



GriffonCapital

Asset Management and Private Equity

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- Currency begins to recover from December low
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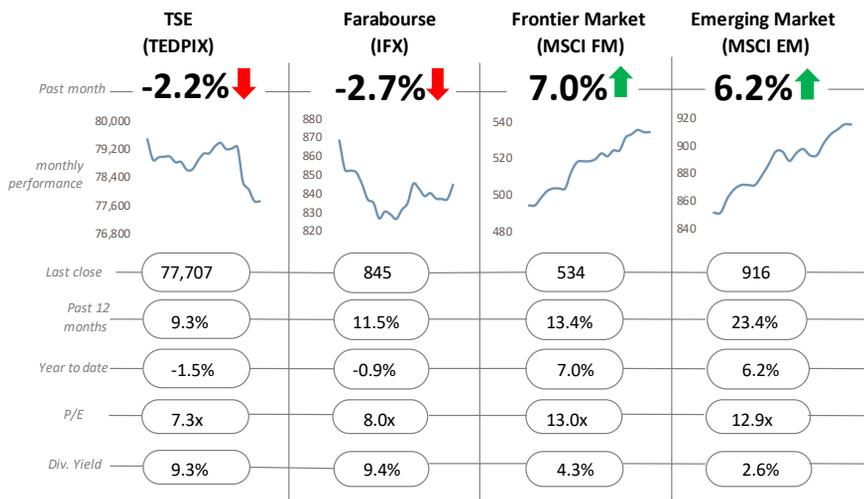


MONTHLY NEWSLETTER

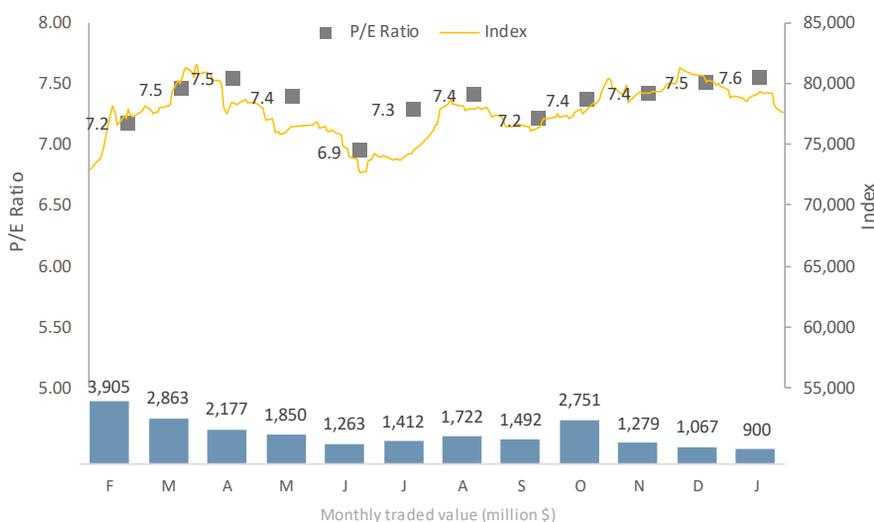
JANUARY 2017

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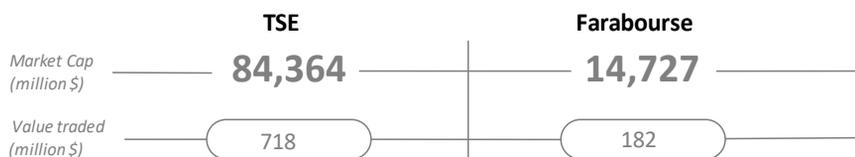
Indices



TEDPIX Index & P/E Ratio



Market Capitalisation



MARKETS AT A GLANCE

The TEDPIX losses accelerated in January, falling -2.2%. The drop was due mainly to the return to trading of Bank Mellat. The largest listed bank by market cap, Bank Mellat had been suspended from trading since mid-July 2016, along with Bank Saderat and Tejarat, as the CBI tasked all three with adhering to stringent new regulations and reporting standards. On 24 January, Bank Mellat's first day of trading, it closed down -35.6%. The market now awaits the (likely negative) return to trading of the other two large banks.

The rising bond yields (Islamic treasury bills average a yield to maturity (YTM) of more than 25%) and rising interbank interest rates are adversely affecting market volumes. January's average daily trading volume (ADTV) of \$47.4m represented a further month-on-month drop (it was \$56.1m in December 2016). In January, retail activity (60.5%) outpaced institutional activity (39.5%).

The rial (free market rate) continued to stabilise in January. It has gained 7.0% and 3.9% versus the dollar and euro, respectively, since its 27 December 2016 low.

January's most actively traded sectors were chemicals, autos, base metals, metal ores and metal products, together comprising 51.2% of total trade value.

\$1 : 38,569 IRR is the monthly average free market exchange rate used for this report.

Note: All market data represents the period January 1–29, 2017.

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

II Sector Performance

Best Performing sectors

Other mining	↑	28.4%
Wood	↑	24.3%
Agriculture	↑	6.0%
Base metals	↑	5.8%
Cements, limes & plasters	↑	4.3%

Worst Performing sectors

Electric machines	↓	-13.5%
Paper & paper products	↓	-13.1%
Banking	↓	-11.0%
Oil & gas extraction	↓	-8.5%
Leather	↓	-7.4%

II Top Gainers and Losers

Piazar Agriculture Food stuff excl. sugar	↑	79.9%
Pakdis Co. Food stuff excl. sugar	↑	77.1%
PetroSanat Gameron Chemicals	↑	71.0%
Tuka Paint Chemicals	↑	67.6%
Lia co. Chemicals	↑	58.7%

Bank Mellat Banking	↓	-40.8%
Saipa Diesel Motor vehicles	↓	-24.3%
Azar Refractories Non-metallic ore	↓	-23.8%
Alborz Cable Electric machines	↓	-19.3%
Saipa Group Motor vehicles	↓	-19.1%

SECTOR NEWS

Leasing

The CBI has issued new directives for the leasing sector; these include capping debt/equity ratios at 2x and lessor interest rates at 3% plus bank lending rates (currently officially at 18%). Also, each bank or credit institution is authorized to own one leasing company, and leasing companies are expected to become exempt from VAT in the next fiscal year (FY).

Banking

The CBI announced that the ratio of non-performing loans (NPLs) in the banking system fell from 13.6% in H1 1394 (last Iranian calendar FY) to 11% for H1 1395 (current Iranian calendar FY). The CBI has forced banks to increase NPL reserves and cease accruing income on defaulted loans. It has also set a 5% NPL target, forcing banks to improve the way they evaluate credit as well as collect and manage receivables. In addition, the Banking Reform Bill is expected to pass in the new year; this will increase the CBI's independence and authority, enabling further monetary discipline focused on both price and currency stability. The impact of the CBI's reforms was evident in Bank Mellat's financial results: it downgraded current-year profit forecasts from \$623.4m to \$131.8m.

\$1 : 38,569 IRR is the monthly average free-market exchange rate used for this report.

Note: All market data represents the period January 1-29, 2017.

Sources: Financial Tribune, CBI, Mine News, AsreKhadro, 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 <i>Chemicals</i>	5,805 5.5%	4,383	↓	-3.0%	-3.0%	5,836	4,300
TCI <i>Telecoms</i>	3,527 3.3%	2,250	↑	5.04%	5.0%	2,394	1,856
MCI <i>Telecoms</i>	3,516 3.3%	33,700	↓	-0.1%	-0.1%	34,910	27,196
Maroon Petrochemical <i>Chemicals</i>	3,292 3.1%	31,351	↓	-7.8%	-7.8%	34,300	28,000
Mobarakeh Steel <i>Base metals</i>	2,730 2.6%	1,418	↑	4.4%	4.4%	1,455	1,081
NICICO <i>Base metals</i>	2,529 2.4%	1,970	↑	4.2%	4.2%	2,180	1,186
Ghadir Investment <i>Conglomerates</i>	2,468 2.3%	1,291	↓	-6.9%	-6.9%	1,632	1,261
Jam Petrochemical <i>Chemicals</i>	2,370 2.2%	9,451	↓	-2.1%	-2.1%	9,780	7,709
MAPNA Group <i>Engineering</i>	2,363 2.2%	8,850	→ ^(a)	0.0%	0.0%	9,618	8,072
TAPICO <i>Chemicals</i>	2,143 2.0%	1,874	↓	-1.9%	-1.9%	2,335	1,733

USD/IRR Exchange Rate



Note: All market data represents the period January 1-29, 2017.

(a) The share is suspended.

Sources: SEO, CBI, Donya Eqtesad ,Tehran Stock Exchange, Royal Exchange, Sarafi Parsi, Mirdamad Exchange and Griffon Asset Management.

Mining

The Ministry of Industry, Mine and Trade is considering reducing the import tariff on steel from 20% to 10%. The government is also planning to charge a fixed import tariff (~\$25 per tonne) on steel- and ironware to fund the modernization of the industry's logistics and transportation infrastructure (mainly the rail networks).

Auto

For the full year 2016, France's Renault vehicle sales in Iran grew by 110% over 2015, reaching 108,536 units. Renault will also likely launch new models. Its market share stood at 8.4% for 2016, versus 3.7% in 2015. Renault has been in Iran since 2003 through joint ventures with Iran Khodro and Saipa, the two largest auto manufacturers. Renault recently signed a deal with the Industrial Development and Renovation Organization (IDRO), a state entity tasked with developing the industrial sector.

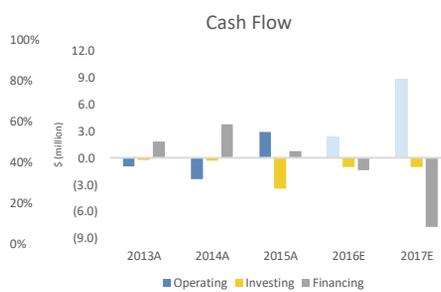
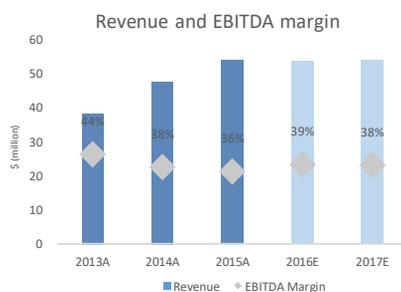
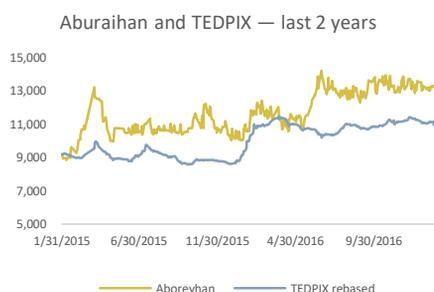
France's Group PSA (owner of Peugeot and Citroen) is also continuing to grow its market share this year, with local production of both the Peugeot and Citroen brands.

In FY 1394 (21 March 2015 to 20 March 2016) 60% of locally manufactured vehicles were labelled as foreign brands and 40% had domestic branding.

Aburaihan Pharmaceutical Co.

Symbol: DABO Exchange: TSE Listed since: 1991 Last close: IRR 13,107 90-day change: ↑ 1.0%

Market cap.: \$48.6m	P/E (16-17E) ^(a) : 5.2x	12-month return: 24.2% ↑
Enterprise value ^(b) : \$78.8m	5-year (avg.) dividend payout ratio: 84.1%	EV/revenue (16-17E) ^(a) : 1.5x
% of market (TSE): 0.05%	Dividend yield (16-17E) ^(a) : 17.4%	EV/EBITDA (16-17E) ^(a) : 3.7x
Free float: 10.0%	Avg. daily trade value: \$11.4K	ROCE (hist.): 33%
Shares outstanding: 144m	52-week high/low (IRR): 14,216 / 10,555	ROE (hist.): 61%



Financial Statements (USD millions)

	2013-14A	2014-15A	2015-16A	2016-17E ^(a)	2017-18E ^(a)
Revenue	38.2	47.6	54.1	54.1	54.6
<i>growth (%)</i>	36.8%	24.6%	13.6%	0.0%	0.9%
EBITDA	16.7	17.9	19.2	21.2	21.1
<i>growth (%)</i>	68.2%	6.8%	7.7%	10.0%	-0.5%
<i>EBITDA margin</i>	43.8%	37.6%	35.6%	39.1%	38.6%
Net Income	9.1	7.8	7.9	9.4	9.9
<i>growth (%)</i>	120.0%	-14.6%	1.0%	19.3%	6.0%
<i>NI margin</i>	23.8%	16.3%	14.5%	17.3%	18.2%
Net Debt	22.0	31.8	35.2	37.8	34.3
Capex	0.5	0.7	1.0	1.0	1.0
Dividend	6.3	7.3	7.1	8.5	9.0
Cash conversion cycle (days)	225.4	278.7	279.9	272.6	270.9

Company Overview

Aburaihan Pharmaceutical Company was established in 1981 and listed in 1991. Its main shareholder (84%) is Daroupakhsh, which is itself majority owned (75%) by Tamin Pharmaceutical Investment Company (TPICO). (One of the largest pharmaceutical holding companies in Iran, TPICO is owned by the Social Security Investment Co.) Although Aburaihan has a diversified product range of generic medicines, its focus is on hormone drugs. By value it has a 2.4% market share in domestic pharma production, a 1.5% share of the total pharma market (including the much-higher-value imports), and a 13% market share in generic hormone drugs. Its best-known hormone drug is Orilstat (under the brand 'Venustate'), which is the most renowned weight loss medicine. One of Aburaihan's newest drugs is Fingolimod, an oral medication for multiple sclerosis, which 60,000 people in Iran suffer from.

Iran's pharma industry has several secular growth characteristics – such as an aging population increasingly prone to illness, potential for higher spend/prices, and potential for exports. But it is currently grappling with two challenges: (a) intense competition and price discounts and (b) deferred and outstanding receivables from hospitals and pharma distribution companies (caused by State payables to the health sector). These factors reduce the interest coverage ratio of pharmaceutical companies (industry average 4.7x) whilst lengthening cash conversion cycles (industry average 326 days). It is expected that the government will fulfill its obligations regarding the accumulated payables; this will ease the working capital and interest burden on the pharmaceutical companies, helping them to improve operational margins and profitability.

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) Net debt used in calculations is from H1 (latest) audited financial reports.

Sources: Company financial statements, Griffon Asset Management team, Food and Drug Administration of Iran.

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

Please read this disclaimer carefully as it contains important information about the Griffon Iran Flagship Fund SP ("Fund"), a segregated portfolio of GIF SPC, its proposed investments in Iran and the current international sanctions and restrictive measures in relation to Iran.

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Disclaimer (Continued)

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