GriffonCapital

Asset Management and Private Equity

IN THIS ISSUE:

- Domestic currency falls further
- Market volumes drop and bond yields rise
- Exporters are the main beneficiaries
- An overview of zinc producer Calcimine

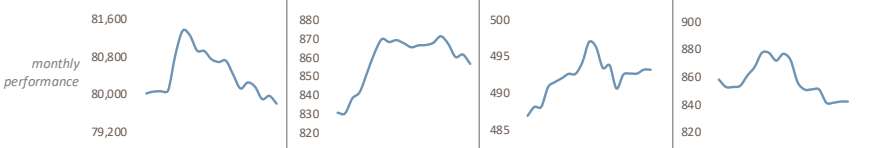
MONTHLY NEWSLETTER

DECEMBER 2016

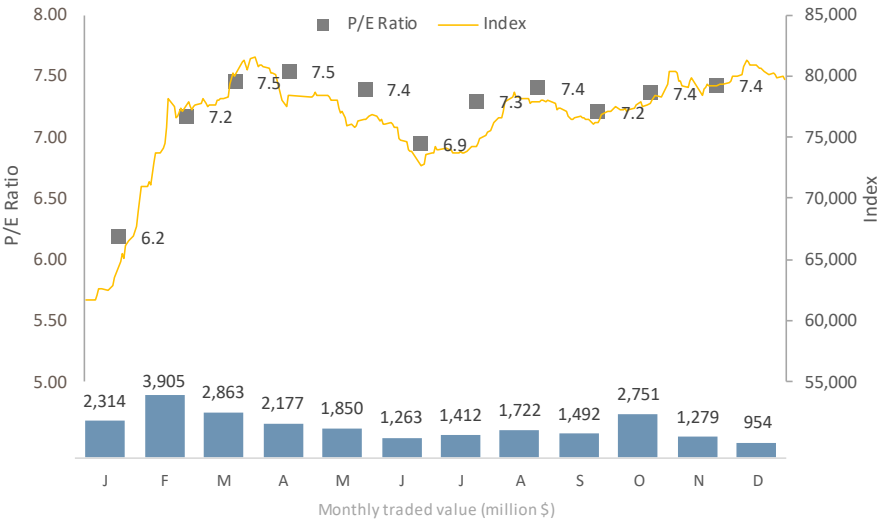
Please see the important Sanctions Disclaimer on pages 6 and 7 of this document.

Indices

	TSE (TEDPIX)	Farabourse (IFX)	Frontier Market (MSCI FM)	Emerging Market (MSCI EM)
Past month	-0.3% ↓	3.1% ↑	1.3% ↑	-1.9% ↓
Last close	79,801	857	493	842
Past 12 months	29.4%	25.1%	-2.5%	6.1%
Year to date	29.3%	25.4%	-2.6%	6.1%
P/E	7.5x	8.7x	12.0x	12.3x
Div. Yield	10.3%	9.4%	4.5%	2.6%



TEDPIX Index & P/E Ratio



Market Capitalisation

	TSE	Farabourse
Market Cap (million $)	85,494	14,642
Value traded (million $)	752	202

$1 : 39,280 IRR is the monthly average free market exchange rate used for this report.

All market data represents the period December 1–27, 2016.

Sources : Tehran Stock Exchange, Bloomberg, MSCI, Royal Exchange, Sarafi Parsi, Mirdamad Exchange and Griffon Asset Management Team.

MARKETS AT A GLANCE

The rial lost -8.4% versus the US dollar this month; it has now fallen -13.9% over the last two months. This has both reduced stock market liquidity and caused Islamic Treasury Bill yields to spike from ~22% to ~25%.

Currency weakness benefits large exporters, and methanol producers were top gainers this month: Zagros 45.2%, Kharg 36.8% and Fanavaran 23.0% (the price of methanol has risen 59% in the last four months.)

The TEDPIX initially advanced in December, attempting to break through this year's high (81,536.9, April 2). However, the gains were lost towards month end (as the rial weakness accelerated), resulting in an intra month peak-to-trough move of -1.9%. The IFX did manage to hold on to its gains, partly because of the large advance of Zagros.

By contrast, the continued rial weakness caused December's ADTV to fall from $67m in November to $56m this month. And unlike last month, institutional activity surpassed that of retailers (55.4% versus 44.6%, respectively).

The most actively traded sectors were chemicals, base metals, autos, investment companies, and refineries, which together made up 47.5% of total trades.

Sector Performance

Best Performing sectors

Leather	11.6%
Conglomerates	5.1%
Oil & gas extraction	4.9%
Metallic ore	3.0%
Chemicals	2.9%

Worst Performing sectors

Agriculture	-15.2%
Other financials	-10.9%
Construction & real estate	-9.1%
Transportation & storage	-7.1%
Cements, limes & plasters	-7.0%

Top Gainers and Losers

Qayen Cement Cements, limes & plasters	56.5%	**Pars Refractories** Non-metallic ore	-28.3%
Zagros Petrochemical Co. Chemicals	45.2%	**Tehran Construction Co.** Construction & real estate	-24.9%
Kharg Petrochemical Co. Chemicals	36.8%	**Pars Electric** Capital equipment	-24.6%
Piazar Agriculture Food stuff excl. sugar	27.8%	**Iran Construction Inv.** Construction & real estate	-24.3%
Fanavaran Petrochemical Co. Chemicals	23.0%	**Atye Damavand Inv.** Investment companies	-24.0%

$1 : 39,280 IRR is the monthly average free-market exchange rate used for this report.

SECTOR NEWS

Auto

The new guidelines proposed for the regulation of car imports are under final review. If adopted, the new regulation could further curb (finished-vehicle) imports, with the aim of boosting local production. One of the more significant rules would prevent independent vehicle importers from importing brands that are being manufactured in Iran; another would cap the total value of vehicles imported by a domestic manufacturer at 50% of the total value of its manufactured output.

IPO/Pharma

An IPO is expected soon for Barkat Pharmed Co. – which, with about a 15% share of the market, is one of the largest pharmaceutical holding companies in the industry. Alborz Investment group is its largest subsidiary (55% owned) and is already listed, with a market cap of $206 million.

Oil & Gas

The South Pars mega gas field, located in the Persian Gulf and shared between Iran and Qatar, is the largest gas field in the world. Phase 21 of the 24-phase South Pars project has now started, with production amounting to 28 million cubic metres per day; total production for the South Pars fields currently stands at 515 million cubic metres per day.

All market data represents the period December 1-27, 2016.
Sources: Financial Tribune, ICTNA, Mine News, AsreKhodro, Plan and Budget Organization, Griffon Asset Management.

Top 10 Companies by Market Capitalisation

	Market Cap (million $)	Price values in IRR					
		Last price	1-month		Year to date	52 w/h	52 w/l
Khalij Fars Petrochem *Chemicals*	6,512 5.5%	4,564	↓	-2.2%	-5.5%	5,836	4,300
MCI *Telecoms*	3,837 3.2%	33,760	↓	-1.43%	39.7%	34,910	23,695
TCI *Telecoms*	3,749 3.2%	2,160	↓	-3.6%	32.5%	2,394	1,609
Maroon Petrochemical *Chemicals*	3,692 3.1%	32,000	↑	9.2%	13.7%	34,300	28,000
Mobarakeh Steel *Base metals*	2,941 2.5%	1,381	↑	1.5%	35.4%	1,455	961
Ghadir Investment *Conglomerates*	2,870 2.4%	1,400	↑	4.1%	21.9%	1,632	1,127
Bank Mellat *Banking*	2,733 2.3%	1,792	→ (a)	0.0%	14.9%	2,046	1,523
NICICO *Base metals*	2,726 2.3%	1,916	↓	-8.9%	83.9%	2,180	996
Jam Petrochemical *Chemicals*	2,635 2.2%	9,710	↑	8.3%	38.5%	9,780	6,812
MAPNA Group *Engineering*	2,580 2.2%	9,100	→ (a)	0.0%	35.1%	9,890	6,700

USD/IRR Exchange Rate

Separately, the National Iranian Oil Company (NIOC), the state-owned producer and distributor established in 1948, sold its first cargo of crude oil to Italy's oil giant Eni. The National Iranian Drilling Company (NIDC), an NIOC subsidiary, is also in negotiations with three Italian energy companies: Agip, Saipem and Drillmec.

Government Budget

The 2017–18 budget was submitted to Parliament. The proposed total budget is IRR 10,849,393 billion (~$276 billion), of which IRR 3,199,990 billion (~$81.4 billion) is public expenditures (the balance is for state-owned entities). The public spending will be financed mainly by tax (35% of budget) and oil & gas revenues (35% of budget). The budget cites $50/barrel oil (at 3.8 mbd) and USD/IRR at 33,000.

FX Uncertainty and Weakness

The USD/IRR broke above the psychological 40,000 level. The CBI maintains this is for shorter-term reasons (similar trends occurred in Q4 2014 and 2015) and the IRR will likely stabilise and reverse some losses by the Iranian New Year (21 March). To enhance foreign currency distribution and stability, meetings between the CBI and Minister of Economy are ongoing. The creation of a currency futures exchange may also be accelerated.

All market data represents the period December 1-27, 2016.
a) The shares have been suspended until such time that the AGM is reset and successfully concluded.
Sources: SEO, CBI, Financial Tribune ,Tehran Stock Exchange, Royal Exchange, Sarafi Parsi, Mirdamad Exchange and Griffon Asset Management.

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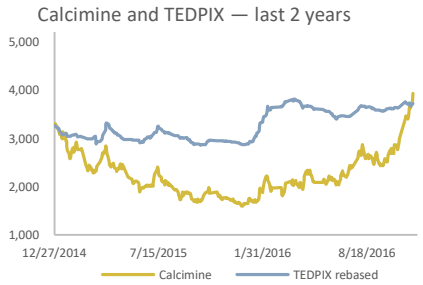
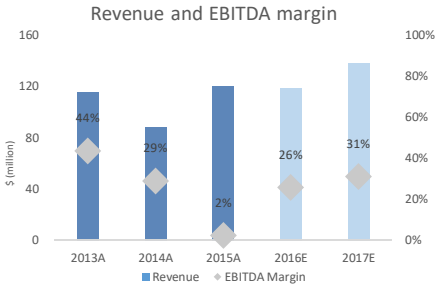
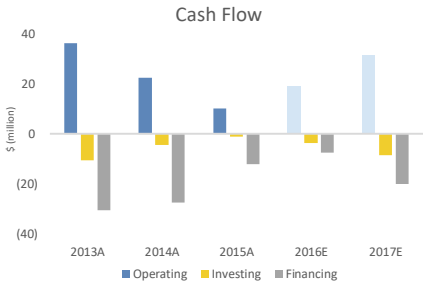
Calcimine

Symbol: KSIM Exchange: TSE Listed since: 1998 Last close: IRR 3,693 90-day change: ↑ 47%

Market cap.: $180m	P/E (16-17E)[(a)]: 6.9x	12-month return: 131%↑
Enterprise value: $181m	5-year (avg.) dividend payout ratio: 78%	EV/revenue (16-17E) [(a)]: 1.5x
% of market (TSE): 0.2%	Dividend yield (16-17E)[(a)]: 11.8%	EV/EBITDA (16-17E) [(a)]: 5.9x
Free float: 40%	Avg. daily trade value: $255K	ROCE (16-17E) [(a)]: 24%
Shares outstanding: 2bn	52-week high/low (IRR): 4,356/1,636	ROE (16-17E) [(a)]: 26%







Financial Statements (USD millions)

	2013A	2014A	2015A	2016E[(a)]	2017E[(a)]
Sale-Zinc Bloom (tonnes)	47,317	34,113	61,476	45,709	45,709
Revenue	115.5	88.2	120.3	118.4	138.3
% of growth	*-10.9%*	*-23.7%*	*36.4%*	*-1.5%*	*16.7%*
EBITDA	50.5	25.6	2.9	30.4	43.2
% of growth	*-14.2%*	*-49.3%*	*-88.7%*	*950.5%*	*41.9%*
EBITDA margin	*43.7%*	*29.0%*	*2.4%*	*25.7%*	*31.2%*
Net Income	48.2	21.4	(2.4)	26.0	38.7
% of growth	*-13.5%*	*-55.7%*	*NA*	*NA*	*48.6%*
NI margin	*41.7%*	*24.2%*	*-2.0%*	*22.0%*	*28.0%*
Net Debt	(11.4)	4.4	4.4	(11.5)	(18.4)
Capex	7.6	3.4	2.7	3.6	4.1
Dividend	40.0	18.4	0.0	21.3	31.6

Company overview

Established in 1964, Calcimine produces zinc concentrate and bloom as well as lead concentrate; its current production capacity of 77,000 tonnes of zinc bloom is the largest in Iran. Over 80 percent of its revenues derive from zinc-bloom–related products; revenues are significantly influenced by the price of zinc bloom, the grade of soil in underground mines (i.e., the percentage of zinc) and the USD/IRR FX rate. In the previous Iranian fiscal year (21 March 2015 to 20 March 2016) the company operated with a capacity utilization of 55% and revenues were boosted by significant (and one-off) inventory sales. Because Calcimine does not own mines, 39% of its cost of goods sold (COGS) comprises direct material costs (i.e. the mined soil purchased from third-party zinc and lead mines); prices are based on a preset grade methodology that incorporates London Metal Exchange (LME) market prices according to grade. The other main COGS constituents are electricity, energy, labour and other material costs incurred in the process of converting soil to bloom. The company currently benefits from Iran's dual exchange rate structure: the purchases of raw material are at the official CBI FX rate, whereas its revenues from exports are at the free market FX rate. The planned unification of the two FX rates (expected in the short-to-medium term) will likely negatively impact the company's gross margin by increasing soil raw-material costs; based on the current spread between the CBI and free market FX rate, gross margins will fall by an estimated 5%. Given the global estimates and consensus outlook for zinc, where aggressive supply cuts in 2015 and 2016 (resulting in low exchange inventories) are now coupled with expected steady global demand growth, Calcimine could benefit from both increasing sales (via exports) and further upside from the price of zinc.

This is not a stock recommendation. The above is an introductory information overview.
The reference currency rates are based on the yearly average of the free market exchange rates.
All share prices are adjusted for corporate actions.
a) Griffon Asset Management forecasts.
Sources: Company financial statements, Griffon asset management team.

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About Griffon Capital

Griffon Capital is an Iran-focused asset management and private equity group established to unlock value from the country's public and private equity markets. Among Griffon's primary objectives is to allow local and international institutional investors the ability to seamlessly access and maximise opportunities in Iran through purpose-built vehicles and investment products spanning traditional and alternative assets.

The Group's strength is rooted in a robust operating platform developed by leading international advisors and are supported by internationally recognised administrators and auditors. Our platform consists of a high calibre team with deep local market expertise and international financial pedigree blended at the board, management and execution levels. This includes a management team steeped in investment banking, wealth and asset management and corporate finance experience. Griffon is also distinguished by on the ground local research and primary thinking and a governance culture defined by global best practices in risk management, compliance and reporting.

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Disclaimer (Continued)

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On July 14, 2015, the P5+1, the European Union, and Iran reached a Joint Comprehensive Plan of Action ("JCPOA"). Subsequently, following confirmation that relevant JCPOA commitments had been delivered, certain of the international sanctions and restrictive measures relating to Iran were eased or lifted on 'Implementation Day', 16 January 2016, including the majority of previous EU and UN sanctions on Iran. While this represented a significant relaxation of the sanctions in place against Iran, a number of important restrictions remain in force (including certain sanctions which may affect financial and investment activity).

In particular, notwithstanding the relaxation of sanctions on 'Implementation Day', certain categories of persons may be prohibited from investing in the Fund. The Fund and Investment Manager's policy is to comply with all applicable sanctions, and not to engage in activity that would be sanctionable under the sanctions applicable to non-US persons. Before making or managing any investments in Iranian securities, the Fund and the Investment Manager will put in place a robust compliance framework based on professional advice with a view to ensuring that its activities and investments are compliant with EU and applicable US sanctions and restrictive measures in force from time to time regarding Iran.

It is the responsibility of the recipient of this newsletter to satisfy itself as to its compliance with the legislation of any relevant jurisdiction or territory, including in particular regarding international sanctions and restrictive measures, and to assess the risk of the imposition of additional sanctions (including under the JCPOA 'snapback' mechanism) that might affect any investment in the Fund or its valuation or liquidity. It is the responsibility of the reader to satisfy themselves that any business activities will not expose them to liability under the laws of any state to which they are subject.