

The Pulse

Market Growth, Risks and Outlook

Poush 2078

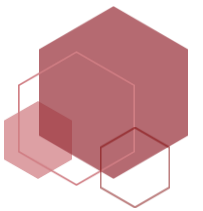
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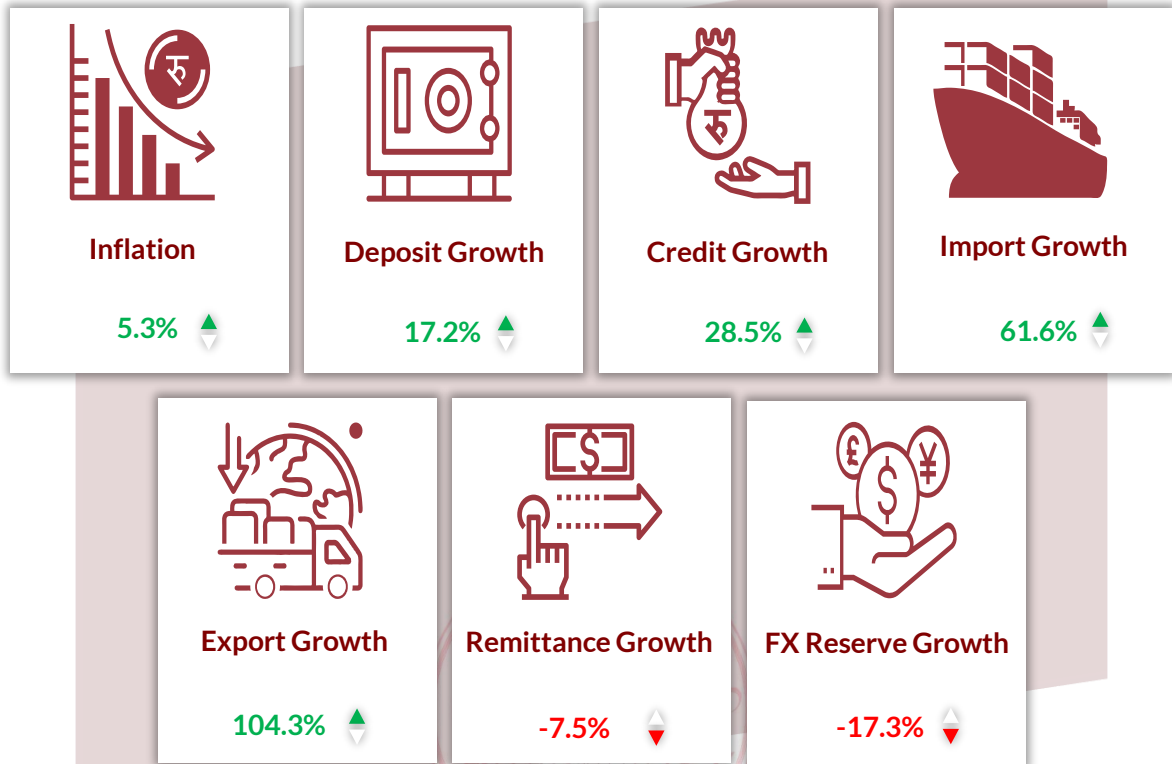


Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

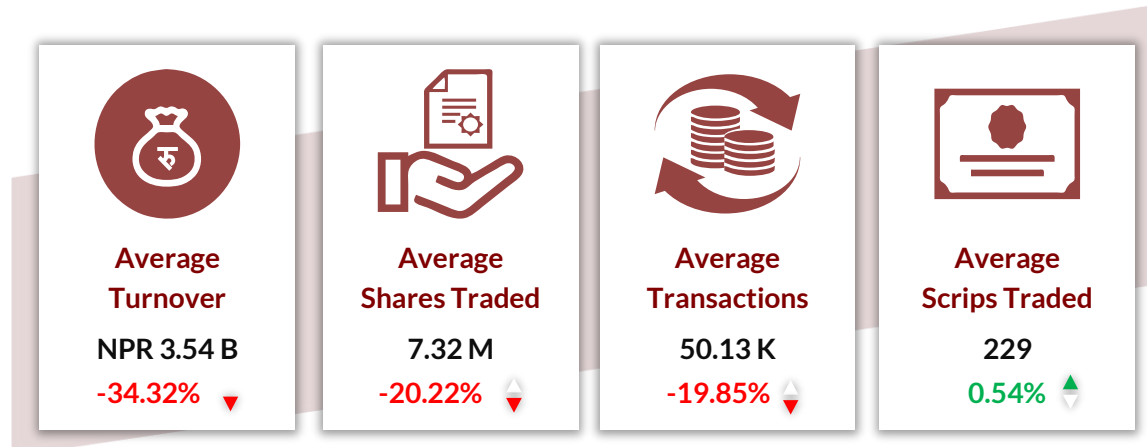


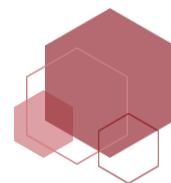
Macroeconomic Overview



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

Monthly Trading Statistics





Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Kartik-77	Ashwin-78	Kartik-78	06-Poush	13-Poush	YOY	MOM	WOW
Wt.Avg 28 Days TB rate	0.04	0.17	0.17	0.17	0.17	0.13	0.00	0.00
Wt.Avg 91 Days TB rate	0.79	4.86	4.81	5.07	5.10	4.02	-0.05	0.03
Wt.Avg 364 Days TB rate	2.40	4.72	4.97	4.99	4.98	2.57	0.25	-0.01
Wt. Avg Interbank Rate	0.13	4.95	4.96	4.97	4.98	4.83	0.01	0.01
Capital Expenditure (In Billion NPR)	25.25	3.81	16.64	29.78	34.63	-8.61	12.83	4.85

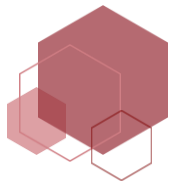
B. BFI Statistics

Description	Value As On					Change	
	Kartik-77	Ashwin-78	Kartik-78	06-Poush	13-Poush	YOY	MOM
Wt. Avg Deposit Rate	5.31	5.43	5.80	5.80	5.80	0.49	0.37
Wt. Avg Lending Rate	9.52	8.69	9.02	9.02	9.02	-0.50	0.33
Base Rate	7.57	7.57	7.80	7.82	7.82	0.23	0.23
CD Ratio	84.93%	88.79%	90.26%	91.21%	91.19%	5.33%	1.47%
Fixed Deposits/Total Deposits	48.45%	49.30%	51.03%	51.03%	51.03%	2.58%	1.73%
Total Liquid Assets/Total Deposits	27.59%	22.53%	22.27%	22.27%	22.27%	-5.32%	-0.26%

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	Mangsir 28	200	N/A	9	25	3.15	200	4.3971	5.1501	5.0453
91 Days	Poush 13	910	N/A	23	81	1.67	910	5.0223	5.1449	5.0982
182 Days	Poush 13	1,000	N/A	27	105	1.69	1,000	5.0100	5.1701	5.0996
364 Days	Poush 13	200	N/A	21	70	7.03	200	4.9600	5.0000	4.9809

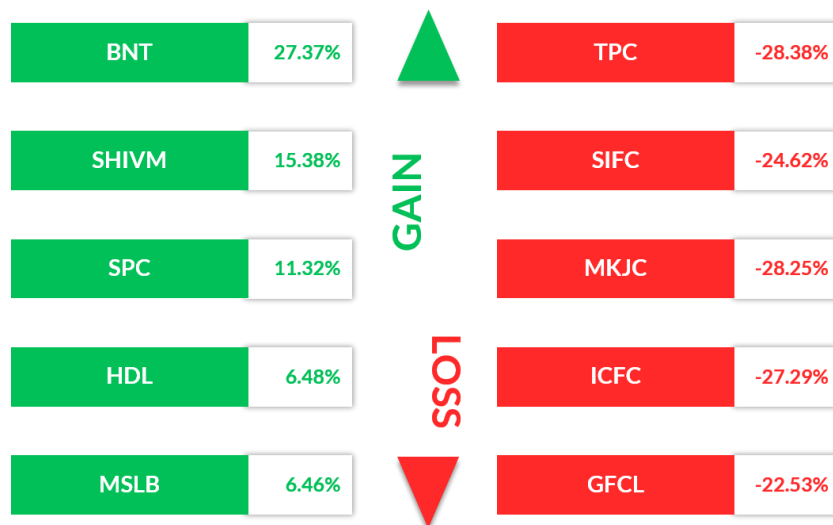
*Figures are in Millions NPR

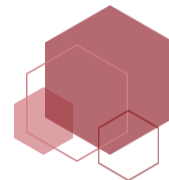


Sectoral Movement

Index	Last Month	This Month	Change
NEPSE	2,628.37	2,518.99	-4.16%
Manufacturing & Processing	6,115.62	6,797.09	11.14%
Life Insurance	13,972.22	14,282.83	2.22%
Mutual Fund	15.31	14.91	-2.61%
Commercial Bank	1,761.37	1,701.37	-3.41%
Non Life Insurance	11,771.24	11,358.50	-3.51%
Microfinance	5,078.75	4,880.44	-3.90%
Trading	2,775.00	2,641.76	-4.80%
Investment	82.18	77.98	-5.11%
Hotels & Tourism	3,178.10	3,006.17	-5.41%
Others	2,061.54	1,928.25	-6.47%
HydroPower	3,017.72	2,753.40	-8.76%
Development Bank	4,937.04	4,254.98	-13.82%
Finance Company	2,463.72	2,080.16	-15.57%

Major Movers





Sectoral Divergence-Turnover

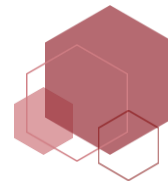
Index	90 Days Average	Monthly Average	Divergence
NEPSE	6.75 B	2.34 B	-65.38%
Preferred Stock	0.04 M	0.06 M	55.88%
Manufacturing And Processing	221.68 M	185.24 M	-16.44%
Others	171.01 M	101.09 M	-40.89%
Tradings	17.34 M	9.30 M	-46.39%
Life Insurance	267.26 M	137.29 M	-48.63%
Corporate Debenture	1.74 M	0.79 M	-54.39%
Non Life Insurance	303.68 M	128.55 M	-57.67%
Finance	0.69 B	256.52 M	-62.60%
Investment	270.28 M	98.99 M	-63.37%
Commercial Banks	1.19 B	433.23 M	-63.62%
Microfinance	578.43 M	184.27 M	-68.14%
Hotels	38.65 M	12.06 M	-68.78%
Hydro Power	2.04 B	0.56 B	-72.65%
Development Banks	0.94 B	226.90 M	-75.74%
Mutual Fund	32.25 M	5.59 M	-82.66%

Highest Turnover

HDL	2.62 B
NABIL	1.96 B
MFIL	1.28 B
NHPC	1.18 B
API	1.13 B

Highest Volume

NHPC	3.36 M
HIDCL	2.86 M
API	2.67 M
AHPC	2.43 M
MLBL	2.00 M



NEPSE Outlook

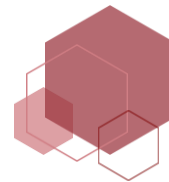
A. Current Overview



The NEPSE index remained highly volatile in the month of December witnessing a sharp fall from 2,628 to 2,282 (a decline of 346 points or, 13.17%) in the first half of the month amidst the selling pressure observed to nearing Poush End, for the arrangement of funds for interest on loan and tax settlements. Then after, in the second half of the month, the market witnessed a rebound from that oversold zone to again resist at 2,600 level and closed at 2,524.50 points at the end of the review period (i.e. 29th December, 2021). The average daily turnover for the month of December declined by 32.83% to NPR 3.54 billion compared to the previous month's average daily turnover of NPR 5.27 billion.

As we can see in the chart above, the NEPSE index is declining in a parallel channel pattern taking support and resistance within that pattern. Apparently, the index resisted from the upper channel of the pattern from 2,600 level, which was a very crucial zone for breakout in the short-term perspective as the 50 days EMA also holds at that level indicating investor's sentiment is still on the weaker side.

The 20 days EMA that crossed over the 50 days EMA from above is still below it signaling continuation of downward trend. Moreover, a death cross has also been observed based on crossover between 50 days EMA and 200 days EMA that signals downward trend.



The NEPSE index that took support at an RSI of 19 from the oversold zone currently stands at 48 in the middle zone indicating the bargaining going on between the buyers and sellers in the market right now.

Though in the negative zone, the MACD line has crossed over the trigger line from below indicating rebound after deep correction, but its sustainability is still in question as it is in the negative zone and the histogram is slightly starting to decline.

The lowering gap between +DMI and -DMI, along with falling ADX of 23 indicates the market has entered into consolidation phase and trying to become stable after going through huge volatility within one month's time frame.

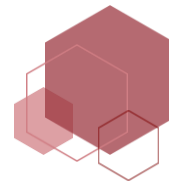
The immediate support levels of NEPSE index stands at: (S1) 2,480, (S2) 2,430 and (S3) 2,360, whereas the resistance levels hold at: (R1) 2,600, (R2) 2,650 and (R3) 2,700.

B. Long-Term Outlook



After making the low of 1,102.47 points on 25th 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 15th August, 2021 during this bull run.

As shown in the chart above, the NEPSE index has successfully achieved the Trend-Based Fibonacci Extension of 1.61 (2,096.36 points) and 2.61 extension (2,660.38 points) within



very short span of time and after few up and down swings, the index even tested 3.61 Fibonacci extension of 3,224.39 points.

However, after that point the market went into corrective mode and declined by 916.18 points or, 28.65% from the recent all-time high closing to take support at 2,282.01 points, amidst various kind of intervention in the past months from the regulatory bodies, especially the cap of NPR 12 cr. for the loan against pledged share announced through monetary policy for FY 2078/79, as well as due to liquidity position getting tighter & BFs increasing the interest rates to manage their liquidity, and also due to added fuel provided by the selling pressure amidst the nearing Poush End to arrange funds for interest and tax settlements.

If we observe the 50 days EMA and 200 days EMA crossover for long-term trend, a death crossover has been observed in NEPSE recently after a sharp decline in NEPSE, which indicates downward trend in the mid to long-term perspective. Though it presents a cause of concern, it is a lagging indicator and solely depending on this indicator shall not be reliable, as trend reversal could be on the cards after a deep pullback from 3,200 level.

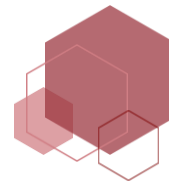
The intermediate support levels of NEPSE index stands at: (S1) 2,460, (S2) 2,360 and (S3) 2,100, whereas the resistance levels hold at: (R1) 2,660, (R2) 2,800 and (R3) 3,000.

SCRIP ANALYSIS

Garima Bikas Bank Limited (GBBL)

A. Technical Analysis





The stock price of GBBL is in declining trend after closing at an all-time high of Rs. 720 on 18th August, 2021. Currently, it is trading at Rs. 504.20 in the middle channel of the pattern at one of the previous support zone area.

The 20 days EMA has already crossed over 50 days EMA from above signaling downward trend.

The RSI of the stock resisted from 47 from the middle zone after taking support in the oversold zone area of 25 indicating weak sentiment of the investors towards the stock.

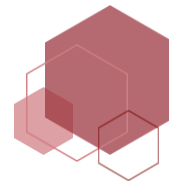
Though the crossover for upward trend has been observed between MACD and trigger line, it is observed in the negative zone, thus sustainable upward trend is still not confirmed yet.

The lowering gap between +DMI and -DMI, along with falling ADX of 24 indicates the market has entered into consolidation phase and trying to gain some stability after a sharp price fall.

The immediate support levels for this stock stands at: (S1) NPR 490, (S2) NPR 470 and (S3) NPR 440, whereas the resistance levels hold at: (R1) NPR 530, (R2) NPR 550 and (R3) NPR 580.

The final average valuation of GBBL based on Absolute Approach (viz. Capitalized Earnings, Earnings Valuation and Discounted Cash Flow Method) as well as Relative Approach (viz. P/E Model and P/B Model) has been computed as NPR 377.37, which has been tabulated below:

Method	Valuation Price
Capitalized Earnings	321.46
Earning Valuation	269.09
Discounted Cash Flow	383.01
P/E Model	498.50
P/B Model	414.79
Final Average Valuation	377.37



Assumptions

I. Perpetual Growth Rates

- Perpetual Growth Rate (for longer period projection to calculate terminal value (Last 10 years average economy growth rate)=4.71%

II. Stable Earnings Growth Rate

- Stable Earnings Growth Rate for calculating capitalization rate = 8.39% (Last six year's average EPS growth rate)

III. Discounted Rate Using CAPM Model

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

Specifics	Value	Remarks
Weekly Beta (B)	1.11	As on 12/29/2021
Market Return (R _m)	15.94%	
Risk Free Rate (R _f)	9.00%	Citizen Saving Bond, 2083
Cost of Equity (K _e)	16.70%	

IV. Industry Average P/E Ratio

- Industry average P/E Ratio = 24.84 and P/B Ratio = 2.80

Recommendation

The last traded price of GBBL as on 29th December, 2021 is Rs. 504.20. It is trading slightly above the industry average P/E ratio of 24.84 at the P/E of 25.12 with an EPS of Rs. 20.07. The financial institution has healthy key indicators with net worth per share of Rs. 148.14, CAR of 11.33%, a CD ratio of 85.67% as per NRB Calculations and a controlled NPL of 1.04%, with a cost of fund of 6.75%.

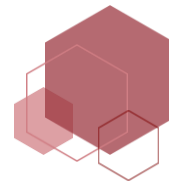
In the first quarter of FY 2078/79, its deposit has grown by 1.27% and the reported loan growth is 8.24%, which is higher compared to the deposit growth rate. Its net interest income has increased significantly compared to corresponding quarter last year by 51.61%, along with rise in fees and commission income as well, which have contributed in increasing its bottom line profit by whopping 127.05%.



Moreover, the company has good year-on-year dividend history and also backed up by good corporate governance. The stock is trading at a premium of 33.61% compared to its intrinsic value of Rs. 377.37 making it overvalued based on stock valuation. But since the stock is in correction phase and the RSI is relatively in the oversold zone, it could be a good opportunity to “BUY” or, accumulate to average out on the dip in both medium and long-term perspective, as the second quarter performance report of FY 2078/79 and the dividend announcement from the FY 2077/78 term still awaits, where distributable profit per share at the fiscal year end 2077/78 stood at 16.48.

***Disclaimer:** Investment in equity shares has its own risks. The information contained herein is based on analysis and on sources that we consider reliable. This material is for personal information, and we are not responsible for any loss incurred due to it & take no responsibility whatsoever for any financial profits or loss which may arise from the recommendation above.*





ISSUE OF THE MONTH

Contrarian Investing

A. What is a Contrarian?

“Contrarian – A trader whose reasons for making trade decisions are based on logic and analysis and not on emotional reaction.”

A contrarian investment approach is one that is built on spotting and betting against stock price fluctuations that reflect changes in the majority of investors' views. A contrarian takes judgments for reasons that other traders do not. Most people purchase because they are greedy and sell because they are panicked. As a result, people have a predisposition to make poor judgments. A contrarian does not just behave in opposition to the majority of traders, but also does not follow the majority if indications support the opposite conclusion.

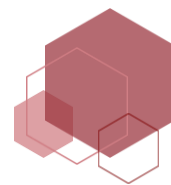
Contrarian investing is thus a market timing approach that may be used in any trading timeframe. Contrarians assume that financial instruments that have been consistently can reverse and begin to decrease, and vice versa. The contrarian trader thus buys a falling item or short-sells a rising one confident in that the trend will reverse in some time based on market indicators.

B. How most traders trade (trading tendencies and market behavior)

Everyone has heard the phrase "buy low, sell high." This appears to be simple, yet most traders tend to do the exact opposite. They tend to purchase high (because of greed) and sell low (due to panic). A contrarian behaves differently and tries to "buy cheap and sell high" by looking for market over-reactions to certain news which underprice or overprice a stock.

C. How a Contrarian trades:

A contrarian understands that most traders follow the majority, and the majority often tends to be wrong due to excessive greed or fear i.e., As prices rise, a growing number of people tend to buy, and the higher the price, the more buyers enter the market and when prices fall, a growing number of people tend to sell, and the lower the price, the



more sellers will try to exit the market creating great buy and sell opportunities in the process. Knowing this, A Contrarian thus attempts to make decisions in spite of what the majority is doing but does not do so on a whim rather making wise decisions more often than not, based on analysis and reading of signals. They tend to buy when prices are depressed, especially if reversal signals indicate a coming uptrend and sell when prices rise to new heights, especially if reversal signals indicate a coming downtrend.

Thus, a Contrarian not only employs logic and analysis, but also times trades based on strong reversal signals found in price patterns, candlestick indicators, volume spikes and momentum oscillators. Contrarians assume the confirmation of reversals, using the same signals and indicators as reversals; and the stronger the confirmation, the more confidence a contrarian will have. A contrarian avoids placing too much capital into any single trade, to minimize losses and to avoid large losses and uses other risk reduction methods such as hedging and diversification

A contrarian will continuously observe market trends and look for reversals in the following indicators to make a contrarian call/trade.

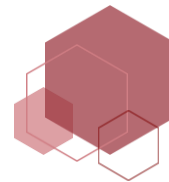
- Traditional price reversal patterns like the head and shoulders, double tops or bottoms, and price gaps – especially when these appear at or near resistance or support
- Volume indicators as well as volume spikes, a one-day or two-day exceptionally high number of trades
- Momentum oscillators, indicators designed to reveal how quickly trends develop, when they begin to slow down, and when a stock is overbought (a bearish signal) or oversold (a bullish signal)

D. Contrarians and the efficient market hypothesis

“Efficient Market Hypothesis – The belief that all current prices are based on the accumulation of all known facts and news about the company, meaning that all prices are currently fair and efficient.”

Contrarians think that prices may be forecast to some extent based on a rational and analytical examination of market behavior and news. This notion is challenged by the efficient market hypothesis (EMH), which holds that the market is efficient, and that all information is integrated into a stock's price.

However, if markets were genuinely efficient, prices would respond uniformly to all news, such as profits or merger announcements. According to EMH, reactions to earnings shocks should be calculated and accurate, and they should not be open to



rectification. EMH fails to understand market behavior factors, which might be the most significant feature of stock market investing and trading.

A contrarian has seen how price behaves irrationally and how price tends to overreact to any unexpected news. Contrarians feel the market is highly inefficient under these conditions. If such is the case, then the one-day price change will be overstated. If that is true, then exaggerated one-day price movements present an opportunity to exploit inefficiency.

E. Contrarians and the Random Walk Theory

“Random Walk Theory – A theory about the market stating that it is impossible to predict the direction of price movement, and that any price today has a 50% chance of rising or falling.”

Contrarians also oppose the Random Walk Theory because they believe that price movements may be forecast based on market activity and fundamental analysis. If the random walk hypothesis is correct, all types of analysis are rendered meaningless. For this reason, the contrarian rejects the hypothesis.

It wouldn't matter which stock was chosen if all prices were 50/50 bets; half would increase and half would fall. You must reject the impacts of high sales and profitability in one firm vs low outcomes in another under the random walk. You would also have to discard reputation, competitive success, and outstanding management. All of this would be irrelevant since price movement would occur independently of these variables.

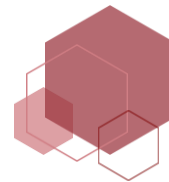
F. Contrarians and the Dow Theory

“Dow Theory – A series of “rules” about market trends and how they are set and reversed. The theory is based on the teachings of Charles Dow, one of the two founders of the Dow Jones company.”

Contrarians accept the basis of the Dow Theory over the long term, while also recognizing that short-term price behavior tends to be chaotic and irrational. The contrarian views the Dow Theory as an organizing principle of technical analysis, while also observing how volatile short-term price movement and market behavior present trading opportunities.

I. The tenets of the Dow Theory

- ✓ The market consists of three movements: primary, secondary, and short-term.
- ✓ Trends consist of three phases: accumulation, public participation, and distribution.

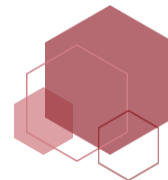


- ✓ The market tends to discount all news very quickly.
- ✓ Stock averages must confirm each other before a reversal is recognized.
- ✓ Volume confirms trends.
- ✓ Trends continue until a contrary signal is recognized and confirmed.

Many have pointed to the tenet that the market discounts news, to support the efficient market hypothesis. It is true that the market behaves in this manner, but it often takes several days for the discounting to go into effect. Contrarians are strong proponents of the Dow Theory over the long term and recognize that the core of trend analysis rests with recognition of reversal and confirmation.

G. Finally

Contrarians although appearing to act in opposition to the majority do not act so on a whim, rather they tend to make decisions for different reasons than others – utilizing reasoning and analysis rather than emotion, which makes them more successful in the long run. Contrarian investing thus is similar to value investing as a contrarian seeks out mispriced stocks and purchases those that appear to be undervalued by the market. Thus Warren Buffett, one of the best-known value investors is also the most well-known example of a contrarian investor. One of his most famous phrases sums up his approach to contrarian investing: "be fearful when others are greedy, and greedy when others are fearful." Thus, recognizing when to be free of the effect of trends, observing changes in market behaviors, and acting on well-founded information become key in making more profitable investments.



Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
NABBC	Right	1,312,338(R)	2021/12/22 AD 2078/09/07 BS	2022/01/11 AD 2078/09/27 BS	Global IME Capital
MSLBP	Auction	3,500(P)	2021/12/19 AD 2078/07/16 BS	2022/01/02 AD 2078/08/20 BS	Sunrise Capital

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