

# CHAPTER FIFTEEN

## CAPITAL MARKET

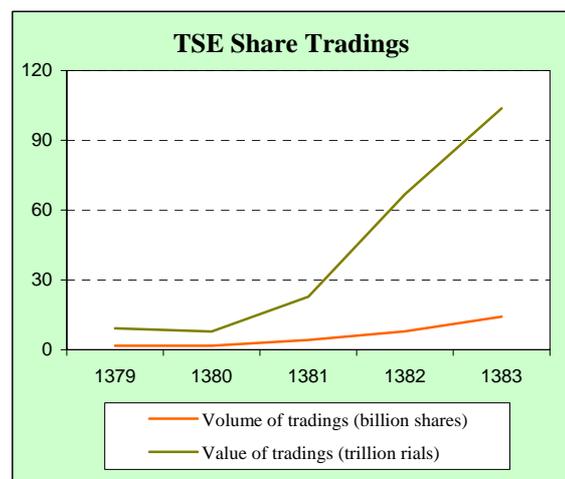
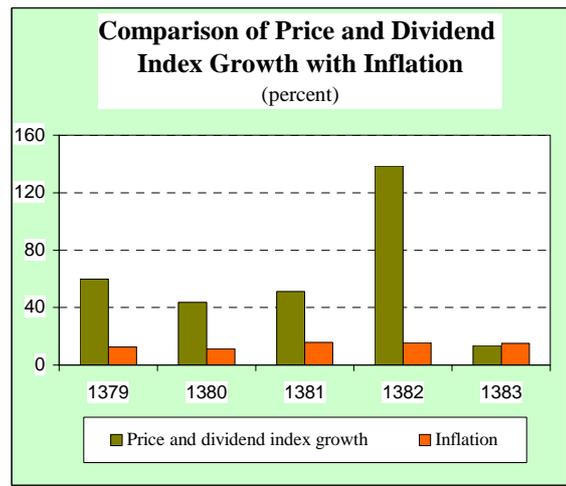
The Tehran Stock Exchange (TSE) activities in 1383 witnessed two distinguished periods of boom and bust. In the first half of the year, the market was under the influence of the previous year's condition and TSE indices had an upward trend. Therefore, the volume of tradings and share price index rose to their record high. As a matter of fact, the factors responsible for this booming period of 1383 could be attributed to the rise in demand over supply of shares for tradings of some listed companies in 1382.

Nonetheless, review of market condition, corporations, industries and also macro-economic and political indicators shows that this booming period proved to be short-lived. The bubble market condition, in tandem with other factors were basically the driving forces for a bust in the 2<sup>nd</sup> half of 1383 to be named as: corporations' tendency to increase their capital through revaluation and updated claims of the shareholders, the rise in the P/E ratio of productive and industrial companies, surge in some banks' capital and the need for their subscription, allocation of part of investment companies' resources to development projects undertaken by unlisted companies, centralization of supply of public corporations' shares at the last months of the year and an escalation of tension over Iran's peaceful nuclear program.

During 1383, the TSE established 11 new floors in various regions. This aimed at expanding its activities to enhance market access and investment opportunities to the public.

### Share Tradings

In 1383, a total of 14,171.5 million shares and rights worth Rls. 103,705 billion were traded on the main and secondary floors of the TSE, up respectively by 79.9 and 55.1 percent compared to the year before. Of the total shares and rights traded in the review



year, approximately 65.1 percent were traded on the main and 34.9 percent on the secondary floor. Moreover, in terms of value of tradings, 76.8 percent were traded on the main and 23.2 percent on the secondary floor. In the review year, the TSE was active for 243 days. The average daily number and value of tradings were respectively 58.3 million shares and Rls. 426.8 billion, rising by 77.6 and 53.2 percent compared to last 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			
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
1383	13,555.3	616.2	<b>14,171.5</b>	101,499.6	2,205.4	<b>103,705.0</b>	243	58.32	426.77
Annual average growth (1379-83)	66.6	37.5	<b>64.3</b>	81.6	83.3	<b>81.6</b>	–	64.3	81.6

Source: TSE, monthly reports

A comparison of tradings in the first and second half of 1383 indicates that out of total tradings, 42.6 percent in terms of number and 46.9 percent in terms of value were related to the first half and 57.4 and 53.1 percent in terms of number and value, respectively were attributable to the second half of 1383.

#### SHARE AND RIGHT TRADINGS IN THE FIRST AND SECOND HALF OF THE YEARS 1379-83 ON THE TSE

(share percent)

	Volume		Value	
	First half	Second half	First half	Second half
1379	45.3	54.7	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
1383	42.6	57.4	46.9	53.1

Source: TSE, monthly reports

Data relevant to shares and rights traded on the TSE, by 36 classified industries<sup>(1)</sup>, show that “vehicle and manufacture of spare parts” and “cement, lime, and plaster” had the lion’s share of respectively 14.2 and 27.1 percent of the total number and value of the shares and rights traded.

In the review year, in terms of percentage change in the number and value of shares and rights traded, “furniture and other manufactured products” enjoyed the highest rise compared to the previous year. Meanwhile, “other transport equipment” and “publishing, printing, and reproduction” experienced the highest decline of 99.5 and 82.4 percent, respectively.

In 1383, the number of shares and rights tradings was 2.3 million times, up by 85.2 percent. The number of buyers came to 1,570,492 persons. This figure posted a rise of 80.9 percent in 1383 as compared with the noticeable rise of 141.3 percent in 1382.

The average buying per person was limited to Rls. 66 million, showing a drop of 14.3 percent as compared with the previous year. This was for 9,023.6 shares, showing 0.6 percent reduction. These figures are indicative of the rise in the number of small shareholders during the past two years.

(1) As of Dey 1383, industrial classification in the TSE was revised and companies were reclassified based on ISIC.

### VOLUME OF TRADINGS AND BUYERS

	1381	1382	1383	Percentage change	
				1382	1383
Volume of tradings	812,316	1,263,948	2,340,647	55.6	85.2
Number of buyers	359,751	868,150	1,570,492	141.3	80.9
Average volume of buying per person (share)	11,523.0	9,075.4	9,023.6	-21.2	-0.6
Average value of buying per person (million rials)	63.3	77.0	66.0	21.7	-14.3

Source: TSE, monthly reports

By the end of 1383, market capitalization, with a growth of 25.1 percent compared to the previous year, reached Rls. 387,547.2 billion, due to the listing of 40 new companies on the TSE and the capital increase of the previously listed ones, albeit a slight rise of price index in this period. At the same time, based on the average interbank exchange rate<sup>(1)</sup>, market capitalization in terms of dollar reached \$43.7 billion.

The turnover ratio, with 5.5 percent reduction, reached 27.7 percent in 1383. This figure was 29.3 percent in 1382, the highest ratio during the recent years.

The ratio of shares traded to total shares issued fell by 10.9 percent and reached 18.0 percent in 1383. Comparison of this ratio with the turnover ratio indicates that this ratio fell more than the latter, pointing to the fact that share price changes are more beneficial to more active industries in the capital market (in comparison with the average growth of market's general index). In 1383, the ratio of market capitalization to GDP edged down from 28.3 percent to 28 percent by year-end 1383.

### 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 (billion rials)
1379	62,486.6	9,176.7	53,769.2	17.1	10.7
	(42.8)	(75.0)	(54.9)		
1380	81,681.8	7,830.9	74,127.3	10.6	9.1
	(30.7)	(-14.7)	(37.9)		
1381	117,772.9	22,776.1	105,382.7	21.6	17.1
	(44.2)	(190.8)	(42.2)		
1382	309,695.8	66,869.8	228,311.0	29.3	20.2
	(163.0)	(193.6)	(116.6)		
1383	387,547.2	103,705.0	374,082.5	27.7	18.0
	(25.1)	(55.1)	(63.8)		
Annual average growth (1379-83)	54.7	81.6	60.9	12.9	13.4

Source: TSE, monthly reports

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

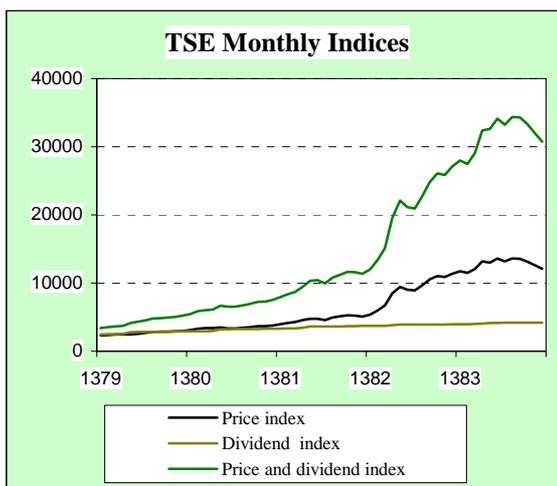
(1) On the last active day of the TSE in 1383, dollar was exchanged at a rate of Rls. 8,864.

## Price and Dividend Index

In 1383, “price and dividend index”, grew merely by 13.6 percent, against a huge rise of 138.6 percent in 1382. The two constituents of this index i.e., “TEPIX” and “dividend” amounted to 12,113 and 4,198.1 units respectively, up by 6.4 and 6.7 percent compared with the previous year.

During the recent years, changes in the price index were virtually twice or three times the changes in dividend index. These two indices experienced nearly equal growth rates in the review year.

Most industries experienced the plunge of P/E ratio in 1383, in that P/E ratio of stock exchange plummeted drastically by 28.4 percent to 7.3, against 10.2 of the previous year.



	TSE INDICES			(1369=100)	
	Year-end			Percentage change	
	1381	1382	1383	1382	1383
Price and dividend index	11,345.93	27,074.86	30,762.01	138.6	13.6
Dividend index	3,704.65	3,933.16	4,198.13	6.2	6.7
Price index	5,062.76	11,379.37	12,113.01	124.8	6.4
Financial index	8,985.96	23,202.60	34,205.06	158.2	47.4
Industrial index	4,642.94	10,060.06	9,214.95	116.7	-8.4
Main floor	4,893.17	11,442.99	12,085.75	133.9	5.6
Secondary floor	6,086.7	10,197.13	10,942.43	67.5	7.3

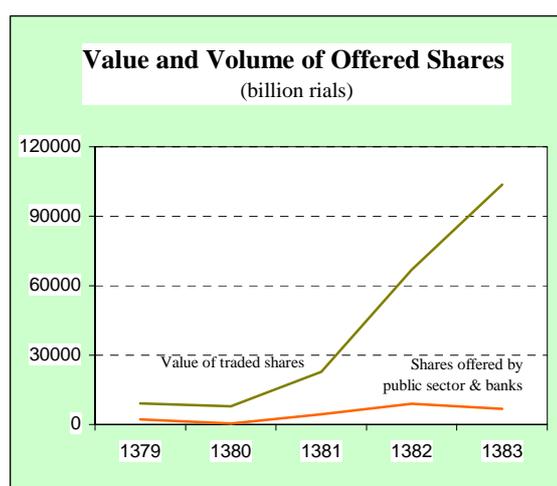
Source: TSE, monthly reports

Factors such as political developments at regional and international levels, parliamentary elections, Iran’s peaceful nuclear program, together with undermining the importance of creating new capacities on the stock market after four successive years of price rise echoed the repeated declines in share price index during the second half of 1383.

Among the constituents of TEPIX, “financial index” rose markedly by 47.4 percent from 23,202.6 units in 1382 to 34,205.1 units in 1383. The growth rate of this index was 158.2 percent in the previous year. Industrial index fell by 8.4 percent to 9,215 units at the end of 1383, from 10,060.1 units at the end of 1382. The growth of this index was 116.7 percent in the previous year.

## Share Offerings by Public Sector and Banks

Public corporations and institutions offered 682.6 million shares valuing at Rls. 6,795.1 billion, in the TSE, down by respectively 10.1 and 24.5 percent in 1383 compared to the year before. Insufficient demand, due to the recessionary condition prevailing in the market, was the main reason behind this downward trend in the review year.



## SHARES OFFERED BY PUBLIC SECTOR AND BANKS

	Volume		Value		Percentage change		Share (percent)	
	(million shares)		(billion rials)		Volume	Value	Number	Value
	1382	1383	1382	1383				
<b>Public corporations and institutions</b>	<b>732.0</b>	<b>682.6</b>	<b>8,921.0</b>	<b>6,795.1</b>	<b>-6.7</b>	<b>-23.8</b>	<b>100.0</b>	<b>100.0</b>
<b>Foundations</b>	<b>0.3</b>	<b>0</b>	<b>1.2</b>	<b>0</b>	<b>-100.0</b>	<b>-100.0</b>	<b>0</b>	<b>0</b>
<b>Banking system</b>	<b>27.2</b>	<b>0</b>	<b>81.5</b>	<b>0</b>	<b>-100.0</b>	<b>-100.0</b>	<b>0</b>	<b>0</b>
Central Bank	0	0	0	0	<b>0</b>	<b>0</b>	0	0
Commercial banks	7.1	0	19.7	0	-100.0	-100.0	0	0
Specialized banks	20.04	0	61.8	0	-100.0	-100.0	0	0
<b>Total</b>	<b>759.4</b>	<b>682.6</b>	<b>9,003.7</b>	<b>6,795.1</b>	<b>-10.1</b>	<b>-24.5</b>	<b>100.0</b>	<b>100.0</b>

Source: TSE, monthly reports of 1382 and 1383

### New Listings on the TSE

In 1383, upon the agreement of the TSE Listing Board, 40 new companies were added to the existing companies on the TSE. Thus, the number of listed companies increased to 423 at 1383 year-end. Of the total newly listed companies, 2 were listed on the main and 38 on the secondary floor. The nominal value of the listed companies was Rls. 10,402.6 billion.

#### NUMBER OF LISTED COMPANIES (1)

	Year-end			Changes	
	1381	1382	1383	1382	1383
<b>Listed companies</b>	<b>335</b>	<b>383</b>	<b>423</b>	<b>48</b>	<b>40</b>
Investment companies	20	28	36	8	8
Other companies	315	355	387	40	32
<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>28</b>	<b>31</b>	<b>34</b>	<b>3</b>	<b>3</b>
<b>Total</b>	<b>366</b>	<b>417</b>	<b>460</b>	<b>51</b>	<b>43</b>

Source: TSE, monthly reports

(1) Of the total companies listed on the TSE board at the end of 1383, 170 companies were on the main and the remaining on the secondary board.

### Financing Capital Increase of Listed Companies

In 1383, of the total number of the newly listed companies, 135 companies increased their capital to Rls. 32,824.8 billion, enjoying a robust growth of 197.4 percent over last year's figure of Rls. 11,037.9 billion. In the review year, the main source of financing capital increase was the shareholders' claims and cash assets, which financed 60.2 percent of the total increase. In the meantime, 13.9 percent of the increase was financed through the companies' reserves and accumulated profit. In 1383, three companies financed Rls. 4,475 billion of their capital increase through subscription, with this figure being 13.6 percent of the total capital increase for these companies in this year.

#### 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	Shares	Total	Percentage change
1379	1,216.9	1,658.1	514.8	...	<b>3,389.8</b>	49.8
1380	1,199.6	1,189.8	589.1	...	<b>2,978.5</b>	-12.1
1381	1,445.7	3,731.9	888.8	...	<b>6,066.4</b>	103.7
1382	1,286.9	8,504.3	1,246.7	...	<b>11,037.9</b>	82.0
1383	4,564.7	19,770.8	4,014.3	4,475.0	<b>32,824.8</b>	197.4

Source: Tehran Stock Exchange

## Provincial Stock Exchanges

Following the inauguration of Shiraz, Kerman, Yazd, Rasht, Zahedan, Karaj, Sari, Ahwaz, Zanjan, Ardebil, and Orumiye stock exchanges in 1383, the number of active provincial stock exchanges increased to 14. In this year, 3,033 million shares and rights valuing at Rls. 18,949.6 billion were traded on provincial stock exchanges, constituting respectively 21.4 and 18.3 percent of the total number and value of shares and rights traded in the TSE.

## Metal Exchange

Metal Exchange was inaugurated in Shahrivar, 1382. Aluminum, copper, steel and zinc were traded in cash and forward transactions in the Metal Exchange. In this year, a total of 5,223.7 thousand tons of steel, copper, aluminum, and zinc worth Rls. 25,117.8 billion were traded in the Metal Exchange.

## Agricultural Products Exchange

The "Iran's Agricultural Products Exchange" was inaugurated in Shahrivar, 1383. Till the end of 1383, about 95 thousand tons of corn, barley, different types of seed remains, sugar, rice, pea, lentil, pistachio, and saffron valuing at Rls. 162.2 billion were traded in this market.

## Participation Papers

In 1383, a total of Rls. 41,349.6 billion participation papers were issued by the government, Central Bank, and companies. Of this amount, 93.9 percent, Rls. 38,840.3 billion, were sold, up by 36.5 percent as compared with Rls. 28,445.7 billion papers sold in the previous year. The approved figure for total papers was Rls. 50,349.6 billion in 1383. The profit rate of the participation papers was on daily basis and redeemable at any time. The provisional profit rate for all types of participation papers was 17 percent and it was tax-exempted.

ISSUANCE OF PARTICIPATION PAPERS							(billion rials)	
Number of projects	Times of issuance	Total approved amount	Issued amount	Sold amount	Provisional profit rate (percent per annum)	Participation papers at the end of 1383		
						Matured	Not matured	
			(billion rials)					
1379	4	6	10,380.0	10,380.0	5,295.8▲	19	5,295.8	0.0
1380	11	12	16,100.0	16,100.0	15,543.3	17	10,043.6	5,499.7
1381	11	12	27,500.0	27,300.0	25,631.0	17 <sup>(1)</sup>	17,054.1	8,577.0
1382	11	11	32,789.2	29,289.2	28,445.7	17	16,649.6	11,796.1
1383	15	15	50,349.6	41,349.6	38,840.3	17	0	38,840.3
Total as of 1373	60	67	145,946.9	133,246.9	122,435.2		57,722.1	64,713.0

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