

Ali Ghapoo Palace , Ancient City of Isfahan, Central Iran

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

*Chief Editor: Ramin Rabii  
Consulting Editor: Eddie Kerman  
Authors: Shervin Shahriari  
Ali Mashayekhi  
Sanam Mahoozi*

*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: [ramin.rabii@turquoisepartners.com](mailto:ramin.rabii@turquoisepartners.com)  
To find out more about Turquoise Partners, visit our website at:  
[www.turquoisepartners.com](http://www.turquoisepartners.com).  
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Following nine consecutive months of positive performance, the Tehran Stock Exchange (TSE) turned negative in October. The commencement of the preliminary stage of the governmental scheme for the removal of subsidies was likely the main reason for the market downturn. From early October, the government began depositing \$80 of cash per person in the bank accounts of each household. This cash payment will be made every 2 months and is to compensate for the increased household costs resulting from the removal of subsidies. However, the amount was considerably above market estimates, which were in the range of \$25 to \$50. Under the law approved by the parliament, the government can utilise 50% of the proceeds from removing subsidies to compensate for the increased household expenses, either through cash payments or through other means. The cash payment of \$80 means that the total annual proceeds from the removal of subsidies is estimated to be \$50 billion, as opposed to the government's own estimate of \$40 billion. This means that the removal of subsidies will take place at a faster pace in the first year than was initially anticipated. This, in turn, will lead to even higher production costs for energy intensive industries.

Analysts have anticipated price corrections for several months. Over the past 18 months, the main index has grown massively and many investors are now reducing some of their equity positions in order to realise profits. Selling pressure in the first half of October resulted in sharp price declines across several sectors. However, gains in the global prices of crude oil and commodities brought relative stability to the market. Average daily trade volumes have fallen from \$50 million during the summer, to less than \$20 million over the past two months.

Analysts expect the equity market to remain volatile for the next 2 to 3 months. This will present shorter term investment opportunities for investors.

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

### **Metals and Mining**

In October, companies in these two sectors released their first half earnings results. The vast majority of companies in these two sectors outperformed their budgets and adjusted their earnings forecasts for the year. However, the strong results failed to stimulate significant investor demand. Analysts are of the view that earnings adjustments had already been priced in by the market.

In the metals sector, the National Iranian Copper Industries Co. (NICIC) increased its earnings forecast for the year by 37%. However, the share price remained unchanged following this announcement, resulting in the forward price/earnings ratio falling from 7.1 to 5.2. Nevertheless, analysts remain bullish about NICIC. The latest earnings forecast has been formulated based on a copper cathode average price of \$7,200 per tonne. This is while the global price of cathode remained above \$8,000 in October. The metals sector index lost 2.9% of its value over the course of October.

In the mining sector, zinc and lead producers increased their earnings forecasts by an average of 60%. However, stocks of almost all companies in this sector experienced price declines. The mining sector index ended the month 2.5% lower.

### **Sugar and By-Products**

This was the best performing sector in October. The sector index gained 2.8% in value over the course of the month. Companies in this sector increased their earnings forecasts by an average of 70%, which was significantly above analysts' expectations. With the gains in the global price of sugar over the past year or so, domestic manufacturers have been able to compete effectively with importers. As a result, domestic sugar producers have not only benefited from the price hikes, but have also increased their production capacity this year.

## Telecommunications

Shares of the Telecommunications Company of Iran (TCI), the largest listed company by market capitalisation, proved resilient against price declines in October and ended the month unchanged. The main reason for this was rumours about the potential listing on the Iranian OTC of the Mobile Communications of Iran Co. (MCI), which is the mobile phone operating arm of the TCI. MCI accounts for more than 70% of TCI's profit. Analysts estimate that if MCI is listed on the OTC, TCI's net profit for this year could be up to 30% higher than its latest forecast.

## Latest Developments on the Iranian OTC Market

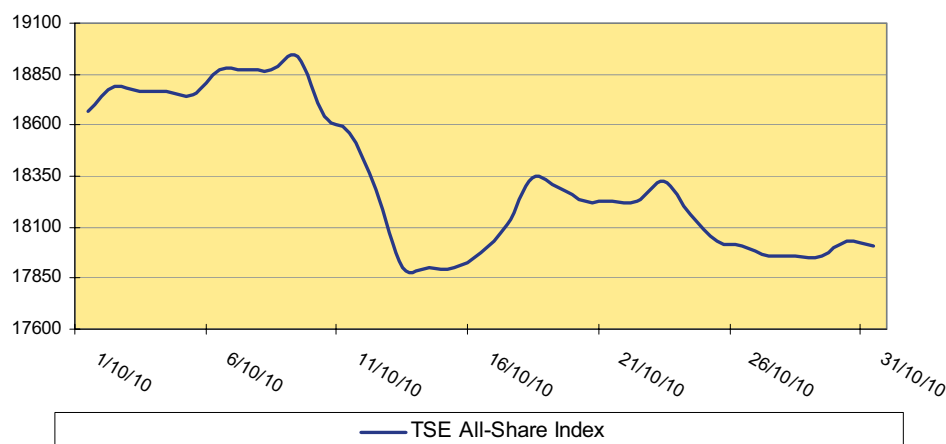
In the third week of October, the largest-ever transaction on the Iranian Over-The-Counter (OTC) market took place. Pars Arian Group, which is the major shareholder of Pasargad Financial Group (includes bank, insurance, leasing, exchange bureau and several other financial institutions), successfully increased its share capital by \$440 million (to reach \$828 million), through subscription on the primary market of the Iranian OTC. Pasargad Bank also increased its share capital from \$770 million to \$2,300 million, through the OTC. Pasargad Bank was founded in 2006 and is now Iran's largest bank by share capital. According to the management of the group, Pars Arian is now the largest financial conglomerate in Iran.

On 26<sup>th</sup> October, a 10% stake in Tose'e Omran Shahed (Shahed Construction Development Co.) was successfully sold on the Iranian OTC market, at a market capitalisation of \$170 million and a price/earnings ratio of 5.2. Tose'e Omran Shahed is a subsidiary of Shahed Investment Co. and manages the real estate assets of its parent company. This was the 6<sup>th</sup> company to be listed on the Iranian OTC.

In the final week of October, a new financial instrument was listed on the OTC. Maskan Bank, which is a state-owned mortgage specialist bank, listed "certificates of rights to a mortgage" on the OTC. In 2008, the Central Bank banned all banks and other financial institutions, except for Maskan Bank, from providing residential mortgages. This led to massive demand for Maskan Bank mortgages. To overcome this problem, Maskan Bank began issuing the rights certificates for customers who deposited and maintained a certain balance with the bank. These certificates were sellable and with the growth in demand for mortgages, became increasingly valuable. For example, the rights certificate to a \$20,000 mortgage with an interest rate of 12% was traded between \$3,200 and \$3,600, prior to listing on the OTC. In the view of analysts, the listing of these certificates on the OTC will not only increase transparency in trades of the papers, but will also provide secure and quick access to a mortgage for genuine customers of the certificates.

Overall, the TSE All-Share Index lost 3.5% of its value in Rial terms and 7.5% of its value in Euro terms. The Euro exchange rate against the Rial appreciated by 4.3%. Trade volumes stood at \$1.6 billion, a 30% decline from the previous month.

Performance of TSE All-Share Index (October 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 = 137.2**

**Vehicle Domicile**  
British Virgin Islands

**Management Fee**  
2.0% p.a

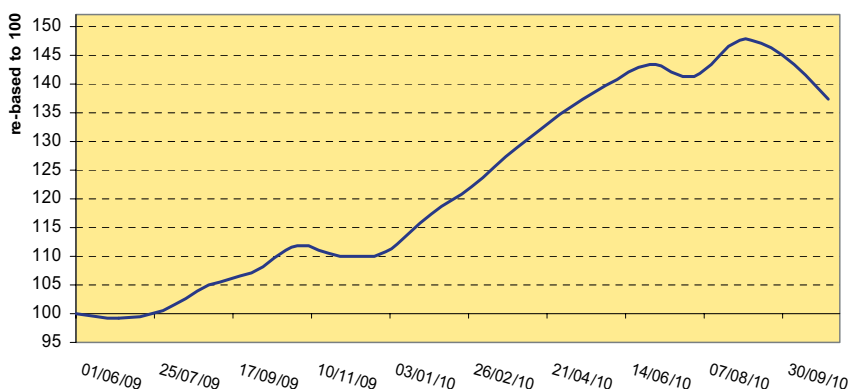
**Currency**  
Euro (€)

**Launch Date**  
01 June 2009

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

**Minimum Investment**  
€100,000

## Class A Performance (Euro) - As at 31<sup>st</sup> October 2010



Period	Portfolio Return
Last Month	- 5.3 %
Last 3 Months	- 2.9 %
Last 6 Months	1.9 %
Last 12 Months	22.8 %
Since Inception (01 June 09)	37.2 %

For subscription and further information on our investment products please contact Eddie Kerman on (+44) 20 74 93 04 12 or email [eddie.kerman@turquoisepartners.com](mailto:eddie.kerman@turquoisepartners.com). For more information about Turquoise Partners please visit our website at: [www.turquoisepartners.com](http://www.turquoisepartners.com)

The latest developments surrounding Iran's strategic relations in the Middle East will be discussed in this edition of Country Overview.

An Iranian trade delegation visit to Egypt, President Ahmadinejad's trip to Lebanon and the visit of Nouri Al-Maliki, the Iraqi Prime Minister, to Iran were cited as key developments in the implementation of Iran's strategic policy goals in the Middle East.

Iran has always played an influential role in the Middle East due to its geopolitical position as well as its distinctive characteristics in terms of religion and culture. There are historical tensions in this region, notably due to disputes over distribution of power. Due to their resource riches, Middle Eastern countries have been a focus of international interest and this has resulted in progressive conflicts. There has been significant turbulence in Iran's relations with Arab nations over the decades, mainly due to historical rivalries that have existed between them. Before the Islamic revolution, Iran maintained relatively close political and economic ties with most Arab countries. However, after the Islamic revolution, Iran's foreign policy changed radically. Countries such as Israel and Egypt, which were previously considered as allies, became hostile adversaries. Diplomatic relations between Iran and Egypt went sour due to Egypt giving asylum to the former Shah of Iran and its subsequent support for Iraq during the Iran - Iraq war. Iran and Egypt severed all ties when Iran named a street in Tehran after Khaled Islambouli, who assassinated Sadat, Egypt's President, in 1981. Iran later made attempts to rename the street in an effort to improve relations.

For many years now, the Palestinian – Israeli conflict has also been a main point of disagreement between the two countries. Egypt was at one time a key opponent against the formation of an Israeli state. It now considers itself as a leading player in promoting negotiations to resolve the conflict. Iran and Egypt have both been aiming to enhance their regional legitimacy and supremacy. Egypt is anxious to continue with its role as it results in a number of advantageous situations, such as the securing of the border between Egypt and the Gaza Strip. This border was allegedly used by Iran as an entrance into Egyptian territory. Over the years, Egypt has made several unsuccessful attempts to mitigate tensions between Israel and the Palestinians. Egypt has on numerous occasions blamed Iran for the failure of such peace talks and accused Iran of constantly interfering and derailing the peace talks through its support for the groups Hezbollah and Hamas. In recent years, several other Arab countries, such as Saudi Arabia and Jordan, have progressively shifted their policies in regards to the Palestinian – Israeli conflict towards the Egyptian camp.

Since taking office in 2005, Ahmadinejad's foreign policy has focused on repairing and strengthening ties with the Arab nations of the Middle East and North Africa. In October, Iran sent a trade delegate to Cairo in an attempt to resurrect bilateral economic ties. An agreement was signed by the Iranian and Egyptian aviation authorities for the resumption of direct flights between Cairo and Tehran. At the same time, Iran exported its first shipment of petrochemical products to Egypt as part of the new agreement. The consensus is that travel and tourism, as well as trade developments between the two countries, could serve as a platform for restoring diplomatic ties between the two nations.

Another aspect of Iran's policy has been its increasing influence in countries such as Lebanon and Iraq. In particular, Iran's relationship with Lebanon has been of great importance in regards to Iran's role in Middle Eastern politics. Iran's relationship with Hezbollah has been a source of conflict within the region. Iran has been accused by the West and several Arab nations, as well as opposing groups within Lebanon itself, of using its influence and authority to threaten Israel.

On 13<sup>th</sup> October, Ahmadinejad made a visit to Lebanon. His visit to Lebanon was the first since he was elected in 2005, and the second by an Iranian president since the Islamic revolution. His visit was received with great enthusiasm by Shi'a Muslims in Lebanon. Beirut was decorated with Iranian flags and posters welcoming the Iranian president. According to Iranian officials, the purpose of the trip was for the recognition

of and respect for Lebanese sovereignty, as well as establishing bilateral trade agreements. The visit came at the time of another round of US-mediated peace talks between the Palestinians and the Israeli authorities. Unsurprisingly, Ahmadinejad's trip resulted in widespread criticism. It was viewed as a demonstration of regional influence and power and with the aim of undermining the peace talks.

A considerable part of the political tensions of the past few decades between Iran and the Arab states stems from the hostile relations between Iran and Iraq during the time of Saddam Hussein. Tensions began decades ago when the Iraqi administration began staking claims over the oil rich province of Khouzestan in south-western Iran. Two years after the 1979 Islamic Revolution in Iran, Saddam launched a military attack on Iran and most Arab nations (with the exceptions of Syria, Oman and Libya) sided with Saddam. After the war, Saddam made several attempts to reconcile with Iran, but these were never reciprocated by Iran. After the 2003 invasion of Iraq by US-led forces and the overthrow of Saddam's regime, Iran's stance towards Iraq took a dramatic turn. Iran has since increased its influence as well as its political and economic ties with this Shi'a majority neighbouring state. Iran is now regarded as a major strategic economic and trade partner for Iraq, and cross-border trade between the two countries is growing continuously. Both the West, particularly the US, and also anti-Iranian groups within Iraq, are wary of Iran's growing influence. They accuse Iran of interfering in domestic Iraqi issues and acting in ways aimed at destabilising the country.

In October, Al-Maliki came to Tehran. Experts believe that the visit's goal was to gain Iran's full support for the formation of an Iraqi government headed by him. Nouri Al-Maliki has been struggling to maintain his role as prime minister since the inconclusive Iraqi elections in March. During his visit, Al-Maliki met Iran's Supreme Leader, Ayatollah Khamenei, and President Ahmadinejad. Both Ayatollah Khamenei and also President Ahmadinejad pledged their support to help rehabilitate Iraq as a strong and independent country. However, many in Iraq still feel hostility towards Iran and this visit can be used as propaganda against Al-Maliki and his plans to rebuild Iraq. Internationally, Iran is perceived as having strengthened Al-Maliki's position by convincing the militant Shi'a cleric, Al-Sadr (who lives in the holy city of Qom in Iran) to support his government. Sadr and his group hold a strong position within the Iraqi parliament.

There are differing views on the motives behind Iran's regional political agenda. Some argue that Iran is following an ideological path and is attempting to unite the Muslim world against the West and Israel. However, a more widely accepted view is that it is Iran's strategy to utilise its resources and ties in order to become a regional superpower. The rivalry in the region continues to exist, although it carries on evolving.

### **Latest Developments in the Oil and Gas Industry**

In early October, a new natural gas field was discovered off the shore of the Persian Gulf near the city of Bushehr. According to the Oil Ministry, the field has over 70 billion cubic meters of static gas reserves, of which 72% is estimated to be recoverable.

In October, Iran was elected for the Presidency of the Organisation of Petroleum Exporting Countries (OPEC) for the first time in 36 years. OPEC was founded in 1960 and currently has 12 members. OPEC members collectively hold 79% of world crude oil reserves and 44% of the world's crude oil production. As a result, the OPEC President is viewed as one of the most influential figures in the world's oil market. Masoud Mirkazemi, Iran's Oil Minister, will replace Wilson Pastor, Ecuador's Oil Minister, as the OPEC President from the beginning of 2011. He will hold this position for one year. Iran accounts for 13% of OPEC's oil reserves and is the second largest member state in terms of production.

This past month, the Oil Ministry announced that a new oil refinery is to be built in the western city of Yasouj. The new refinery will produce petrol, gasoil, kerosene, furnace oil and several other products. Its production capacity is estimated to be 150,000 barrels per annum. The Yasouj refinery will be the first in Iran to be constructed by the private sector. Construction is estimated to cost \$2.2 billion and is expected to be completed by 2014. According to the oil ministry, the new refinery will create 3,000 new jobs.

### **Iran's Largest International Acquisition**

Iran's Entekhab Industrial Group has finalised a deal for the acquisition of Daewoo Electronics of South Korea. The acquisition price was \$520 million and is said to have been the largest international acquisition by an Iranian company after the Islamic Revolution. According to reports, Entekhab competed with Electrolux of Sweden for the acquisition.

Entekhab Industrial Group is a privately owned company, located in the City of Isfahan. It is a leading manufacturer of home appliances such as cookers, washing machines, refrigerators and televisions. Entekhab has a well established brand, Snowa, in the Iranian market and several other newly created brands.

Daewoo Electronics was a subsidiary of South Korea's Daewoo Group. However, the parent company ran into financial problems and was split up in the late 1990's. Daewoo Electronics fell into the hands of the group's creditors, the largest of which was Korea Asset Management Corp. Entekhab bought a 97.5% stake in Daewoo Electronics from the creditors.

### **Iran – Armenia Trade Agreement**

In October, Iran and Armenia signed a Memorandum of Understanding (MOU) and a free trade agreement, in order to boost ties between the two countries. A key part of the agreement calls for the construction of hydro-electric power plants on either side of the Aras River, which is located on the border between Iran and Armenia. Construction is set to begin in early 2011 and the plants are expected to commence production within 5 years. Each plant will have a production capacity of 130 megawatts of electricity.

Iran and Armenia enjoy strong trade and economic relations. There is a substantial Christian Armenian minority in Iran who is officially recognised by the Iranian government. The two countries have cooperated in the development of their energy sectors with the aims of both decreasing Armenia's dependency on Russia for energy, and also providing Iran with the opportunity to supply gas to Europe through Georgia and the Black Sea. In the Iranian calendar year 1388 (which ended on 20<sup>th</sup> March), total trade between the two countries stood at \$135 million.

## **Iran's Position Among Emerging Economies**

A recent report by the World Fact Book ranks Iran 3<sup>rd</sup> among “emerging industrial powers” in the world (after China and India) in terms of its industrial growth. According to the report, Iran’s industrial sector grew by 4% in the year 2009. Iran was ranked 13<sup>th</sup> among emerging economies in 2006. Overall, Iran is ranked 31<sup>st</sup> in the world in terms of its industrial production growth rate.



## 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.

*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: [ramin.rabii@turquoisepartners.com](mailto:ramin.rabii@turquoisepartners.com)

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