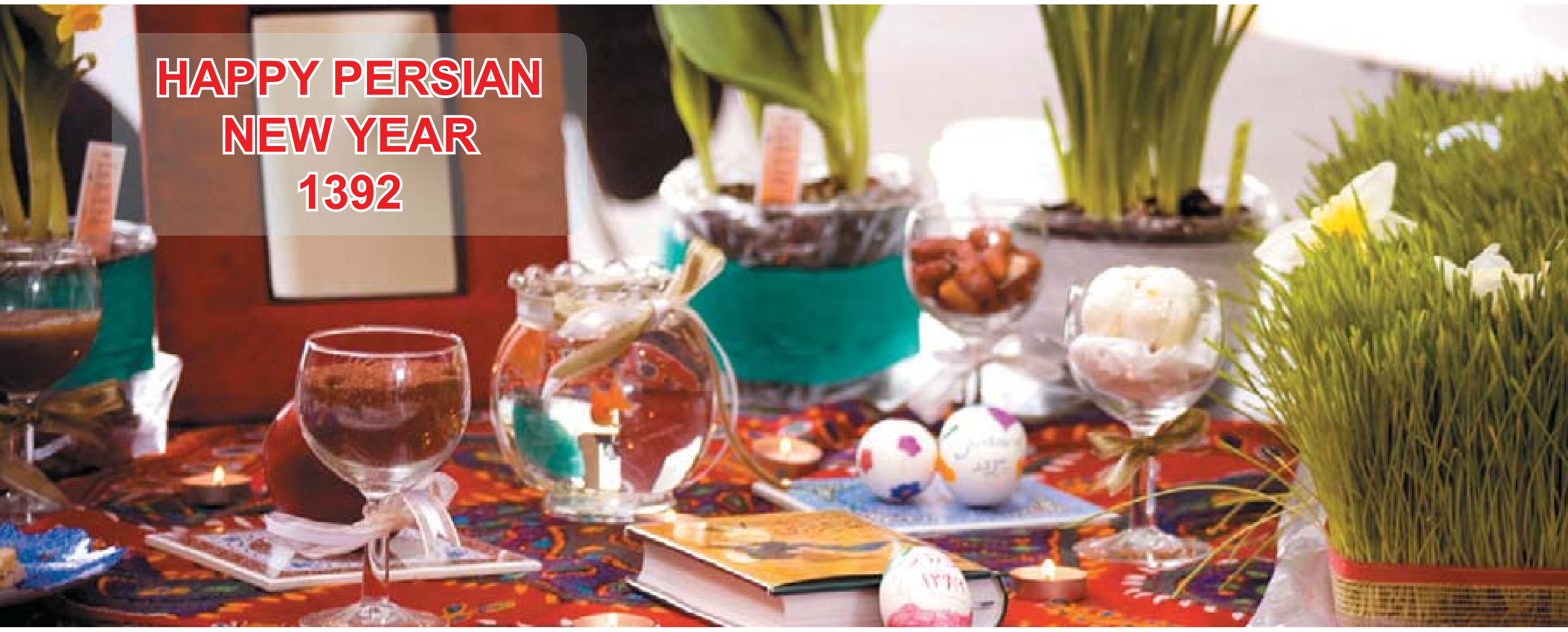
Iran Investment Monthly
March 2013 - Volume 7, No 78

TURQUOISE PARTNERS



Haft-Seen table, set up as part of Iranian New Year, Norouz celebrations

Iran Investment Monthly is produced by Turquoise Partners and distributed electronically by exclusive subscription.

Chief Editor: Ramin Rabii
Authors: Shervin Shahriari, Sanam Mahoozi, Elham Fotovat, Radman Rabii, Roham Tohidpour

Turquoise Partners, No. 17 East Gord Alley, Bidar St., Fayyazi (Fereshteh) Ave.
Tel : +98 21 220 35 830 Fax : +98 21 220 49 260
Email : info@turquoisepartners.com
To find out more about Turquoise Partners, visit our website at: www.turquoisepartners.com.

During the month of February, the Tehran Stock Exchange (TSE) showed signs of a recovery, with the market's main index growing 3.4% in Rial terms on the month. Analysts cited the main reason for this turnaround as the lifting of the trading suspension in the Isfahan Oil Refinery stock (the largest listed refining company) by the Securities Exchange Organization (SEO) this month. The share price of this company tripled after it resumed trading on the TSE after 9 months. This event by itself was accounted for almost 3% of the positive performance of the TSE this month. Another factor that contributed to TSE's performance was the release of next years' corporate earnings forecasts. These reports are stringently perused by investors as reliable sources of information that reflect the economic outlook of the management of these companies. Although the published reports differed in terms of their outlook in various sectors of the market, most of them took a conservative approach in reporting a forecast for next year; this was mainly due to uncertainties in some macro-economic factors such as foreign currency exchange rate and the inflation rate. These reports did not meet investor expectations and as a result the demand for short term investments on the TSE diminished. However, many analysts believe that even if the macro-economic situation remains unchanged during next year, many listed companies will continue to offer profitable and attractive investment opportunities. Therefore, with a longer term view, current conservative earnings forecasts for the year 1392 will not impact the attractiveness of the stock market.

Some of the sectors and events of the market are examined in more detail below:

Refinery

The lifting of the trading halt in Isfahan Oil Refinery shares after nine months, and its significant opening price was the most important event during February. As mentioned above, the TSE All –Share index reaped most of the benefits of this announcement and recorded its highest daily growth (more than 3%) in the stock market history. With a refining capacity of 375,000 barrels of crude oil per day, Isfahan Oil Refining Company is the second largest refinery in Iran after Abadan Refinery (with a refining capacity of 400,000 barrels per day). This company by itself accounts for 21% of Iran's refining capacity. The company also has the largest development plan, in comparison to other refineries listed on the Tehran Stock Exchange; its gasoline production line, with a capacity of more than 3 million litres a day, is to be inaugurated on the first day of the Iranian New Year. This refinery also boasts an unmatched financial position in comparison to other listed refineries, with revenues reaching USD 7 billion and having available cash deposits of USD 1 billion. The valuation of the Isfahan refinery after its trade re-opening on the market will also impact other companies in this sector. Currently Isfahan Oil Refinery's shares trade with a price to earnings ratio (P/E) of 8, which is half the sector average of about 16. It is therefore anticipated that other stocks from this sector experience price correction over time.

1392 Corporate Earnings Forecast

A closer look at 1392 corporate earnings forecast shows that some relatively conservative reports seemed to be emerging from companies with high levels of exposure to the foreign currency market. In line with this, the two largest iron ore mines (Chadormalu and Gol-e-Gohar) reduced their revenues for the coming Iranian year by 25% in comparison to the current year. Steel producing companies have assumed that their selling prices for the coming year will be 20% below the current trading rate on the Iran Mercantile Exchange (IME). This conservative approach was even noticeable in the largest listed company on the TSE, to the extent that National Iranian Copper Company's (NICIC) selling price for the coming year was 15% lower than current market prices, which seems overly conservative. As a result, the company's profit forecast for the next year dropped by 30% in comparison to their latest published budgeted profits. On the other hand, the pharmaceutical sector surprised the market with its promising outlook for the Iranian year 1392. Stocks of this sector were amongst the worst performers of the market this year with the sector index falling by 2% from the beginning of the current Iranian calendar year. Analyst cited that the negative performance of this sector was mainly due to investors' concerns surrounding the group's access to foreign currency. In reality, companies in this sector have achieved considerable profitability; thus a forecast of positive growth for the pharmaceutical sector in the coming years seems achievable.

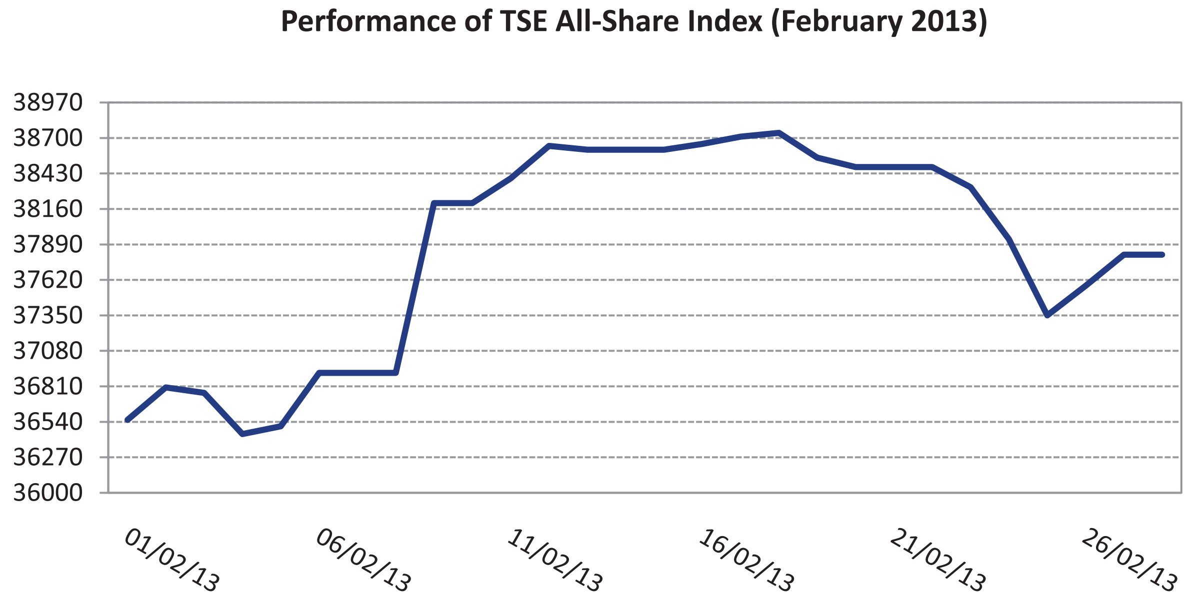
Fundamental Factors in the stock market

Following the stock market's strong performance over the past several months, the TSE experienced a period of moderate stagnation over the last two months. It is worth mentioning some factors that resulted in this situation. Prices of steel on the IME (which is the key factor in the profitability of both steel and iron ore producers) rose by 12%. During the same period, the price of copper and zinc increased by 4% and 16% respectively. Overall, the base metal sector lost 10% of its value in February. In addition, the petrochemical sector which has the greatest exposure to exports, benefited from the further weakening of the Rial in the unofficial market (by around 15%) during the month. However, the index of petrochemical sector fell by approximately 8%. One can conclude that during the past two months, the fundamental factors (the devaluation of the Rial and the prices of metal products on the IME) and share values have moved in opposite directions; such a trend has not been sustainable in the history of the TSE. Therefore, with a mid-term view, stock market analysts expect further growth in the above mentioned sectors as they believe these sectors will continue to offer a great deal of potential.

Cement

The cement sector was amongst the best performers this month, with the sector index gaining 2% in value over the course of February. Positive news for investors in this sector occurred when the Ministry of Commerce ratified a 10% increase in the price ceiling for cement products intended for export. With an average price to earnings ratio (P/E) of 4, this sector was below the overall market average and was amongst the cheapest sectors of the market. Historical data shows that the average price to earnings ratio (P/E) of 4 has been the lowest ratio for the cement sector on record. The total market capitalization of this sector is approximately USD 1.5 billion, which is around one third of its replacement value. In other words, to create the same production capacity, cement companies will need to spend three times their current market value. Analysts predict the cement sector has the potential to attract investor interest. However, rumors regarding an increase in energy prices are viewed as a threat to this industry, as the sector is among the most energy intensive sectors of the market. Energy, on average, constitutes 20% of the cost of production for cement in Iran.

Overall, February turned out to be a good month for the TSE, mainly as a result of re-opening of some major tickers. The TSE All-Share Index gained 3.4% of its value in Rial terms.



Market Statistics	
Average P/E	6.0
Trade Volume ($ Billion)	1.9
Trade Value Monthly Change (%)	6
Market Cap ($ Billion)	138

Top 5 Traded by Value

Rank	Company Name	Turnover Value ($Million)	% of Total Turnover
1	Isfahan Oil Refining Co.	17	9
2	National Iranian Copper Industries Co.	15	8
3	Isfahan Mobarakeh Steel Co.	12	7
4	Tabriz Oil Refining Co.	10	6
5	Parsian Bank	8	6

Top 5 Companies by Market Cap

Rank	Company Name	Market Cap ($Million)	% of Total MC
1	Isfahan Mobarakeh Steel Co.	9,491	7
2	National Iranian Copper Industries Co.	9,004	7
3	Telecommunications Co. of Iran	8,273	6
4	Isfahan Oil Refining Co.	6,672	5
5	Gol-e-Gohar Iron Ore Co.	6,320	5

All figures quoted in USD in this Newsletter are calculated based on the Central Bank of Iran's official USD/IRR exchange rate of 12260, as at 28 February 2013

Dismissal of the Labor Minister by Parliament

The Iranian Parliament moved forward with plans to impeach the Labor Minister, Mr. Abdul-Reza Sheikholeslami in early February. The decision was based on Mr. Sheikholeslami's role in selecting Mr. Saeed Mortazavi as the head of Iran's Social Security Organization. The impeachment was pursued by the Parliament despite recent moves to create a more calm and cooperative atmosphere between the executive and legislative branches of power.

Mr. Mortazavi, Tehran's ex-General Prosecutor, has been charged for his alleged role in the illegal detention and death in custody of a number of protesters after the presidential election in 2009. He was removed from the position of Tehran General Prosecutor by the judiciary but was later appointed as the head of Iran's Anti-Smuggling Task Force by the President. The sentencing guidelines and legal procedures for the case against Mr. Mortazavi are ongoing. His selection as the head of the Social Security Organization was marred with controversy from the start. Many supervisory bodies, including the Parliament, called his selection as the head of the Social Security Organization illegal and against the interests of more than 30 million workers who are covered by the organization.

President Ahmadinejad delivered a controversial address to the Parliament during the impeachment hearing. He accused the Speaker of the Parliament, Mr. Ali Larijani, of overstepping his legal powers. Mr. Ahmadinejad then played a tape in which the Speaker's brother, Fazel Larijani, was allegedly using his family influence for personal interests in a meeting with Mr. Mortazavi. The Speaker hit back at Mr. Ahmadinejad by condemning what he called the President's unlawful and unethical behavior. He accused the President of giving governmental positions to people whom have court charges against them and went on to say that if any members of his family have committed any wrongdoings, he would welcome an investigation by the judiciary.

Afterwards, the impeachment was carried out by a vote of 192 out of 272 Parliamentarians in favour of this action. Mr. Sheikholesami was Mr. Ahmadinejad's ninth minister to be dismissed by the Parliament since the start of the President's second term.

Almaty Negotiations:

In February, Iran and the P5+1 (the US, UK, France, Germany, Russia and China) held their most recent rounds of nuclear talks in Almaty, Kazakhstan. The talks reportedly were held in a positive atmosphere as the two sides expressed a cautious optimism regarding the exchange of views and the packages which were presented. Another sign that these talks were considered as positive was the fact that P5+1 and Iran agreed to hold further negotiations within the next two months in Istanbul and again in Almaty respectively.

These talks were held after an eight month hiatus and lasted for two days during which diplomats discussed the updated packages which are intended to encourage Iran to take further confidence building measures regarding its nuclear program. The Iranian chief nuclear negotiator, Mr. Saeed Jalili, stated that the talks were positive and that Iran was happier with the other side's position in comparison to previous rounds. He said that the latest offer presented by P5+1 seemed more realistic and was closer to Iran's position, but that it still was a long way from meeting Iran's requirements.

The West also indicated that these talks were pointing towards the right direction, especially given that it had been a long time since negotiations had proceeded on a positive note. They did however stress the fact that there must be significant progress achieved between the parties if further restrictive measures are to be avoided. Before the talks had begun, the P5+1 had asked Iran to take three rapid steps towards building confidence. The steps which were indicated were for Iran to stop the production of more highly enriched uranium up to 20 per cent concentration, to ship its current stockpile of 20 per cent uranium out of the country and to shut its heavily protected second uranium enrichment plant at Fordow.

During the talks, there were unconfirmed reports that the diplomats supposedly made some adjustments to these requests which indicated that rather than closing Fordow, Iran should reduce the enrichment plant's readiness. Another reported modification was that it was also no longer required for Iran to ship out its entire existing stock of 20 per cent uranium but retain what it needs for its research reactor in Tehran which produces medical isotopes. Reports suggest that for the first time, it was also mentioned that the West would ease sanctions on the trade of precious metals and petrochemical products if Iran were to comply with these measures. They also stated that they would not impose further sanctions on the nuclear industry. That being said, the sanctions on the banking and energy sectors would still remain.

Analysts viewed these negotiations as a concrete and positive step towards finding a diplomatic solution to the standoff regarding Iran's nuclear program. Both sides agreed to convene in Almaty again in early April for the next round of negotiations after holding technical talks in Istanbul in mid-March.

The West has been worried about Iran's recent technological improvements in its nuclear program. These concerns include the installation of new centrifuge machines at its enrichment site at Natanz. which can reportedly enrich uranium at a much faster pace than older models. Iran has repeatedly dismissed Western allegations that it is secretly trying to develop military nuclear capability and insists on the peaceful nature of its nuclear energy program.

Iran and Pakistan Agree to Go Ahead with Gas Pipeline

The Pakistani President, Asif Ali Zardari visited Iran in late February to finalize the details of a much delayed pipeline project which is supposed to take natural gas from Iran's South Pars gas field in the Persian Gulf to Pakistan. Talks regarding the project dubbed the "Peace Pipeline" were initially started in 1994 and the original discussions included plans to take Iranian natural gas through Pakistan towards India. After many years of negotiations, India withdrew itself from this project in 2009 and in its current form Pakistan will be the sole recipient of Iranian natural gas.

The $7.5 billion project has been the center of many discussions between Iranian and Pakistani officials and has faced many obstacles ranging from financing difficulties to threats of US sanctions on Pakistan. The two countries have however concluded the deal and in President Zardari's recent visit to Iran, it was announced that the pipeline would go ahead despite pressure from the US and its allies.

In his visit to Iran, President Zardari also met with Ayatollah Khamenei during which the Supreme Leader called the pipeline an important example of cooperation between the neighboring states and mentioned that the project should advance despite pressures by foreign powers.

Washington has repeatedly stated its concerns about the pipeline as it argues that the project will undermine its efforts to isolate Iran for its nuclear program. The Pakistani government has however asked that the country's allies be more understanding about Pakistan's interests and legitimate energy requirements.

The 1,990km pipline, of which 780km is to be laid in Pakistan, has almost been completed on the Iranian side and is close to reaching the Iranian-Pakistani border. The cost of completing the Pakistani side of the pipeline is estimated to be around $1.5 billion; Iran has agreed to cover one third of this cost, and an Iranian contractor will be involved for this amount. The pipeline is planned to take more than 750 million cubic feet of natural gas per day to Pakistan with plans for the transportation capacity to increase to 1 billion cubic feet by mid-2015.

Pakistan is facing an energy crisis resulting from higher demand by its more than 180 million population; many parts of the country experience daily blackouts. It produces only about 30% of the natural gas it needs and a significant segment of the country's industry and transportation systems are reliant on the commodity. It is reported that 21% of the vehicles in Pakistan run on compressed natural gas. Iran is the second largest holder of natural gas in the world after Russia.

Iran's trade value hits USD 86 billion

According to a report released by the Customs Administration, Iran had non-oil trade transactions with 196 countries in the first eleven months of the current Iranian calendar year, which began on March 2012. During this period, the Iranian non-oil trade value surpassed USD 86 billion. Non-oil exports (including gas condensate) and imports amounted to USD 37.69 and USD 48.31 billion respectively. Meanwhile, imports have risen by 6.8% in terms of volume but have fallen by 8.11% in terms of value in the same period. Wheat, iron and steel were the main imported items. The top 5 exporters to Iran were the United Arab Emirates (USD 9.75 billion), China (USD 7.16 billion), South Korea (USD 4.45 billion), Turkey (USD 4.18 billion) and Switzerland (USD 3.46 billion).

The country's non-oil exports increased this year despite Western sanctions. According to the Union of Agricultural Crop Producers and Exporters, some 2.5% of the country's agricultural crops, valued at USD 2.57 billion, were exported during the first eleven months of 1391. In the automotive sector, more than 49,952 cars, valued at about USD 294 million, have been exported; this demonstrates an increase of 170% and 200% in terms of the number of units and value respectively, in comparison to the same period in the previous year. Iraq with USD 5.96 billion, China with USD 4.82 billion, the United Arab Emirates with USD 3.91 billion, Afghanistan with USD 2.5 billion and India with USD 2.6 billion were the main destination markets for Iranian goods in this eleven month period.

According to the Trade Promotion Organization of Iran, the country's exports will continue their uptrend in the coming Iranian fiscal year. They are estimated to reach USD 59 billion by the end of 1392. A report published by the Economist magazine indicates that Iran's total exports will amount to USD 74.1 billion in 1393 and USD 81.1 billion in 1394.

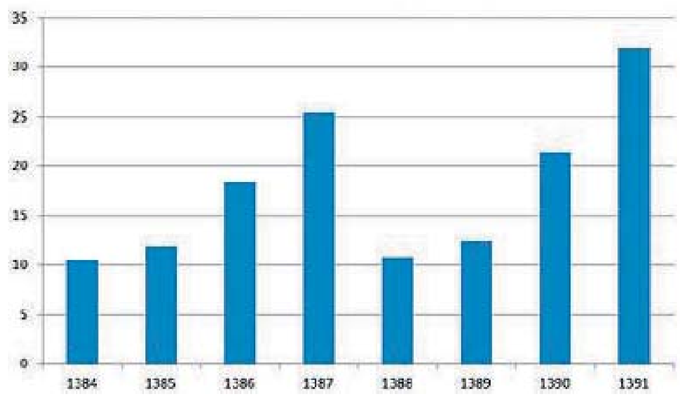
Inflation Rate Rises by year end

The latest statistics published by the Central Bank of Iran (CBI) reveal that the average inflation rate for the first eleven month of Iranian calendar year 1391 (February 2013) hit 29.8%, indicating a 1.1% increase compared to the previous month. Since July 2010 the country has experienced an upward trend in its monthly inflation rate. According to this report, the average inflation rate in 2010 was at 8.9% in summer, 10.1% in autumn and 12.4% in winter. The trend continued in the following year and the inflation rate increased to 15.4%, 18.3%, 20.6% and 21.5% in the spring, summer, autumn and winter of 2011 respectively. And finally, in 2012 this rate was 22.4%, 24% and 27.4% for the seasons from spring to autumn.

The Central Bank of Iran has also announced that the estimated average inflation rate by the end of the current Iranian calendar year will reach 32%. This means that the average monthly inflation rate for the last two months of the current Iranian year should be around 5%. Many analysts believe that the estimated inflation rate by the CBI is pretty optimistic, given the recent fluctuations in the foreign exchange market along with the government's cash hand-outs to Iranian citizens in the last month of this year (March).

The implementation of the subsidies reform plan along with the weakening of the Rial against all major currencies were the main reasons for the high inflation rate in the past year. In addition, the bank deposit interest rates being below the inflation rate caused an outflow of liquidity from the banks into other investment opportunities such as currencies, gold and other goods and services that had an inflationary impact. The figure below displays the average of 12 monthly inflation rates since the Iranian year 1384.

Over the past 20 years, there has been a long-run negative relationship between the inflation rate and the GDP growth rate in Iran. More specifically, an increase in the average annual inflation lowers the real GDP growth. The high inflation rate during 2012 led to a decline in the country's economic growth rate and according to Iran's Statistics Center, Iran's GDP growth rate was approximately 0.36% in 2012.



Demand surpassing supply in the housing market

Based on an official report released by the Iran Ministry of Housing and Urban Development, the construction sector in Iran has been constantly growing over the past few years, but the capital invested in this sector is mostly directed into new projects rather than being used to complete unfinished ones. The misdirection of capital has resulted in a gap between the supply and demand in the housing market. Analysts believe that if the share of capital invested in finishing ongoing projects increases by only 5%, the supply will ultimately meet the demand. According to the Central Bank of Iran, 400 trillion Rials was invested in this sector in 2011; out of this amount, 50 trillion Rials were allocated to the completion of residential apartments, 250 trillion Rials to incomplete projects and 100 trillion Rials to new projects.

These investments resulted in 564,000 residential units being offered to the housing market in 2011. Note that during this year, 85% of the capital flows into the construction market related to projects that would be ready to use in the following year. Meanwhile, based on statistics on the number of marriages that took place, more than 890,000 new households were looking for residential apartments. Therefore, the demand for housing (ignoring accumulated demand from previous years) surpassed supply by around 35%. In other words, there has been a gap of 326,000 units between supply and demand in 2011. This gap could be filled easily through better management of investments within this sector.

According to the report, around 500,000 residential units, representing around 150 trillion Rials worth of investment, were offered to the market in 2011. Experts believe that with an extra 50 trillion Rials, the gap between the supply and demand would be filled. The indirect proportionality between the growth in the supply of completed units and the growth in overall investment in this sector is a good indicator of the mentioned imbalances. The report stated that in 2011, the number of units offered to the market increased by only 5.2%, while total injection of funds into the construction industry in the same year grew by at least 23%.

During the same year, the number of residential units offered in Tehran's market was around 135,000, 24% of the total new supply in the country. Similarly, 28% of the overall funds invested into construction were utilized in Tehran, which was followed by Esfahan as the second largest investment market for this sector. Growth in supply of new units increased by 6% in Tehran, 3 times higher than the country's overall increase.

About Turquoise

Turquoise is a boutique investment firm based in Iran. Turquoise creates financial products and offers financial services to select clients and investors who are interested in the Iranian market. Having a qualified and diverse management team with a wealth of international expertise enables Turquoise to benefit from coupling a network of global expertise with an enviable reputation for local knowledge, professionalism and integrity.

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*

Disclaimer

This material is for information purposes only and does not constitute an offer to sell, nor a solicitation of an offer to buy any specific shares.

The analysis provided by this publication is based on information that we consider reliable and every effort is made to ensure that the facts we publish are correct. However, we do not represent that all facts and figures are complete and accurate; therefore, we can not be held legally responsible for errors, emissions and inaccuracy.

This publication does not provide individually tailored investment advice and may not match the financial circumstances of some of its recipients. The securities discussed in this publication may not be suitable for all investors. The value of an investment can go down as well as up. Past performance is no guarantee of future success.