

Alphaville Iran

Donald Trump made Iran's stocks great again

Not the enriched uranium kind of stocks



Tehran Stock Exchange © Wikimedia

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One sign of how much Iran stands to gain from this week's peace deal?

Iran's \$110bn stock exchange (yes, it has one). It would rank as the world's best-performing equity market over the past month in dollar terms if Iran featured in such rankings. Ordinary Iranian savers have jumped on the US ceasefire overtures and the prospect of sanctions relief for a nuclear deal.

By the time President Donald Trump signed the peace deal at the Palace of Versailles on Wednesday, the Tedpix gauge of major Iranian companies had gained 30 per cent in US dollar terms in the past week, Amtelon Capital, an extremely rare foreign investor in the market, has noted.

Since it reopened from a wartime trading halt on May 19th, the market, which trades from Saturday to Wednesday, is up nearly 50 per cent in dollar terms compared to its last prewar trading day on February 25th. The Iranian rial's bazaar rate has rallied to about 1.55mn to the dollar.

The rial has lost 98 per cent of its value against the dollar since the 2010s and the stock market sold off about 30 per cent this year before the war. So in dollar terms the market is still far off its 2020 peak.



Source: Tehran Stock Exchange, Bonbast, Amtelon

© Amtelon Capital

But it's striking that the rally comes just months after an economic and banking crisis — the magnitude of which had led the US and Israel to calculate that a war could finish off the regime.

Decades of sanctions, in particular since the end of the last nuclear deal in 2018, have made Iran's capital market almost completely self-contained. It boasts almost no foreign investors and contains some of the lowest equity valuations in the world. Some stocks trade at one to two times earnings.

Some counters have only just restarted trading due to war damage. But it appears local investors were quick to go back into the stock market as soon as a peace deal was reached.

Maciej Wojtal, Amtelon's chief investment officer, told Alphaville that retail investors submitted record orders to Iranian brokers in recent days, with pre-market 'buy queues' of \$300mn to \$400mn a day. Retail inflows since the reopening have been about \$400mn, he added.

This is not an entirely liquid market. Much also now depends on how details of the renewed ceasefire deal play out, such as immediate sanctions waivers on oil exports. Iran has had to husband limited hard currency for years to pay for imports while printing money at home to cover budget deficits.

This year the government has already been forced to end FX import subsidies for food and pharmaceuticals and allow companies in these sectors to raise prices — which Wojtal says has been reflected in recent sales figures.

As Amtelon also observed in a note to investors this week:

Iranian companies have . . . operated with very conservative balance sheets, inefficiently high inventories and investment funded almost entirely from operating cash flow. They had to be prepared for disruption at all times. The elimination of the “Iran discount”, lower transaction costs, better visibility, a credit impulse and efficiency gains from moving from a “just in case” to a “just in time” structure should all support margins across Iranian sectors.

The normalisation of earnings and the macro environment should lead to a repricing of equity valuations. There are large pools of domestic retail capital in Iran. Retail investors are momentum-driven and, when sentiment changes, the market has a history of very rapid inflows. Foreign investors are still absent, but if sanctions are lifted, this will no longer be a local story only.

Amsterdam-based Amtelon itself cannot currently accept US clients for obvious reasons, though it fields interest from Europe to Australia.

Talk of opening up what could be the world's last big frontier market may seem incredibly distant after so many years of war and tension. Then again, when the missiles started flying in February, so did this week's deal.

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