

The Pulse

Market Growth, Risks and Outlook

Magh 2078

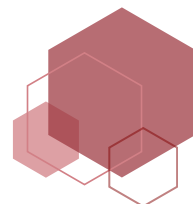
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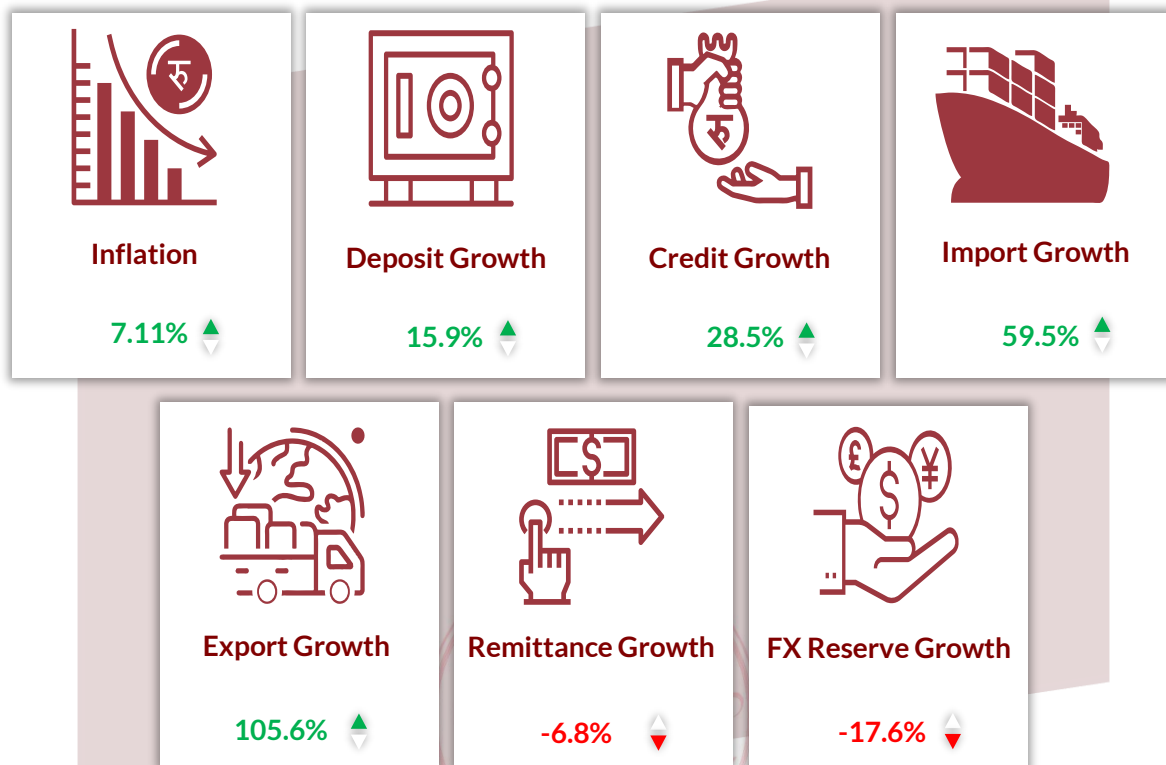


Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

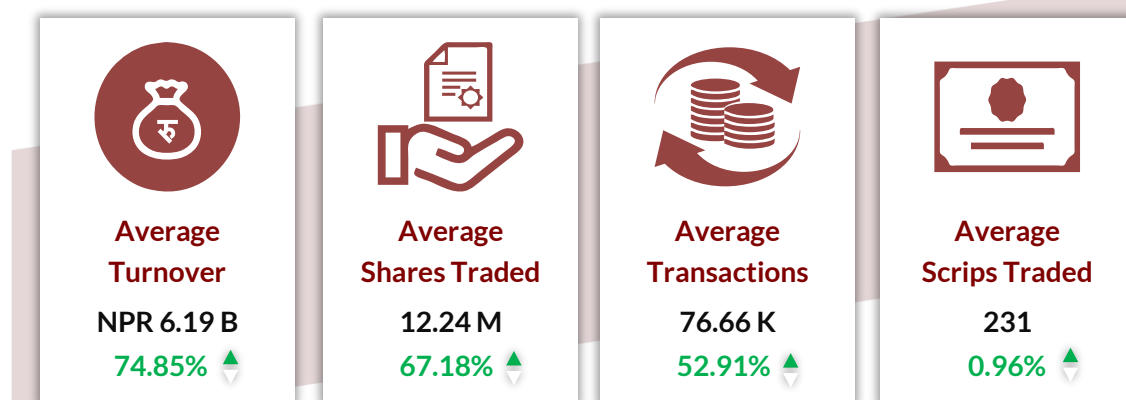


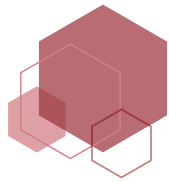
Macroeconomic Overview



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

Monthly Trading Statistics





Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Kartik-77	Ashwin-78	Kartik-78	06-Magh	13-Magh	YOY	MOM	WOW
Wt.Avg 28 Days TB rate	0.27	0.17	5.05	4.72	4.72	4.78	4.88	0.00
Wt.Avg 91 Days TB rate	0.60	4.81	5.04	5.01	5.01	4.44	0.23	0.00
Wt.Avg 364 Days TB rate	1.95	4.97	4.97	4.98	4.98	3.02	0.00	0.00
Wt. Avg Interbank Rate	0.15	4.96	4.96	4.97	5.01	4.81	0.00	0.04
Capital Expenditure (In Billion NPR)	29.71	15.33	21.97	52.62	54.71	-7.74	6.64	2.09

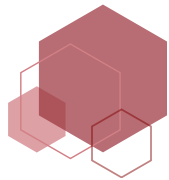
B. BFI Statistics

Description	Value As On					Change	
	Kartik-77	Ashwin-78	Kartik-78	06-Magh	13-Magh	YOY	MOM
Wt. Avg Deposit Rate	5.14	5.80	6.24	6.24	6.24	1.10	0.44
Wt. Avg Lending Rate	9.37	9.02	9.29	9.29	9.29	-0.08	0.27
Base Rate	7.36	7.80	8.25	8.25	8.25	0.89	0.45
CD Ratio	85.29%	90.26%	91.24%	90.02%	90.57%	5.95%	0.98%
Fixed Deposits/Total Deposits	48.46%	51.03%	52.68%	52.68%	52.68%	4.22%	1.65%
Total Liquid Assets/Total Deposits	26.23%	22.27%	21.56%	21.56%	21.56%	-4.67%	-0.71%

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	Poush 27	200	0	13	45	4.44	200	4.70	4.75	4.72
91 Days	Magh 11	860	0	22	82	2.13	860	4.95	5.33	5.12
182 Days	Poush 27	600	0	23	115	3.05	600	4.80	5.09	5.01
364 Days	Poush 13	200	0	21	70	7.03	200	4.96	5.00	4.98

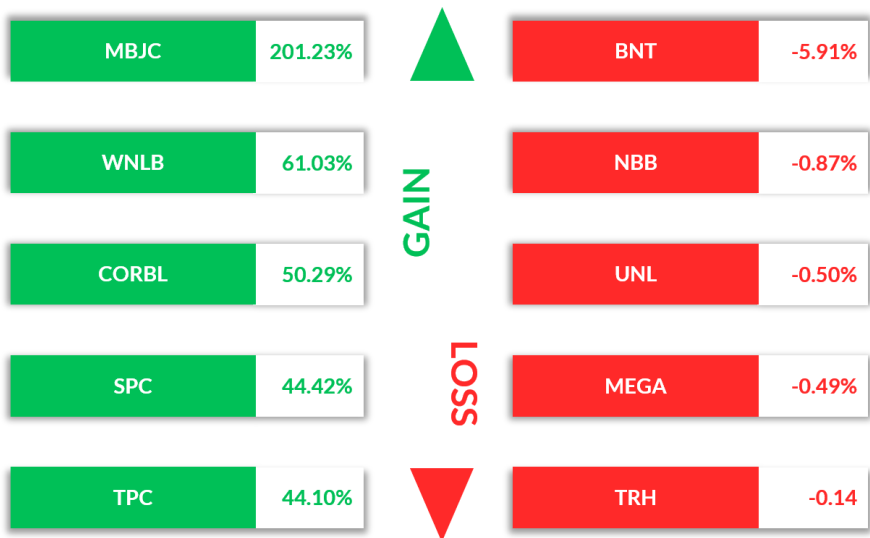
*Figures are in Millions NPR

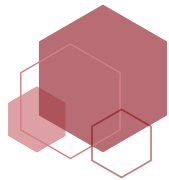


Sectoral Movement

Index	Last Month	This Month	Change
NEPSE	2524.5	2,779.98	10.12%
HydroPower	2,755.93	3,250.55	17.95%
Finance Company	2,075.07	2,397.31	15.53%
Investment	77.73	89.54	15.19%
Development Bank	4,225.08	4,850.73	14.81%
Life Insurance	14,210.87	16,108.30	13.35%
Trading	2,628.45	2,939.12	11.82%
Others	1,947.33	2,161.90	11.02%
Non Life Insurance	11,610.08	12,857.85	10.75%
Microfinance	4,892.25	5,344.20	9.24%
Commercial Bank	1,702.12	1,808.33	6.24%
Manufacturing & Processing	6,854.14	7,268.38	6.04%
Mutual Fund	14.93	15.76	5.56%
Hotels & Tourism	3,023.35	3,091.56	2.26%

Major Movers

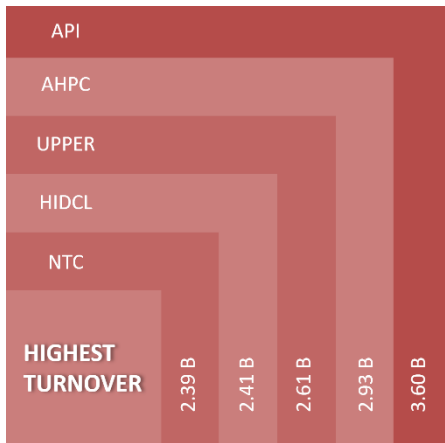




Sectoral Divergence-Turnover

Index	90 Days Average	Monthly Average	Divergence
NEPSE	4,882.09 M	4.91 B	0.63%
Non Life Insurance	262.75 M	436.30 M	66.05%
Life Insurance	252.17 M	386.76 M	53.37%
Investment	207.01 M	287.95 M	39.10%
Tradings	16.94 M	21.52 M	27.07%
Others	169.43 M	184.46 M	8.87%
Hydro Power	1.31 B	1.38 B	5.26%
Manufacturing And Processing	200.40 M	192.17 M	-4.10%
Finance	0.43 B	409.49 M	-5.29%
Mutual Fund	18.83 M	17.68 M	-6.07%
Hotels	28.98 M	26.56 M	-8.38%
Corporate Debenture	1.42 M	1.24 M	-12.51%
Commercial Banks	0.94 B	771.67 M	-18.08%
Microfinance	444.00 M	359.47 M	-19.04%
Development Banks	0.59 B	434.47 M	-26.62%
Preferred Stock	0.03 M	0.00 M	-97.84%

Highest Turnover



Highest Volume





NEPSE Outlook

A. Current Overview

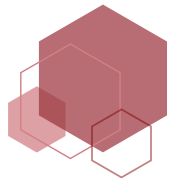


During the review period, the NEPSE index continued its rebound from 2,280 level very aggressively from the beginning of the New Year, 2022 to reach a top of 2,980, and is witnessing a correction after that aggressive rebound, trying to take support between the area of 23.6% and 38.2% retracement level of 2,812 and 2,706 respectively. The market closed at 2,779.98 points at the end of the review period (i.e. 27th January, 2022). The average daily turnover for the month of January improved significantly by 74.86% to NPR 6.19 billion compared to the previous month's average daily turnover of NPR 3.54 billion.

Though the 20 days EMA is still above the 50 days EMA indicating the market is still in the upward trend in the intermediate term, the NEPSE index however has crossed over the 20 days EMA (2,785) from above, which is acting as a support level.

The NEPSE index that took support at an RSI of 19 from the oversold zone reached at 73 during the recent rally, and after that the market went into corrective mode with the current RSI at 52 in the middle zone signaling ongoing bargain between buyers and sellers.

Through MACD perspective, it has signaled a downward trend as the MACD line has just crossed over the trigger line from above, after the approximate fall of 200 points from the recent high of 2,980.



Though the +DMI is still above the -DMI, they are closing on towards each other indicating sellers are outweighing the buyers in the market right now. And the falling ADX of 32 indicates the market is in consolidation phase.

The immediate support levels of NEPSE index stands at: (S1) 2,760, (S2) 2,700 and (S3) 2,650, whereas the resistance levels hold at: (R1) 2,820, (R2) 2,880 and (R3) 2,980.

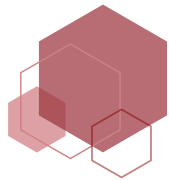
B. Long-Term Outlook



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 (2,097.67 points) and 2.61 extension (2,662.14 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.

Despite the turmoil observed in the market after reaching the high of 3,200 level, the market has been able to make a quick aggressive rebound indicating the long-term Bull Run is still intact, as we can see in the chart above, the death (bearish) crossover between 50 days EMA and 200 days EMA has been invalid, with the recent formation of golden (bullish) crossover.

The intermediate support levels of NEPSE index stands at: (S1) 2,700, (S2) 2,620 and (S3) 2,500, whereas the resistance levels hold at: (R1) 2,880, (R2) 2,980 and (R3) 3,060.

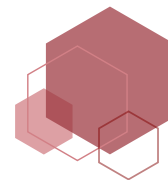
SCRIP ANALYSIS

Everest Bank Limited (EBL)

A. Technical Analysis



After a long period of consolidation between Rs. 650 to Rs. 750 level, the stock witnessed a sudden sharp fall from Rs. 700 with an approximate drop of 25% to Rs. 520. From there, the stock price of EBL was able to rebound up to Rs. 630 (i.e. a rebound of 21%). And currently the stock is witnessing another correction after that sharp rebound and taking support at 50% retracement level of Rs. 577, with the next support at 61.8% retracement level being Rs. 560.



The 20 days EMA that crossed over 50 days EMA from below is still above it, however, the 20 days EMA is closing in towards 50 days EMA indicating break in upward trend.

The RSI of the stock is relatively in the oversold zone at 45 indicating selling pressure in this stock.

The MACD line has also crossed over the trigger line from above indicating a downward correction.

And the falling ADX of 28 with +DMI nearing towards -DMI indicates the stock is in the consolidation trend with sellers outweighing the buyers in this stock.

The immediate support levels for this stock stands at: (S1) NPR 560, (S2) NPR 540 and (S3) NPR 520, whereas the resistance levels hold at: (R1) NPR 600, (R2) NPR 615 and (R3) NPR 630.

B. Stock Valuation

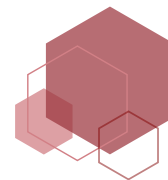
The final average valuation of EBL based on Absolute Approach (viz. Capitalized Earnings, Earnings Valuation and Discounted Cash Flow Method) as well as Relative Approach (viz. P/E Model and P/B Model) has been computed as NPR 417.82, which has been tabulated below:

Method	Valuation Price
Capitalized Earnings	428.31
Earning Valuation	349.18
Discounted Cash Flow	392.36
P/E Model	373.75
P/B Model	545.47
Final Average Valuation	417.82

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 = 7.31% (Since the company has negative EPS growth, ROE of 9.26% multiplied by Retention Ratio of 0.79 has been used to calculate this growth rate)

III. Discounted Rate Using CAPM Model

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

Specifics	Value	Remarks
Monthly Beta (B)	0.73	As on 01/27/2022
Market Return (R _m)	15.94%	
Risk Free Rate (R _f)	9.00%	Citizen Saving Bond, 2083
Cost of Equity (K _e)	14.07%	

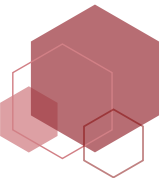
IV. Industry Average P/E Ratio

- Industry average P/E Ratio = 21.03 and P/B Ratio = 2.47

C. Recommendation

EBL is a joint venture bank, partnered with Punjab National Bank, India (PNB) holding 20% stake. The bank is operating with 105 branches across Nepal. The stock once considered blue-chip in NEPSE has lost a bit of its charm due to stagnant growth in business and profitability relative to hike in its paid-up capital as per the regulatory requirement, which has hugely affected its stock price in the secondary market, as its market price hasn't been able to reach anywhere near around the last bull run's all-time high of Rs. 1,000.52 (dividend adjusted price). The stock is currently trading at Rs. 576 as on January 27, 2022 above the industry average P/E ratio of 21.03 at the P/E of 32.42 with an EPS of Rs. 17.77. However, its book is still stronger over the years compared to industry peers with NWPS of Rs. 220.69. The financial institution has healthy key indicators with CAR of 12.12%, low NPL of 0.26% and relatively lower cost of fund of 5.98%. However, the nominal spread rate of 2.70% is affecting the bank's overall profitability.

As per the 2nd quarterly report of FY 2078/79, the bank's deposit base has grown by mere 3.12% in the first six months of this fiscal year, whereas its loan has grown by 13.08%, which has resulted into tight CD ratio of 89.83%. Though the bank's core business income has witnessed a positive growth, loan loss provisioning has resulted into declined net profitability by 12.79% in Q2.



Regardless, the company has good leadership and corporate governance with consistent dividend history, which is declining over recent years. The stock is trading at premium compared to its intrinsic value of Rs. 417.82 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, average out this fundamentally sound scrip as a long-term holding stock to offer some diversification to the investment portfolio.

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

The Four Stages of a Bull Market

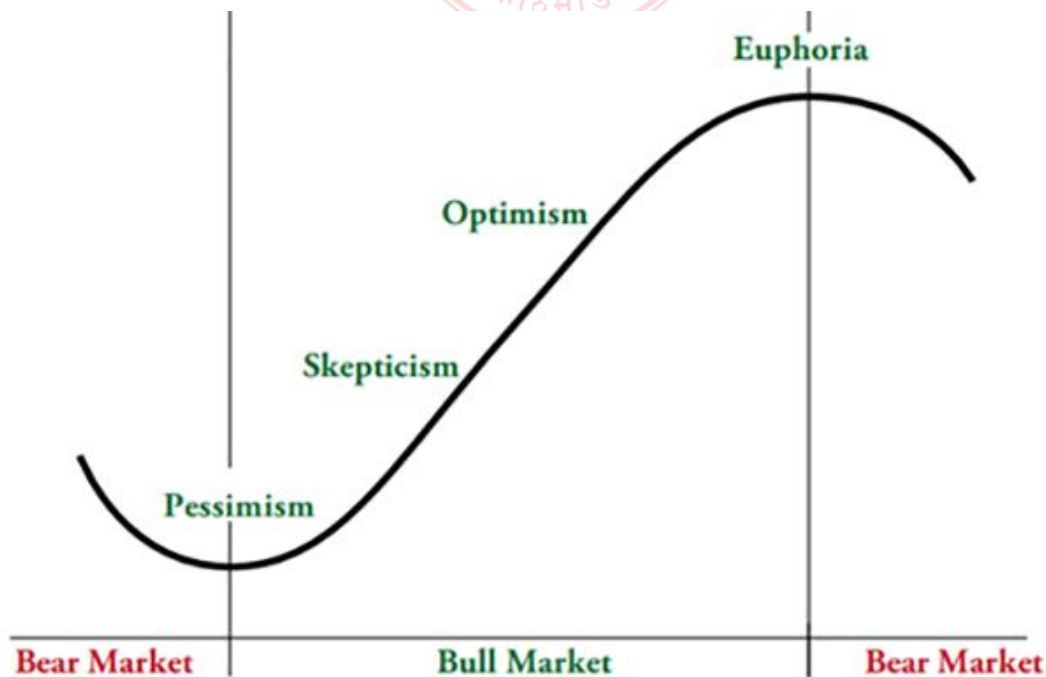
“Bull Markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria.” - Sir John Templeton

A. What is a Bull Market?

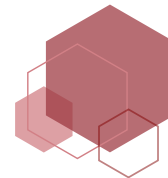
A bull market, also known as a bull, run, is a long, extended period in the market when stock prices are on the rise. There is no single stat or metric that defines when we are in a bull market, but the most common definition is when stock/asset prices increase at least 20% from their most recent low, with signs that they will continue to grow. This is most commonly applied to stock market Indices (NEPSE Index in case of Nepal) which measures overall position and movement of stocks in Nepal Stock Exchange.

A bull market is the reverse of a bear market, which happens when stock prices are falling. Bulls when excited charge rapidly and are known for running at great speeds while bears tend to hibernate and are associated more with defense and thus are used as symbols for markets/assets with similar moods.

B. What are the four stages of a bull market?



Note: Only for illustration, the markets do not move in a smooth trend as shown.



The interesting thing about market trends is that they tend to reverse at an almost counterintuitive time i.e., a bear market starts after the peak of a Bull Run while a Bull Market starts at the bottom of a bear market; this sounds simple enough but therein lies the complexity of buy and sell decisions. Selling too early in a Bull Cycle leads to you losing out on a lot of possible money while buying early in a Bear Cycle leads to losing a lot on your initial investment. Anyone who makes good money in the market does so because they have entered in time and exited in time. Get caught out either at the top or the bottom and you will have to wait a long time to realize the gains seen or recoup the losses seen in the preceding market cycle. Understanding the stages of a Bull market can help an investor buy right and sell right to get a good return on their investment.

I. Pessimism

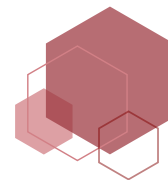
Bull Markets typically tend to begin when investors show their loss of confidence by selling assets at lower valuations. Good Stocks can be bought below their fair valuations and headlines about market volatility or emphasis on massive amounts of fear about investing in stocks are common. The continuous falls of the market would have scared away most of the short-term investors and speculators. Things look gloomy and many investors would have sold their stocks in panic during the market downturn. People tend to panic-sell near the bottom of a bear market or choose “safer” investments to avoid further loss. It is in this stage that the shrewdest value-based investors operate, buying the best stocks near or below their fair valuations. Public offerings tend to have lower participation from investors and Market Turnover remains apathetic.

II. Skepticism

In this stage, stocks start to climb as prices rebound from deep lows and reach nearer to their fairer valuations while skeptical investors still tend to distrust the prevailing bull market. Price based valuation metrics are used for investing as some skeptics finally start to enter the market. The fear of the bear market starts to diminish slowly as stock prices begin to rise and Investors who resisted selling in the previous bear may start to see their portfolio values rise. Good companies may start offering Public Offerings in this stage. Certain stocks can still be bought below their fair valuations at this stage. The more this stage progresses forward, new, and older investors will enter the market sensing a profit-making opportunity.

III. Optimism

A sustained forward push turns skepticism into optimism fueling the next leg of the bull market. At this stage, most investors will have forgotten the woes of the previous bear market and will be concentrating solely on the fact that there is a substantial profit to be made as everyone realizes that a bull market is underway. Expectations for company



earnings rise leading to people paying larger premiums for stock. People start buying poorly managed companies at lower prices as Investors who are not invested well start to develop a fear of missing out on the strong bull market returns. Relatively undervalued companies: even those with huge supplies start to see good gains period on period.

IV. Euphoria

The euphoria stage is when the market has the highest turnover as everyone now wants to buy into the market because greed has replaced fear as the primary driving factor while making a decision. Valuations are often forgotten as people are convinced that stock prices will continue to rally into the future. Even low-quality IPOs might launch and settle into a good price bracket as investors who feared or distrusted the stock market jump stock to stock looking for short term gains. They expect continuous growth and have forgotten there is such a thing as a business cycle.

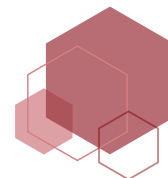
Stock Market news drives the headline and everyone who can invest will start to invest in the markets. Everyone becomes a pundit because all the stocks keep on moving higher. Investors start chasing the hot stock picks and trade based on rumor. People tend to believe something that has had a strong bull run is safer. So, they switch strategies and make decisions based on short-term enthusiasm. Nothing matters as the market consume everyone's attention. At the end of the bull market's lifecycle, euphoria is usually at its peak, lulling investors into false security. This is the beginning of a bear market as stocks reach ludicrous valuations before either they can move no higher or when a piece of really bad news brings the markets crashing down.

C. Understanding how to act.

When a new bull market starts—typically at the bottom of a bear market most investors will have no desire to own stocks. But this is when the returns are swift and massive, and losses suffered can be recouped quite quickly.

“The best time to invest is at this stage”. However, finding the bottom is much harder than it seems so buying good stocks near their book valuations can be akin to buying smart. Then, as the markets and economy improve, the worries gradually fade, and those investors who hesitated now to start showing some enthusiasm about the markets. As the bull matures, investor sentiment shifts to sky-high expectations for market returns before hitting a wall and moving back down again. Even junk stocks look highly appealing in this stage.

Paradoxically, **“The most losses are born from the Top of a Bull Market”** as the bears consume all momentum henceforth and the markets see large corrections as panic prevails.



However, it must be noted that cycles can only be seen clearly in hindsight and a savvy investor must always be looking at the signs that a market is about to turn.

*Note: This article is extracted from Falgun 2077 edition of The Pulse.

Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
CHL	Right	893,025(O)	2022/01/25 AD 2078/10/11 BS	2022/02/14 AD 2078/11/02 BS	Global IME Capital
CORBL	Right	3,000,000(O)	2022/01/21 AD 2078/10/07 BS	2022/02/10 AD 2078/10/27 BS	Civil Capital Market
CIT	Auction	331,902(P)	2022/01/27 AD 2078/10/13 BS	2022/02/03 AD 2078/10/20 BS	NIC Asia Capital
RMDCPO	Auction	300,065(P)	2022/01/27 AD 2078/10/13 BS	2022/02/03 AD 2078/10/20 BS	NIC Asia Capital
NIBSF1	Auction	Ordinary	2022/01/27 AD 2078/10/13 BS	2022/02/03 AD 2078/10/20 BS	NIBL Ace Capital

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