



Iran Newsletter

April/May 2015

1. Country Overview

Following many years of drawn out dispute, on 2 April Iran and the EU3+3 reached a political agreement on the framework of a comprehensive deal in the Swiss city of Lausanne.

Most of the intense negotiations were carried out between the Iranian delegation led by Foreign Minister Javad Zarif and the US delegation led by Secretary of State John Kerry. Multilateral and bilateral meetings were however held between all members of the EU3+3 group and Iran. The discussions were extended twice as the talks went beyond the original self-imposed deadline of 31 March.

In a joint statement read out on the 2nd of April, Iran and the EU provided details of the framework on which a final deal would be concluded.

The preliminary deal included limits on Iran's uranium enrichment capacity and stockpiles of enriched uranium as well as the re-configuration of one of Iran's enrichment sites and a heavy water research reactor. The termination and suspension of various United Nations, US and EU sanctions placed on Iran was also laid out as part of the deal.

Whilst acknowledging the difficulties in drafting the final agreement, 30th of June 30 was set as a deadline.

Since the announcement of the political agreement, all parties have continued their efforts to draft the final agreement. The Iranian delegation and members of the EU3+3 negotiating countries have been meeting on a deputy level basis. The drafting process of the final agreement has been reported as slow but ongoing.

Talks continued at the annual Non-Proliferation Treaty overview meeting held at the United Nations headquarters in New York. The Iranian Foreign Minister, Javad Zarif, gave the opening speech as the representative of the Non-Alignment Movement, which Iran is currently chairing.

During his time in the US, Mr. Zarif also met with his American counterpart, John Kerry. The meeting was held at Iran's diplomatic mission residence in New York City. This was the first time an American Secretary of State had set foot on Iranian diplomatic soil since the Islamic Revolution in 1979.

After the announcement of the political agreement, various political and military figures in Iran such as the Head of Iran's Armed Forces and the Head of Iran's Islamic Revolutionary Guards congratulated the Supreme Leader and the nation on the diplomatic victory of Mr. Zarif and his team. The Iranian Supreme leader however was quick to remind the nation that the comprehensive deal had not yet been reached and that the negotiations were a test of credibility for the Western nations and in particular for the US in relation to potential collaborations in the future.

In the meantime, contradictory remarks made by US and Iranian officials regarding the timing and mechanisms of removing sanctions have put a question mark on the clarity and effectiveness of the reached framework. The Iranian delegation is insisting on the complete and immediate removal of sanctions with the implementation of a comprehensive deal whilst the American officials insist on a phased and gradual removal of the sanctions.

2. Economic Overview

According to the Islamic Republic of Iran Customs Administration's recently released non-oil trade statistics, in the first month of the Iranian year (started 21 March 2015), foreign trade amounted to \$4.7 billion with a \$760 million surplus in trade balance. According to the figures, in comparison to the same month of the previous year, exports fell 8% to \$2.7 billion and imports by 23% to \$1.9 billion in the first month of the Iranian year.

In the same period last year, foreign trade stood at \$5.3 billion with a trade balance deficit of \$310 million. Last year, the difference between non-oil exports and imports stood at only \$2 billion, the lowest deficit witnessed in a very long time. The statistics released on trade data for the first month of the current Iranian year show that Iran has become a net non-oil exporter for the first time in recent history.

In line with the current administration's easing policies to promote economic growth, in the last week of April, the Central Bank of Iran (through the Money and Credit Council) cut one-year deposit interest rates by 2% to 20% as well as reducing the legal reserve ratio by 0.5% to 13%. It also committed to deposit money in the interbank lending market at a maximum rate of 24%. Furthermore, the ceiling for retail loans per person was doubled to \$24,000. The Money and Credit Council will now meet every 3 months to examine the

consequences of the easing policies and take appropriate action.

Statistics released from the Central Bank of Iran showed that in April, year-on-year growth of the Producer Price Index (PPI) reached 8.9%, the lowest annual increase of PPI since the global economic recession in 2009. As the Consumer Price Index in Iran lags the PPI, a continuation of the current downward inflation trend is expected in the short term helping the Central Bank in the further easing of economic policies.

In a recent move, the government has removed five groups from the list of cash handout beneficiaries due to the heavy financial burden of the scheme. The cash handout scheme was approved in 2010 to compensate for increased prices on basic goods as a result of the removal of country's subsidies, a scheme that was subscribed to by 90% of the population. The five groups include doctors, owners of luxury cars, owners of foreign exchange bureaus, Board of Director members of banks and private companies as well as Iranians residing abroad.

As many Iranians have come to rely on the cash handouts, any move to reduce the number of its recipients will be unpopular. Despite political consequences, the government is determined to free up financial resources tied up in the scheme.

3. Market Overview

March and April 2015 were volatile months for the Tehran Stock Exchange (TSE) mainly due to the inflow of nuclear talk-related information into the market from Lausanne. Traders remained cautiously optimistic during the negotiations, resulting in the TSE's overall index to increase by 2.8% in March.

In the first trading week of April, after the release of the final statement on the nuclear talks, the main index recorded its best-ever weekly performance with a 7.5% increase. This performance was however short-lived with the market giving up all of its gains by the end of the month.

The weak performance can be mainly contributed to the lack of corporate earning growth prospects in a high interest rate environment. The short-lived bull market also provided an incentive for institutional players such as

pension funds and the Social Security Organization to sell in order to cover payment liabilities.

By end of April, forward price to earnings ratio of the market retreated to 5.7 after topping 6 in the middle of the month for the first time in a year.

Refineries were the worst performing group in March as their stock prices fell by 48%, the highest monthly decline recorded for a single listed industry on the TSE. The Mining index also experienced a drop of 4.7% during March and April helped by uncertainties surrounding the Chinese economy and the possibility of appreciation of the Iranian currency in the event of relief in sanctions.

In contrast, with an average increase of 17%, Banks were the best performing group amongst the 10 largest listed industries in March and April.

No major movement in the market is anticipated until 30 June, the next milestone in the nuclear negotiations, as the impact of recent economic easing measures on the stock market is considered low. This is due to the current market availability of large stockpiles of 3-year 22% to 25% interest bearing bonds with an estimated value of \$2 billion.

Earning forecast reports produced by listed companies at the end of the Iranian fiscal year (20 March), suggested that the total projected profits for the year ending 20 March 2016 compared to the previous year are expected to drop by 9% to \$17b. This is the first year on year decrease witnessed since 2009. Petrochemical and refineries reported the highest cuts in earnings forecasts at 19% and 50% respectively.

Market Summary

| Market Statistics (March) | |
|---------------------------------|-----|
| Average P/E | 5.1 |
| Trade Volume (\$ Billion) | 1.6 |
| Trade Volume Monthly Change (%) | 93 |
| Market Cap (\$ Billion) | 104 |

| Top 5 Traded by Value (March) | | | |
|-------------------------------|---------------------------|-----------------------------|---------------------|
| Rank | Company Name | Turnover Value (\$ Million) | % of Total Turnover |
| 1 | Ghadir Investment Company | 436 | 27 |
| 2 | Behran Oil Company | 153 | 9 |
| 3 | Mellat Bank | 80 | 5 |
| 4 | Sdaerat Bank | 70 | 4 |
| 5 | Tejarat Bank | 70 | 4 |

| Top 5 Companies by Market Cap (March) | | | |
|---------------------------------------|-------------------------------------|-----------------------------|---------------------|
| Rank | Company Name | Turnover Value (\$ Million) | % of Total Turnover |
| 1 | Persian Gulf Petrochemical Industry | 9,369 | 9 |
| 2 | Telecommunication Company of Iran | 4,625 | 4 |
| 3 | Mobile Telecommunication of Iran | 4,603 | 4 |
| 4 | Tamin Petrochemical | 3,863 | 4 |
| 5 | Esfehan Mobarakeh Steel Company | 3,729 | 4 |

4 Business Activity Overview

Delegation Visits

A delegation of 22 US entrepreneurs, investors and consultants representing aviation companies, oil groups and food conglomerates was in Tehran in mid April. Iranian businessmen briefed the companies on the post-sanctions potentials of Iran.

An Indian delegation visited Iran in Mid April. Officials from India's finance and oil ministries and executives from ONGC Videsh and Mangalore Refinery and Petrochemicals Ltd were part of the delegation that held meetings with their Iranian counterparts. Apart from seeking more oil at better terms and other investment opportunities in the energy sector, India pushed for development rights at the Farzad-B gas field that is estimated to hold initial

in-place reserves of 12.5 trillion cubic feet and to have a lifetime of 30 years.

A Swiss business delegation was in Tehran in late April in the first such visit in 10 years to try and expand trade ties. The team, comprising executives from the pharmaceutical, green energy and services sectors, was led by Livia Leu, who served as Swiss ambassador to Iran between 2009 and 2013.

Memoranda of Understanding

Notwithstanding US objections, India went ahead with the signing of an agreement with Iran on 8 May for the development of the strategically important Chabahar Port that will give India sea-land access route to Afghanistan bypassing Pakistan. The port will be used to ship crude oil and urea, saving India transportation costs. India intends to lease two berths at Chabahar for 10 years. The port will be developed through a special purpose vehicle (SPV) that will invest USD 85 million to convert the berths into a container terminal and a multi-purpose cargo terminal in phase 1. Another \$110 million has been committed to future phases of development.

Iran and Turkey signed an MoU in the first week of April for economic and commercial cooperation. Under the MoU, Iranian and Turkish Small and Medium Enterprises (SMEs) will expand cooperation to boost their competitive power in the global markets. The MoU covered cooperation in various economic areas such as in the fields of textiles, leather garments, expansion of small industries sites, small industries investment guarantee funds, definition of joint projects, sharing experience in industrial townships and attracting Turkish investors.

Fund Launch

In Early April, Charlemagne Capital, a UK asset manager focused on emerging markets, and Turquoise Partners, a Tehran-based investment group, announced plans to offer international investors exposure to Iranian equities. It will be a general equity fund aimed at international investors, with \$70m under management initially. The groups have plans to grow it to more than \$200m in the short term. They also plan to set up funds in different sectors, such as oil and gas, banks and retail, once the general fund has been established.

Initial Public Offering

On 28 April, 1 billion shares of Mobin Petrochemical Company (MPC), equivalent to 7% of its total equity, were offered for the first time on the Tehran Stock Exchange. This was the largest IPO of the exchange in more than a year. As the 100% owner of Mobin Petrochemical, the shares were offered by the Persian Gulf Petrochemical holding.

Located in the South Pars Economic Zone, Mobin Petrochemical Company is the largest centralized utility plant in Iran. The company provides power, steam, gas and industrial products to the zone's petrochemical complexes. The company was listed with a market cap of \$1.2 billion and forward P/E of 4.3. Having raised \$87.5m thorough the IPO, it has been announced that another 3% of the ownership will be offered gradually in the not too distant future which is expected to attract lots of interest due to its reasonable valuation.

Aircraft Acquisition

Mahan Air, which is blacklisted by the US and Europe because of alleged links to Iran's revolutionary guard (denied by the airline), flew to Iran eight acquired Airbus A340s and one Airbus A320 (manufactured between 2001 and 2009) in early May. Mahan is suspected of spending more than a year brokering a complex series of arrangements using the small Iraqi Al-Naser Airlines as a front.

About Frontier Partners

Frontier Partners FZ LLC (“Frontier Partners”) is a United Arab Emirates (UAE) registered private limited liability company and is subject to the laws and professional regulations of the UAE. Frontier Partners is a boutique and independent professional services firm providing advisory, transaction support and interim management services to select clients within the Middle East. With a regionally connected network of 30+ partners and associates Frontier Partners brings unparalleled capabilities, technical know-how and deep expertise within the geographical markets of focus to help our clients challenge conventions, deliver value and provision of advice designed to address their specific needs. Frontier Partners is committed to becoming the standard of excellence and our professionals are unified by a collaborative culture that fosters integrity, deep insights, quality, expertise, value generation and exceptional delivery of results. Please refer to www.frontierpartners.co for more details.

Disclaimer

The material contained in this newsletter is for general information purposes only, and we are not by any means rendering professional advice or services through it. We do not warrant that the information will be error free, complete and accurate, and expressly disclaim all implied warranties. The above disclaimers and limitations of liability will be applicable to not only us, but also our network of associates, partners and affiliates and are applicable to the fullest extent permitted by the law.

Copyright

Unless otherwise indicated, the content on this newsletter is provided by us and is protected by copyright. Except as authorised in writing by us, you shall not use any parts of this newsletter and our marks, logos or other design elements, for any press releases, advertisements, or other forms of promotional or marketing material or media, whether in written, oral, electronic, visual or any other form.

Contact Us

info@frontierpartners.co

www.frontierpartners.co