cut interest rates by 2% from 22% to 20% for a one year deposit term. They also reduced the legal reserve ratio by 0.5% from 13.5% to 13%. Central Bank of Iran also committed to deposit money in the interbank lending market at a maximum rate of 24%. These steps are significant easing measures aligned with new easing policies which the government proposed in order to deal with the economic slowdown. The Money and Credit Council will also meet every 3 months from now onwards to examine the consequences and take new steps to stimulate the economy if needed.

The impact of the new easing policies will be minor on the stock market as there are huge stockpiles of high interest bonds available. These bonds have an estimated worth of \$2 billion with an interest rate of 22 to 25% which mature in 3 years on average. Hence, it takes time for the market to absorb this pile of high interest bonds before the effect of cutting interest rates become visible.

### Mining and metals

There are two different types of industries listed on the Tehran Stock exchange. Half of the market cap belongs to commodity oriented industries such as mining, metals, petrochemicals and re-

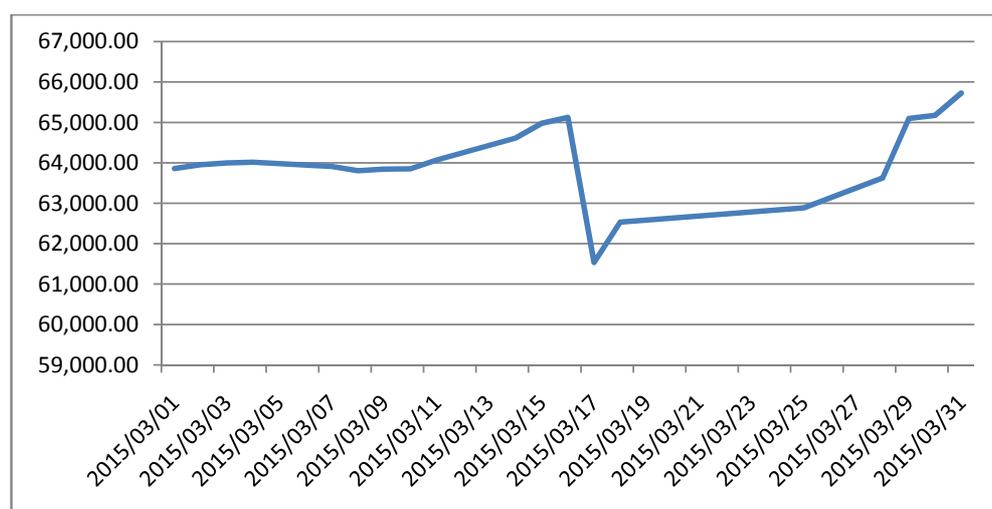
fineries. The other half belongs to companies in consumer and service sectors such as telecom, automotive, banks and so on. While all industries in the second group had positive performances, commodity producers were lagging behind. The weakest performance was seen in mining industry which had its index fall by 4.7% during March and April. Uncertainties about China's economy, the biggest consumer of mining and metal goods in the world, have been weighing on related sectors listed on TSE. Prospects for Iranian currency appreciation are also not promising for such industries which collect the main part of their revenues from exports. As a result, although the stocks are trading at low valuations, (forward price to earnings ratio is below 5) it's expected that such sectors underperform relative to other sectors even in the case of sanctions relief.

### IPO

One billion shares of Mobin Petrochemical Company (MPC), 7% of its total equities, were offered for the first time on the Tehran Stock Exchange on Tuesday April 28<sup>th</sup> 2015, as the largest IPO of the exchange in more than one year. Out of the company's total shares, 5% was offered to the public, and the remainder was offered to the company's employees. The shares were offered by the Persian Gulf Petrochemical holding which used to own 100% of Mobin Petrochemical.

Mobin Petrochemical Company is the largest centralized utility plant in Iran and is located in the South Pars Economic Zone. The company provides power, steam, gases and some industrial products for the zone's petrochemical complexes. The company was listed with a market cap of 1.2 billion USD, and forward PE of 4.3. After raising \$87.5m through the IPO, it has been announced that the major stockholder will sell another 3% of the ownership gradually in the foreseeable future which is expected to attract lots of interest from retail buyers due to its reasonable valuation.

## Performance of TSE All-Share Index (March)



## Market Statistics (March)

Average P/E	5.1
Trade Volume (\$ Billion)	1.6
Trade Value Monthly Change (%)	93
Market Cap (\$ Billion)	104

## Top 5 Traded by Value (March)

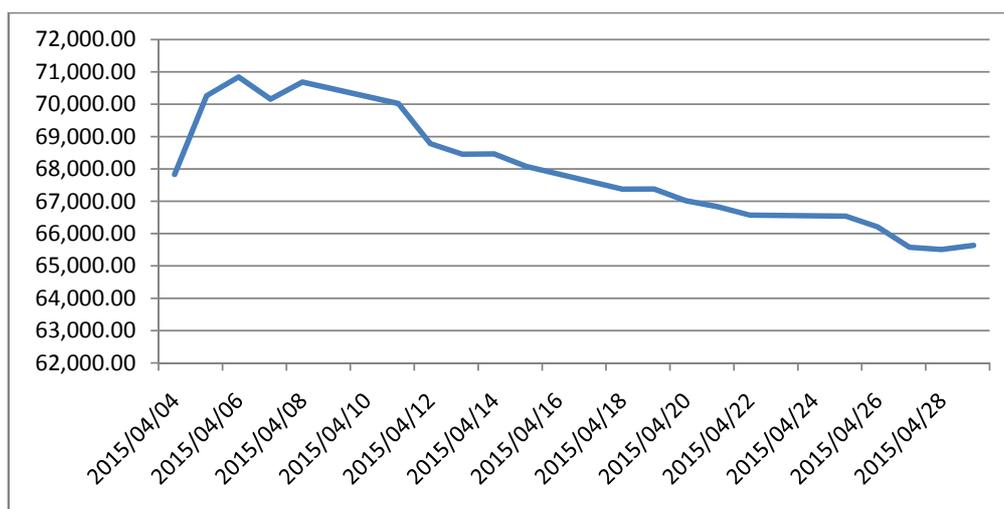
Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Ghadir Investment Co.	436	27
2	Behran Oil Co.	153	9
3	Mellat Bank	80	5
4	Saderat Bank	70	4
5	Tejarat Bank	70	4

## Top 5 Companies by Market Cap (March)

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	9,369	9
2	Telecommunication Co. of Iran	4,625	4
3	Mobile Telecommunication Co. of Iran	4,603	4
4	Tamin Petrochemical	3,863	4
5	Esfahan Mobarakeh Steel Co.	3,729	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 28,085 as at 31 March 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.

Performance of TSE All-Share Index (April)



Market Statistics (April)

Average P/E	5.3
Trade Volume (\$ Billion)	1.7
Trade Value Monthly Change (%)	6
Market Cap (\$ Billion)	104

Top 5 Traded by Value (April)

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Esfahan Mobarakeh Steel Co.	163	10
2	Saderat Bank	132	8
3	Mobin Petrochemical	102	6
4	Tejarat Bank	91	5
5	Mellat Bank	66	4

Top 5 Companies by Market Cap (April)

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	9,461	9
2	Telecommunication Co. of Iran	4,319	4
3	Tamin Petrochemical	3,586	3
4	Esfahan Mobarakeh Steel Co.	3,578	3
5	Mobile Telecommunication Co. of Iran	3,509	3

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➤ After 13 years of disputes and more than a decade of negotiations on Iran's nuclear programme, Iran and the EU3+3 were able to reach a political agreement on the framework of a comprehensive deal to be reached before June 30<sup>th</sup>. The latest round of negotiations which led to the announcement of the political agreement on April 2, 2015 was held in the Swiss city of Lausanne. The marathon negotiations, sometimes lasting all day and continuing into the early hours of the morning, were attended by all foreign ministers of the negotiating parties. However, the Chinese foreign minister left the negotiations before the announcement and the foreign ministers of France and Russia travelled between their respective capitals and Lausanne during the course of the talks. While most of the intense negotiations were carried out between the Iranian delegation led by Foreign Minister Javad Zarif and the US delegation led by Secretary of State John Kerry, multilateral and bilateral meetings were held between all members of the EU3+3 group and Iran. The discussions were extended twice as the talks went passed the original self imposed deadline of March 31<sup>st</sup>. At the end, the negotiating parties announced that a political agreement was reached on the frameworks of a comprehensive agreement on April 2<sup>nd</sup>. Iran and the EU read a joint statement in which the general understandings that were reached were read out. The detailed announcement illustrated the framework on which a final deal would be concluded. The preliminary deal outlined the technical aspects of the deal which included limits on Iran's uranium enrichment capacity, stockpiles of enriched uranium, re-configuration of one of Iran's enrichment sites as well as a heavy water research reactor. On the other hand, termination and suspension of various United Nations, US and EU sanctions placed on Iran was laid out as part of the deal. The parties cautiously stated that drafting of the final agreement would be difficult but that all sides possessed the political will to push forward. The drafting of the final comprehensive agreement is planned to be completed before the June 30<sup>th</sup> deadline. Since the announcement of the political agreement on April 2<sup>nd</sup>, the sides have continued efforts to write the draft final agreement. The Iranian delegation has been meeting with members of the EU3+3 negotiating

countries on a deputy level ever since and media reports suggest that the drafting of the final agreement is ongoing. The annual Non-Proliferation Treaty overview meeting being held at the United Nations headquarters in New York has been one of the venues where the negotiating parties have been pushing the talks forward. The Iranian Foreign Minister, Javad Zarif, attended the meeting and gave the opening speech as the representative of the Non-Alignment Movement which Iran is currently chairing. During his time in the US, Mr. Zarif also met with his American counterpart, John Kerry, in Iran's diplomatic mission residence in New York City. Mr. Kerry's attendance at the Iranian mission, was the first instance of an American Secretary of State setting foot on Iranian diplomatic soil since the Islamic Revolution in 1979.

➤ After the announcement of the political agreement in Lausanne, Switzerland, various political and military figures in Iran reacted by congratulating the Supreme Leader and the nation on the diplomatic victory of Mr. Zarif and his team. Figures who sent congratulatory messages included the Head of Iran's Armed Forces and the Head of Iran's Islamic Revolutionary Guards. The Iranian Supreme leader however dismissed the congratulatory remarks by reminding the nation that the comprehensive deal has not yet been reached. Ayatollah Khamenei stated that the nuclear negotiations are a test of credibility for the Western nations and the US in particular for potential collaborations in the future.

Meanwhile, contradictory remarks regarding the timing and method of removing the sanctions by US and Iranian officials has increased ambiguity on the results of the negotiations. The Iranian delegation insist that with the implementation of a comprehensive deal, all sanctions must be terminated. This is while American officials have been stating that the removal of sanctions will be phased and not immediate.

### Exports surpass imports in the first month of the New Year

The customs administration has released its most recent statistics with regards to foreign trade for non-oil products. It states that for the first month of the Iranian calendar year (March 21 – April 21), foreign trade amounted to \$4.7 billion and that the trade balance stands at \$760 million in surplus. According to the numbers, in the first month of the Iranian year, exports fell 8% in comparison to the same month of the previous year to \$2.7 million. That being said, imports fell even more with a drop of 23% to \$1.9 million which led to the mentioned surplus. The statistics for the same period last year show foreign trade of \$5.3 billion and a deficit of \$310 million in trade balance. The Iranian trade balance deficit was getting increasingly wide in the period from 2002 to 2009, such that it peaked in 2009 when the deficit was \$38 billion. From 2009 onwards, the Iranian Rial started to devalue against foreign currencies as a result of the impact of global sanctions; this made Iranian products more competitive in global markets. Following this trend, the trade deficit of the country excluding oil began to narrow, shrinking the deficit year by year. Last year, the difference between non-oil exports and imports was only \$2 billion which was the lowest deficit that Iran has had in several decades. The statistics which were released on trade data for the first month of the year shows that the situation may improve in the current year, making Iran a net non-oil exporter for the first time in recent history.

### The reduction of banking interest rates

When the new administration took office in 2013, its first priority was to curb the 40+% inflation rate. In order to do this, the Central Bank of Iran decided to increase interest rates for one-year deposits from 20% to 22% and liberalize lending rates for all banks. Over time, the inflation rate began to fall rapidly, reaching a 27 month low of 14.8% in April this year. However, due to the evident stagnation in many sectors of the economy, the business community started pressuring the Central Bank to reduce rates. This resulted in the Central Bank of Iran making some significant changes to the rates as follows:

- 1- Decreasing interest rates on one year deposits to 20% and loans to 24%
- 2- Cutting reserve ratio requirements for banks for all types of deposits from 13.5% to 13%
- 3- Injecting money into the interbank lending market at a maximum rate of 24% by the Central Bank in restricted amounts
- 4- Increasing the ceiling for retail loans from the current level of \$12000 for each person by 100% for the purchase of cars, housing equipment, etc.

These four steps are considered to be important easing measures which the Central Bank has taken in order to deal with the current sluggish economic growth. It has also been announced that the Central Bank will review this plan every three months to see whether or not more measures are required. The business community has welcomed this news as they hope that this new plan will decrease the cost of debt and also encourage consumers to spend more.

### PPI growth rate has reached a single digit number

The statistics from Central Bank of Iran show that year-on-year growth of “Producer Price Index (PPI)” has reached 8.9% in April. This is considered to be the lowest annual increase of PPI since the global economic recession in 2009. Bearing in mind that the PPI growth used to be above 40% in June 2013, it is evident that there has been a drastic decrease in the growth rate of the producer price index. This is while according to a recent government directive, the wages in the labour market for all employees has increased by 17% for the current Iranian year beginning of March 2015. As the Consumer Price Index in Iran usually follows the trend of the PPI with a delay, it is expected for the inflation rate to continue its downward trend in the short run. This will provide the Central Bank with more leeway to implement their recently announced easing policies.

### Reduction in the number of cash hand-out recipients

President Rouhani’s government has been reviewing cutting the number of recipients who cur-

rently receive monthly cash payments by the government. The cash hand-out scheme which was originally approved to compensate for increased prices on basic goods as a result of the country's subsidies removal scheme starting in November 2010 was paid to those who had applied; this included about 70 million out of Iran's 78 million population. The large number of recipients has placed significant liquidity pressure on the government, and the Iranian parliament and government have been reviewing methods to identify the more affluent classes which currently receive the payments so that they can be removed from the list.

In the most recent move, the government has removed five groups from the list of cash hand-out beneficiaries. The five groups include doctors, owners of luxury cars, and owners of foreign exchange bureaus, members of the board of directors at banks and private companies, as well as Iranians who reside outside of Iran. The amount of cash hand-outs which were paid to the public in the previous Iranian year was about IRR 425,000 billion (~13.2 billion USD), which surpassed the projected budget of IRR 385,000 billion (~12 billion USD) by 10%. This is because the government was mandated to cut the number of recipients based on the beneficiary's level of income, place of residence and amount of assets which was not implemented in time.

This year, the Iranian parliament has mandated the government to cut payments to Iran's more affluent classes who currently receive the cash hand-outs once again. The government is allowed to pay a total of IRR 385,000 (~12 billion USD) billion to compensate for the removal of subsidies through cash hand-outs and public initiatives. It is worth stating that the government's total budget is IRR 2,270,000 billion (~71 billion USD) for the current Iranian year. Receiving cash hand-outs has become part of the family income for many Iranians and therefore cutting the payments is expected to be regarded as an unpopular move. Despite the potential political consequences of reducing the number of cash recipients, the government is keen to free liquidity currently taken up by this scheme to be used in construction and infrastructure projects.

## 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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