

The Cyrus Charter of Human Rights

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*Iran Investment Monthly is produced by Turquoise Partners. Distributed electronically by exclusive subscription.*

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In September, the Tehran Stock Exchange (TSE) had a positive performance for the ninth consecutive month. 2010 has been an exceptional year for the TSE and the year to date performance of the main index reached 67% as at the end of September. However, the dynamic of the market, in September was very different from that of previous months. Trade volumes were considerably lower and there was significant volatility in the market prices.

There were a number of reasons for this behaviour. Firstly, the Iranian equity market has become increasingly sensitive to global prices of crude oil and commodities, because there are many commodity related companies listed on the TSE. As a result, fluctuations in global prices over the course of the month caused considerable volatility in the prices of several large stocks. Secondly, the financial year end for most investment companies falls in September. Historically, in early September, investment companies liquidate a substantial amount of their holdings in order to realise profits prior to their year end. This tends to create selling pressure, and in turn, pushes prices down. Thirdly, the plan for the removal of subsidies is now very likely to commence in the autumn. However, the details of the plan are still unknown and the uncertainties about its impact on various industries have resulted in investor caution.

It is evident that many investors are now pursuing more defensive strategies in the market. While this may be a sensible strategy given the current uncertainties surrounding the market, analysts believe that opportunistic investors can also exploit the numerous shorter-term opportunities that the market presents.

Some of the key events and sectors of the market will be analysed below:

## Metals

The price increases in the metals sector was one of the main reasons for the positive performance of the market, although the performance of companies in this sector was mixed. With a 19% gain in share price, the National Iranian Copper Industries Co. (NICIC), the second largest listed company by market capitalisation, was the best performing company in this sector and had the biggest positive impact on the market's main index. Shares of zinc and lead producers also performed well. However, steel stocks suffered price declines. The positive trend of the price of steel products on the Iranian Mercantile Exchange (IME) reversed in September. In addition, investors became more concerned about the impact of the removal of energy subsidies on the steel sector. Shares of Mobarakeh Steel, the largest listed steel manufacturer, lost 4.3% of their value.

## Banks

For a number of years, the banking sector has been among the best performing sectors of the Iranian economy in terms of profit growth. However, the slowdown in economic growth over the past two years has, to some extent, hampered the growth in bank earnings. In addition, the volume of bad debts has risen over the past two years. This has resulted in banks becoming more cautious in regards to their lending activities. This, in turn, has reduced their earnings. The state owned banks have suffered the most from this, although privately owned banks have also been affected to a degree.

In September, the market was influenced by unconfirmed news regarding a potential governmental plan to withdraw \$7.2 billion of foreign reserves and to repay some of its outstanding debt to the recently privatised banks. This created a great deal of investor excitement and led to price rallies throughout the sector. The banking sector is also viewed as a potential hedge against the removal of subsidies, as the plan is not expected to have any direct impact on banks.

The banking sector index gained 7.5% in value over the course of the month.

## Engineering Services

The engineering services sector was the worst performing sector over the course of September, with the sector index losing 12.3% of its value. Companies in this sector had posted some of the strongest gains since the beginning of the year, such that the sector index was up over 100% prior to September. There were two main reasons for this strong performance. Firstly, there had been frequent rumours within the market about companies in this sector winning lucrative contracts. In particular, Iran Marine Industries (SADRA) was reported on various occasions to have been awarded contracts worth \$7 billion in the South Pars oil and gas field project. However, the news was dismissed by the company itself. Secondly, bidding wars for strategic blocks of shares in several companies, such as Iran Power Plant Projects Management Co. (MAPNA), drove up the prices.

In the view of analysts, most shares in this sector were significantly overvalued and steep price corrections were expected.

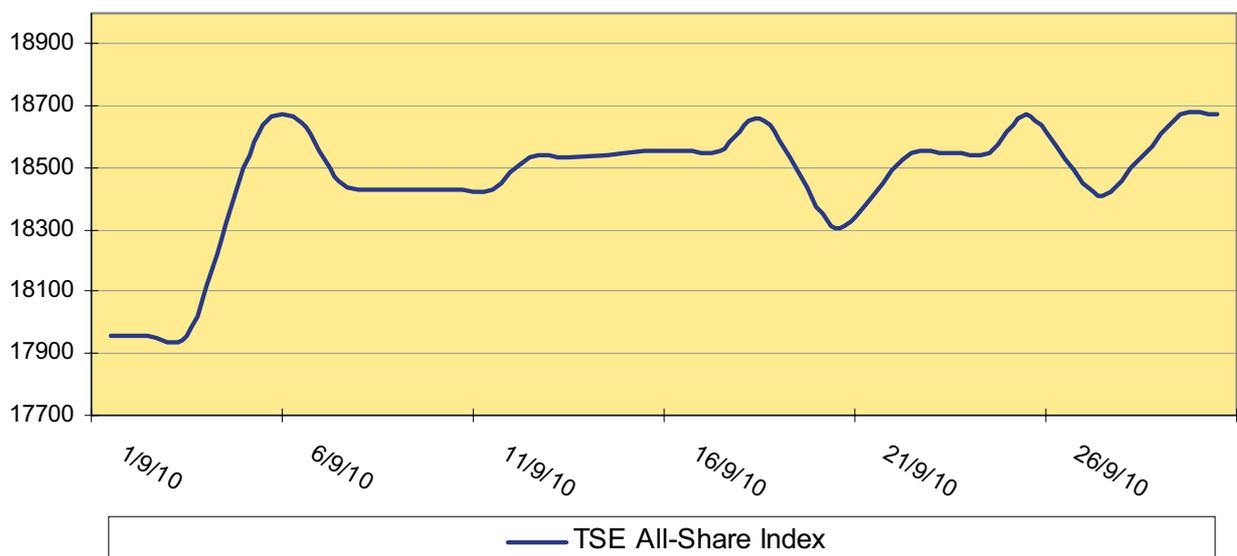
## Latest Developments on the Iranian OTC Market

On 15<sup>th</sup> September, a 10% stake in Parsian E-Commerce was successfully sold on the Iranian Over-The-Counter (OTC) market. The market capitalisation at IPO was \$116 million and the price/earnings ratio was 7.5. Parsian E-Commerce is a subsidiary of Parsian Bank, Iran's largest privately-owned bank (excluding the recent privatisations), and it provides card and electronic payment services to Parsian Bank and its customers. Its net profit for the existing financial year is estimated to be \$16 million.

This offering attracted huge investor interest, such that by the end of September, the share price was up 61% from its IPO. Given the sharp growth in the electronic banking and payment sector in Iran, analysts are bullish about the profitability prospects of Parsian E-Commerce.

Overall, the TSE had a positive but volatile month in September, with the TSE All-Share Index gaining 4% in value in Rial terms. However, the Euro exchange rate against the Rial appreciated 4.8%, since the Rial is pegged to the US Dollar. Trade volumes stood at \$2.3 billion, although over 50% of the volume was related to block trades.

**Performance of TSE All-Share Index (September 2010)**



**Investment Objective** – The Turquoise Equity Investments seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities listed on the Tehran Stock Exchange (TSE) and other Iranian-based securities. The goal is to provide superior returns, with greater diversification and lower volatility.

## Class A

**NAV = 144.9**

**Vehicle Domicile**  
British Virgin Islands

**Management Fee**  
2.0% p.a

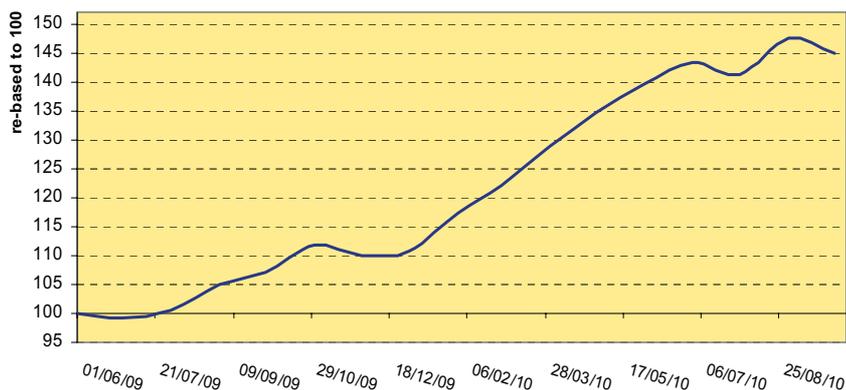
**Currency**  
Euro (€)

**Launch Date**  
01 June 2009

**Carried Interest**  
20% (High Water Mark Applies)

**Minimum Investment**  
€100,000

## Class A Performance (Euro) - As at 30<sup>th</sup> September 2010



Period	Portfolio Return
Last Month	- 1.7 %
Last 3 Months	1.2 %
Last 6 Months	12.5 %
Last 12 Months	35.3 %
Since Inception (01 June 09)	44.9 %

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The unveiling ceremony of the Cyrus Charter and Ahmadinejad's speech at the UN General Assembly will be discussed in this edition of Country Overview.

In September, the Cyrus Charter of Human Rights was brought into Iran by the Cultural Heritage Organisation of Iran. This was on a 4 month loan from the British Museum, where the piece is permanently kept. The Cyrus Charter is a clay cylinder, which was discovered in Babylon in 1879 by an Assyrian-British archaeologist during an excavation sponsored by the British Museum. The British Museum has estimated that the piece was created in 530-539 BC. The text which appears on the cylinder is a declaration in old Persian in the name of the Achaemenid king Cyrus the Great. The Cyrus Charter has been described as the first charter of human rights. The UN keeps a replica of the Charter in its headquarters in New York. Passages in the text have been interpreted as expressing Cyrus's respect for humanity, religious tolerance and freedom.

The Cyrus Charter was unveiled during a ceremony, which was attended by President Ahmadinejad. During a speech, he described the Charter as a personification of human values and cultural heritage for all humanity. Ahmadinejad emphasised that the Cyrus Charter proves that the Iranian nation has always exemplified justice and human values throughout history. The President and his Chief of Staff, Mashaei, described Cyrus as the king of the world and his ideas as those of the prophets. During the ceremony and in the presence of 60 foreign delegates, Ahmadinejad put a Chaffiyeh (a type of scarf which is a symbolic part of the uniform of the Basij militia and the military in general) around the neck of a man dressed as Cyrus the Great.

Ahmadinejad's remarks and actions during the ceremony resulted in widespread criticism among clerics and hardliners. His comments were deemed as nationalistic and disrespectful to Islam. Ahmadinejad and Mashaei were accused of promoting monarchy and a new brand of religious nationalism. However, Ahmadinejad defended his remarks by saying that Cyrus the Great and his empire had core policies that, like the Islamic Republic, were based on justice and spirituality. He asserted that his comments were neither nationalistic nor in favour of monarchy.

The Cyrus Charter and Achaemenidian creations such as Persepolis (located near the city of Shiraz) are thought to be symbolic of Iranian cultural heritage and the ancient Persian Empire. These are things that many Iranians take great pride in. Since the Islamic Revolution, nationalism in Iran has not been looked upon favourably, especially by the clerics. Experts suspect that Ahmadinejad and Mashaei's remarks are an attempt to expand their support base for Mashaei's campaign, because Mashaei is thought to be a candidate for the next Presidential election.

In September, President Ahmadinejad attended the 65<sup>th</sup> Annual UN General Assembly in New York. Since taking office in 2005, Ahmadinejad has given a controversial speech at every annual UN meeting. This year was no different. During his speech, he stated that there was widespread support for a theory that the US government was involved in organising the September 11 attacks on the US. He added that the attacks were orchestrated as an opportunity for reversing the decline in the US economy and tightening the US grip on the Middle East. This resulted in US and several other Western diplomats walking out of the meeting. There was also a great deal of criticism of his remarks and his speech was described by the US President, Obama, as "offensive" and "hateful". Some experts are of the view that Ahmadinejad's comments may weaken the prospects for further negotiations between Iran and the US over Iran's nuclear programme. Nevertheless, both sides expressed their readiness to negotiate during the General Assembly.

Domestically, there was huge support for Ahmadinejad's comments by the hardliners and the pro-government media. This came at a time when Ahmadinejad was under heavy criticism from the hardliners and the clerics for his so-called "nationalistic" remarks and also several of his other domestic policies. There is speculation that his comments regarding the September 11 attacks were mainly aimed at deterring some of the domestic tension and criticisms aimed at his administration.

### Iran's Cement Industry

The cement industry in Iran dates back to 1933, when the first cement production plant was built in the city of Rey, near Tehran. However, it was not until the 1960's that cement really established its place in the real estate construction sector. Per capita consumption of cement went from 30 kilograms in 1961 to 300 kilograms in 1984. However, the real growth in both consumption and also production of cement in Iran has occurred over the past decade. As of March 2010, Iran's total nominal production capacity stood at 62 million tonnes. There are currently 57 active production units in Iran. With a market share of 24%, Fars & Khouzestan Group is Iran's largest producer of cement. Abyek, Tehran and Sepahan are also major producers with market shares of 8%, 7% and 6% respectively. Currently, 28 cement companies are listed on the Tehran Stock Exchange.

In the Iranian calendar year 1388 (which ended on 20<sup>th</sup> March 2010), total production stood at 52 million tonnes, an increase of 118% from a decade ago. This makes Iran the 8<sup>th</sup> largest producer of cement in the world and 2<sup>nd</sup> in the Middle East, after Turkey. Also, consumption stood at 47 million tonnes in 1388, showing an increase of 108% from a decade ago. Iran constitutes 1.8% of the world's cement production and 1.6% of the world's cement consumption.

From 2002 onwards, Iran experienced a massive boom in real estate construction. As a result, demand for cement quickly surpassed supply. Subsequently, the government rationed cement so that developers would receive certain allocations depending upon their construction permit and it also introduced a stringent pricing policy. This led to the creation of a black market and prices on this market were, on occasions, 3 times higher than what the government had set as the sale price for manufacturers. Also, to satisfy the growing demand, several new production units were built across the country. After several years of lobbying from industry participants, the government liberalised the price of cement in 2008. This was viewed as a major positive development for the industry because, firstly, it brought more transparency to the pricing in the market and, secondly, cement manufacturers were able to raise their sale price by an average of 30%. However, at the same time, the property bubble in Iran burst and construction activity fell sharply. Consequently, in late 2008 and throughout 2009, the cement market was faced with excess supply. Companies close to the border were able to benefit from the real estate boom in neighbouring markets, such as Iraq and Turkmenistan, by exporting their excess production. Exports went from 200,000 tonnes in 2008 to 5.6 million tonnes in 2009. However, companies located in the central regions did not have this advantage, due to the high transportation costs of cement in Iran. It is estimated that transporting 1 tonne of cement would cost on average \$8 per 100 kilometres. For this reason, the latter group of manufacturers were forced to reduce their production.

The latest housing data indicates a recovery in the real estate construction market. In addition, the nationwide Mehr Housing project is now being pursued intensely by the government. This year, the government has allowed for the promotion of significant investments in facilitating exports. Recently, the government announced plans to build a new railway in the south-west of Iran to the Iraqi city of Basra, which will be used for the transportation of goods, particularly cement. However, Iranian exporters to Iraq have to compete fiercely with other exporters such as Turkey.

Currently, the governmental plan for the removal of energy subsidies is viewed as the biggest risk for the cement sector. Production of cement is very energy-intensive and most production lines in Iran are outdated and inefficient. As a result, the cement industry is expected to be among the worst hit by the plan. A number of older plants will eventually have to upgrade their operations or terminate their production.

### Pasargad Bank on the Banker's List

In the latest list of leading financial institutions published by the Banker magazine, 13 Iranian banks have been listed in the top 1,000 banks in the world. Among these, the ranking of Pasargad Bank is particularly notable.

Pasargad Bank started operations in 2006. Since then, it has experienced tremendous growth in its business. Currently, it has a share capital of \$770 million, 234 branches across the country and has attracted over \$10.5 billion of deposits.

The Banker has ranked Pasargad 25<sup>th</sup> in the world in terms of “performance soundness”, which is an indication of earnings growth. In the financial year ended March 2010, Pasargad enjoyed a 44% year-on-year growth in its net profit before tax. Pasargad leads the list of Iranian banks, both in terms of “return on retail assets” and also “capital adequacy ratio”. Overall, the Banker has ranked Pasargad 435<sup>th</sup> in the world and at the top of the list of Iranian Banks.

### **Iran’s Foreign Exchange Market**

In the final week of September, the foreign exchange market in Iran went into turmoil. There was an unprecedented rise in demand for hard currency paper and market prices jumped significantly above the official exchange rates.

Various reasons have been suggested by experts for this event. However, it appears to have been started when a number of international money transfers from Iran and via the UAE were blocked. The news spread in the market quickly and triggered a panic purchasing of paper currencies by many ordinary Iranians. Unsurprisingly, the market exchange rates went up significantly, to a point where the US Dollar was trading at a 20% premium to the Central Bank’s official rate. Similar price rises and activity were seen in gold and gold coins. Finally after 5 days, the Central Bank flooded the market with paper currencies and gold coins, and market prices fell back to levels slightly above those prior to the turmoil.

The Central Bank was widely criticised for its late intervention in the market. Some experts believe that due to the recent UN Security Council and European Union sanctions, the Central Bank faced difficulties in obtaining sufficient currency paper to stabilise the market. Iran is estimated to have over \$70 billion of foreign reserves, but it is reportedly becoming more difficult for the Central Bank to mobilise its reserves.

For the past decade, the Central Bank has tightly controlled the foreign exchange rates in Iran. The Rial appears to be pegged to the US Dollar and has depreciated on average by 5% per annum against the Dollar. Many experts argue that in the highly inflationary environment of Iran, the existing policy of the Central Bank is hurting exports and domestic production, and that a devaluation of the Rial is needed. The government has strongly opposed this view and has maintained its tight grip on the exchange rates.

## About Turquoise

Turquoise is a boutique investment firm based in Iran with offices in Tehran and London. 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 based both in Europe and in Iran enables Turquoise to benefit from coupling local knowledge and presence with global expertise.

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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