



Cater Lake, mount Sabalan summit, Ardabil province, Iran

Market Overview _____ **2**

The Tehran Stock Exchange all-share index experienced a 3.6% drop in the month of February in continuation of a trend since January. The correction phase of the market has been mostly induced by discussions in the Iranian parliament regarding the implementation of the second phase of the subsidies reform plan as well as the increase in natural gas feedstock prices of petrochemical companies. This correction phase is expected to last until March.

Country Overview _____ **5**

Catherine Ashton's visit to Iran and President Rouhani's visit to Oman and the relations between the two countries are covered in this section.

Economy _____ **7**

The sharp drop in monthly inflation rates in February as well as a report on the economic growth rate of the country will be covered in this section.

The Tehran Stock Exchange (TSE) main index experienced a 3.6% drop during the month of February. This means that the market is down 11% from its peak on January 2nd and has now officially entered a correction phase. Meanwhile, there has been a 50% decrease in the value of retail trading in comparison to the month of December 2013; this is the result of investors cutting back on transactions.

In the past month, we witnessed discussions take place in the parliament regarding next year's budget which is one of the most important factors in relation to stock market performance. Of principal interest for investors was reaching answers on uncertainties such as mining extraction fees and petrochemical feedstock prices, as well as the implementation of the second phase of the subsidies reform plan. The results, although not considered as necessarily positive developments for the market, are considered as providing greater clarity and transparency regarding the revenue forecast of companies. The results were that prices for petrochemical feedstock increased by five times, levies on mining operations were set at 30% and the second phase of the subsidies reform plan will be implemented from the start of the Iranian New Year which begins on March 21st 2014.

Expectations are that the correction phase of the market will be completed in March. As a result of the market correction, stocks are at more attractive levels and the market will likely be more balanced by the beginning of the Iranian New Year.

We will now examine in detail a few individual sectors as well as some important developments in the market.

Mining

One of the most important group of companies which were disappointed by the decisions made regarding next year's budget in February were those in iron ore. According to what was approved by the parliament, all extractors of iron ore are obliged to pay 30% of their sales revenues to the government. The industry index for mining fell by

5.7% this month as a result of this news. It has been predicted that this decree will decrease the profit of extraction companies by more than 15% in the next year. Taking into consideration that the P/E ratio of this group is high (about one unit higher than the average P/E rate of the market), it is expected that the fall in share prices will continue in the coming months.

Petrochemicals

The approval of a new price of 13 cents per cubic meter for the natural gas feedstock (5 times more of the price of the current year which is 2.7) was very bad news for investors in petrochemical companies. The industry index for petrochemicals fell by 5% in reaction to this news, but the SEO suspended trading activities in all petrochemical stocks in mid February in order for the market to adjust to this increase in price of feedstock. According to calculations by analysts, this will most probably result in a 20% decrease in the average profitability for this industry. Taking into consideration the attractive valuations for this sector (the petrochemical sector is trading at 5.5 times projected earnings compared with a multiple of 7.5 for the broader market), this news is not likely to lead to a sharp fall in share prices once trading resumes. The suspension of trading in petrochemical companies (which accounts for a significant percentage of the market value) caused fear amongst investors in other industries, and this led to the downturn of the entire market.

Earnings Projections

Companies active in the market have been very busy in the second half of February, producing the mandatory earning forecast reports for the next Iranian year. The reports submitted by various industries differed, with some being good and others more disappointing. The industries which profited from the devaluation of the Rial in the past couple of years, especially base metals (which is the second largest industry on the TSE in terms of market cap) estimated a 15% decrease in the average rate of profits for next year; this led to an 8% drop in stock prices in

this sector in February. Delving into next year's budget shows that predictions are realistic and that weak circumstances are not expected to change substantially as exchange rates and production volumes will remain stable. The cement industry also predicted for their next year's budget, a 20% increase in sales prices from June 2014 and therefore have avoided the fall in profits which would arise from costs increases (as a result of the subsidies reform plan), although the government has not yet shown any signs of approval. The banking sector shows more promise and most within the industry are predicting a 10 to 20% increase in profits for the next year. The banking sector is considered as potentially one of the interesting ones for investors due to the possibility of international transactions once again taking place. Auto producers and parts manufacturers are also predicted to double the profits for the coming Iranian year in comparison to this year and this is due to forecasts that production will increase. Nevertheless, because of the high valuations they already have, these predictions will not necessarily have a positive effect on the stock prices. On the other hand, pharmaceuticals have submitted positive profit forecasts compared to the current year and have become the best performing industry with a 2.3% increase in the index in the month of February.

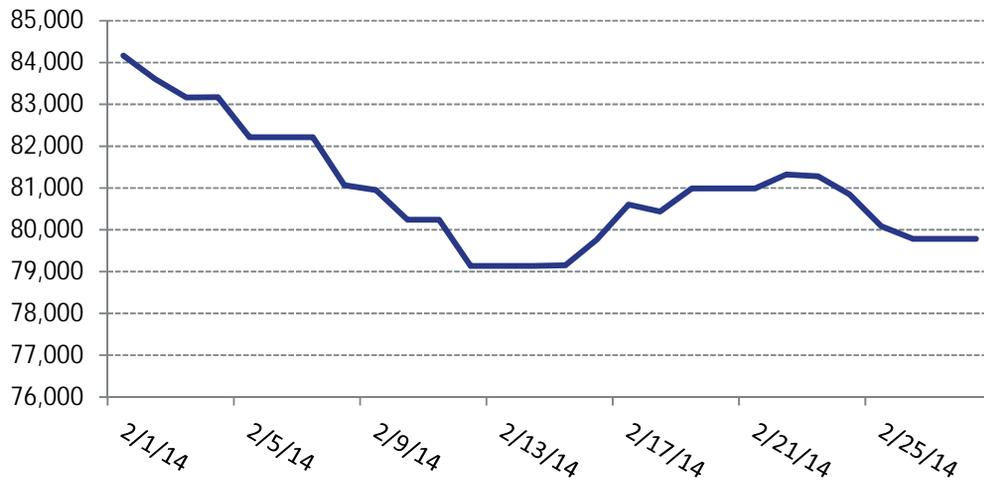
Automotive

Despite most companies being loss making in this sector, the automotive industry was the best performing industry in the past year as share prices in this sector were up, on average, by three times. In February, this sector was affected by the bearish sentiment of the entire market and suffered a 13% fall. Looking into the financial statements for automotive companies (especially the two main companies Iran Khodro and Saipa) shows that the financial state of these companies, especially in terms of liquidity and working capital, is so bad that even with positive political news and sanction relief, their problems are not going away. The only way that these companies may return to normal state and come out of this crisis is if substantial amount of money is injected into them. With the Central Bank of Iran and the

government taking away hopes of any monetary injection into the automotive industry, the only way for these companies to raise money is to sell some of their assets. In line with this, relying on the optimism of individual investors, Saipa sold around \$200 million in some of its subsidiaries in order to raise money for the company; this, however, does not go far in solving the company's problems. Iran Khodro has a better chance as its 33% ownership of Parsian bank with a value of \$700 million could be the key to solving its liquidity problems. By selling this block which is one of its important holdings, Iran Khodro may be able to gain liquidity. There has been discussions taking place with Iran Khodro and one of the pension funds in previous months in this regard and preliminary agreements have been made. Although Iran Khodro is close to finalizing the deal, it can still run into some issues (such as Central Bank restrictions in relation to ownership of more than 10% of banks by related parties).

In conclusion, in February the market experienced a fall with a huge decrease in volumes of trading. The market index fell by 3.6% this month leading to a 9% decrease since the start of 2014.

Performance of TSE All-Share Index (February)



The market statistics for February has not been published by the TSE due to Iranian New Year holidays.

Catherine Ashton's visit to Iran

In early March, Catherine Ashton, made her ever first visit to Iran as the European Union's top foreign policy diplomat. On this trip, Iran's nuclear programme, as well as ties between Europe and the Islamic Republic, were discussed. Ms. Ashton has been representing the P5+1 group in talks with Iran over the country's nuclear programme. These talks are still on-going and she has been perceived as an important element in bringing the sides closer and bringing about the interim agreement reached in Geneva during the month of November 2013.

Ms. Ashton's three day visit included meetings with several Iranian officials including President Rouhani, Iran's Speaker of Parliament, Mr. Ali Larijani, the Iranian Foreign Minister, Mr. Zarif, as well as the head of Iran's Supreme National Security Council, Mr. Shamkhani, and Mr. Shamkhani's predecessor and former Iranian lead nuclear negotiator, Mr. Jalili. The trip by Baroness Ashton was an attempt to improve relations between Iran and the West and this improvement has gained new momentum since the coming to office of President Rouhani's government. Both Iran and Europe enjoyed significant trade ties before sanctions were placed on Iran by the European Union due to the EU's concerns regarding Iran's nuclear programme and the two sides are examining possibilities on expanding ties in the future.

There have been numerous visits to Iran by European political figures in the past few months, such as visits by parliamentary delegations from Ireland, Britain, and European Union as well as the foreign ministers of Italy, Poland, Spain and Greece.

During her trip, Ms. Ashton travelled to the historic city of Isfahan in central Iran where she visited its famous architectural and historic monuments. While in Isfahan, Ms. Ashton also visited a 350 year old Armenian church and met with Armenian community leaders and religious figures. Ms. Ashton also met with a few female political and rights activists in the Austrian embassy; this meeting was condemned by different Iranian po-

litical figures and members of parliament. The Iranian Ministry of Foreign Affairs also issued an official caution to the Austrian embassy for arranging the meetings.

The Iranian Foreign Minister, Mr. Zarif, met Ms. Ashton at the start of the next round of nuclear negotiations between Iran and the P5+1 in the Austrian capital of Vienna on the 17th of March. The sides met on the 18th and 19th of March in order to discuss the framework of negotiations which are to take place in numerous rounds with the goal of reaching a final agreement in regards to Iran's nuclear programme.

President Rouhani visits Oman

The Iranian President, Hassan Rouhani, visited Oman on his first trip to Persian Gulf littoral states on the invitation of Sultan Qaboos bin Said. Mr. Rouhani led a high profile delegation on his trip to Muscat including his oil minister, Mr. Bijan Namdar-Zanganeh, and the governor of Iran's Central Bank. The trip included an official reception for Mr. Rouhani as well as ministerial level meetings to expand cooperation on issues such as energy and healthcare.

Iran and Oman signed a deal under which Iran is to supply natural gas to its southern neighbour through a 350 km pipeline linking Iran's Persian Gulf shore to the Omani port of Sohar. Mr. Zanganeh mentioned that he hoped for the pipeline to be operational in three years time. According to the deal, Iran will supply 10 billion cubic meters of natural gas to Oman and that the costs of constructing the pipeline, estimated to be around \$1 billion, will be met by Oman. The natural gas is intended to meet Oman's rising domestic energy needs as well as for potential distribution to other regional countries.

The two sides also discussed the potential for increasing trade which stood at \$1 billion in the previous year. Considering Iran's good relations with Oman, the two sides are keen to expand trade to \$10 billion by the end of the current year. Since the coming to office of President Rouhani, Iran has sought to improve its relations with oth-

er states, especially its neighbours. Mr. Rouhani also met with Iranian and Omani business representatives during his trip, where he stated that Iran is open for business to all who are interested and that the country is seeking to facilitate trade and other economic exchanges with other states. Iran also intends to open an advanced hospital in Oman, staffed by Iranian doctors, in order to facilitate healthcare for Omanis, of whom about 5000 travel to Iran annually for medical care.

Iran and Oman have enjoyed cordial relations for more than four decades, even predating the Iranian Revolution. The Omani Sultan was Mr. Rouhani's first foreign guest after his election and the two states have worked closely during previous Iranian governments as well. Oman has for a long time played a role as an intermediary between Iran and other powers. It was reported that officials from Iran and the United States had met a few times in Oman; these meetings set the conditions for further negotiations between Iran and the P5+1 which resulted in the November interim agreement in Geneva. Oman also played an important role when Iran released three US hikers which had strayed into Iranian territory from Iraq and were transferred to Oman by a private jet to be repatriated to the United States.

This history of intermediation by Oman, has led spectators to believe that the country, which is a member of the Gulf Cooperation Council, can once again help resolve tensions between Iran and other regional powers such as Saudi Arabia.

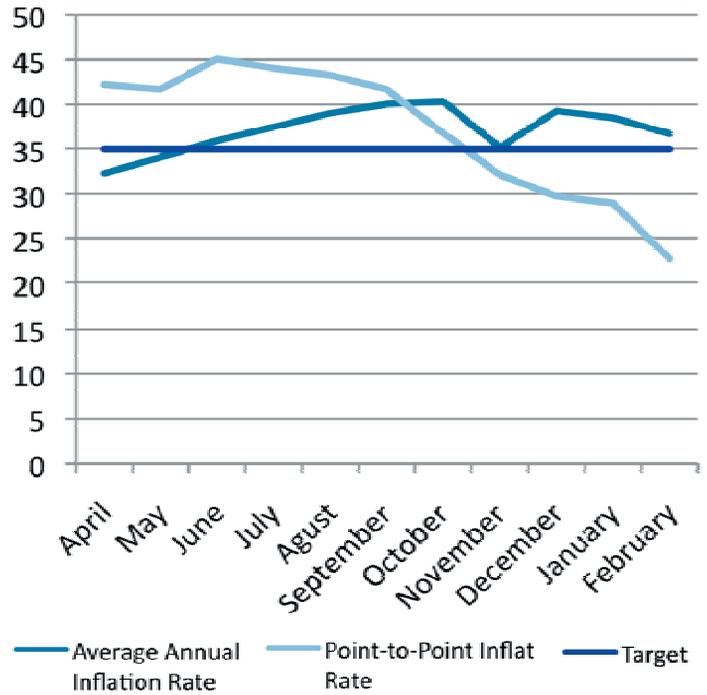
The inflation rate nears the target rate set by the government

The Central Bank of Iran (CBI) published a report on the main price indices last week. Based on the report, the general consumer price index reached 184.3 in February 2014. This index was 183.5 in the previous month and 150.1 in February the year before. Comparison of these figures show that the average price of consumer products has increased by 0.44% in February compared to January. This is the lowest monthly growth rate over the past 31 months.

Based on the CBI's report, the point-to-point inflation rate was 22.8% in February 2014 compared to the same month the year before. This is while the point-to-point inflation rate measured in January was 28.8%. These figures show that the point-to-point inflation rate has dropped by 6% in February compared to January. This is a stark drop in just a single month. In fact, it has been the second largest fall in the month-to-month inflation rate over the past 213 months.

The average inflation rate has been 36.7% over the twelve months to February. However, the same index measured in January showed an average annual inflation rate of 38.4%. Comparison of these two figures illustrates that the average annual inflation rate has dropped by 1.7% in February. In other words, the average annual inflation rate is showing signs of deceleration.

Normally, the inflation rate is slightly higher towards the end of the Iranian calendar year (March). However, with the inflation rate of 0.44% in February, the current year is predicted to be an exception to this norm. It is expected that the inflation rate will be between 1.5-2% in March 2014. If the monthly inflation rate is 1.5%, the average annual inflation rate will stand at 34.76% between March 2013 and March 2014. This rate is lower than the target rate of 35% set by the current government for the year. Based on these figures, it is realistic to assume that Iran's economy will finish the year with an inflation rate of less than 35%.



Economic Growth in 2013

Iran's Statistical Centre (ISC) published a report on the economy's growth over the past few months. Based on the 4th and 5th development plans, economic growth should have reached 8% in 2014. However, according to the report published by the ISC, the country's economic growth (inclusive of oil) stood at -2% between March and September 2013. This rate was -5.4% in 2012. The ISC's report shows that, excluding oil, the country's economic growth would be -1.7% in the specified period. Sub-sectorial analysis of the report shows that the growth rate in the agricultural, industrial and service sectors has been -2.1%, -5.4% and -0.6% respectively.

Based on another report published by the Central Bank of Iran in 2012, the growth rates of these industries were -34.1% for oil, -0.4% for the service industry, -12.4% for the industrial sector and +6.3% for the agricultural sector in that year.

The CBI's report shows that Iran's Gross National Product (GNP) was 6,760,000 billion Rials in 2013. The share of the oil, agricultural, industrial and service sectors as components of this GNP was 11.8%, 17.7%, 22.3% and 51.5% respectively.

Sectorial and overall economic growth in 2012 and 2013			
Index	2012	2013	% Change
Economic Growth inclusive of Oil	-5.8	-2	3.8
Economic Growth Exclusive of Oil	-3.1	-1.7	1.4
Service Sector	-0.4	-0.6	-0.2
Mining and Industrial Sector	-12.4	-5.4	7
Agricultural Sector	6.3	-2.1	-8.4

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, omissions 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.

Copyright Notice

No part of this newsletter may be reproduced or transmitted in any form or by any means electronic, mechanical, photocopies, recording or by any information storage or retrieval system without prior written consent of Turquoise Partners.