

Entrance of the Baghe Mellii ( National Garden ), Tehran

## THIS MONTH

### Market Overview **2**

In May, the Tehran Stock Exchange continued the previous month's trend by carrying on moving upwards. Trade volumes also rose substantially from last month. This month, a 7% stake in Tejarat Bank was offered to the market. This section provides an analysis of the market and some of the main sectors.

### Turquoise Iran Equity Fund **4**

The Turquoise Fund performed well in May, with its NAV gaining 4.7% in value. This section provides data and charts on the performance of the Fund.

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Iran's 10<sup>th</sup> Presidential election which took place on 12<sup>th</sup> June will be discussed in this section.

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The high speed train contract between Iran and a German company, domestic fuel consumption in Iran, oil and gas field developments in Iran and the issuance of €1 billion of government bonds, will be covered in this section.

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In May, the bull run of the Tehran Stock Exchange (TSE) continued on from April. A key reason for this was that annual financial results for the Iranian calendar year 1387 (ended 20<sup>th</sup> March) in several sectors were better than expected. Also, with the Annual General Meetings season for many companies approaching, there tends to be increased investor interest in stocks with high dividend yields. Last year, the weighted average dividend yield on the TSE was 14%. The automotive manufacturing sector is one where dividend yields typically exceed 30%.

Iran's presidential election played an important role in forming the market dynamics in May. Due to uncertainties about the outcome of the election, some investors took a cautious stance. However, speculation as to who would win the election and consequently determine subsequent economic policies resulted in increased price volatility in comparison to previous months.

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

### **IPO of Tejarat Bank**

On 18<sup>th</sup> May, the Initial Public Offering (IPO) of Tejarat Bank took place. On this day, a 6% stake of the bank was offered to the market at a price of 1,200 Rials per share. This put the market capitalisation of Tejarat at \$1.28 billion and its price to earnings ratio (P/E) at 5. Due to the higher than expected demand for the offering, the Iranian Privatization Organization offered a further 1% stake on the following day. Tejarat is Iran's fourth largest retail bank. It has in excess of 2,000 branches and subsidiaries domestically and internationally. An analysis of the financial data of this bank reveals that Tejarat is in a considerably stronger position in terms of profitability, capital ratios and bad debts, in comparison to other major state-owned banks. However, its position is weaker than privately-owned banks. Tejarat was Iran's second state-owned bank to undergo privatisation. In February, a 5% stake in Mellat bank had been previously offered on the TSE.

### **Petrochemicals**

This sector was the best performing sector of the month. Crude oil price hikes around the world resulted in an increase in the price of several petrochemical products. Many are increasingly optimistic about achieving further price gains. Khark Petrochemical, the largest listed petrochemical company, was the leading gainer in this sector. Khark's revenues stem predominantly from the export of methanol. Most Iranian petrochemical companies enjoy a government discount on their feedstock. Therefore, they have a relative advantage in comparison with other major producers around the world.

The sector index gained just under 20% in value in May.

### **Metals and Mining**

Metals and mining related stocks, some of which comprise the largest listed companies, have been out of favour with investors for some time. This was due to the slump in global commodity prices last year. However, a recovery in global commodity prices over the past 2-3 months has resulted in rallies in several commodity related companies, particularly copper-related stocks.

In May, such price gains spread into other stocks in the sector, including iron ore and steel companies. However, analysts argue that price increases in steel and iron ore companies are driven by market dynamics and have little fundamental rationale. Iron ore prices are set by the government and are the subject of much debate between iron ore and steel companies every year. In the AGM of Chador Malou, the largest listed

iron ore producer, the board of directors' report revealed that the iron ore price for this year has yet to be determined. For this year, Chador Malou has budgeted its iron ore sale price at \$63 per tonne. However, Mobarakeh Steel, Chador Malou's largest customer, has based its budget on an iron ore price of \$40 per tonne.

**Banks**

The banking sector (and the financial sector as a whole) is a sector which is very sensitive to the outcome of the election. Experts believe that the fiscal and monetary policies of the existing government have not, in general, been favourable for privately-owned banks. Nevertheless, these banks have adapted well to such policies and have enjoyed strong growth in profitability over the past few years.

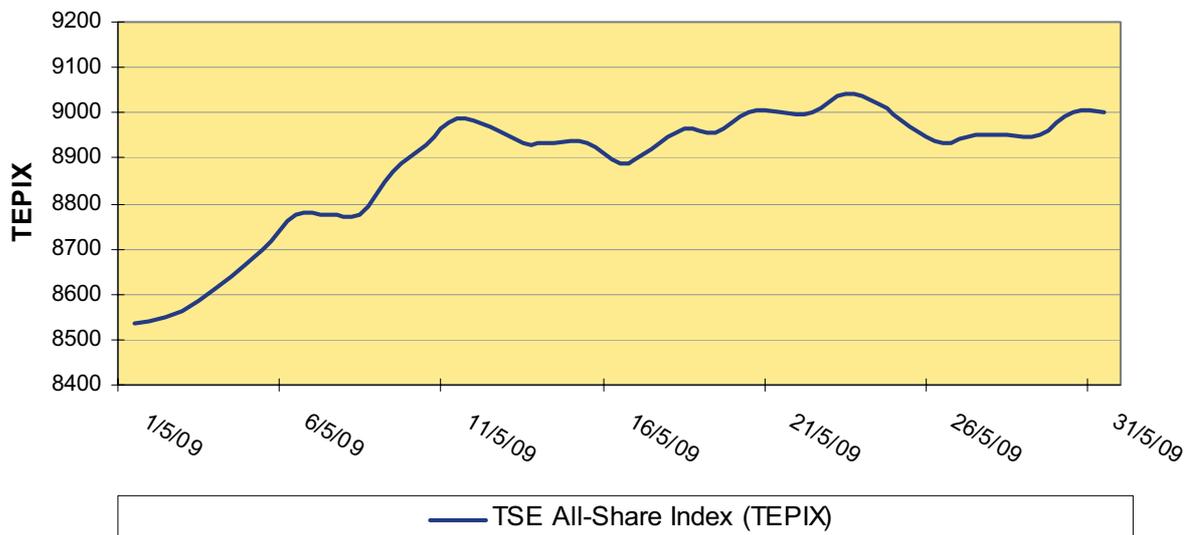
In May, the AGM of Pasargad Bank took place. Pasargad is a non-listed privately-owned bank, with a share capital of \$750 million. According to the exchange regulations, a company must be profitable for at least 3 years, prior to being listed. This AGM was the bank's third since becoming profitable. The management team announced their intention for listing the bank on the TSE this year. Currently, Pasargad has in excess of \$8 billion in deposits and has provided lending facilities worth \$6.4 billion. This means that the bank is second in size among privately-owned banks behind Parsian Bank. Pasargad has experienced some of the fastest growth rates in terms of attracting new capital, and is expected to overtake Parsian in the near future.

**Cement**

The cement sector has been among the strongest sectors over the past few years. Last year, supply outpaced demand due to the development and expansion of production lines, and a slowdown in real estate construction. This was clearly reflected in the lower profits of most cement companies in comparison to the previous year. The government decided to tackle this by removing the export tariff, which had previously been set at \$100 per tonne, last winter. Those companies close to the borders have taken advantage of this. Kordestan Cement, situated near the Iran-Iraq border, was one of the strongest performing companies in this sector.

Overall, the TSE experienced another positive month, with the TSE All-Share Index (TEPIX) gaining 5.4% in value. Trade volumes stood at \$1.16 billion, a growth of over 350% from last month.

**Performance of TSE All-Share Index ( May 2009)**

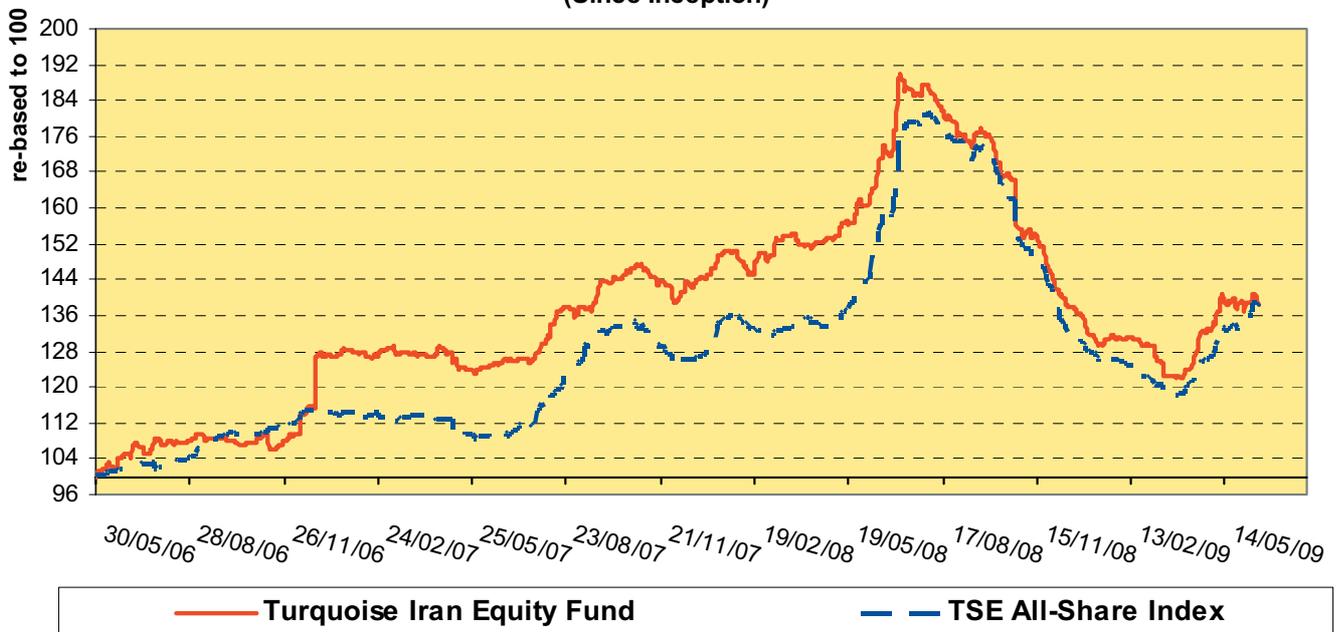


**Investment Objective** – The Turquoise Equity Fund seeks superior long-term capital growth by investing in the consumer and commodity potential of Iran, one of the most undervalued emerging markets in the world. Turquoise combines international experience with local expertise in investing in equities 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. The base currency of the Fund is Iranian Rial.

**Monthly Report** – The Net Asset Value (NAV) of the Turquoise Fund grew by approximately 4.7% in May to stand at 138.5 by the end of the month. Most market indices also experienced gains during this month, with the TSE All-Share Index (TEPIX) gaining 5.4% in value.

The charts below provide an update up until the middle of June, on the following: the performance of the Fund against both the TEPIX in local currency and also the MSCI Emerging Market index in USD, as well as the overall performance of the Fund in USD, Euro and GBP. The performance table also displays the historical performance of the Fund.

**Turquoise Portfolio vs. TSE All-Share Index (TEPIX)**  
(Since Inception)



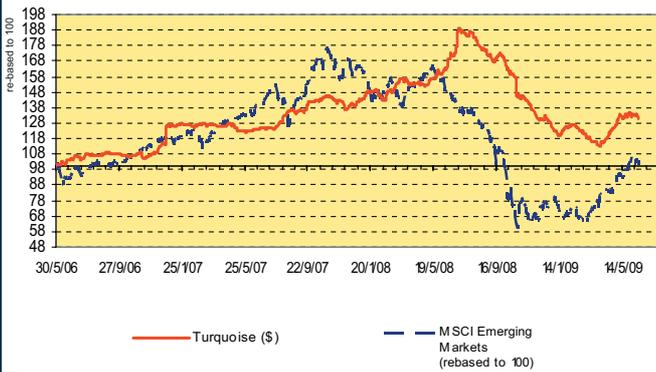
	Mar 09	Apr 09	May 09
<b>Turquoise Fund</b>	↓ 5.4 %	↑ 8.1 %	↑ 4.7 %
<b>TEPIX</b>	↓ 3.1 %	↑ 6.8 %	↑ 5.4 %

## Performance

As of 15 June 2009

Period	Fund Return
Last Month	↓ 0.4 %
Last 3 Months	↑ 10.3 %
Last 6 Months	↑ 0.3 %
Last 12 Months	↓ 16.6 %
Since Inception (30 May 06)	↑ 38.5 %

### Turquoise Performance vs. MSCI Emerging Markets



### Turquoise Performance in US Dollar (US\$)



### Turquoise Performance in Euro (€)



### Turquoise Performance in British Pound Sterling (£)



Iran's 10<sup>th</sup> Presidential election is the topic of discussion in this edition of Country Overview.

Iran's 10<sup>th</sup> Presidential election took place on 12<sup>th</sup> June. According to the statistics released by the Interior Ministry, 46.2 million people were eligible to vote. With an astonishing participation of approximately 85%, this election set a new record for the Islamic Republic. However, the outcome sparked massive unrest within Iran.

According to the Iranian Constitution, all candidates are required to submit their applications to the Guardian Council, a powerful supervisory body. The candidates will then go through a vetting process by the Council. Assessment criteria include administrative capacity and resourcefulness, proven loyalty to the Islamic Republic and the Supreme Leader, and a good past record. This year, 475 applicants registered with the Guardian Council. Out of these, 4 candidates were approved by the Council. Below, each candidate is introduced briefly.

**Mahmoud Ahmadinejad:** Ahmadinejad is the incumbent president. He is supported by the main body of the conservative political camp, known as the fundamentalists. Prior to his presidency, he was the mayor of Tehran. His time as president has been very eventful, both domestically and on the international front. His presidential campaign and domestic policies have been based upon promoting justice. An important plan implemented during his presidency was the gradual transfer of the government's assets to lower income segments of society through a scheme known as "justice shares". The parliament rejected his bill to remove energy subsidies and redistribute funds to the public in cash. In his campaign, he indicated that he would continue to attempt to obtain parliamentary approval in pursuing his plan. Internationally, while he has expanded diplomatic and economic ties with some emerging countries, relations with the US and its Western allies reached new lows. There have been mixed reactions to Mr. Ahmadinejad's populist policies. He has been able to win support from many ordinary people (especially in the rural areas) through heavy expenditure of oil wealth in the areas where they live. However, his economic policies have been widely criticised by opposition groups and many experts.

**Mir Hossein Mousavi:** Mousavi was viewed as the main rival of the incumbent president. He is widely supported by the reformist political camp and the ex-president, Mohammad Khatami. He was Iran's Prime Minister during the eight years of the Iran- Iraq war, at a time when Iran was facing immense political and economic pressure (after this, the Constitution was revised and the position of Prime Minister was removed with all its powers being passed on to the President). He managed the government's tight budget by rationing consumer goods and commodities such as rice, sugar and fuel. Prior to this, he was Foreign Minister. Since 1989, he has not held an official position in the government. However, he has been a member of the Expediency Council (a supervisory body). In his campaign, he strongly criticised Ahmadinejad's economic and foreign policies. He stressed the importance of focusing on the domestic economy, especially manufacturing and agriculture, and also on dialogue with the West.

**Mohsen Rezaei:** Rezaei entered the presidential race as an independent candidate but is seen as being closer to the conservative party. He was the chief commander of Iran's Revolutionary Guards during the 8 years of the Iran-Iraq war. He ended his military career in 1997 and returned to university to study for a PhD in economics. He is currently the Secretary of the Expediency Council. Rezaei's plans were viewed as innovative and attracted the interest of many experts. A notable aspect of his campaign was his stated plan to utilise all key individuals regardless of their political inclination through forming a "coalition government". He also proposed a decentralisation of the government's economic responsibilities by establishing 9

economic federal zones. He expressed his support for dialogue with the US and the West, and was critical of Ahmadinejad's policies.

**Mehdi Karroubi:** Karroubi has been one of the most active political figures since the Islamic Revolution. Karroubi, the only clerical candidate in this round, is the chairman of the "Etemad Melli" political party, a sub-group of the Reformists' alliance. He was also a candidate in the 2005 presidential election. Karroubi was elected as the Speaker of the Parliament (Majlis) in 1998, and was a member in several parliaments prior to this. In his campaign, he stressed the need for a "change" in all aspects of the government's policies, particularly foreign policy. He reiterated his promise for the redistribution of oil wealth as monthly cash payments to the general public, a plan which won him many votes in the last election. His team was assessed by experts as a strong one in terms of experience, with several key reformist figures supporting him.

The official results of the election were announced on the following day. The Interior Ministry announced a landslide victory for Ahmadinejad, who was said to have won 63% of the votes. His main rival, Mousavi, received 34% of the votes. Rezaei and Karroubi obtained 2% and 1% of the votes respectively. The results, however, were strongly disputed by all three defeated candidates, and by Mousavi in particular. This resulted in widespread protests among supporters of Mousavi in Tehran and a number of other cities. The Supreme Leader, Ayatollah Khamenei, ordered an investigation into the election results by the Guardian Council. The Council expressed its willingness to recount 10% of the ballots. As of the publication of this newsletter, the Guardian Council has not yet announced the results of its investigations.

### **Iran - Germany High Speed Train Contract**

In May, Iran signed an agreement with a German company to develop a high speed monorail magnetic train between Tehran and the holy city of Mashhad. According to the media, the deal was signed between the governor of Khorasan Razavi province and the Road & Transport Ministry of Iran, and Schlegel Consulting Engineers of Germany, and is worth up to €12 billion. The German party will invest €6.7 billion and repayment will come from the project's revenues and will take 20 to 30 years. The project is expected to take approximately 5 years to complete and will link Tehran with Mashhad, Iran's second largest city. Approximately 15 million pilgrims travel to Mashhad every year. The new high speed train is capable of reaching speeds of up to 500 km per hour and will travel the 860 km distance between the two cities in less than 3 hours.

Historically, Germany has been a strategic trade and investment partner for Iran in Europe, and trade between the two countries has grown consistently over the past few years. Last year, economic trade between the two countries amounted to approximately €4 billion.

### **Domestic Fuel Consumption in Iran**

According to official statistics, savings in domestic fuel consumption has amounted to \$8.5 billion since the introduction of the fuel rationing scheme. The scheme was introduced in July 2007 in order to counter the ever increasing fuel consumption in Iran. Owners of private vehicles, taxis and heavy goods vehicles have been issued with a smart card, which is topped up with their designated fuel ration on a quarterly basis.

Currently, the government spends substantial amounts on subsidising fuel. The result is that gasoline prices are as low as 10 cents per litre. In addition, 60% of domestic fuel is imported. Consequently, this has historically put strains upon the state budget. The statistics released show that the daily gasoline consumption is currently 64 million litres. Experts estimate that consumption could have been as high as 86 million litres per day, had the rationing scheme not been implemented.

Overall, the scheme has been assessed as positive. However, experts argue that the scheme has its drawbacks as well. Firstly, the plan cost in excess of \$130 million to implement. Critics argue that a less costly alternative could have yielded the same benefits. Secondly, the plan has had an inflationary effect on a number of goods. Prices of several agricultural and industrial products have increased sharply due to higher transportation costs.

### **Oil and Gas Fields Developments in Iran**

In May, the National Iranian Oil Company (NIOC) was awarded a contract for the development of the Azar oil field, valued at \$1.5 billion. Azar is located in the Western province of Eelam, near the Iran-Iraq border. The field's reserves of 2.5 billion barrels are jointly owned by the two countries. The Azar field has in excess of 400 million barrels of extractable crude oil, and this project will allow for the production of approximately 60,000 barrels of crude oil per day. This project was initially awarded to Statoil-Hydro of Norway. However, following long delays in commencing the development, the project was awarded to NIOC.

According to officials, both a new crude oil field and also a natural gas field were discovered in May. The oil field is situated in the south-western province of Khuzestan and has reserves of around 4.5 billion barrels. The gas field is located in Fars province and has reserves of 6 trillion cubic feet.

### **Issuance of €1 billion Government Bonds**

In May, the Oil Minister announced that the government plans to issue participation bonds worth €1 billion this year. The proceedings from the issue will be used to fund the development of 5 phases of the South Pars oil and gas fields. The issue will take place in 4 tranches throughout the year, and will include Rial and foreign currency denominated papers. Domestic retail and institutional investors, as well as foreign investors, will be able to purchase these bonds. Iran's Mellat and Industry & Mine banks have been nominated as the book runners and underwriters of the deal.

## About Turquoise

Turquoise is a boutique investment bank 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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