GriffonCapital

Asset Management and Private Equity

IN THIS ISSUE:

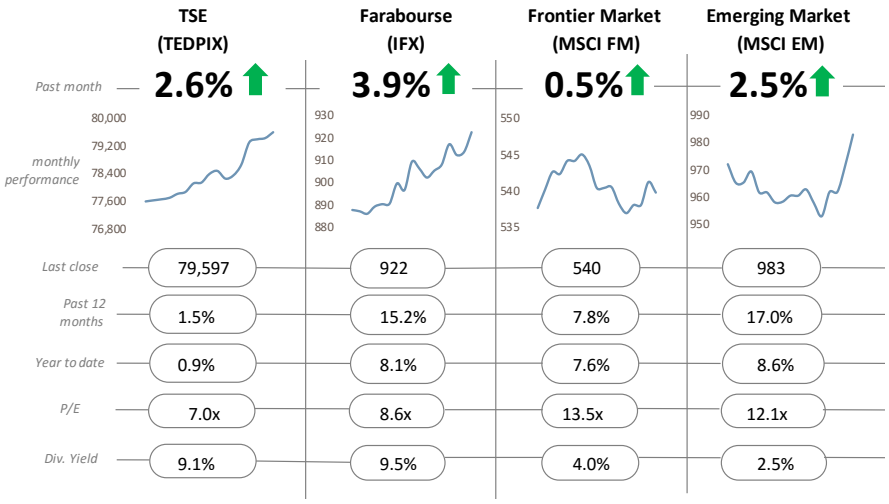
- TEDPIX gains notably for the first time in six months
- Corporate AGMs and presidential elections ahead
- Market volumes relatively high
- Small caps outperform
- An overview of Mobarakeh Steel Company

MONTHLY NEWSLETTER

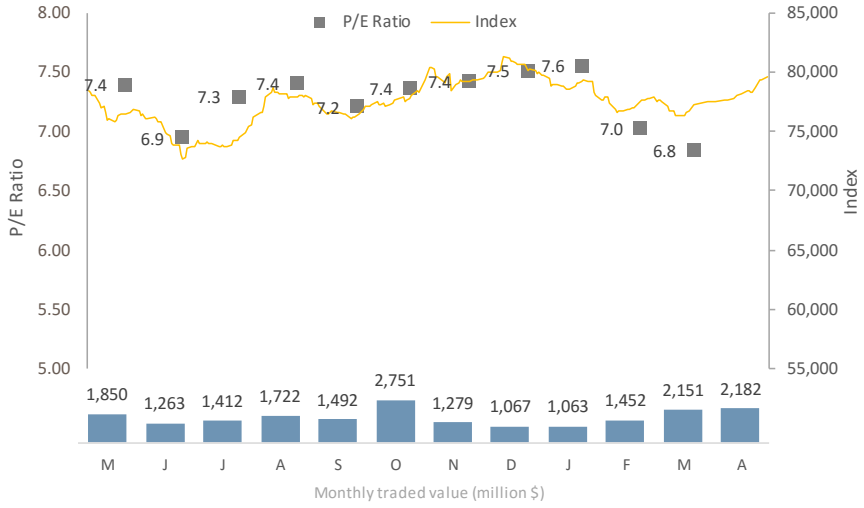
APRIL 2017

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

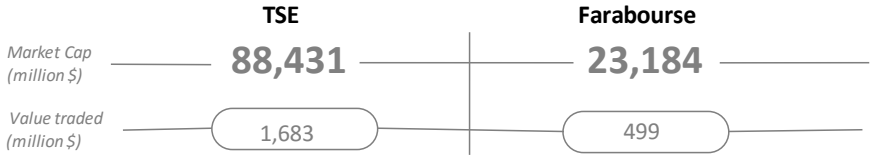
Indices



TEDPIX Index and P/E Ratio



Market Capitalisation



$1 : 37,587 IRR is the monthly average free market exchange rate used for this report.

All market data represents the period April 1–26, 2017.
Sources : Tehran Stock Exchange, Bloomberg, MSCI, Royal Exchange, Griffon Asset Management.

MARKETS AT A GLANCE

In April the indices were on firm footing, with markets keenly anticipating two upcoming events: corporate AGMs (where dividends and final full-year results are approved) and the presidential elections. The TEDPIX and IFX climbed +2.6% and +3.9%, respectively, marking the first positive month for the TEDPIX in six months. One of the main factors was the outperformance of small caps over larger caps. Given the ongoing liquidity shortage in both the economy and capital markets, large caps were still relatively more offered; large caps could also 'catch up' subject to the dividend season and post-election market reaction. The average yield on the Islamic Treasury Bills was ~23.5%, slightly higher than the ~22.5% lows earlier in the month.

At $136 million, April's ADTV closely matched March's recently increased figure; meanwhile, retail activity (66.4%) outpaced institutional activity (33.6%).

The most actively traded sectors were Chemicals, Base Metals, Banks, Refineries and Conglomerates (22.3%, 10.7%, 9.5%, 6.7% and 4.9% respectively), which combined for 54.1% of trade value.

Both the dollar and euro gained, 0.8% and 1.2%, respectively – versus the rial.

Sector Performance

Best Performing sectors		Worst Performing sectors	
Paper & paper products	41.5%	Metallic ore	-5.3%
Sugar & by-products	26.3%	Telecommunication	-3.6%
Coal & lignite mining	22.3%	Base metals	-3.0%
IT & computers	20.6%	Banking	-2.5%
Ceramics & tiles	12.8%	Agriculture	-0.8%

Top Gainers and Losers

Takceram Tile Manufacturing Ceramics & tiles	88.0%	**Kimia Zanjan Co.** Base metals	-20.3%
Dadeh Pardazi Iran IT & computers	57.0%	**Pars Tile** Ceramics & tiles	-18.1%
Kaveh Paper Ind. Paper & paper products	55.9%	**Bafgh Mining** Metallic ore	-14.3%
Behpak Co. Food stuff excl. sugar	55.1%	**Asia Zarin Madan** Base metals	-11.9%
Sahand Rubber Rubber & tyre	55.0%	**Marjan Kar** Ceramics & tiles	-9.9%

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Sources: SEO, *Financial Tribune*, *Mine News*, Griffon Asset Management.

SECTOR NEWS

Housing

According to the Ministry of Roads and Urban Development, there are 25.4 million houses and 21.5 million households in Iran. The number of empty residential units has increased sharply in the past 10 years to 2.58 million, 490,000 of which are in Tehran. The value of this unoccupied real estate is estimated at $250 billion – which, coincidentally, is more than double the combined market capitalisation of the stock exchanges in Iran (about $110 billion).

Banks

Against the backdrop of some banks and credit institutions offering higher deposit rates versus the CBI-mandated cap of 15%, the Central Bank of Iran governor announced that bank depositors should take responsibility for their decisions. It was explained that a banking license permit from the regulator in no way guarantees a safe and risk-free return; rather, it merely indicates that the bank or depository institution has met the minimum requirements necessary to begin operations.

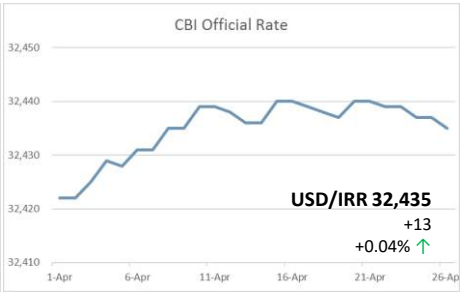
Steel

SMS Group, a German steel-plant maker, signed a $400 million contract to expand production at Iran's largest

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*	6,037 5.4%	4,457	↑ 4.4%	-1.4%	5,364	4,120
MCI *Telecoms*	3,829 3.4%	35,995	↓ -2.7%	6.7%	37,200	28,400
TCI *Telecoms*	3,600 3.2%	2,255	↓ -5.1%	5.3%	2,394	1,928
Maroon Petrochemical *Chemicals*	3,404 3.0%	32,000	↓ -2.4%	-5.9%	34,300	28,000
Mobarakeh Steel *Base metals*	2,680 2.4%	1,355	↓ -3.9%	-4.4%	1,472	1,086
NICICO *Base metals*	2,522 2.2%	1,895	↓ -3.3%	0.2%	2,180	1,291
Jam Petrochemical *Chemicals*	2,403 2.1%	9,366	↓ -2.9%	-2.9%	9,800	7,709
TAPICO *Chemicals*	2,317 2.1%	1,975	↑ 4.2%	3.4%	2,164	1,733
MAPNA Group *Engineering*	2,175 1.9%	8,070	↑ 4.3%	-2.0%	9,385	7,260
Ghadir Investment *Conglomerates*	2,098 1.9%	1,084	↓ -2.1%	-10.6%	1,286	1,081

USD/IRR Exchange Rate



steel producer, Mobarakeh Steel Company, by 3.5 to 5 million tonnes per year. Iran's total steel (final/end products) production capacity stands at 18 million tonnes per year.

Whilst the EU levied new anti-dumping duties on Chinese steel imports, they decided against levying tariffs and anti-dumping duties on five other countries, including Iran.

Natural gas & Petrochemicals

Pars Oil & Gas Company has installed the last platform in Phases 17 and 18 of the South Pars gas project, located in the Persian Gulf. One of Iran's main energy resources, the South Pars field covers an area of 9,700 square kilometres, about 40% of which belongs to Iran. Iran's portion is estimated to have 14 trillion cubic metres of gas reserves and 18 billion barrels of gas condensates, which equates to about 7.5% of the world gas reserves and around half of Iran's gas reserves.

Pardis Petrochemical plant's phase 3, whose projected annual output is 1.76 million tonnes of urea and ammonia, will soon start production. Pardis is currently the world's fourth largest producer of urea; after phase 3 is completed, it will become the second largest. The main feedstock of the complex is natural gas, of which it consumes 1.34 billion cubic metres annually.

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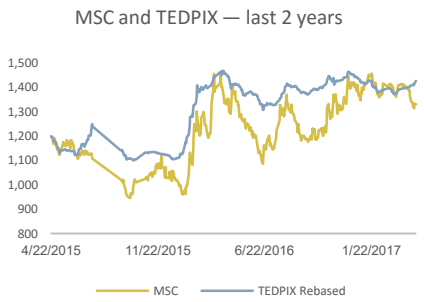
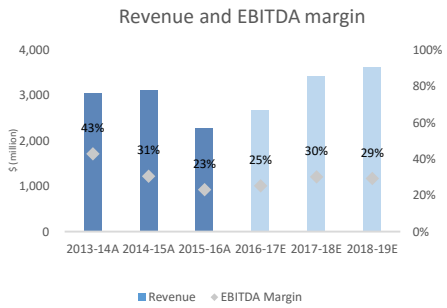
Sources: SEO, CBI, IFB, *Financial Tribune* , Tehran Stock Exchange, Royal Exchange, Griffon Asset Management.

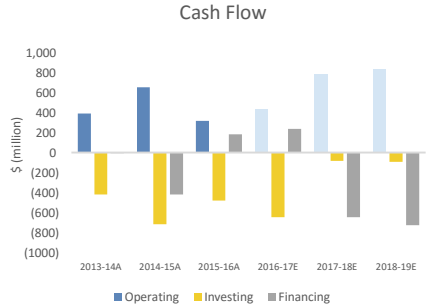
Mobarakeh Steel Company (MSC)

Symbol: FOLD Exchange: TSE Listed since: 2007 Last close: IRR 1,354 90-day change: ↓6.0%

Market cap.: $2,708m	P/E (17-18E) [(a)]: 4.1x	12 month return: 1.2%↓
Enterprise value[(b)]: $4,083m	5Yr (Avg.) dividend payout ratio: 85%	EV/revenue (17-18E) [(a)]: 1.2x
% of market (TSE): 2.6%	Dividend yield (17-18E) [(a)]: 21.9%	EV/EBITDA (17-18E) [(a)]: 4.0x
Free float: 22%	Avg. daily trade value: $992.7K	ROCE (hist.) : 14.6%
Shares outstanding: 75bn	52wk high / low (IRR): 1,455/1,086	ROE (hist.) : 8.9%







Financial Statements ($m)

	2014-15A	2015-16A	2016-17E[(a)]	2017-18E[(a)]	2018-19E[(a)]
Slab Production (million tonnes)	5.92	6.12	6.12	7.35	7.75
Revenue	3,111.7	2,271.2	2,676.0	3,428.5	3,613.4
growth (%)	*1.8%*	*-27.0%*	*17.8%*	*28.1%*	*5.4%*
EBITDA	952.1	526.7	675.8	1,033.0	1,055.7
growth (%)	*-27.3%*	*-44.7%*	*28.3%*	*52.8%*	*2.2%*
EBITDA margin	*31%*	*23%*	*25%*	*30%*	*29%*
Net Income	724.9	230.5	332.5	658.7	686.7
growth (%)	*-25%*	*-68%*	*44%*	*98%*	*4%*
NI margin	*23%*	*10%*	*12%*	*19%*	*19%*
Net Debt	1,300.9	1,541.8	1,825.7	1,230.6	955.6
Capex	369.3	345.9	527.1	9.0	9.5
Dividend	686.4	207.4	299.2	592.8	618.0

Company overview

Established in 1991, Mobarakeh Steel Company (MSC) produces various types of steel plates and coils. The company has an extraordinarily strong position in the domestic market, with a >50% market share of the steel market in semi-finished (bloom, billet and slab) and finished products. It is a direct play on Iran's industrial production growth. Its current production capacity is 6.12m tonnes of slab, with further projects feasible (in 2017-18) subject to growth capex. Given that >90% of the company's revenues derives from hot and cold products, the global HRC price is its key earnings driver. Another important factor for MSC is import tariffs: the government approved a 20% import tariff on HRC in 2016. Company earnings are also very sensitive to the USD/IRR exchange rate: in the current environment, for every 1% fall of the rial versus the dollar, net income increases by 3%. Over 80% of the company's COGS relates to material and energy costs. In 2014-16 the company faced falling steel prices and sharp inventory accumulation; more recently, prices of company's products have rebounded and sales from the excess inventory have further boosted revenues. Global estimates of steel supply, demand and prices suggest a stable outlook, but the activity of Chinese producers in the market presents ongoing excess-supply and price risk. MSC uses an electric arc furnace (EAF) steelmaking process that can give it an edge over international peers that rely on coal and are thus exposed to volatile coal prices. The main direct material costs are iron ore concentrates and pellets, whose prices are based on a preset percentage of domestic bloom and billet prices. MSC is diversifying its supply chain away from the two main domestic suppliers by developing a iron ore concentrate and pellet factory.

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.
(b) Q3 financial statements used for the EV calculation.
Sources: Company financial statements, Griffon asset management team.

GriffonCapital

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.