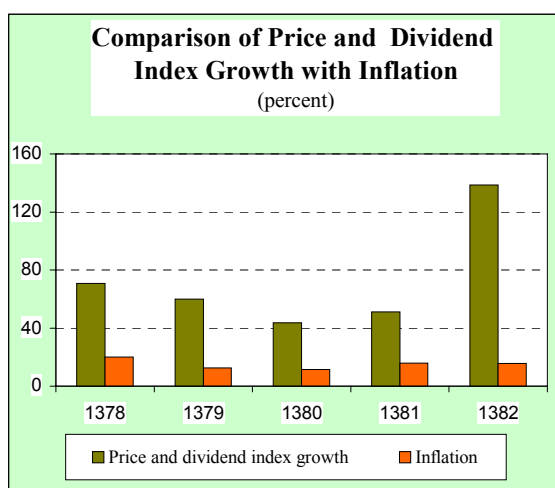


# CHAPTER FIFTEEN

## CAPITAL MARKET

The Tehran Stock Exchange (TSE) performed remarkably well in 1382 with all major indices registering high records. In this year, “price and dividend index”, showing average yield of investment in stock market, surged by 2.4 times the previous year. The increasing trend of this index started in the previous year by 51 percent, faced a gargantuan rise of 138.6 percent in 1382. The comparison between this index and inflation rate of 15.6 percent is indicative of the high average real return on stock exchange by 123 percent.



Despite the political issues such as chaotic condition in Iraq and long debates on Iran’s nuclear activities in International Atomic Energy Agency (IAEA), the TSE enjoyed a remarkable boom. This attracted many investors and made it one of the high return stock exchanges in the International Federation of Stock Exchanges (FIVB). According to annual report of the FIVB, the TSE in terms of the growth in TEPIX (Tehran Stock Exchange Price Index) and in the market capitalization ranked the second after Thailand.

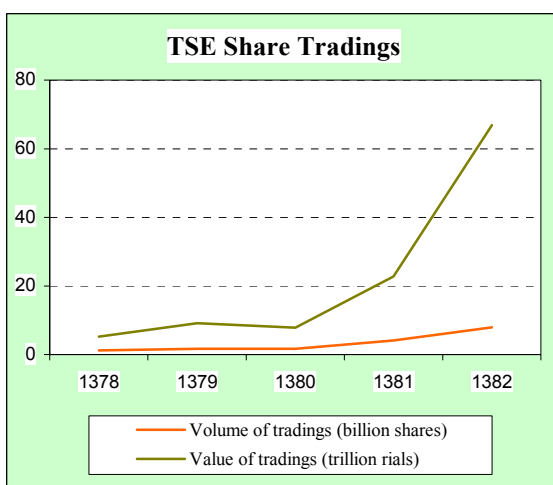
Volume and value of shares and rights traded and market capitalization surged by 90.1, 193.6 and 163 percent, respectively. As a result, the turnover ratio increased by 35.6 percent to 29.3, the highest figure during the recent years.

With the inclusion of 48 new companies, volume of companies listed on the TSE reached 383. Moreover, following the agreement between TSE and Privatization Organization, transfer of government shares went up markedly, so that despite 21.5 percent reduction in the volume of shares transferred, the value of shares transferred through the TSE increased remarkably by 103.8 percent.

The ratio of market capitalization to GDP as one of the criteria for evaluation of stock market activities grew more than two folds from 12.8 percent in 1381 to 27.3 percent in 1382, which is indicative of expansion of the size of stock exchange market and its developments.

## Share Tradings

In the review year, 7,878.8 million shares and rights valuing at Rls. 66,869.8 billion were traded on TSE main and secondary floors, up by 90.1 and 193.6 percent, respectively. Besides the measures taken by the TSE, macroeconomic conditions also helped improve the stock exchange further. Inflationary expectations, high liquidity growth in the past years, slowdown prevailing in other asset markets such as construction, capital inflow especially by the Iranians residing abroad, high return on share tradings during the past two years and rise in demand which was in turn due to establishment of provincial stock exchanges were the main driving forces behind inflow of new capital into stock exchange and the remarkable rise in its indices.



Of the total volume of shares and rights traded in the review year, 78.6 percent was traded on the main and 21.4 percent on the secondary floor. Moreover, of the total value of tradings, 88.9 percent was on the main and 11.1 percent on the secondary floor.

The average daily volume and value of tradings was 32.8 million shares and Rls. 278.6 billion, respectively showing remarkable rises of 92.4 and 197.3 percent as compared to the previous year.

### TSE SHARE TRADINGS

	Volume of tradings (million shares)			Value of tradings (billion rials)			Number of trading days of TSE	Average volume of daily tradings (million shares)	Average value of daily tradings (billion rials)
	Shares	Rights	Total	Shares	Rights	Total			
1378	1,056.4	125.5	<b>1,181.9</b>	5,137.1	106.5	<b>5,243.6</b>	243	4.86	21.58
1379	1,606.7	74.8	<b>1,681.5</b>	9,118.8	57.9	<b>9,176.7</b>	241	6.98	38.08
1380	1,621.6	84.0	<b>1,705.6</b>	7,702.5	128.4	<b>7,830.9</b>	243	7.02	32.23
1381	3,684.9	460.5	<b>4,145.4</b>	20,126.8	2,649.3	<b>22,776.1</b>	243	17.06	93.73
1382	6,970.3	908.5	<b>7,878.8</b>	62,437.3	4,432.5	<b>66,869.8</b>	240	32.83	278.62

Source: TSE, monthly reports

The comparison between share and right tradings in the first and second half of 1382 shows that 30.3 percent of the volume and 24.2 percent of the value of tradings was done in the first and 69.7 and 75.8 percent of the volume and value of tradings, respectively was done in the second half of the year. The TSE activities usually enjoys higher growth in the second half of the year, which is attributable to the holding of general assemblies by most member companies in which approval of previous years' financial statements provides a proper ground for investors' expectations based on companies' profit account and its future plans. The comparison between the share of the first and second half of the year out of the total value and volume of shares and rights tradings shows that the ratio of the volume and value of shares and rights

traded in the second half of the year was more than 2 and 3 times that of traded in the first half of the review year, respectively. Moreover, marked boom of the stock exchange in the second half of the year is somewhat related to the adoption of new policies in the stock exchange.

Share and right tradings on the TSE by industries shows that “financial intermediations” and “non-metallic mineral products” industries with 30.6 and 34.3 percent had the highest share in the total volume and value of share tradings, respectively.

**SHARE AND RIGHT TRADINGS IN THE FIRST AND SECOND  
HALF OF THE YEARS ON THE TSE**

(share percent)

	Volume		Value	
	First half	Second half	First half	Second half
1378	28.9	71.1	20.6	79.4
1379	45.2	54.8	39.2	60.8
1380	47.9	52.1	47.8	52.2
1381	39.4	60.6	44.4	55.6
1382	30.3	69.7	24.2	75.8

Source: Tehran Stock Exchange

Review of the change in the volume and value of share and right tradings indicates that “transport equipment” and “wood and by-products” industries with 1,208.2 and 768.2 percent growth, had the highest growth in the volume and value, respectively as compared to the previous year.

In 1382, volume of tradings with 55.6 percent growth reached 1.3 million times, and volume of buyers with a noticeable rise of 141.3 percent reached 868,150 persons.

**VOLUME OF TRADINGS AND BUYERS**

	1380	1381	1382	Percentage change	
				1381	1382
Volume of tradings	616,283	812,316	1,263,948	31.8	55.6
Volume of buyers	315,918	359,751	868,150	13.9	141.3
Average volume of buying per person (share)	5,399.0	11,523.0	9,075.4	113.4	-21.2
Average value of buying per person (million rials)	24.8	63.3	77.0	155.3	21.7

Market capitalization at the end of 1382 amounted to Rls. 309,695.8 billion, showing a significant rise of 163 percent as compared to the end of 1381. Part of this increase was due to the rise in the volume and value of the shares of previously listed companies and the other part to enlisting of 48 new companies. These developments led to the gargantuan rise of the ratio of market capitalization to GDP. Therefore, considering the average interbank exchange rate (US\$1/Rls. 8,282), market capitalization in terms of dollar reached \$ 37.4 billion.

The turnover ratio with 35.6 percent growth reached 29.3 percent; the high records during the recent years. Considering the noticeable increase in the volume of buyers and in market capitalization, this high ratio is indicative of investors’ tendency to invest in stock market.

The ratio of the volume of shares traded to total shares issued grew moderately by 18.1 percent to 20.2 percent against 17.1 percent in the previous year. This indicates that the increase in the ratio of the volume of shares traded to total shares issued was less than that of the turnover ratio. This was due to higher growth of share price index of active industries in comparison to the average growth of TEPIX.

**MARKET CAPITALIZATION, TURNOVER RATIO, AND THE RATIO OF SHARES TRADED TO SHARES ISSUED(1)**

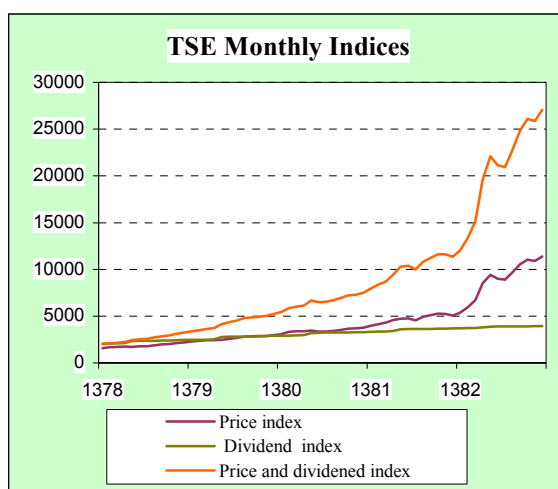
	market capitalization (year-end)	Value of tradings	market capitalization (average)	Turnover ratio (percent)	Ratio of shares traded to shares issued
1378	43,743.5 (64.5)	5,243.6 (68.2)	34,715.8 (33.5)	15.1	9.6
1379	62,486.6 (42.8)	9,176.7 (75.0)	53,769.2 (54.9)	17.1	10.7
1380	81,681.8 (30.7)	7,830.9 (-14.7)	74,127.3 (37.9)	10.6	9.1
1381	117,772.9 (44.2)	22,776.1 (190.8)	105,382.7 (42.2)	21.6	17.1
1382	309,695.8 (163.0)	66,869.8 (193.6)	228,311.0 (116.6)	29.3	20.2

Source: TSE, monthly reports

(1) Figures in parentheses indicate percentage change over the previous year.

**Price and Dividend Index**

“Price and dividend index” surged to 27,074.9, showing a remarkable rise of 138.6 percent. Rise in TEPIX was the major reason for the growth of “price and dividend index”. TEPIX and dividend indices grew by 124.8 and 6.2 percent as compared to the previous year. The comparison between the growth of TEPIX and dividend indices during 1379-81 shows that changes in TEPIX were two or three times the changes in dividend index, while in the review year the growth in TEPIX became 20 times the growth of dividend index. This is indicative of increase in demand and decrease in share offerings, which has led to the rise in price to earning (P/E) ratio for most industries. The P/E ratio grew markedly by 59.4 percent from 6.4 in 1381 to 10.2 in 1382.



Among the constituents of TEPIX, financial index increased noticeably by 158.2 percent from 8,986 units in 1381 to 23,202.6 units in the review year. Industrial index with a noticeable rise of 116.7 percent reached 10,060.1 units from 4,642.9 units in 1381.

## TSE INDICES

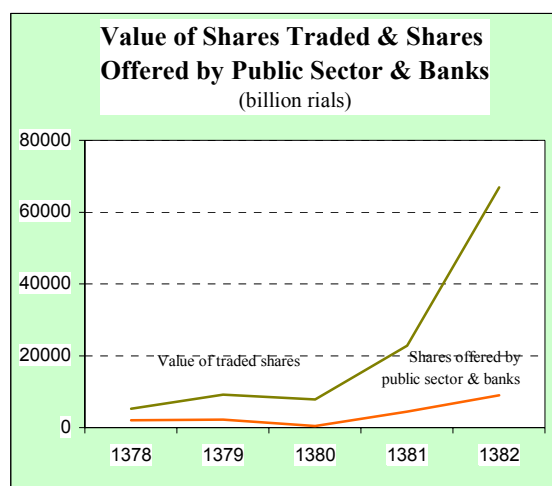
(1369=100)

	Year-end				Percentage change	
	1379	1380	1381	1382	1381	1382
Price and dividend index	5,221.35	7,501.99	11,345.93	27,074.86	51.2	138.6
Dividend index	2,898.09	3,299.32	3,704.65	3,933.16	12.3	6.2
Price index	2,978.26	3,758.77	5,062.76	11,379.37	34.7	124.8
Financial index	6,347.29	8,497.87	8,985.96	23,202.60	5.7	158.2
Industrial index	2,621.80	3,254.84	4,642.94	10,060.06	42.6	116.7
Main floor			4,893.17	11,442.99	0	133.9
Secondary floor			6,086.70	10,197.13	0	67.5

Source: TSE, monthly reports

### Share Offerings by Public Sector and Banks

In the review year, 759.4 million shares valuing at Rls. 9,003.7 billion were offered by public corporations and institutions, foundations and banking system, showing 21.5 percent decline in volume and 103.8 percent rise in value. The respective figures for previous year were 967 million shares valuing at Rls. 4,418.3 billion. Despite decrease in the volume of shares offered by public sector and banks, the value of shares more than doubled as compared with the previous year, indicating remarkable rise in the average price of shares.



### SHARES OFFERED BY PUBLIC SECTOR AND BANKS

	Volume (million shares)		Value (billion rials)		Percentage change		Share (percent)	
	1381	1382	1381▲	1382	Volume	Value	Volume	Value
<b>Public corporations and institutions</b>	<b>586.5</b>	<b>732.0</b>	<b>3,351.0</b>	<b>8,921.0</b>	<b>24.8</b>	<b>166.2</b>	<b>96.4</b>	<b>99.1</b>
<b>Foundations</b>	<b>10.7</b>	<b>0.3</b>	<b>49.7</b>	<b>1.2</b>	<b>-97.5</b>	<b>-97.5</b>	<b>0</b>	<b>0</b>
<b>Banking system</b>	<b>369.8</b>	<b>27.2</b>	<b>1,017.6</b>	<b>81.5</b>	<b>-92.6</b>	<b>-92.0</b>	<b>3.6</b>	<b>0.9</b>
Central Bank	0	0	0	0	0	0	0	0
Commercial banks	237.5	7.1	395.0	19.7	-97.0	-95.0	0.9	0.2
Specialized banks	132.3	20.1	622.6	61.8	-84.8	-90.1	2.6	0.7
<b>Total</b>	<b>967.0</b>	<b>759.4</b>	<b>4,418.3</b>	<b>9,003.7</b>	<b>-21.5</b>	<b>103.8</b>	<b>100.0</b>	<b>100.0</b>

Source: TSE, monthly reports

### New Listing on the TSE

Upon the agreement of TSE Acceptance Board, 48 new companies were listed on the TSE, bringing the total volume of companies to 383. Out of total new companies, 11 companies were listed on the main floor and 37 on the secondary floor. The nominal value of these companies equaled Rls. 4,347.1 billion.

### VOLUME OF LISTED COMPANIES (1)

	Year-end			Changes	
	1380	1381	1382	1381	1382
<b>Listed companies</b>	<b>318</b>	<b>335</b>	<b>383</b>	<b>17</b>	<b>48</b>
Investment companies	19	20	28	1	8
Other companies	299	315	355	16	40
<b>Companies on suspension</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>
<b>Conditionally accepted companies</b>	<b>22</b>	<b>28</b>	<b>31</b>	<b>6</b>	<b>3</b>
<b>Total</b>	<b>343</b>	<b>366</b>	<b>417</b>	<b>23</b>	<b>51</b>

Source: TSE, monthly reports

(1) Of the total companies listed on TSE board at the end of 1382, 170 companies were on the main and the remaining on the secondary board.

### Financing Capital Increase of Listed Companies

Of the total listed companies, 125 companies raised their capital to Rls. 11,037.9 billion, showing a rise of 82 percent against Rls. 6,066.4 billion in the previous year. This increase was largely financed through cash claims and assets by 83.8 percent and also through reserves and accumulated profit of companies by 16.2 percent.

#### FINANCIAL RESOURCES OF CAPITAL INCREASE OF LISTED COMPANIES

(billion rials)

	Reserves and accumulated profit	Claims and cash assets	Reserves, accumulated profit and claims and cash assets	Total	Percentage change
1378	784.1	1,463.0	15.5	2,262.6	114.6
1379	1,216.9	1,658.1	514.8	3,389.8	49.8
1380	1,199.6	1,189.8	589.1	2,978.5	-12.1
1381	1,445.7	3,731.9	888.8	6,066.4	103.7
1382	1,286.9	8,504.3	1,246.7	11,037.9	82.0

Source: Tehran Stock Exchange

### Provincial Stock Exchanges

Upon the inauguration of Tabriz and Isfahan Stock Exchanges, the number of active provincial stock exchanges reached 3. In the review year, 252.9 million shares and rights valuing at Rls. 1,870.2 billion were traded on provincial stock exchanges, constituting 3.2 and 2.8 percent of the volume and value of tradings on the TSE, respectively. 68.2 percent of the volume and 64.6 percent of the value of tradings were done on Khorasan Stock Exchange.

#### PROVINCIAL STOCK EXCHANGES

Province	Center	Date of establish- ment	Amount of tradings	1381	1382	Percentage change	Share in all Provinces (percent)	Share in all tradings of TSE (percent)
East Azerbaijan	Tabriz	1382	Volume (million shares)		57.6	0	22.8	0.7
			Value (billion rials)		307.5	0	16.4	0.5
Isfahan	Isfahan	1382	Volume (million shares)		22.7	0	9.0	0.3
			Value (billion rials)		354.3	0	18.9	0.5
Khorasan Razavi	Mashad	1381	Volume (million shares)	124.0	172.6	39.2	68.2	2.2
			Value (billion rials)	894.0	1,208.4	35.2	64.6	1.8
<b>Total</b>			<b>Volume (million shares)</b>	<b>124.0</b>	<b>252.9</b>	<b>104.0</b>	<b>100.0</b>	<b>3.2</b>
			<b>Value (billion rials)</b>	<b>894.0</b>	<b>1,870.2</b>	<b>109.2</b>	<b>100.0</b>	<b>2.8</b>

Source: Stock Exchange Organization

## Metal Exchange

Metal Exchange was inaugurated in Shahriyar, 1382. Steel, copper and aluminum are traded in cash and futures (forward transactions) in Metal Exchange. Till the end of 1382, a total of 2,426 thousand tons of these metals valuing at Rls. 8.8 billion were traded in this market: a total of 2,328.5 thousand tons of steel valuing at Rls. 7.2 billion and 59.9 and 37.6 thousand tons of aluminum and copper, respectively, each valuing at Rls. 0.8 billion.

## Participation Papers

In 1382, a total of Rls. 29,289.2 billion participation papers were issued by the government, Central Bank and companies, Rls. 28,445.7 billion (97.1 percent) of which was sold, showing 11 percent growth compared to Rls. 25,631 billion participation papers sold in the previous year. The amount approved to be issued was Rls. 32,789.2 billion. These papers had tax-exempted provisional profit rate of 17 percent per annum, and are redeemable at any time.

### ISSUANCE OF PARTICIPATION PAPERS

	Volume of projects	Times of issuance	Total approved amount	Issued amount	Sold amount	Provisional profit rate (percent per annum)	Participation papers at the end of 1382	
							(billion rials)	
1379	4	6	10,380.0	10,380.0	5,296.0	19	3,216.0	2,080.0
1380	11	12	16,100.0	16,100.0	15,543.3	17	9,443.6	6,099.7
1381	11	12	27,500.0	27,300.0	25,631.0	17 <sup>(1)</sup>	17,054.0	8,577.0
1382	11	11	32,789.2	29,289.2	28,445.7	17	0	28,445.7

(1) Provisional rate of return on government participation papers was 15 percent.