

Market Wrap-Ups

September (2015)



With considering huge economic potential and also more than three decades isolation from global economy most of international investors now consider Iran as the last, vast and untapped market After the historic agreement between Iran and the E3+3 group of countries, on July 14 . Simultaneous with these developments we have seen a pick-up in demand for high quality and reliable Iran-related research and market reports especially from international asset managers and emerging markets investors.

To answer this growing demand ,Novin investment bank as the first investment bank in Iran is pleased to announce the publication of its first monthly Iranian economy wrap-up.

The purpose of this wrap-up is to help update its readers on the latest macroeconomic news and developments in Iran, also presenting an in-depth analysis of the Tehran stock exchange, and investment opportunities, generally saying it tries to give all information that may help foreign investors to catch deep understanding about Iran climate of economy.

We are always looking for ways to improve quality of our publications and try to tailor our reports in the way to satisfy our follower's needs so we would greatly appreciate any feedback you may have as we strive to grow the quality and usefulness of these monthly market wrap-ups.

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Country Highlight

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

The Next Investment Destination

Recent China's weakening economy, made some experts to introduce some winners and losers of this subject. Some of them have mentioned to economic inviolability of some countries like America as it had fewer trade with china to compare with other countries which are geographically closer to china. While Fortune publication looks at the issue from different point of view, the emerging market economies have become a dominant player in the world economy and have become a major driver of global growth during the past decade. This fact clearly shows the dependency of global economy growth to emerging market economies.

According to Goldman Sachs Institute in 2007, Iran was one of the 11 countries which had the potential to be next emerging markets. Because of the international sanctions, Iran have not been successful to attract foreign investors during last 8 years. While based on CNN, "without sanctions, Iran could have had 20% growth economy than now". But now, after nuclear deal and despite of many political uncertainties about the removal of sanctions, world start to see Iran investment opportunities, economic potentials and many international investors talk about Iran as a huge and untapped market. For instance:

"Iran has a unique combination of frontier and developed characteristics that make it potentially compelling," said Alison Graham, chief investment officer of New York-based frontier-markets investor Voltan Capital Management LLC. "It has a well-educated population, a large middle class, a substantial industrial base and has made progress in dismantling subsidies to get its macro house in order". At the same time, growth, valuations and potential investment upside are similar to frontier countries at a much earlier stage of development".

Xanax Kananga, founding partner at Griffon Capital, said his firm is launching two funds in Iran: a public market and a private equity. "It would be the first private equity fund in Iran, which will be focused on the rise of the middle-class consumer," he said. "Part of our fund is dedicated to co-investment in tech, which is a consumer business."

"This is a market where everyone is totally underweight and there will obviously be a lot of money going in, hot money at first but then also others," said First Frontier's co-CEO, Richard Adley, who plans to launch the fund in the next couple of months and aims to have 100 million euros invested by year-end.

LONDON (Market Watch) — A big country, with healthy demographics. Very low debts. Plenty of room to catch up with the rest of the developing world. And a ton of oil in the ground. This surely is one emerging market that everyone wants to invest in.

“It’s like Turkey but with 9% of the world’s oil reserves,” argued Charles Robertson of the investment bank Renaissance Capital in a recent note on the country. He has a point, it is the 27th largest economy in the world, roughly similar to Argentina and Taiwan, and ahead of Austria or Thailand. But it still has the potential to double that at least, and could do so in a relatively short space of time. The country it most resembles is Turkey, and until the trouble that hit that country this year, that was one of the big economic success stories of the last decade. Iran has an excellent geographical location, sandwiched between Europe, Russia, the booming markets of the Gulf, and close enough to much of Asia to trade with that region as well.

As we mentioned earlier many researchers and experts have predicted that despite the many emerging markets get closer to saturation even to declining trend around the world, the fundamentals of the Iranian economy has a high potential to attract many investors. By considering all the above mentioned issues, the new situation is a great opportunity for Iran government to offset economic backwardness and with considering Iran economic, demographical, and geographical potentials, Iran can be next eligible destination of many international investors and growth of Iran economy beside India and some other emerging markets as total (regardless of their share) can be considered as fuel that helps run the global economy growth engine in near future.

New Tax Law and Amending the Old One

To improve the economic system in recent years The Iranian governments has taken many steps to reach this goal, elimination of subsidies is a good instance. Among other plans for improving the economic system, the country's tax reform

bill was presented to Parliament at the time of the tenth government. The Iranian tax system is so disorganized that over half the economy is not being taxed, the president said last year. On the other hand, Iran's oil revenues have fallen to record lows, and being under pressure of sanctions for more than 2 years, which all motivate the government to take an unprecedented steps in its fight against tax evasion despite of pressures from opponents of these activities. To do so government tried to pass the bill in parliament aimed at minimizing the possibility of tax evasion and also amending the old regulation on direct taxes. Parliament at its session on August 20, 2015, passed this law which is include of 60 articles. New law will be affective from next new Iranian year. Part of changes in new law could affect the performance of listed companies which have been mentioned in this report.

1-According to new law, owners of new build empty residential properties which are located in populated cities (More than hundred thousand population), should pay half of occupied residential tax for second year and full tax from third year. Implementation of this law can increase the supply in the housing market and on the other hand may be part of these costs are reflected in housing prices and an increase in house prices is possible.

2-The main objective of the recent decision by policymakers is to discourage, exporting of raw material, according to this low, identifying the raw material products will be done base on the joint decision of the Ministry of Economic Affairs and Finance, Ministry of Industry, Mine and Trade and the Ministry of Oil and the Chamber of Commerce . Unlike the past which exporter of raw materials used 50 % tax deduction, only 20% of the proceeds from exporting of this group of products will be tax-deductible In future.

3-According to recent law, Tax Office will be authorized to monitor, bank customer's

accounts, financial information and turnover (of course, it's not unusual access in most of countries). It can lead to more transparent banking system and generally saying economy. But it may cause a reduction in annual financial turnover of real and legal persons which can be a real threat for, country fragile economy, but some may say harsh times need harsh measures.

Gas Feedstock Price Set

Gas as feedstock to petrochemical complexes has been priced at 13 cents for August-September (first half of the Iranian year), while gas for burning as fuel will cost 3-4 cents, Deputy Oil Minister Abbas Sheri-Moqaddam said on Sunday(sep-13). Sheri-Moqaddam noted that there will be a price cut for feedstock to petrochemical complexes in deprived or less-developed areas. One of the hottest topics in Iranian petrochemical industry during recent years has been the price of gas feedstock for petrochemical complexes, which any comment about this topic from governmental official's caused price fluctuation in petrochemical companies share prices in Tehran Stock Exchange (TSE).

Before 2013, According to country subsidy reform plan and considering the price of USD on that time which was near to 10000 RIAL/USD, the petrochemical rate was calculated 7 cent (700 RIAL).Just as the tightening of oil and banking sanctions in 2013 led to sharp devaluation of Rial (30000 RIAL/USD) and forced government to increase gas feedstock price to 13 cent (3640 RIALs) which prompted the reaction of the private sector. Last year, government pledged to reduce the rate and also tailor a formula to determine the price automatically, but ultimately, Gas as feedstock to petrochemical complexes has been priced again

at 13 cents for August-September (first half of the Iranian year).

All petrochemical listed companies except PARDIS Petrochemical Company, considered the price of gas feed rate less than 13 cent (almost 8 cent) in their this year performance forecasts, so all of them need to make negative adjustment on their earnings forecasts. It is noteworthy to mention that, in this industry, Methanol manufacturers and urea producers respectively, will be most affected by the price of gas (share of gas as feedstock in their consumed gas is higher).

Markets Are Still Waiting

It took eighteen days For Iran and P5+1 group to agree on the final text of the joint comprehensive plan of action (JCPOA), on July.14, 2015. Many said that it's the century deal, but at least we can say that this deal has the potential to open a new chapter in relations between Iran and west after three decades. But this deal had faced many obstacle to be implemented from beginning, mostly arise from US congress but On September 17, the 60-day congressional review period has expired, and as it was foreseen, the supporters of the nuclear agreement did not let Republican-majority to hold a voting session on a resolution which could reject the deal, it seems that it was the end of the story in US for *now!*

In Iran, deal supporters have more credit, but opponents have the power and media

Despite expectations, in Iran it seems that this deal has many domestic powerful opponents especially among members of parliament, on the other hand supreme leader, ayatollah Ali Khamenei declared that according to constitutional law, the parliament should have the final word on the deal. President Rouhani

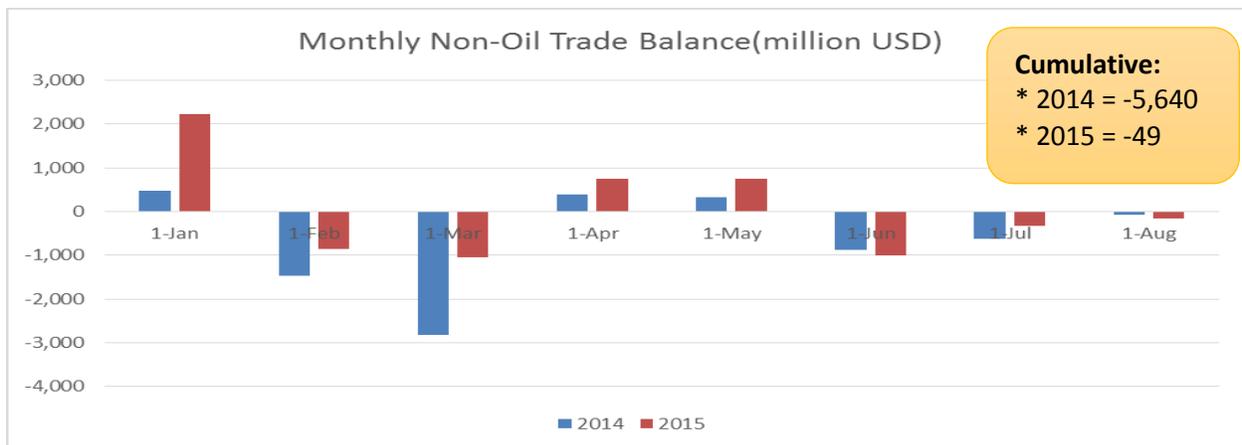
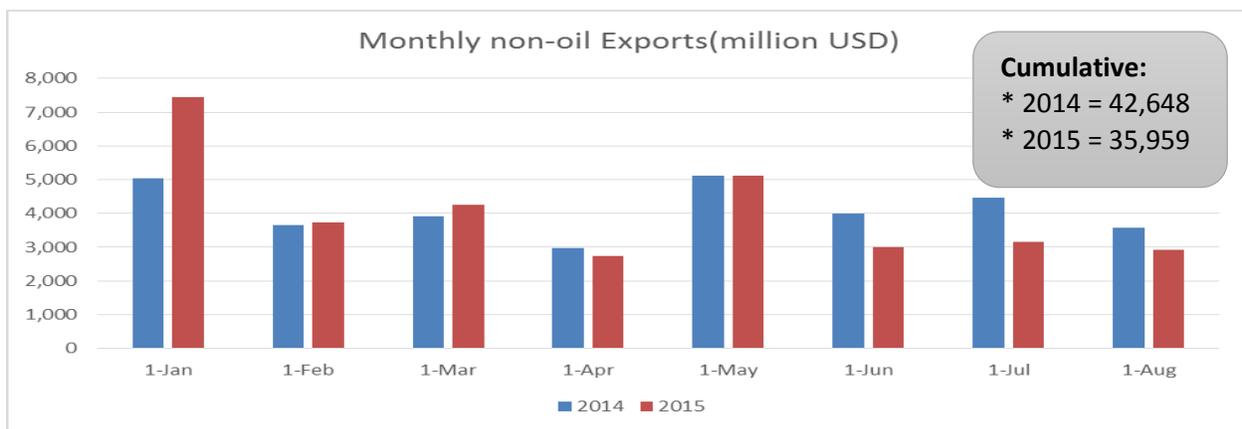
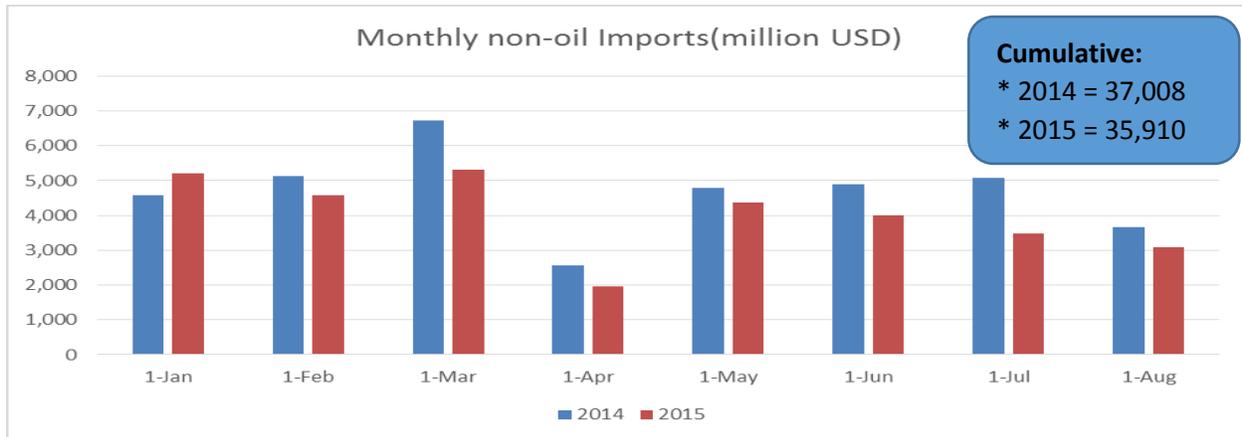
now faces a domestic challenge that does not seem easier than the negotiations with EU3+3. the government must gain support of opponents during next few days to be able of preparing country to the next JCPOA milestone, Oct.18, 2015 (adoption day), when Iran has to start to make substantial changes in its nuclear infrastructure according and also report to the

IAEA on the possible military dimensions of its past nuclear activity. The formal adoption of the Iran nuclear deal will be Oct. 18, but only when Iran takes all these steps, does the process shift to the next milestone, "implementation day," when certain sanctions are lifted. Implementation day is expected to take place in spring 2016, but could be longer. It can therefore be concluded that the ball now is in Iran's court.

We can see clearly the results of these uncertainties in fluctuation of country financial markets such as currency, stock and gold coin prices during last month. it was predicted that signing the agreement will be an end to the long-term bust in country economy by drawing bright

prospect, but market players shown that they are more cautious about political news these days and markets needs more positive sign to be able of returning confidence to their players.

Non-oil Foreign Trade



Market Overview

A brief text about Iran markets behavior and its economic reasons over the past month.

Tehran Stock Exchange experienced the significant recession in September and the market overall index declined 4.8 percent during September. Low volume of transactions and reduced liquidity were the distinguishing feature of the Tehran Stock Exchange during the last month. The main reasons for the current market trend can be attributed to the following:

1. Decline in global prices: due to mix of industries, Iran capital market is sensitive to global prices to some extent. Price reduction of oil and petrochemical products on the one hand and reduce the price of metals and metal ores on the other hand, have caused a significant reduction in profitability of producers of these products compared to the previous year.

2. Depression in domestic markets: failure to remove international obstacles resulting from the sanctions, prolonged implementation of nuclear deal, the government's tightening policies, and the limitations of government resources have caused the increase of economic stagnation in most sectors of economy. On the other hand, due to the recession, change in consumer expectations, and deferring consumption have caused reduction in demand for manufacturing companies products and manufacturers warehouses are filled by their

Products for which they can find no market currently.

According to Minister of Industry and Mines of Iran, the growth rate of the industrial sector was 2 percent negative in the first quarter of this year, which represents a decline of the manufacturing sector.

3. The decline in oil prices: Oil as the most important factor affecting revenues and consumption in Iran, has been the center of attention among capital market participants. A significant reduction in oil prices and lack of increased oil export sales in this year, have created a negative perception in market participants mind about the economic situation.

4. Liquidity crisis in markets: Due to the restrictive policy adopted by the government to curb inflation and also poor banking system, more businesses are faced with a lack of liquidity. Because of the liquidity problems, financial expenses have had a significant increase in the current year. To provide working capital, Companies have been forced financing with high rates. On the other hand, the high rate of bank deposits caused more investment in bank deposits and less on the production or stock market. Banking facilities of banks has been decreased due to increase in arrears of customer's loan payments and none-current facilities and also increase in the cost of money.

5. Getting close to the release time of interim reports of the companies:

the six-month performance reports will be published in October, according to negative market player's expectations on these reports, the market has shown a negative reaction to this issue.

With considering all above mentioned factors, it can be said that by the end of this year, cannot expect a bull market and prices will fluctuate at levels close to current prices. Also, due to economic conditions and the reluctance of investors to enter the market, it seems that the market turnover will not associated with significant changes.

Currently, we can say that the fulfillment of the following conditions can be effective in changing market trends:

•Interest rate changing: If the central bank decided to cut interest rates in order to stimulate the market, positive market reaction would be expected, but because of the government policies to curb inflation and condition of the banking system, the realization of this issue in the short-term future will be met with some skepticism.

•Cash injection: Injecting liquidity into the society through monetary base in the medium term can also lead to increased demand in the economy. Currently, the government through securities of its debts and also by offering

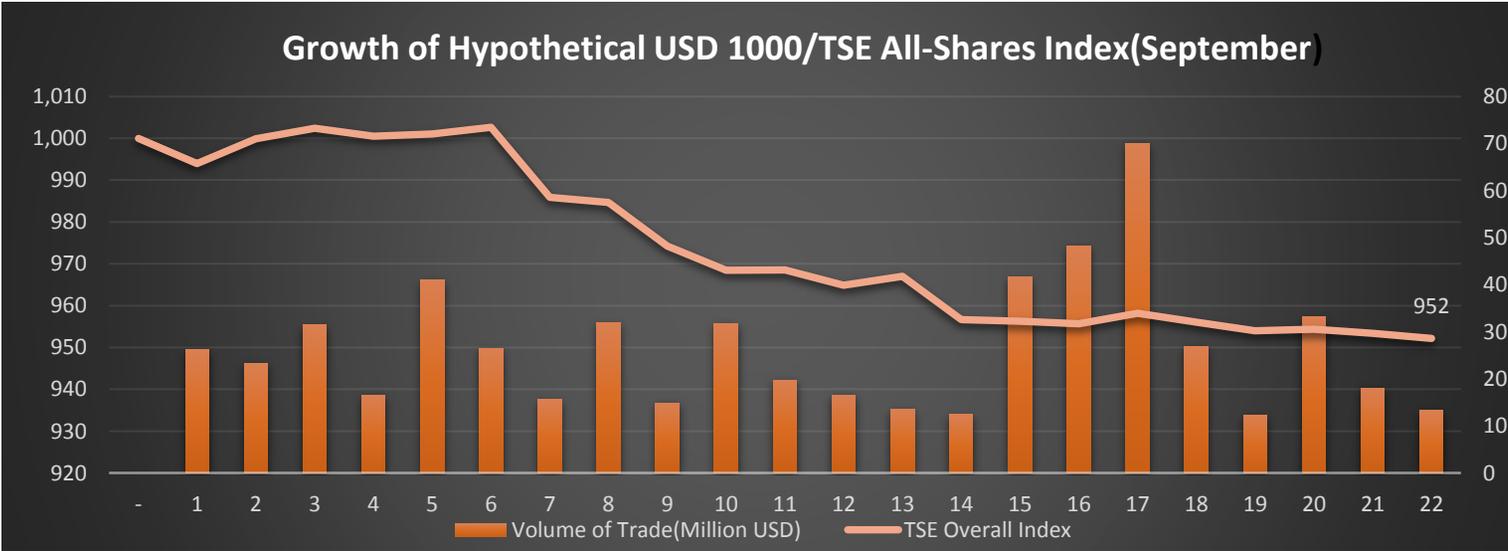
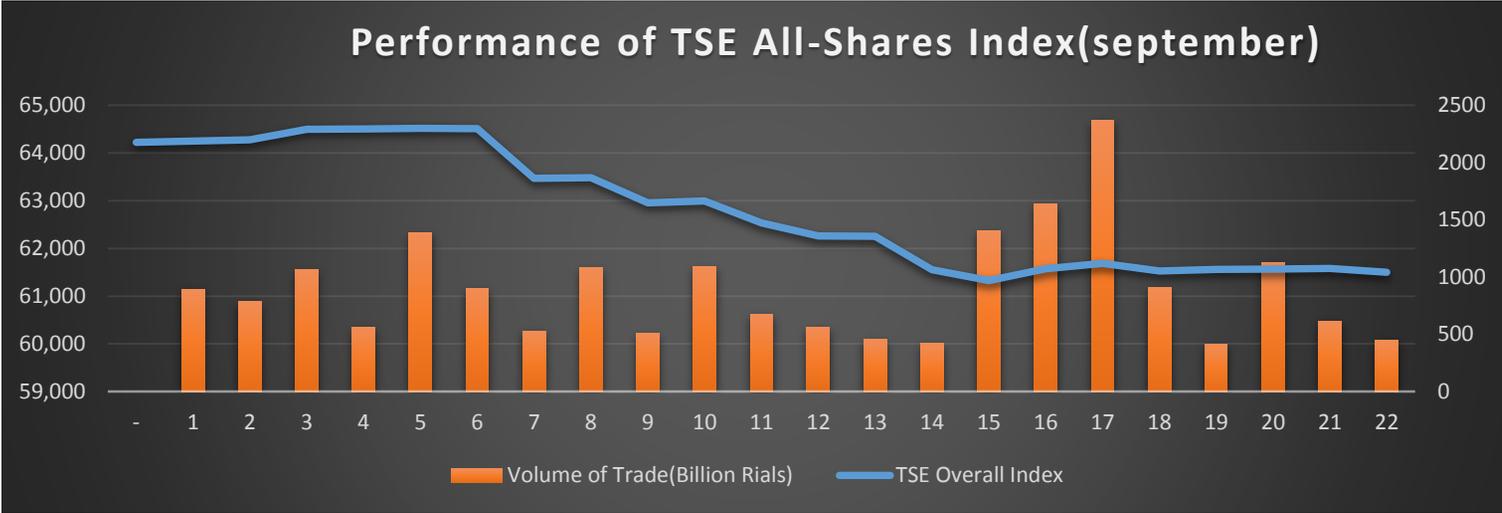
Concessions to the creditor banks is seeking to improve liquidity conditions, but the bulk of these measures has not significant influence. Removal of economic sanctions and the opening mechanism of financing from abroad can also affect this issue. It requires the removal of economic sanctions and the implementation of the nuclear deal.

•Entering foreign investors: After the nuclear deal, Iran hopes of entering foreign investors and their investments in stock companies and projects, out of stock has grown. Achieving this, would increase the volume of transactions in the market.

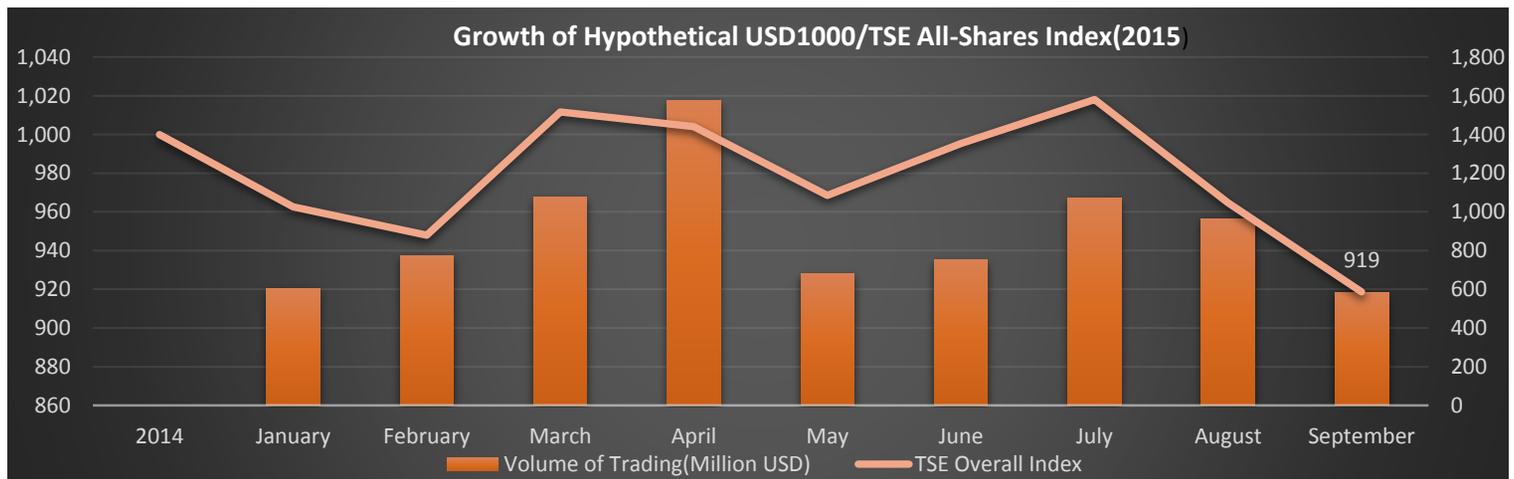
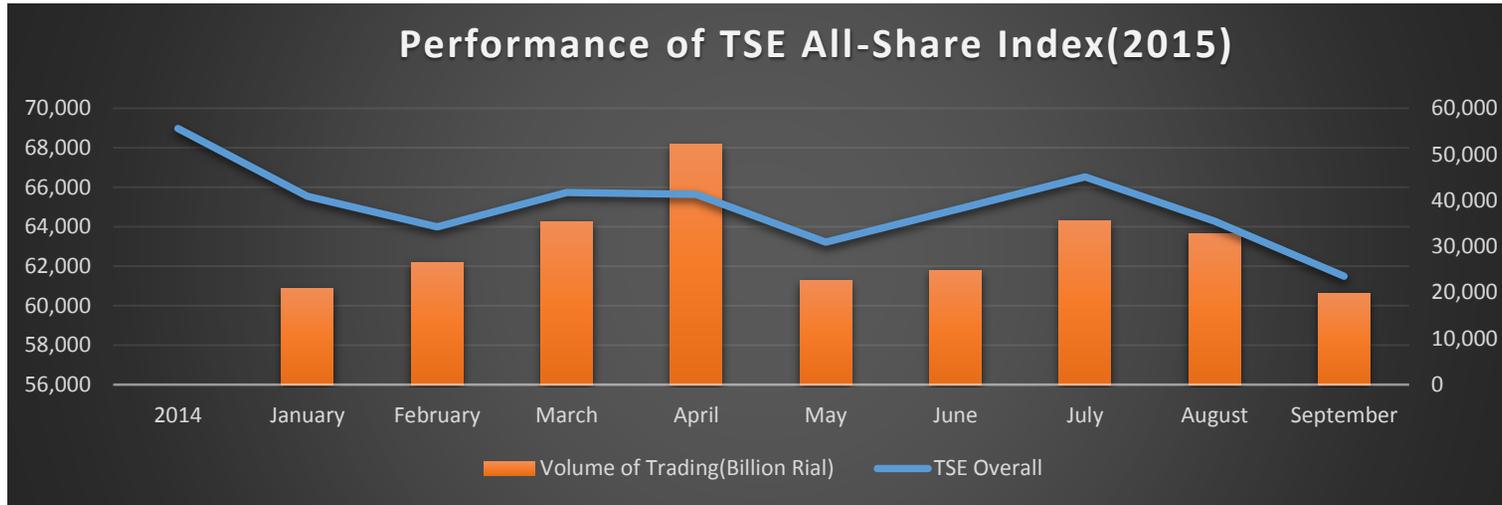
•Increasing in world prices and the price of oil: Currently, near to 50% of the market is directly dependent on global prices and the performance of other sectors also somehow tied to global prices of commodities and the price of oil as well. At the moment, the lack of demand in the global market is the main concern of economic actors in the world. Improving demand and rising global prices can have a positive impact on future trend of the market.

Market Statistics(sep-2015)	
Average P/E	5.31
Trade Value(\$ million)	584
Trade Value Monthly change (%)	-39.6%
Market Cap(\$ million)	77,438
Market Cap change (%)	-7.1%

Market Index and trading volume in September



Market Index and trading volume in 2015



Industry Performance in Stock Market (September)

Industry	Market Cap (\$ million)*	Trade Value (\$ million)	% of Total Trade	Trade Value Monthly change (%)	Turnover (%)	Return (%)	Explanation
Chemical, and Petrochemical	21,085	35	6	-67%	0.2%	-2.19	
Banks	10,879	103	17	17%	1.0%	-3.79	
Holdings	5,952	18	3	-9%	0.3%	-2.79	
Basic Metals	7,000	47	8	121%	0.7%	-11.99	Reopen industry symbols, after negative adjustment for the current year earnings forecast. These companies due to falling world prices and the downturn in the market have not performed well during this year.
Petroleum and Refinery	5,249	36	6	-62%	0.7%	-14.44	A significant reduction in forecast earnings compared to last year due to lower oil prices.
Mining	4,129	3	1	97%	0.1%	-5.10	
Telecommunication	6,448	7	1	-54%	0.1%	1.87	
Transportation	2,734	10	2	-37%	0.4%	0.06	
Pharmaceuticals	2,609	21	3	204%	0.8%	1.87	
Auto	2,850	65	11	-33%	2.3%	-12.67	Lack of market interest to these industry due to dramatic decrease in sales of these companies this year.
Engineering	2,200	61	10	-27%	2.8%	-3.97	
Investments	1,996	18	3	-31%	0.9%	-3.15	
Cement	1,791	9	1	19%	0.5%	-2.46	
Computer	1,610	3	1	26%	0.2%	-6.88	
Utility	1,356	43	7	-55%	3.2%	-5.27	
Sugar	839	9	2	59%	1.1%	1.45	
Construction	705	17	3	-29%	2.4%	-1.7	
Other	3,726	99	16	-58%	2.7%	-	

Top 5 Returns(September)			
Top Advancers		Top Decliners	
Company Name	Change %	Company Name	Change %
Khorasan Sugar	105.8	Industry and agriculture extension services	-29.37
PARS KHAZAR	29.22	Iran Rd	-27.90
Industrial Group MELLI	22.82	SHAHRUD Cement	-26.85
LULEH VA MASHINSAZI	22.27	North Drilling	-26.22
GHAZVIN Sugar	22.19	Loretta Sugar	-24.77

Top 5 Traded by Value(excluding block trades)		
Company Name	Transaction Volume (\$ million)	% of Total Transactions
MAPNA Group	61.08	10.4
MOBIN Petrochemical	43.93	7.5
National Iranian Copper	38.39	6.6
SADERAT Bank	35.99	6.2
MIDCO	29.68	5.1

Top 5 Turnover*		
Company Name	Market Cap(\$ million)	Turnover (%)
SHIRIN Sugar	7.45	52.8
SHAHROOD Sugar	7.85	49.5
SABET Sugar	15.38	36.4
SAIPA AZIN	8.54	25.3
KALBER Dairy	9.27	24.4

* Turnover= number of shares traded/outstanding shares

Investment Opportunities in Iran Stock Market

The first priority in general economic policies of the present government of Iran is the Stability of macroeconomic variables, especially currency and inflation rates. In the political arena the policy of detent and constructive engagement with western countries is following which Iran nuclear deal is one of its indicators. If government new foreign policy continue, it means that untapped Iran markets will be gradually open to international investors and barriers to international trade and using huge investment opportunities will be remove. We will mention to these investment opportunities in current and future publications. For beginning difference between Iran and international interest rate can be a good start.

Difference in Interest Rate

Iran as a developing country has many investment opportunities for international investors, for example risk-free rate in Iran is a potential arbitrage- opportunity for international investors who can enjoy from more than 20% free-risk rate. Many financial instruments are available in Iran stock market to use for earning high near risk-free rate in Iran.

SUKUK

Sukuks are securities with the same financial value traded in the financial markets which are designed according to Islamic laws. The holders of this kind of debt are jointly owners of an asset or a group of assets and their future benefits.

Currently three kinds of Sukuk are traded in Iran stock market, Ijarah, Murabaha and Musharaka and all have guaranteed minimum benefits payable between 21%-23%.

FIXED INCOME FUND

The main activities of this kind of funds is concentrated to invest in government or corporate debt securities and bank deposits. This kind of funds has the large variety in maturity date and issuers. Currently they guarantee between 22 – 24 percent annually return to their shareholders.

It's noteworthy to mention that above mentioned financial instruments are default risk free and are guaranteed by government agencies and commercial Banks.

What Factors Can Influence On Using This Opportunity?

1-Currency fluctuation

Currency fluctuation is one of the most important variables to consider in foreign investment decision making. According to Purchasing Power Parity theory, with considering that Iran Inflation is higher than its major trading partners, it's predictable that downward trend of currency in Iran will be continues and the maximum amount of this reduction cannot be far from difference between Iran and average international inflation.

2-INFLATION

According to the International Monetary Fund, inflation in Iran on 2013 was reached to 34.7, but on 2014 this rate decrease to 15.5 percent and it will increased to 16.5 and 17 percent respectively on 2015 and 2016, and this rate is anticipated 17 percent for the period of 2017-2020, the International Monetary Fund anticipate average international inflation rate for 2015 and 2016 is around 2.8 %.

Return of free risk Investment in Iran.

Financial market's investment returns gained by investing in financial instruments that are

described above can be calculated with following formula:

$$Y = r - (\rho - \rho^f)$$

Where

r = interest rate paid by various financial instruments,

ρ = domestic inflation

ρ^f = average global inflation rate