



## Iran Newsletter

July 2015

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## 1. Country Overview

After arduous talks that spanned 20 months, international negotiators reached a landmark nuclear deal with Iran on July 14<sup>th</sup>. The accord is however expected to face fierce opposition from Republicans in the U.S. Congress (with a 60-day window to review the deal), as well as from Israeli Prime Minister Benjamin Netanyahu, a longstanding critic of the negotiations. President Obama has indicated that he would veto any attempt by opponents to undermine the nuclear deal with Iran arguing that the landmark agreement is the best available option. In Tehran, the deal will need the clear backing of Iran's supreme leader, Ayatollah Khamenei and the Parliament to fend off any objections from hardliners suspicious of an accord with the United States after decades of hostility and mistrust. The main components of the deal are as follows:

*Iran will eliminate nearly all of her uranium stockpile:* The country will be required to get rid of 98% of its enriched uranium stash, leaving a total of 300 kg. Iran plans to ship the rest out of the country, most likely to Russia. Iran won't be able to stockpile more than 300 kg of enriched uranium within the country for at least 15 years.

*Iran will decrease its capacity to enrich uranium:* Iran will be allowed to continue enriching some uranium, a key concession by the U.S. But it will be required to reduce its inventory of centrifuges, which are used to perform enrichment, by two-thirds, from some 20,000 down to about 6,100. Iran will be allowed to use only its oldest and least-efficient centrifuges for the next 10 years, the deal provides. Iran will also be required to modify a heavy-water nuclear reactor at Arak so that it cannot produce weapons-grade plutonium. Iran will not be allowed to build a heavy-water reactor for at least 15 years.

*Iran will allow robust inspection of known and suspected nuclear sites, including military areas:* This concession is designed to help ensure that Iran is not setting up covert uranium enrichment sites. Under the agreement, U.N. inspectors with the International Atomic Energy Agency will be granted access to sites known or believed to be enriching uranium, including those on military bases, which Iranian officials previously had insisted were off-limits. If Iran objects to a particular inspection, it can ask a

newly formed joint commission to decide whether to grant access. The commission, composed of the six countries that have been negotiating the agreement, plus Iran and the European Union, must make the call within 24 days, not enough time for Iran to hide evidence if it had opened a covert enrichment site, officials say. Disputes over access will be settled by a majority vote, meaning that if the U.S. and European representatives agree on the need for an inspection, Russia and China will not be able to block it.

*Iran will need to disclose some information about its past nuclear program:*

Officials will need to give the International Atomic Energy Agency information about Iran's previous nuclear activities, but diplomats acknowledge it won't be forced to fully come clean about possible violations in the past.

*The United Nations, United States and European Union will lift crippling economic sanctions against Iran:*

Iran will have to meet the requirements to reduce its uranium stockpile, mothball centrifuges, dismantle the Arak reactor and give the IAEA information about its past activities before sanctions are lifted. Once the IAEA verifies that Iran has met those obligations, the U.S., U.N. and EU will lift sanctions. At that time, Iran will be able to sell oil again, rejoin the international financial system and reclaim overseas assets worth an estimated \$100 billion to \$150 billion that currently are frozen in international accounts. U.S. officials have said Iran will need about six months to comply, although Iranian officials say they hope to move more quickly. President Obama has the authority to waive most current U.S. economic sanctions without congressional approval, but the restrictions would remain on the books unless Congress votes to remove them.

*The Western powers retain the ability to reinstate the sanctions if they suspect Iran is cheating:*

Under the agreement, the U.N. Security Council will vote to suspend sanctions against Iran (There was a unanimous vote on July 20<sup>th</sup> in favor of the deal). If the U.S. or any permanent member of the council believes Iran has lied about its nuclear program, it will be able to demand a vote to end the suspension of sanctions. That vote will be subject to veto in the Security Council.

*The United Nations has set a timeline to lift embargoes on Iran's ballistic missile and conventional arms trade:* Under the terms of the deal, the U.N. will lift the embargo on conventional arms sales in five years and the ballistic missile embargo in eight. These could both be lifted sooner if the IAEA finds that Iran's nuclear program is entirely peaceful and in compliance with international rules, which could take some time.

In his speech marking the end of the Islamic month of Ramadan, the Iranian Supreme Leader stated that Iran's policy towards the United States would not change as a result of the reaching of a nuclear agreement. He stated that regardless of whether the provisions of the agreement are approved or not, Iran will not allow foreign powers to misuse its terms. Ayatollah Khamenei stated that Iran would continue supporting its allies in the region in their fight against terrorism.

## **2. Economic Overview**

### **Policy**

In line with the legislation on 'removing barriers to competitive production and improving the financial system', president Rouhani has called for the preparation of comprehensive plans to reform the banking system, develop the primary capital market and effectively manage government debts. The president has outlined six major areas related to the banking system: short and mid-term financing by banks, funding the activities of small and medium-sized enterprises, reducing outstanding debts, creating a competitive environment for economic activities, organizing the money market and increasing the lending capacity of banks. On the capital market, three areas have been identified: Funding long-term financial demand through the domestic capital market or foreign capital, funding of large enterprises through the capital market and revising laws and regulations guiding capital markets. The president highlighted two main areas related to fiscal policy: the estimation of the government debts to contractors, banks and the method of repayment as well as the implementation of appropriate and effective mechanisms to deter new debt creation.

## Domestic Production

The production of natural gas from the South Pars Energy Zone has increased to 440 million cubic meters (mcm) per day. The increase has materialized from new phases that have come on stream over the past two years. Iran hopes to increase production from the huge field that it shares with Qatar to as much as 800 (mcm) per day in the future.

Iran produced 15.77 million tons of cement and 19.26 million tons of clinker during the first quarter of the Iranian calendar year (Started March 21, 2015). In this period, the country also exported 4.34 million tons of cement. Iran ranks first in the production of cement in the Middle East with a capacity of 80 million tons per year. This figure is expected to reach 120 million tons in 10 years.

According to a report by the World Steel Association, Iran's steel production increased by 4.5 percent from 8.015 to 8.372 million tons in the first 6 months of 2015 compared to the figure for the same period in 2014.

## Trade

The value of exports (excluding crude oil and gas condensates) in the first five months of 2015 rose 7% compared with the similar period in 2014, while imports declined by 19% in terms of value, according to the Islamic Republic of Iran Customs Administration (IRICA). The figures indicate a narrowing down of trade deficit to \$4.97 billion compared to \$10.43 billion during the same period last year.

The Statistical Office of the European Union (EU), Eurostat has revealed that trade between Iran and the 28-nation bloc in the first five months of 2015 reached €2.976 billion, showing a six-percent increase compared to the figure for the same period in 2014.

## Consumer Price Index

According to the latest Central Bank of Iran's Consumer Price Index report, the country's inflation rate during the last 12 months ending July 2015 was 15.6%. The year-on-year inflation rate stood at 14.2%, the lowest in the last five years.

### 3. Market Overview

The stock market rebounded by 2.8% in June as investor optimism grew in relation to the nuclear negotiations in Vienna. Sectors benefiting from the deal were banking and automotive. Shares of Iran Khodro, the largest automotive manufacturer in Iran, gained 9% in value. The sector's average P/E ratio reached 15, the highest valuation amongst the top 10 largest industries in terms of market cap. In contrast, exporters performed poorly due to their sensitivities to a possible local currency appreciation.

Almost 60% of the companies on the Tehran Stock Exchange held their Annual General Meetings June. These companies distributed more than 80% of their previous year total earnings, which was higher relative to the long term 70% payout ratio of the Tehran Stock Exchange.

The average price to earnings ratio of the market stood at 5.5 at the end of June, about 0.5 points lower than the 20-year average valuation of the Iranian stock market. Shares in the automotive sector showed a noticeable improvement in June with the index growing by 8.6%.

#### Market Summary

Market Statistics (June 2015)	
Average P/E	5.5
Trade Volume (\$ Billion)	0.8
Trade Volume Monthly Change (%)	6.6
Market Cap (\$ Billion)	96

Top 5 Traded by Value (June 2015)			
Rank	Company Name	Turnover Value (\$ Million)	% of Total Turnover
1	Persian Gulf Petrochemical Industry	57	7
2	Saderat Bank	38	5
3	Khark Petrochemical Company	34	4
4	Tamin Petrochemical Company	26	3
5	Saipa Company	25	3

Top 5 Companies by Market Cap (June 2015)			
Rank	Company Name	Turnover Value (\$ Million)	% of Total Turnover
1	Persian Gulf Petrochemical Industry	9,086	9
2	Tamin Petrochemical Company	3,647	4
3	Mobile Communications of Iran	3,412	4
4	Mellat Bank	3,291	4
5	Parsian Oil & Gas Development	3,287	3



## 4. Business Activity Overview

### Aluminium

India plans a \$3 billion aluminum smelter complex in Iran to produce 500,000 metric tons of aluminum per year and a 1,000-megawatt captive power plant. Iran is viewed as an ideal destination for aluminum production because of its power generation capacities, given that electricity accounts for 40% of smelting. Iran itself produces about 340,000 metric tons of aluminum per year and plans to raise it to 1.5 million tons by 2025 with an investment of about \$12 billion.

### Automotive

Newly published figures indicate that car imports to Iran have significantly dropped in the first quarter of the current Iranian calendar year (started March 21st, 2015). In total, 10,555 cars were imported in this period, more than 50% down from 21,500 cars brought into the country during the same period last year. The fall has been mainly attributed to the recently introduced regulations governing importation by non-official importers.

French auto giant Peugeot is reported to be in advanced stages of talks to provide parts to SAPCO, a subsidiary of Iran Khodro that specializes in providing auto parts. Peugeot is however reported to be facing a snub for a full return to Iran due to its withdrawal from the Iranian market in 2012 under US pressure. Renault is cited as being the prime candidate being considered for partnership with Iran Khodro.

Iran Khodro and Mercedes-Benz are reported to be close to signing a deal for the production of cars and commercial vehicles. According to the agreement reached, a five-year deal will be signed soon under which Setareh Iran as the importer and Top Khodro Company as the manufacturer will start distribution of Mercedes cars in Iran. A 10-year deal is also due to be signed for the production of commercial vehicles. Mercedes has also announced its readiness to buy 30% of shares in the Iranian Diesel Engine Manufacturing (IDEM) and begin production of engines.

Iran's TUVPR and Austria's automotive consulting firm AVI have signed a contract worth €110 million for the production of low-consumption Euro 6 engines.

## Conferences/Delegations/Visits

Iran and the European Union held a two-day international conference in Vienna to discuss post-sanction opportunities for cooperation. The “Iran-EU conference on trade and investment” brought together officials from Iran, Austria, France, the UK, Germany and other countries as well as their traders and entrepreneurs.

German Economy Minister Sigmar Gabriel visited Iran on a three-day trip with a delegation of representatives from companies, industry groups and the sciences. Linde, Siemens, Mercedes, BASF, Volkswagen Group, ThyssenKrupp and GIZ were among visiting German companies.

Switzerland's Deputy Foreign Minister Yves Rossier, EU Foreign Policy Chief, Federica Mogherini and French Foreign Minister, Laurent Fabius visited Iran in July to hold discussions with high-ranking Iranian officials.

## Financial

London-based Sturgeon Capital is reported to be preparing to launch a new fund based in Bermuda called the Sturgeon Medes Fund to invest in Iranian equities. The fund could start trading as early as August with internal capital and formally in September with as much as \$30m, according to Bloomberg.

## Food

International market research company Euromonitor has said the removal of US and EU sanctions on Iran would open up the tenth largest growing dairy market globally. Considering the fact that the Russian market is currently inaccessible to many dairy exporters with Putin's extension of the important ban on dairy products, Iran could be a potential market for dairy products initially intended for the Russian market.

## Energy

### *Oil*

Italy's Saras and Spain's Cepsa have told Bloomberg that they would buy Iranian crude oil. Greece's Hellenic Petroleum has also welcomed the return of Iranian oil to the market as “positive for refiners”. Spain, Italy and Greece imported 456,000 barrels a day, or 78% of total Iranian oil shipments to Europe, before halting them in 2012 due to sanctions. Spain's

Repsol, Italy's Eni, the Anglo-Swiss company Glencore and the Anglo-Dutch company Shell have recently held talks with Iranian energy officials to enter the Iranian market.

### ***Gas***

The global rating agency Fitch has stated that Iran has the long-term potential to become one of the world's top gas producers, thanks to its 34 trillion cubic meters (tcm) of natural gas reserves, or around 18% of the world's total. Fitch However has emphasized that major exports from Iran will not materialize anytime before 2020.

Iran's Economy Council has made a decision to allocate \$1.4 billion to the development of the Kish gas field near the southern Iranian island of Kish. Once fully operational, the field will produce about 4 million barrels of condensate and 9 billion cubic meters (bcm) of natural gas per year.

Iran is hoping to ramp up its sales of liquefied petroleum gas (LPG) after doubling the country's fleet of carriers for shipment of the fuel to the international market. Fifteen carriers purchased in the past couple of years have now joined the fleet. Iran exported four million metric tons of LPG worth about \$4 billion, mostly to South Korea and Europe.

### ***Electricity***

Iran is building a natural gas combined cycle power plant in Iraq's Basra at a cost of \$2.5 billion. The deal, signed with the Iraqi-Jordanian Shamara Group and being carried out by Iran's MAPNA Group, aims to add 3,000 megawatts of electric power to Iraq's national grid.

### ***Renewables***

Suzlon Energy, one of the world's leading Indian wind turbine suppliers has stated that it is competing with Germany's Siemens for renewable energy projects in Iran. The company has announced its willingness to cooperate with the Iranian energy industry on the basis of joint investment or supply of know-how, technology, turbines and equipment when sanctions are lifted.

## Steel

Iran's steelmakers have called on the government to raise import tariffs on certain steel products amid a crisis in the industry due to a number of factors, including dumping by China and other exporters. The government has already increased import duties by 20% but steelmakers are seeking a hike of up to 40 % on flat steel products to safeguard the industry. Iran is the Middle East's largest steel producer with 16.6 million tons a year ranking 14th on the world's steel production table.

## Tourism

In a recent report titled “Travel & Tourism: ECONOMIC IMPACT 2015 IRAN”, the World Travel and Tourism Council (WTTC) has put the value of Iran’s tourism industry for 2014 at about \$7.8 billion and forecasted a growth of 6.6% in 2015. The report has also put the value of Iran’s investments in its tourism industry in 2014 at \$2.8 billion equal to around 3% of the total investment made in the country throughout the year. The figure is projected to see an increase of 4.3% in 2015 and reach \$2.9 billion in 2015.

Iran has revoked visa requirements for nationals of 7 countries as part of its plans to boost tourism industry in the country. Citizens of Turkey, Lebanon, Azerbaijan, Georgia, Bolivia, Egypt and Syria can travel to Iran without visas. Under the new visa requirement regulations, citizens from these countries can stay in Iran without a visa from 15 to 90 days.

## Transportation

### *Railway*

France's architectural firm AREP has signed an agreement to redevelop three railway stations in Iran. AREP, which is wholly owned by France's national state-owned railway company SNCF, will rebuild the stations in the Iranian capital, Tehran, as well as the holy cities of Mashhad and Qom.

India has created a special mechanism to support exports of rail tracks to Iran through the full financing of the scheme. Last year, India signed a contract worth \$233 million with Iran for exports of rail tracks by companies including the Steel Authority of India (SAIL). Based on the original contract, the Indian companies would provide Iran with sufficient standard rail tracks to set up a network project spanning over 15,000

kilometers. Officials in Tehran have already emphasized that Iran will need about 3 million tons of steel rails and spend up to \$8 billion over the next six years to revamp and expand its railway network.

### ***Ports & Shipping***

A group from the Dubai-based company DP World, one of the largest port operators in the world visited Iran on a three-day trip to study investment opportunities. During their trip they visited the Caspian port of Bandar Anzali, the Qeshm island in the Persian Gulf and Chabahar on the Gulf of Oman to assess trade capacities. The group examined the capacities of the three free trade zones for an investment of between \$500 million to \$1 billion.

The Islamic Republic of Iran Shipping Lines (IRISL) and the country's leading ports operator, the Tidewater Middle East Maritime Company (TMEMC), have been removed from the US list of companies designated for sanctions and assets freeze. TMEMC used to perform more than 90% of container operations at the main ports in Iran besides handling about 1% of the country's oil exports before the sanctions were imposed.

## 5. Appendices

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