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Investors Bullish on Iran as Talks Proceed



In a few weeks, London-based boutique investment bank First Frontier will be taking a group of European institutional investors to Tehran, Iran.

This is the firm's first trip to Iran, a country that's been off the U.S. investment horizon for decades, but that even to many European investors, is also largely unknown and off-the-charts. But Nicholas Banzky, chairman of First Frontier, hopes the Tehran trip will result in a long and fruitful involvement in Iran, which he believes represents tremendous investment potential.

"This is something we're very committed to and we see it as a huge opportunity," he said.

The progress of the negotiations that have taken place thus far between Iran and the U.S. have generated a great deal of excitement in the international investment community. Many U.S. investors are believing that if the sanctions against Iran may ease, it may open the door to foreign investment—which the country desperately needs, and in large quantities, too.

Over the course of the past few years, sanctions have hit Iran very hard indeed, taking a 40% toll on oil exports and cutting the country's total exports by around 30%, said Charles Robertson, global chief economist and head of macro strategy at Renaissance Capital in London. Iran's GDP fell by 6% and former Iranian president Mahmoud Ahmedinejad tried to compensate for all the country's problems by printing money, which led to a real estate price hike, an over 100% rise in the Iranian stock market and a collapse of the currency. Iran fell far behind its peers, including countries like Turkey, and salaries in Iran plunged to the same levels as salaries in Vietnam, Robertson said.

Now, though, "the new reformist government has tightened monetary policy and stabilized the currency, which has brought inflation down to around 15% from 45%," he said. "Growth has picked up and is supported by a big surge in investment." Robertson believes that Iran is prime for foreign investment.

"There is no other country in the world that is in the top 30 global economies that has been as closed

to global investors as Iran has and I doubt we'll have this opportunity again," he said.

For investors such as Alison Graham, founder and CIO of Voltan Capital Management, Iran is certainly of great interest. From a macroeconomic standpoint, it has all the classic underpinnings of a frontier market prime for growth, including a large and well-educated young population that want to work and want the kinds of consumer goods that they have not had access to thus far as a result of the sanctions. Iran also has a fairly large and liquid stock market and of course, it has oil.

Nevertheless, Graham has reservations.

Although negotiations between Iran and the U.S. appear to be progressing "many people seem to think that means sanctions will be lifted, but I don't believe that will be the case for a while," she said. "Interest levels for Iran are certainly high and people are calling us, wanting to know what's out there, but while it's true that Iran is a large and liquid market with a variety of securities and it looks cheap, it's very hard to tell from here how things really are."

Even if sanctions against Iran were to ease in the near-term, the capital markets are not high on the priority list, Graham said. Then, too, Iran lacks the necessary infrastructure to support capital market activity and portfolio investment: "Who do you use as a banker, who would your custodian be? The financial infrastructure just isn't there in Iran. Also, a large portion of the more liquid companies are either owned by a government entity or connected to the Revolutionary Guard, so even if the macro picture may look attractive, from an ethical perspective, we wouldn't want to invest in those companies," she said.

The U.S. still designates Iran as the most active state sponsor of terrorism and at this juncture, there really is no telling how the negotiations will end and what sort of deal will be brokered between the two countries. But for Iran's future, it is vital that the ending be positive and that sanctions be eased, Robertson said, because "without lots of money going into Iran, things are going to be very painful."

Iranians are particularly hopeful that the potential easing of sanctions will bring investment into the oil and gas industry, and this is urgent, Robertson said, since Iran has not been able to exploit its shared oil fields with Iraq and gas fields in Qatar.

"The longer they wait, the greater the chance that those fields will be emptied, so they very much the energy investment," he said. "The Iranian economy also needs investment badly and if that doesn't come through, then it's likely to fall even further behind its peers."

While in Tehran, the investor group will meet with the management of a few of these companies and though this is a very first step into the country, the Iranian market certainly looks attractively undervalued relative to other markets. "Once we start rolling out the research we will have a better idea and be able to better understand the opportunities," Banszky said.

First Frontier has been trying to put together an investment vehicle for Europeans to invest in even with sanctions still in place, something that is "100% legal from the EU perspective," he said. However, although the domestic Iranian market functions very efficiently, the lack of any kind of financial infrastructure for international investors to settle their trades is a huge impediment, he said.