The Privatisation of state-owned enterprises in Iran – are there opportunities for UK investors?

Although allowed under Article 44 of the Constitution, the privatisation of state-owned enterprises was only kick-started by an Executive Order of the Supreme Leader in July 2006.

Initially shares were distributed through the Shares for Justice Scheme and through the Tehran Stock Exchange (TSE), but since August it has become clear that foreign investors are welcome to bid for shares and that this might be by tender or possibly private treaty.

The first tranche of Shares for Justice were issued to millions of Iranians in Autumn 2006; there have been other distributions since then. The shares are in such companies as Iran Khodro and SAIPA (automotive), IMIDRO (mines and minerals), copper and telecommunications companies. Shares are paid for at a future date or when they are sold, although the mechanism for this is unclear. The first dividend is expected to be paid before the end of 2007. There are no direct opportunities for UK investors under Shares for Justice as shares are distributed to the Iranian population at large.

Since the beginning of 2007, there has been a busy schedule of presentations of shares for sale through the TSE. The IPOs are a small tranche of shares, normally 5%, then further issues are made where demand exists and as market capacity allows. NICIC (copper), Mobarakeh, Khuzestan and Khorasan (steel), MPNA (power sector engineering and construction) and IRALCO (aluminium) have issued successfully. Only Dashtestan (cement) was poorly received in the market. Other companies are scheduled for privatisation, including: banks (Mellat, Saderat, Tejarat, Refah and Post); Iran Telecommunications; and up to 120 companies in the oil, gas and petrochemicals sector.

The high level of government spending this year has led to a change in approach to privatisation, in order to generate more government income, as tax receipts have been lower than expected and the Oil Surplus Fund is almost exhausted.

Shares for Justice is a short-term drain on government as it pays out dividend and share sale receipts are not received until a later date. Although sales through the TSE provide for payment now, the market is small and large offerings would swam it, so raising funds for government this way will be spread over time. Kord-zanganeh, Head of the Privatisation Organisation, opines that Iran's per capita income is too low to allow the capital accumulation needed for the creation of a strong private sector quickly, without foreign investment, in any case.

As a result various developments are reported, since the summer, which indicate easier access for foreign investors to the shares of Article 44 companies, by limited tender or private treaty through negotiation. These are: US$1.1 billion of state-run companies were sold to the Imam Reza Foundation; 20% of NICIC shares were sold without tender to a consortium for US$1.1 billion, the consortium members being mainly investment funds of government industries; and the Privatisation Organisation reports negotiations with foreign buyers for 50% of Mobarakeh Steel and IRALCO.

It seems clear that indeed there may be opportunities for UK investors to buy resource sector and other assets to be privatised in Iran in future. Of course interested parties will need to approach such purchases with all due diligence and with the professional advice necessary.