

# The Pulse

Market Growth, Risks and Outlook

**Kartik 2078**

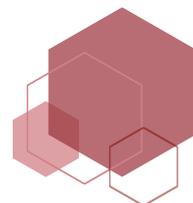
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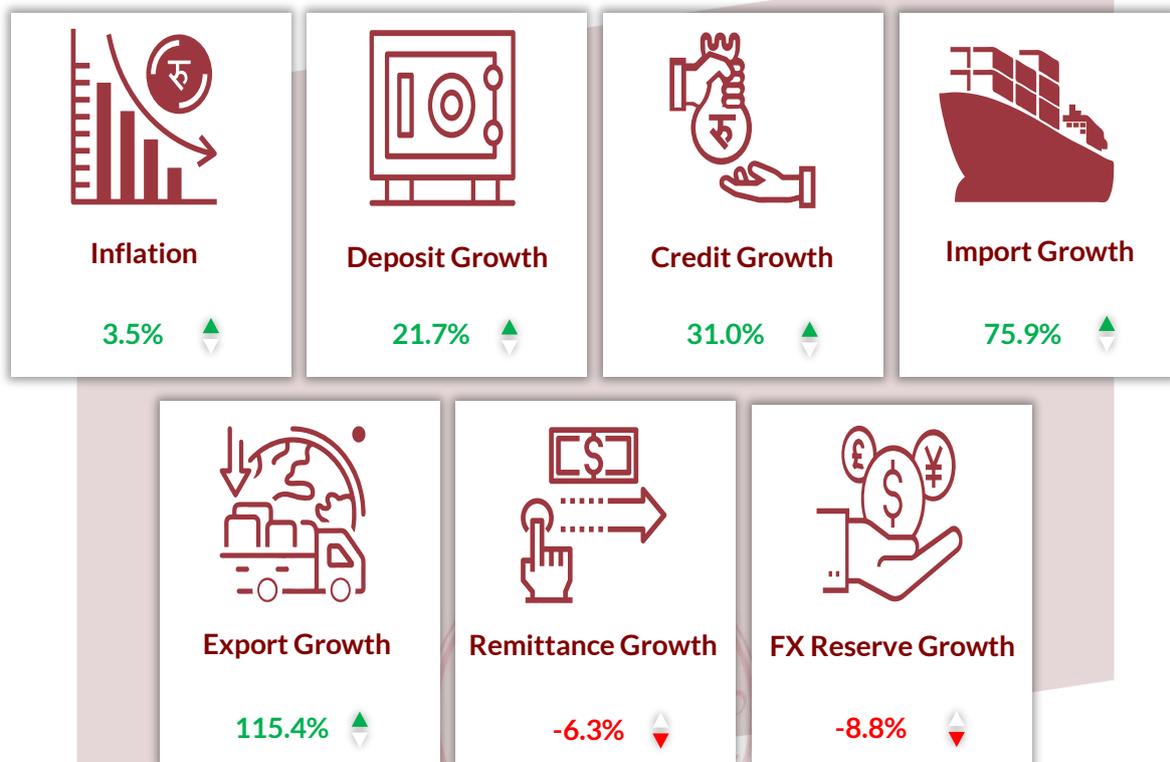


**Himalayan Capital**

A Wholly Owned Subsidiary of Himalayan Bank Limited

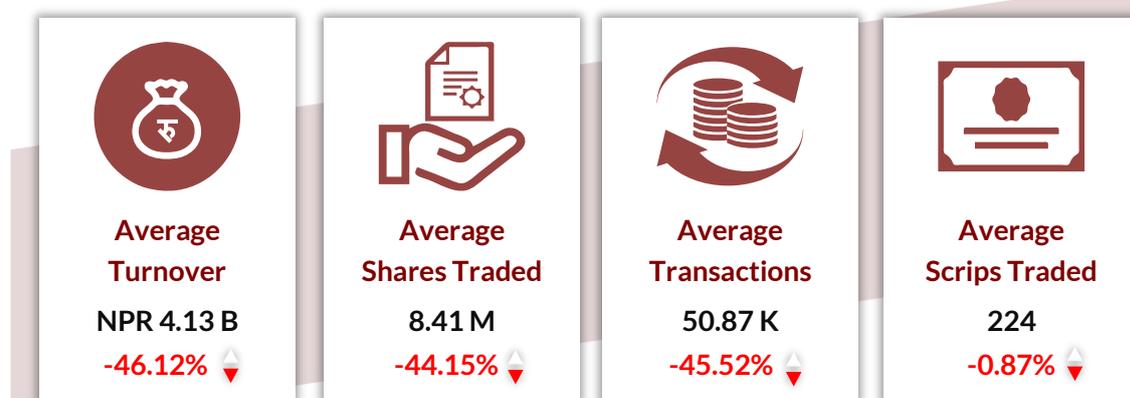


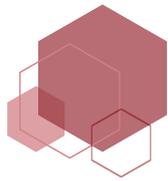
## Macroeconomic Overview



\*Growth refers to the change between the second month of this FY and the second month of Last FY.

## Monthly Trading Statistics





## Liquidity Overview

### A. Major Rates

Description	Value As On				Change		
	Kartik-77	Asoj-78	08-Kartik	15-Kartik	YOY	MOM	WOW
Wt.Avg 28 Days TB rate	0.11	0.17	0.17	0.17	0.06	0.00	0.00
Wt.Avg 91 Days TB rate	0.78	4.93	4.75	4.76	3.98	-0.18	0.01
Wt.Avg 364 Days TB rate	2.23	4.38	4.98	4.96	2.73	0.57	-0.02
Wt. Avg Interbank Rate	0.10	4.94	4.96	4.96	4.86	0.02	0.00
Capital Expenditure (In Billion NPR)	25.34	4.44	15.53	18.24	-7.10	13.80	2.71

### B. BFI Statistics

Description	Value As On				Change	
	Bhadra-77	Shrawan-78	Bhadra-78	15-Kartik	YOY	MOM
Wt. Avg Deposit Rate	5.61	4.76	4.92	4.92	-0.69	0.16
Wt. Avg Lending Rate	10.18	8.48	8.57	8.57	-1.61	0.09
Base Rate	7.83	6.71	6.89	6.89	-0.94	0.18
CD Ratio	86.85%	86.98%	87.89%	89.30%	1.04%	0.91%
Fixed Deposits/Total Deposits	48.97%	49.34%	48.77%	49.79%	-0.20%	-0.57%
Total Liquid Assets/Total Deposits	27.88%	24.24%	23.42%	23.61%	-4.46%	-0.82%

## Public Debt Subscription

Category	Issue Date	Offered Amount	Payment By GoN	No. of Participants	No. of Bids	BID Ratio	Allocated Amount	Discount Rate		
								Lowest	Highest	Average
28 Days	Bhadra 1	500	500	N/A	N/A	N/A	N/A	N/A	N/A	N/A
91 Days	Kartik 16	10	N/A	11	16	88.5	10	4.04	4.84	4.65
182 Days	Kartik 2	500	N/A	22	86	1437	500	4.45	5.10	4.96
364 Days	Kartik 16	156	N/A	21	66	1096	156	4.82	4.99	4.95

\*Figures are in Millions NPR

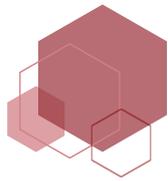


## Sectoral Movement

Index	30 <sup>th</sup> Sep	31 <sup>st</sup> Oct	Change
NEPSE	2,633.42	2,837.61	7.75%
Finance Company	2,243.29	2,686.97	19.78%
Development Bank	4,740.73	5,508.01	16.18%
Microfinance	4,962.57	5,648.77	13.83%
Others	1,702.86	1,937.56	13.78%
Non Life Insurance	11,535.26	13,095.46	13.53%
HydroPower	2,818.64	3,188.98	13.14%
Hotels & Tourism	3,089.14	3,455.23	11.85%
Life Insurance	14,567.29	15,912.44	9.23%
Investment	86.95	94.14	8.27%
Trading	3,128.19	3,321.84	6.19%
Manufacturing & Processing	6,291.50	6,678.59	6.15%
Mutual Fund	15.03	15.89	5.72%
Commercial Bank	1,869.40	1,890.34	1.12%

## Major Movers





## Sectoral Divergence-Turnover

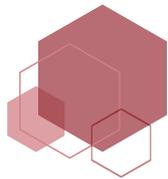
Index	90 Days Average	Monthly Average	Change
NEPSE	9.33 B	2.67 B	-71.44%
Preferred Stock	0.02 M	0.03 M	40.21%
Microfinance	832.10 M	327.32 M	-60.66%
Commercial Banks	1.84 B	641.67 M	-65.05%
Life Insurance	354.28 M	108.57 M	-69.35%
Manufacturing And Processing	266.21 M	80.71 M	-69.68%
Tradings	25.46 M	7.71 M	-69.72%
Development Banks	1.06 B	306.37 M	-71.05%
Finance	0.88 B	223.82 M	-74.43%
Hydro Power	2.74 B	0.70 B	-74.55%
Others	234.36 M	57.04 M	-75.66%
Hotels	72.59 M	16.01 M	-77.95%
Investment	397.33 M	83.27 M	-79.04%
Corporate Debenture	2.49 M	0.48 M	-80.84%
Non Life Insurance	545.76 M	100.53 M	-81.58%
Mutual Fund	95.04 M	14.97 M	-84.25%

## Highest Turnover

<b>NABIL</b>	<b>1.97 B</b>
<b>NICA</b>	<b>1.23 B</b>
<b>API</b>	<b>1.19 B</b>
<b>AHPC</b>	<b>1.15 B</b>
<b>NHPC</b>	<b>1.14 B</b>

## Highest Volume

<b>GIMES1</b>	<b>6.24 M</b>
<b>NHPC</b>	<b>2.82 M</b>
<b>API</b>	<b>2.64 M</b>
<b>AHPC</b>	<b>2.59 M</b>
<b>UMHL</b>	<b>2.08 M</b>



# NEPSE Outlook

## A. Current Overview

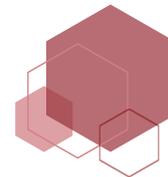


During its two months long correction, the flagship NEPSE index made an intraday low of 2,481.85 points on 19<sup>th</sup> October 2021, and the market closed at 2,510.73 points on that day. The benchmark index was then able to take a good support at that level and witnessed a rebound from that point onwards; gaining a whopping 309.13 points in total (i.e. a rise of 12.31%) to close at 2,819.86 points at the end of the review period on November 1, 2021. The average turnover for the month of October dropped significantly by 44.11% to NPR 4.13 billion compared to the previous month's average turnover of NPR 7.39 billion.

As displayed in the chart above, NEPSE index had been declining in a parallel channel pattern taking support and resistance within that pattern. However, on 25<sup>th</sup> October 2021, the index was successful in breaking out from the channel pattern at 2,588 level and also crossed over the 200 days EMA from below on that same trading day.

NEPSE index has also crossed over both 20 days EMA and 50 days EMA, however the crossover between these two EMA is yet to be observed. The RSI of NEPSE has also started to enter relatively in the overbought zone at 58, indicating buying interest has emerged again in the market.

The MACD line has crossed over the trigger line from below and is trying to head towards the positive zone and an entry into positive territory shall confirm strong upward momentum.



+DMI has crossed over -DMI from below indicating buyers are starting to outweigh the sellers, and a declining ADX line of 28 indicates reversal from the downward trend.

The immediate support levels of NEPSE index stand at: (S<sub>1</sub>) 2,750, (S<sub>2</sub>) 2,680 and (S<sub>3</sub>) 2,610, whereas the resistance levels hold at: (R<sub>1</sub>) 2,850, (R<sub>2</sub>) 2,942 and (R<sub>3</sub>) 3,000.

## B. Long-Term Outlook



After making a low of 1,102.47 points on 25<sup>th</sup> November 2019, NEPSE began its upward journey with a confirmation of golden crossover (i.e. crossover between 50 days EMA and 200 days EMA from below) and NEPSE started breaking records after records closing at an all-time high of 3,198.19 points on August 18, 2021 supported by good volume and making the record breaking turnover of NPR 21.65 billion in the history of NEPSE on 15<sup>th</sup> August, 2021 during this bull run.

As shown in the chart above, the NEPSE index successfully achieved the Trend-Based Fibonacci Extension of 1.61 (2,096.36 points) and 2.61 extension (2,662.76 points) within very short span of time and after few up and down swings, the index even tested 3.61 Fibonacci extension of 3,229.16 points.

However, after that point the market went into a corrective mode and declined by 21.50% from the recent all-time high closing, amidst a change in policy from regulatory bodies, especially with a Single Obliger Limit of NPR 12 Crore across all BFIs being set for Margin Lending though monetary policy for FY 2078/79, as well as due to liquidity position of BFIs getting tighter leading to an increase in interest rates.

As a result, the market went into the oversold zone and once the panic selling was over, the market took a very strong support at around 2,500 level mainly due to handsome dividend announcements and rising expectations, sound financial performance of BFIs



in Q1 FY 2078/79 and investor's expectation regarding policy level changes by the regulatory bodies to support the capital market. Hence, the market was able to bounce back from there crossing over the 50 days EMA and 200 days EMA from below indicating the market is still in the upward trend in the long run.

## SCRIP ANALYSIS

### Excel Development Bank Ltd (EDBL)

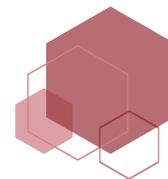
#### A. Technical Analysis



After closing at an all-time high of NPR 844.61, the stock price of EDBL witnessed a huge correction of 37.25% to close at recent low of NPR 530. The stock was able to take support at that level and is currently testing the Fibonacci retracement level of 38.2% at NPR 654.94. The last traded price of EDBL at the end of the review period (i.e. November 01, 2021) is NPR 638.

The stock has crossed over both 20 days EMA and 50 days EMA from below indicating upward trend in the short run, however the crossover between these two EMA is yet to be observed.

The RSI of EDBL has entered into relatively overbought zone at 55, indicating buying interest in the stock.



The MACD line has crossed over the trigger line from below and is trying to head towards positive zone and an entry into the positive territory shall confirm strong upward momentum in this stock.

+DMI has crossed over -DMI from below indicating buyers are starting to outweigh the sellers, and the declining ADX line of 27 indicates reversal from the recent downward trend.

The immediate support levels for this stock stands at: (S<sub>1</sub>) NPR 605, (S<sub>2</sub>) NPR 570 and (S<sub>3</sub>) NPR 530, whereas the resistance levels hold at: (R<sub>1</sub>) NPR 655, (R<sub>2</sub>) NPR 695 and (R<sub>3</sub>) NPR 735.

The final average valuation of EDBL based on Absolute Approach (viz. Capitalized Earnings, Earnings Valuation and Discounted Cash Flow) as well as Relative Approach (viz. P/E Model and P/B Model) has been computed as NPR 369.99, which has been tabulated below:

Method	Valuation Price
Capitalized Earnings	382.25
Earning Valuation	319.13
Discounted Cash Flow	342.48
P/E Model	244.67
P/B Model	561.34
<b>Final Average Valuation</b>	<b>369.99</b>

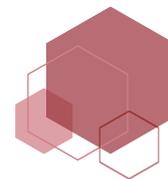
## Assumptions

### I. Projected Growth Rates

- Perpetual Growth Rate (for longer period projection to calculate terminal value (Last 10 years average economy growth rate)=4.71%
- Stable Earnings Growth Rate for calculating capitalization rate=7.76% (Last five year' average EPS growth rate)

### II. Cost of Equity (CAPM Model)

$$K_e = R_f + (R_m - R_f) * B$$



Specifics	Value	Remarks
Weekly Beta (B)	0.66	As on 11/01/2021
Market Return (Rm) (average)	15.94%	
Risk Free rate (Rf)	9.00%	Citizen Saving Bond, 2083
Cost of Equity (Ke)	13.58%	

- Industry average P/E Ratio = 38.47 and P/B Ratio = 3.90

## B. Recommendation

The paid-up capital of EDBL has reached NPR 908.46 million as on Q1 FY 2078/79 after the issuance of 12% bonus share from the paid-up capital base of NPR 811.12 million, and it shall increase to NPR 1.15 billion after the ongoing rights issue of 30% in the same capital base of NPR 811.12 million, since the book closure date was same for both 12% bonus and 30% rights issue. The objective behind issuing the rights share were to increase the capital base of the company & maintain sound liquidity profile, branch & business expansion and investing a certain portion of the collected funds in government bonds.

The company has reported a loan growth of 8.55% and the deposit base has declined by 2.34%. Loan loss provisioning of NPR 48.37 million, along with a decline in net interest income (NII) has impacted the profitability of the company. Moreover, due to huge capital increment, the company's EPS has diluted to NPR 6.36 in Q1 FY 2078/79 and its net worth per share stands at NPR 144.08.

The stock price of the company is trading at NPR 638 as on 1<sup>st</sup> November 2021 and based on the valuation price of NPR 369.99, the stock is overvalued. However, after a huge price correction of 37.25% from the recent all-time high of NPR 844.61, the stock took support at NPR 530 level, and also considering its consistent & stable dividend history and pending dividend for FY 2077/78 (with distributable profit per share of NPR 12.29 as per Q4 FY 2077/78), there could be a good short to mid-term trading opportunity in this stock, or an opportunity to make an exit if the stock is already in holdings at the resistance levels of NPR 695 and NPR 735.

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## ISSUE OF THE MONTH

# Effect of Emotional Gap on Investment Decisions

## A. What is Emotional Gap?

Human behavior is shaped by conscious and unconscious decisions which can be swayed by behavioral biases. People tend to make decisions based on a set way of thinking or even more problematically based on feelings alone ignoring many relevant facts. Emotional gap alludes to the tendency of making decisions based on intense emotions or emotional stresses such as worry, rage, fear, or enthusiasm.

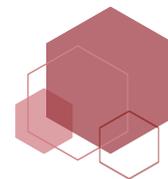
Many believe that on the fundamental level, a market is driven by only two primary emotions: fear and greed. However, these sets of emotions are intense and opposite to each other meaning that investor behavior driven only through these emotions can have serious consequences for investor's portfolio while also affecting the stability of stock market which can extend to affect the national economy as well. Thus, an emotional gap can not only affect an individual but can also quickly become her behavior and affect the market significantly.

## B. How greed and fear affect investment decisions?

The proclivity of individuals in trying to accelerate the rate at which they make gains/get richer is quite high which is enabled by bull markets which provide swift returns. This has been evident in the previous bull markets in NEPSE which saw stock prices rise substantially. Investors also thus became excessively greedy, driving up purchasing and bidding prices to exorbitant heights. However, since this led to overpricing of stocks, the bubble created eventually burst, leading to humongous losses for the investors.

This is because, like being overwhelmed with greed, investors can also succumb to fear. In the course of a bear market, when stocks deprecate in value for a sustained period, investors can become fearful of further losses, this leads to people selling more which becomes a collective behavior which in turn becomes a self-fulfilling effect of ensuring that prices fall further. Just as greed dominates the market during a boom, fear prevails following its bust.

Many investors are emotional and reactive driven mostly by fear and greed. This is because greed and fear influence how we reason leading us to disregard common sense and self-control and make irrational decisions. When investors are overcome by the force of greed or fear, which grows pervasive in a market, overreactions can occur,



causing price distortions. Asset bubbles, on the other hand, can rise well beyond the values being warranted as per their fundamentals. On the fear scale, sell-offs may last for a long time and drive values much below where they should be.

### C. How to Invest Rationally

Allowing our emotions to guide our financial decisions even if it is successful in terms of a bull market can lead us to make illogical decisions which can lose you a lot of money. Thus, it is typically advisable to disregard the current trend—be it bullish or bearish—and stick to a long-term strategy that is based on solid fundamentals for the majority of your investment portfolio. Using value investing techniques, one can build a long-term portfolio that ensures stable returns over the years. Also, it is essential to recognize your risk tolerance levels and adjust your portfolio accordingly so that when fear and greed dominate the market you can act more rationally.

### D. Value Investing through Graham's Number

Graham's Number is a concept based on Benjamin Graham's conservative valuation of companies. It calculates the intrinsic value of a company based on its earnings per share and book value per share. Different Investors use different metrics for looking at Graham's Number. If a stock's market price exceeds its graham's number, the stock is considered overpriced whereas a price below the number is considered good value.

Different investors use the formulae in its entirety or the formula's singular constituents to quickly calculate whether a stock is worth investing in or not.

The composite formula for graham's number is as follows:

$$\text{Graham's Number} = \sqrt{15 \times 1.5 \times EPS \times BVPS}$$

where,

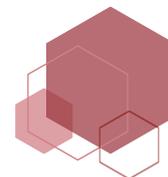
$$EPS = \frac{\text{net income}}{\text{shares outstanding}}, \quad BVPS = \frac{\text{shareholder's equity}}{\text{shares outstanding}}$$

The individual components are also used for quickly comparing stocks as:

$$\text{Graham's Number} = 1.5 \times BVPS$$

$$\text{Graham's Number} = 15 \times EPS$$

Graham's number uses two major indicators of a company's financial health and performance, how much money it is making for each shareholder and how much assets it holds to calculate the best value for a stock. It does not mean that the stock cannot be bought above that price but provides a simple measure to control risk exposure of an investor and helps towards guaranteeing stable returns. Building your portfolio using



graham's number will help mitigate the effects of volatility in the market and help an investor behave more rationally.

## Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
MEROPO	Auction	571,598(P)	2021/10/29 AD 2078/07/12 BS	2021/11/09 AD 2078/07/23 BS	NMB Capital
JBBLPO	Auction	181,470(O)	2021/10/28 AD 2078/07/11 BS	2021/11/03 AD 2078/07/17 BS	NIBL Ace Capital
MFILPO	Auction	92,166(P)	2021/10/28 AD 2078/07/11 BS	2021/11/03 AD 2078/07/17 BS	NIBL ACE Capital
EDBL	Right	2,433,363(O)	2021/10/11 AD 2078/06/25 BS	2021/11/15 AD 2078/07/29 BS	NIBL Ace Capital

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