

Tundra comment: Iran's nuclear deal and the implications on Pakistan

July 17, 2015



TUNDRA
FONDER

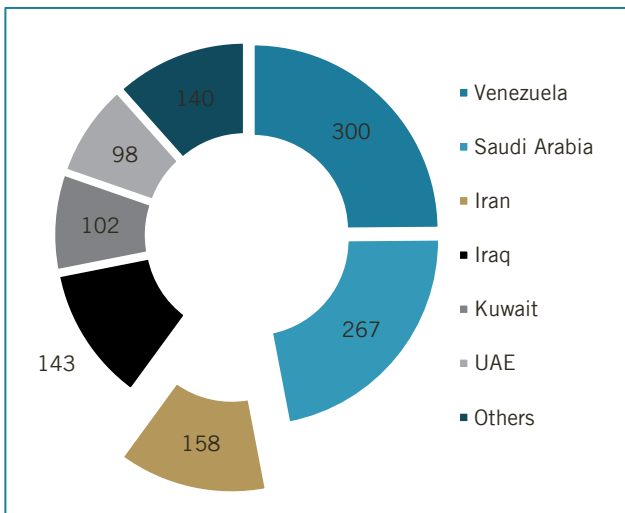
Capital invested in a fund may either increase or decrease in value and it is not certain that you will be able to recover all of your investment. Historical return is no guarantee of future return. The Full Prospectus, KIID etc. are available on our homepage. You can also contact us to receive the documents free of charge. Please contact us if you require any further information: +46 8-55 11 45 70.

Landmark agreement

After 18 long days of intense discussions and deliberations, Iran and P5+1 member states* finally reached a landmark agreement, which is likely to lift the UN sanctions on Iran. This could provide a relief of billions of dollars in sanctions and a return pass to the global economy for Iran. In return, Iran has promised to halt its nuclear weapon development program. This deal will lead to moderation of conflict between the US and Iran, and will have positive economic implications for not only Iran, but also for some of Iran's trade partners and neighbors. As crude oil prices are likely to trend lower, Pakistan, which is a net importer of crude oil, might also be able to benefit from this deal.

The deal and the oil market

The most far reaching impact of this deal is likely on the international crude oil market. Iran is a member of the Organization of the Petroleum Exporting Countries (OPEC), and has the third largest proven oil reserves of 157.5bn barrels (bbl) amongst OPEC member nations, after Venezuela (300.9bn bbl) and Saudi Arabia (266.6bn bbl). Iran's share of the total global crude reserves amounts to 10.6%.



OPEC's proven oil reserves (bbl, billion). Source: OPEC

Fear of influx of Iranian oil into the world oil market is likely to keep the oil prices in check as Iran can pump up to an additional 0.15m bbl/day crude immediately. This can increase to 0.25m bbl/day next year. However, to make a considerable difference to the oil market dynamics,

Iran will have to invest heavily in the oil exploration infrastructure. That said, WTI and Brent have already corrected by 14% and 10% respectively since the start of July.

Implications for Pakistan

As Pakistan imports up to 2/3 of its fuel requirements, lower international oil prices is good news as this could translate into a lower trade deficit for the country. However, due to affordability, we saw increased usage of oil products and hence oil imports in volumes increased by ~60% in 2H FY15, keeping the total import bill in USD terms flattish in FY15 compared to last year. Pakistan's Consumer Price Index (CPI), which closely tracks oil prices, fell to multi-year lows during FY15, and currently stands at 3.2%. If oil prices remain in the USD 50-55/bbl range, barring other economic shocks, Pakistan's inflation target for FY16 is likely to remain well within the annual target of 6%. The Iran Pakistan Gas Pipeline project initiated by the previous government, that had hit the snags due to the sanctions on Iran, is likely to be re-started. Iran and Pakistan plan to build a gas pipeline bringing in ~750mmcf** gas into the energy-starved Pakistan, which could be very instrumental in reviving industrial growth.



Teheran, the capital of Iran.

* P5+1 refers to the UN Security Council's five permanent members (China, France, Russia, the UK, and the US) as well as Germany.

** Million cubic feet per day.

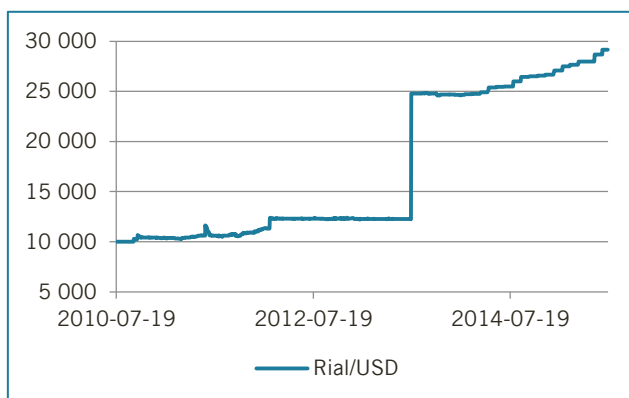
The Pakistani oil and gas sector

Impact of lower oil prices on Pakistan's oil and gas exploration sectors earnings will be limited, due to the applicable pricing policies. These have crude oil prices capped at as low as USD 30/bbl. Moreover, gas prices in Pakistan are already subsidized, hence, lower crude oil prices will not mean further reduction in gas tariffs. Gas tariffs in Pakistan, are in fact set to rise after the Eid holidays.

Worthwhile keeping in mind is that Pakistan is not alone among the frontier markets being a net importer of oil. We pointed out in a research note dated October 2014 that countries such as Bangladesh, Sri Lanka and to some extent also Vietnam are net importers of oil. An apparent loser in the context is Nigeria, which with its 2.2m bbl/day is a substantial exporter.

A mixed bag for the cement sector

Pakistan's cement sector has lately been facing competition from Iranian cement in Pakistan's largest export market Afghanistan. Iranian cement is seeping into Afghanistan through Pakistan, for less than USD 45/MT.



Source: Bloomberg

Some believe that appreciation of the Iranian Rial is likely to make the Iranian cement expensive and hence unviable, which could help the Pakistani cement sector. However, we believe, once the sanctions are lifted, Iran is likely to be able to export its cement to other regional markets too, which are currently being tapped by the neighboring Pakistan, thus increasing competition for Pakistan's cement players.

Positive for Pakistan and other frontier markets

Although the effect of the nuclear deal is limited for certain individual sectors, the deal is positive for Pakistan as a whole. The export bill for petroleum products will be reduced and the inflation kept under control. A more stable geopolitical environment will in the long term also contribute positively to the country's development.

Important: Please read this information/disclaimer

This presentation is issued by Tundra Fonder AB ("Tundra"). The information – assumptions, opinions, valuations, recommendations etc – presented in this publication have been compiled by Tundra. The publication is based on generally available information from sources that Tundra believes to be reliable. However, Tundra cannot guarantee the accuracy of this information. This presentation – as well as all or parts of its content – may not be duplicated or distributed under any circumstances without the written permission of Tundra.

Use of information

This presentation is intended exclusively for the use of Tundra's clients in Sweden and is thus not intended for any individual or company in the USA, Canada, Japan or Australia, or in any other country where the publication or availability of the material is prohibited or restricted in any way.

The Fund or the Fund Company Tundra Fonder is not registered under the United States Securities Act of 1933, the United States Investment Company Act of 1940, or any other applicable law of the United States. Therefore fund units may not be offered, sold or in any other way distributed to physical or legal persons in the United States of America. It is the responsibility of individuals or entities acquainting themselves with this presentation to inform themselves of and comply with these regulations. A legal entity may be prevented from investing in Tundra's fund by law or internal regulations. Foreign law may prevent investments to be made from outside of Sweden. Tundra will not verify that investments from outside of Sweden are made in accordance with foreign law and Tundra will not accept responsibility for any such investments. It is the responsibility of persons reading this presentation to inform themselves of, and to follow these rules. Should any such person or company nonetheless accept offers from Tundra, of whatever kind they may be, it may be disregarded. No part of this presentation should be construed as a solicitation or recommendation to conduct or make use of any type of investment or to enter into any other transactions. The opinions expressed in this presentation reflect the present views of the participants and may thus be subject to change. The information in this presentation does not take into account the specific investment goal, financial situation or needs of any specific recipient. The information should not be regarded as a personal recommendation or investment advice. The client should always seek adequate professional advice before taking any investment decision and each such investment decision is taken independently by the client and at the client's own risk. Tundra accepts no liability whatsoever for any direct or consequential loss of any kind arising from the use of this presentation. Tundra's employees may hold, indirect or indirect investments mentioned in this presentation.

Risks

Investments in financial instruments are associated with risk and an investment may both increase and decrease in value or even become worthless. Historical returns are no guarantee of future returns. International investments, particularly those on new markets in developing and growth countries (such as Eastern Europe (including Russia), Asia, Latin America and Africa), are normally associated with a higher level of risk than investments in Swedish or other developed markets' securities. These risks include both political and economic uncertainty in other countries as well as currency fluctuations. These risks are particularly high on new markets since these countries may have relatively unstable governments and immature markets and economies.