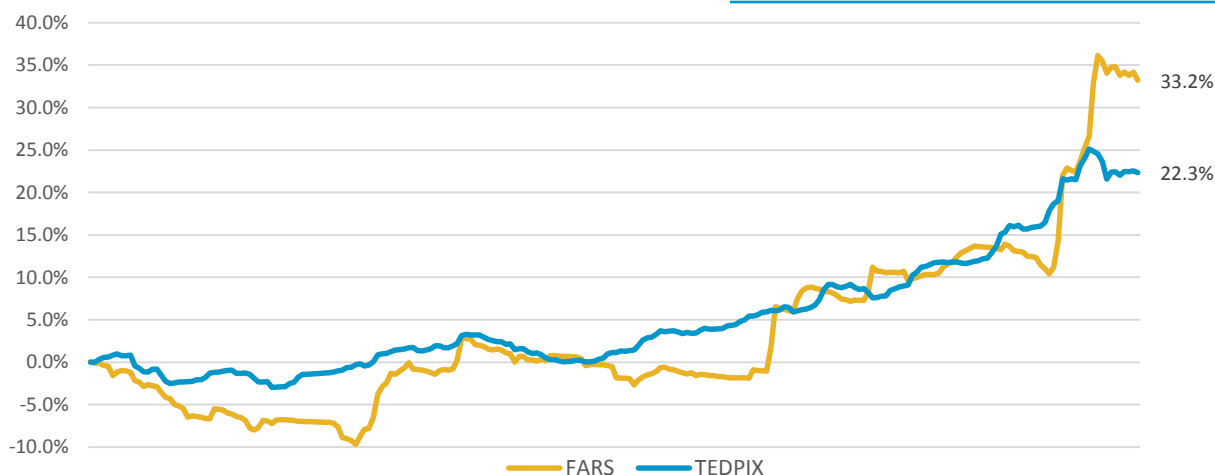




9 January 2018

FARS Petrochemical Holding Co.

- USD/IRR Appreciation during last months enhances the Profitability of the giant stock of TSE.** Dollar Exchange rate has risen to above 43,000 Rials, which is 9.1% higher than 6 months ago. Majority of the sales revenue of subordinate companies comes from export sales. Also, the domestic sales revenue in Iran mercantile exchange are accounted by free Market US Dollar. The Only part of sales that is based on official dollar rate is sales between petrochemical companies. But as the official rate of dollar has risen during last months, this part of the sales has increased considerably.
- TSE Index is beyond its historical highest level and the only reason of this outbreak was the rising of commodity prices.** Most of the petrochemical companies, comprising those with liquid feedstock, are in their top historical levels. But due to some reasons such as large market cap, uncertainty about the continuity of the price rises, and market inefficiency FARS stock hasn't moved sufficiently. In our view, stability of the chemical prices and slow upward movement of Dollar exchange rate are sufficient to raise this stock's price.



Key Data Forecasts

Key forecasts	1392A	1393A	1394A	1395A	1396A	Budget 1397	1397E	1398E	1399E
Net income (IRR Bn)	18,165	34,706	50,738	37,157	40,996	41,116	46,145	57,242	81,102
EPS (IRR)	363	694	1,015	743	820	822	923	1,145	1,622
DPS (IRR)	36	496	248	300	400	411	635	789	1,441

Recommendation: ★ ★ ★ ★ ★

Buy Initiated

Target Price: IRR 9,106

Target price is for 9 months

Produced by: Kardan Investment Bank

Stock data

Sector	Materials
Industry	Chemicals
Sub Industry	Commodity Chemicals
Market Price	IRR 5,682
Market Cap.	Bn IRR 282,050
Investment Style	Large Cap/ Value Stock
Research Risk Level	Low
EPS ttm	IRR 817
EPS Estimate	IRR 906
EPS Budget	IRR 822
52W Range (IRR)	3,824 – 5,765
Trailing P/E	7.0
Forward P/E	6.3
EV/EBITDA	9.1
free float (%)	4%



Income Statement

	1392A	1393A	1394A	1395A	1396A	Budget 1397	1397E	1398E	1399E
IRR Bn Dividend Income	16,955	30,897	47,335	31,882	39,498	35,116	46,145	57,242	81,102
IRR Bn Investment sales gain/loss	0	0	2,545	5,948	2,175	6,402	0	0	0
IRR Bn Total revenue	16,955	30,897	49,880	37,830	41,673	41,518	46,145	57,242	81,102
IRR Bn Administrative expenses	-112	-239	-472	-479	-542	-628	-623	-717	-824
IRR Bn Operating expenses or other	0	0	0	0	0	0	0	0	0
IRR Bn Operating income	16,843	30,658	49,408	37,351	41,131	40,890	45,522	56,525	80,278
IRR Bn Financial expenses	0	0	0	-61	-332	-203	-200	-200	-200
IRR Bn Non operational expenses or other	181	4556	1618	-133	227	547	0	0	0
IRR Bn Income before tax	17,024	35,214	51,026	37,157	41,026	41,234	45,322	56,325	80,078
IRR Bn Tax	-15	-508	-1259	0	-31	-123	0	0	0
IRR Bn Net income	17,009	34,706	49,767	37,157	40,995	41,111	45,322	56,325	80,078
IRR Earning per share	340	694	995	743	820	822	906	1,126	1,602
% Dividend Ratio	11%	71%	25%	40%	49%	50%	70%	70%	90%
IRR Dividends per share	36	496	248	300	400	411	635	789	1,441
Bn Capital	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000

Balance Sheet Statement

Assets	22-Sep-17	Liabilities and owner's equity	22-Sep-17
IRR Bn Cash	1,076	Trade Accounts Payable	0
IRR Bn Short term Investments		non-Trade Accounts Payable	112,502
IRR Bn Trade Accounts Receivable	37,781	Tax Payable	31
IRR Bn Non-Trade Accounts Receivable	176,806	Dividends Payable	1,535
IRR Bn Assets for sale	679	Loans	1,099
IRR Bn Prepays	2,203	Reserves	78
IRR Bn Total Current Assets	218,544	Total current liabilities	115,245
IRR Bn Long-Term Accounts Receivable	101	Long term Liabilities	42,571
IRR Bn Long term Investments	92,911	Pension liabilities	309
IRR Bn Intangible assets	2		
IRR Bn Tangible assets	376	Total non-current liabilities	42,881
IRR Bn Other assets	0		
IRR Bn Total non-current assets	93,391	Total liabilities	158,126
IRR Bn		Common Stock	50,000
IRR Bn		Legal reserve	5,000
IRR Bn		Retained earnings	98,809
IRR Bn		Total Shareholder's equity	153,809
IRR Bn Total assets	311,935	Total liabilities and shareholder's equity	311,935



Net Incomes and Dividends of Subsidiaries

	Net Income (Bn IRR)				
	Dividends (Bn IRR)				
	1396 - Actual	1397 - Budget	1397E	1398E	1399E
Nouri Petrochemical Co.	7,593	4,083	7,306	10,889	10,787
	3,900	3,675	6,941	10,345	10,248
Mobin Petrochemical Co.	11,573	12,898	12,898	14,277	15,251
	12,114	11,459	11,608	12,849	13,725
Fajr Petrochemical co.	6,403	7,287	6,421	9,102	12,268
	4,875	6,559	5,779	8,192	11,041
Pars Petrochemicals	24,842	18,294	26,046	34,348	35,637
	24,990	16,464	23,441	30,914	32,073
Arya Sasol	16,332	-	17,225	24,710	25,532
	16,500	-	16,364	23,475	24,255
Bandar-e-Emam Petrochemical Co.	7,613	7,940	7,468	7,660	6,091
	6,997	7,141	7,094	7,277	5,787
PETROL	1,520	1,920	1,920	1,920	1,920
	1,000	1,720	1,728	1,728	1,728
Bou-Ali-Sina	2,689	1,173	4,014	3,964	4,002
	600	980	3,813	3,765	3,802
BidBoland	-	-	-	-	21,735
	-	-	-	-	21,735
FARS	40,995	41,111	45,322	56,325	80,078
	20,000	20,556	31,725	39,427	72,070



Discounted Dividend Model Valuation

Required rate of return on equity	29.0%
Adjusted Systematic risk	1.00
Risk free rate	20%
Equity Risk premium	9%
Long-term growth rate (g)	9%
Target P/E	7.3
EV/ EBITDA	0.0

	<i>Dividend Discount Model</i>	1397E	1398E	1399E
IRR	Earnings per share	906	1,126	1,602
%	Dividend Ratio	70%	70%	90%
IRR	Dividend per share	635	789	1,441
IRR	Terminal Value (Gordon)			11,638
IRR	Total	703	768	13,079
IRR	Present value	7,059		
Bn	Number of Shares Outstanding	50		
IRR Bn	The total value of Equity	352,927		

Rolling Forward to Annual Shareholders meeting (Dividend Date)

Number of months till Dividend Date	9
Value per share at the current time	7,522