



Evan Lake, Qazvin Province, Iran

Market Overview _____ **2**

Following further sell-offs in August, the Tehran Stock Exchange (TSE) extended its losses in September as the main index of the market fell in all trading weeks, causing the month to end with the index approximately 1.5% lower. The pharmaceutical sector was the best performing sector among top ten sectors by market cap. This sector grew by 7.4 percent in September due to the government's decision that medicine producers are allowed to increase the price of their products by 10 to 15 percent on average. For the first time in the history of the Iranian capital market, an exchange traded real estate fund was introduced to investors in September.

Country Highlights _____ **5**

The most recent and important news about the country will be mentioned in this section.

Economy _____ **6**

Real estate market, lending activities in the economy, and unemployment will be discussed in this section.

Following further sell-offs in August, the Tehran Stock Exchange (TSE) extended its losses in September as the main index of the market fell in all trading weeks, causing the month to end with the index approximately 1.5% lower. For 8 months out of 9 in the current year, the market moved downwards which pushed back the year to date performance of the TSE to minus 18%; this was the weakest performance since 2005 in the first 9 months of a calendar year. The last round of political negotiations between Iran and Western countries, which are widely viewed as being key in providing possible economic relief from sanctions, also didn't generate much hope; this was because there were no signs of any immediate breakthrough regarding the decade-old nuclear dispute between Iran and Western powers.

In other developments, investors are waiting for the earnings season to kick off in the first half of October. Earnings reports can provide the market with new information although this is not expected to cause much surprises given that economic variables (such as the exchange rate, inflation, interest rates etc.) had remained pretty steady over the summer. Therefore, the continuation of the current sentiment in the stock market is likely in the short term unless there is some good news from the political side following the next round of nuclear negotiations.

Some important developments of the market and sectors will be examined below:

Petrochemicals

With a 25% contribution to the market cap of the Tehran Stock Exchange, petrochemicals is the largest industry amongst listed sectors. As a result, fluctuations in this sector regularly have a significant effect on the broader market. In recent years, this sector has experienced a lot of volatility due to government intervention in one of the most influential factors in the profitability of the sector, namely the natural gas feedstock price. At the beginning of the year, the government approved an increase of five times in the feedstock price, from 2.7 USD cents to 13 USD cents per cubic

meter. Continuing this pattern, in September the government announced an initiative to connect the feedstock prices to the profitability of the plants in a way that return on investments are to be limited to 25% per annum. If this initiative manages to meet with parliamentary approval, this new system will replace the current fixed natural gas prices for the next decade. This news has caused a great deal of criticism among investors who believe that this will decrease the attractiveness of investment in the sector and will result in a possible slump in petrochemical stock prices; petrochemical shares have already suffered from a 3% loss in September on average.

Pharmaceuticals

Among the top 10 largest industries in terms of market cap, pharmaceuticals was the best performing sector in September with a gain of 7.4%. This happened due to an announcement by the government which declared that medicine prices will be permitted to increase by 10 to 15 percent on average till the year end. It was seen as a very positive sign by investors who were waiting for this welcoming news since the beginning of the year. Pharmaceutical prices in Iran are tightly controlled by the government and companies regularly have to do a great deal of bargaining in order to acquire permission to increase prices. As a result, any development on that front is followed often by a significant reaction in the market, as happened this month.

Small caps

Generally, investor sentiment on the Tehran Stock Market remains fragile, and consequently retail investors started to find new ways to make money through investing in small cap sectors. As a result of a rush in demand for small companies with low free float and weak liquidity, a significant move was seen in those stocks in September. In line with this, the publishing sector surged by 24%, agriculture by 17% and household equipment by 14%. The total value of these three sectors is minimal (0.1% of total market cap) and their fundamentals also show no significant improvement. That said, the pace of growth in such stock prices show that

speculative demand has been rising in such sectors and that investors are searching for high risk and high return opportunities as they remain frustrated by the prolonged recession in blue chip stocks.

First Real estate ETF

For the first time in the history of the Iranian capital market, an exchange traded real estate fund was introduced to investors in September. The fund, named Nasim, managed to attract 5 million USD of capital in the 5 day public offering in the junior market (Farabourse). Both the economy and real estate ministers were present at the initial day of offering, as a sign that the government is supporting the development of this new vehicle in the capital market. Such funds will deploy the monies into a specific construction project with a defined time line and investors would participate in the risk and return of the project, which is reflected in the value of the tradable units. Bourse officials promised listing 9 more of these new funds in a year's time.

Performance of TSE All-Share Index (September)



Market Statistics (September)

Average P/E	5.5
Trade Volume (\$ Billion)	0.9
Trade Value Monthly Change (%)	- 25
Market Cap (\$ Billion)	124

Top 5 Traded by Value (September)

Rank	Company Name	Turnover Value (\$Million)	% of Total Turnover
1	Tamin Oil & Gas & Petrochemical Inv. Co.	47	5
2	Persian Gulf Petrochemical Industry	45	5
3	Mine & Metals Development Inv. Co.	40	5
4	Pasargad Bank	31	4
5	Iran Khodro Industrial Group	30	3

Top 5 Companies by Market Cap (September)

Rank	Company Name	Market Cap (\$Million)	% of Total MC
1	Persian Gulf Petrochemical Industry	13,010	13
2	Bandar Abbas Oil Refining Co.	5,551	5
3	Tamin Oil & Gas & Petrochemical Inv. Co.	5,443	4
4	Mobile Communications of Iran	4,827	4
5	Esfahan's Mobarakeh Steel Co.	4,738	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 26,668 as at 30 September 2014. 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.

➤ The Iraqi Prime Minister, Heidar al-Abadi, visited Iran in his first trip abroad since taking office on September 8th. Mr. al-Abadi's trip came at a time when Iraq is dealing with serious security challenges posed by Islamic State (IS) extremists who have taken over large swathes of land in both Iraq and Syria. Iran has supported the Iraqi government and the regional Kurdish government in their fight against IS militants; Mr. Abadi's decision to choose Iran as his first foreign visit was regarded as significant as the United States and a coalition of regional countries have been involved in airstrikes against IS militants in Iraq. During his trip, Mr. Abadi met with the Iranian Supreme Leader, Ayatollah Khamenei, and the Iranian President, Hassan Rouhani. In his meeting with Mr. Abadi, Ayatollah Khamenei stated that Iraq can fight against terrorist groups on its own and there is no need for the involvement of foreign troops.

➤ The Indian government stated that India will go ahead with its plans to invest in the development of two berths at Iran's Chabahar port. The investment, amounting to \$85 million will enable India to export goods to Afghanistan and other Central Asian states through Iran, bypassing Pakistan. Talks surrounding the development of Chabahar had been taking place for a few years; however, with the coming to office of Prime Minister Modi's administration, the matter was approved and there has been greater momentum in regards to pushing the project forward.

➤ President Rouhani's proposed nominee for the post of Minister of Science and Technology failed to receive a vote of confidence from the Iranian parliament. Mr. Mahmoud Nili Ahmadabadi was nominated for Science Minister after his predecessor, Mr. Faraji-dana, was impeached by the Iranian parliament. Iranian Members of Parliament voted 160 against, 79 for and 7 abstained votes in regards to Mr. Ahmadabadi's nomination and Mr. Rouhani is once again required to introduce another candidate to the parliament for review. Members of Parliament have cited involvement in the 2009 post-election protest as the reason behind their decision.

➤ In the latest round of talks in regards to the Ira-

nian nuclear program, Iranian Foreign Minister, Javad Zarif, held a trilateral meeting with the US Secretary of State, John Kerry, and the EU representative in the negotiations Catherine Ashton in Muscat, Oman. The first two days of the three day discussions involved Mr. Zarif, Mr. Kerry and Mrs. Ashton holding direct discussions in order to attempt to close the differences that still remain in regards to preventing a comprehensive deal by the November 24 deadline. The negotiations in Oman ended with each side stating a willingness to reach an agreement by the self imposed deadline. However, neither side could state whether any progress had been made. The next and final round of talks before the November 24 deadline is expected to be held starting on November 18 in Vienna.

➤ Media reports suggested that President Obama had recently sent a letter to the Iranian Supreme Leader, Ayatollah Ali Khamenei in which the American President had stated that there were common interests between the US and Iran in the Middle East. American officials refused to comment on the contents of the letter; however, Iranian officials acknowledged receiving the letter and stated that a response had been made. According to reports, President Obama has written to Iranian Supreme Leader on numerous occasions, and the most recent incident has been in regards to security challenges caused by IS terrorists in Iraq and Syria. Ayatollah Khamenei had earlier refused for there to be any cooperation between Iranian and American militaries in the fight against IS militants.

➤ While negotiations on reaching a comprehensive agreement on the Iranian nuclear program continue, Iran and Russia signed an agreement for two new nuclear reactors to be built by the Russian state-owned company, Rosatom, in Bushehr. The two countries are also in discussions as to whether the number of nuclear reactors to be built by Russia can increase to nine. Iran's sole nuclear power plant, which was built by Russian engineers, went online in 2010 and the country has stated its goal is to increase the number of nuclear power plants to 20 in order to meet its expanding consumption requirements.

Construction and Housing Market

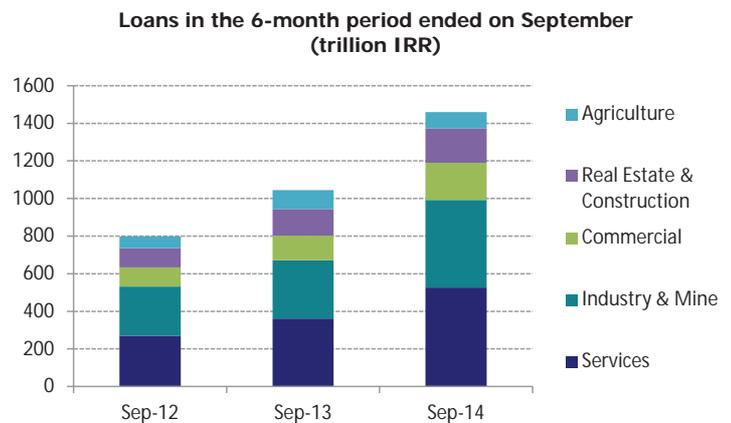
Residential construction in the first five months of the current Iranian year in Tehran (ending on August 2014) decreased by 51 percent as compared to the same period last year; this marked a 4-year record low in residential construction activities. This is partly due to the lack of residential demand in the market which makes housing investments less attractive and partly due to the lack of financial resources of residential developers, as they cannot sell their buildings to start new projects. Considering the fact that some 40 percent of newly built houses are actually replacing old housing that was destroyed to access its land, the real supply of residential apartments are lower than the number of new homes.

This slowdown in the construction sector is concerning policy makers in that this sector of the economy is not contributing to growth and employment as much as it potentially could; moreover, the accumulating demand in the market could exceed the decreasing supply and lead to higher housing prices in the future. However, some analysts believe that currently there is excess supply in the market, and as a result this downward trend in supply should not be worrying. Another trend in the construction sector in Tehran is the increase of investment in the construction of retail units, as the total monies invested in these projects last year increased by 40 percent. As developers are rotating gradually to this subsector, it is necessary that the demand side should catch up with the supply side in order to avoid future challenges.

During the first 6 months of the current Iranian year (ending on September 2014), the average price of a residential apartment in Tehran decreased by 0.7 percent compared to a year ago while the number of transactions increased significantly by 88 percent. The increase in the number of transactions occurred mainly in the second month of the year when the second phase of the government initiated subsidies reform plan commenced, and raised fears among investors about a higher inflationary environment. Except for two months, the number of transactions was trending downwards in the first half of the year.

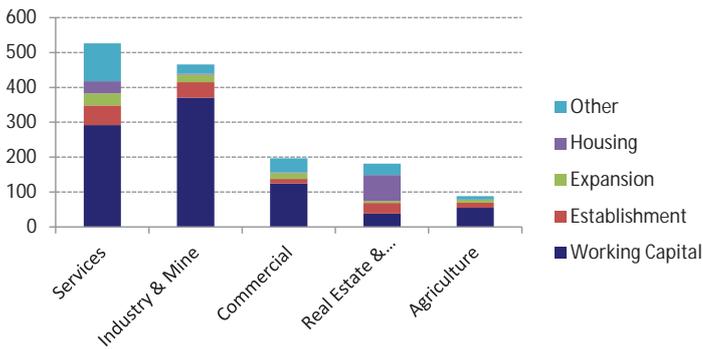
40 Percent Increase in Loans, and Nature of Loan Recipients

The total loans provided by the banks to the different sectors of the economy amounted to 1463 trillion IRR (approximately \$45 billion) in the six-month period ending on September 2014, showing an increase of 40 percent as compared to the same period a year ago and an increase of 83 percent as compared to the same period two years ago. Regarding the share of each sector of the economy benefiting from the loans, the biggest change occurred in the agricultural sector with its share of total loans decreasing from 9.7 percent to 6 percent; this is while this sector grew by 3.3 percent in the spring of 2014 compared to the spring of 2013. The biggest recipients of the loans were the services sector, and the industry and mines sector with 36 percent and 31.8 percent respectively, followed by the commercial sector, and the real estate and construction sector.



In addition to the sectoral breakdown of the loans, the Central Bank of Iran also reported on how the loans were used. According to the CBI, 60.2 percent of the loans were received for the purpose of the financing of working capital during the period in question; this figure for the same period last year was 48.5 percent, demonstrating that the CBI has been successful in its plan to direct the monies towards the financing of the working capital of companies that have been under liquidity pressure. Out of these working capital-related loans, 42 percent was allocated to the mining and industry sector, contributing to the 8.1 percent growth of this sector in the spring of 2014.

Loans in the 6-month period ended on September 2014 (trillion IRR)



In dealing with recession and the high inflation rate, the CBI has been trying to increase the money supply to help companies with liquidity issues while it keeps an eye on the potential of this increase to push up prices in the economy. According to the governor of the CBI, the target for the banks is to provide 2800 trillion IRR (around \$86 billion) of loans in the current year. The CBI is not targeting any level for the monetary base growth. Recently, there has been also talks about lowering the reserve requirements for the banking system from 13.5 percent to 10 percent. So far, the inflation rate has dropped significantly from the peak of 43 percent in August 2013 to below 15 percent this September, and GDP growth has become positive after two years. However, market players are closely watching the inflation rate, the unemployment rate, and the CBI's actions as they are concerned about another high inflationary environment and the depreciating Rial.

Unemployment Rate



tively. The breakdown of employment within the different sectors of the economy shows that 19% of jobs are in the agricultural sector, 33.6% are in the industry section and 47.4% are in the services sector. It is worth mentioning that the contribution of the agricultural sector to the GDP is 9 percent, while that number for the industry and mining sector (including oil), and the services sector are 39 percent and 52 percent respectively.

Unemployment in summer under 10 percent

After more than five years, the unemployment rate dropped to below 10 percent in the summer of 2014, according to a recently published report published by the Statistical Center of Iran. This number came out after the Central Bank of Iran (CBI) reported that the country's economy grew in the spring of 2014 after 8 consecutive quarters of negative growth. These two numbers have brought hope to market players that the economy is gaining momentum and that more good news can be expected in the coming months.

According to this report, the unemployment rate for females and males are 18% and 7.9% respec-

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.

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

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