The Pulse

Market Growth, Risks and Outlook

Jestha 2079

Inside This Edition

Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

Macroeconomic Overview

Inflation	Deposit Growth	Credit Growth	Import Growth
7.18% ▲	12.25% ▲	17.85% ▲	32.00% ▲

Export Growth	Remittance Growth	FX Reserve Growth
69.40% ▲	-0.61% ▼	-18.51% ▼

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

*Credit refers to claim on private sector

Monthly Trading Statistics

Average Turnover	Average Shares Traded	Average Transactions	Average Scrips Traded
NPR 1.39 B	3.66 M	27.49 K	226
-22.47% ▼	-12.49% ▼	-21.18% ▼	-1.68% ▲

* For the period (Apr-27) – (May-27)

Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Falgun-77	Magh-78	Falgun-78	Jestha -7	Jestha-14	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	0.67	5.64	7.16	7.67	8.91	6.49	1.52	1.24
Wt.Avg 91 Days TB rate (%)	2.03	5.60	6.82	9.37	9.38	4.79	1.22	0.01
Wt.Avg 364 Days TB rate (%)	1.98	5.29	5.29	8.81	9.67	3.31	0.00	0.86
Wt. Avg Interbank Rate (%)	3.43	4.98	6.56	7.04	7.05	3.13	1.58	0.01
CapEx (In Billion NPR)	79.88	60.79	77.15	121.75	125.23	-2.73	16.36	3.48

B. BFI Statistics

Description	Value As On					Change		
	Falgun-77	Magh-78	Falgun-78	Jestha -7	Jestha-14	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	4.76	6.49	6.93	6.93	6.93	2.17	0.44	0.00
Wt. Avg Lending Rate (%)	8.73	10.31	10.60	10.60	10.60	1.87	0.29	0.00
Base Rate (%)	6.84	8.53	8.98	8.98	8.98	2.14	0.45	0.00
CD Ratio (%)	89.12	90.35	90.40	90.44	90.44	1.28	0.05	0.00
Fixed Deposits/Total Deposits (%)	48.09	54.03	54.03	54.03	54.03	5.94	0.00	0.00
Total Liquid Assets/Total Deposits (%)	24.84	23.20	23.20	23.20	23.20	-1.64	0.00	0.00

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	Baishak 20	200.00	0.00	10	36	2.45	200.00	7.37	8.15	7.67
91 Days	Jestha 3	200.00	0.00	7	19	1.65	200.00	9.18	9.44	9.37
182 Days	Jestha 3	985.50	0.00	13	49	0.86	985.50	8.99	10.19	9.47
364 Days	Jestha 3	189.00	0.00	10	45	3.10	189.00	8.43	9.02	8.81

**Figures are in Millions NPR*

Sectoral Movement

Index	Baisakh -13	Jestha-14	Change
NEPSE	2,376.17	2,223.78	-6.41%
Mutual Fund	15.59	15.34	-1.60%
Commercial Bank	1,586.59	1,548.87	-2.38%
Manufacturing & Processing	5,612.71	5,377.89	-4.18%
HydroPower	2,695.32	2,552.46	-5.30%
Microfinance	4,811.47	4,549.74	-5.44%
Investment	78.08	71.87	-7.95%
Development Bank	4,204.97	3,813.12	-9.32%
Hotels & Tourism	3,124.21	2,831.03	-9.38%
Finance Company	1,784.94	1,609.98	-9.80%
Others	1,832.52	1,646.35	-10.16%
Trading	2,174.65	1,927.86	-11.35%
Non Life Insurance	10,742.37	9,482.46	-11.73%
Life Insurance	12,741.02	10,779.57	-15.39%

Major Movers

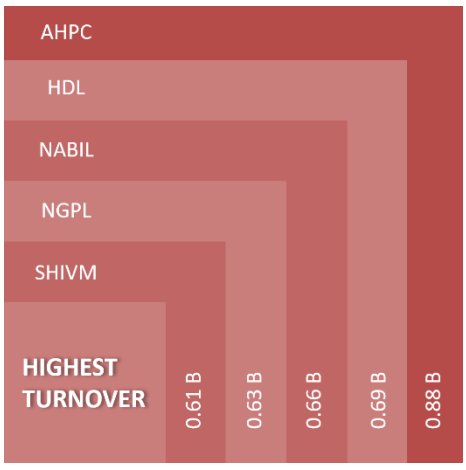
SLBSL	10.45%
SLCF	2.64%
SIGS2	1.59%
SFMF	1.30%
MFLD85	1.12%

SWMF	-24.76%
LGIL	-18.02%
SLICL	-17.80%
PICL	-17.14%
JLI	-15.60%

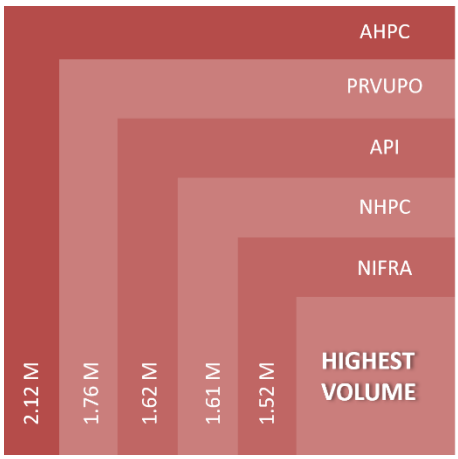
Sectoral Divergence-Turnover

Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	1.79 B	1.39 B	-22.47%
Preferred Stock	0.0 M	0.0 M	23.41%
Corporate Debenture	1.83 M	0.70 M	-61.53%
Hotels	22.47 M	8.15 M	-63.71%
Microfinance	281.65 M	97.55 M	-65.36%
Manufacturing And Processing	149.13 M	51.56 M	-65.42%
Commercial Banks	455.30 M	157.0 M	-65.52%
Mutual Fund	10.22 M	3.37 M	-67.04%
Life Insurance	293.41 M	84.96 M	-71.04%
Development Banks	245.74 M	70.76 M	-71.20%
Hydro Power	1,022.97 M	260.25 M	-74.56%
Investment	226.10 M	51.99 M	-77.01%
Finance	207.89 M	47.73 M	-77.04%
Others	145.76 M	29.68 M	-79.64%
Non Life Insurance	252.48 M	46.74 M	-81.49%
Tradings	11.87 M	0.61 M	-94.89%

Highest Turnover

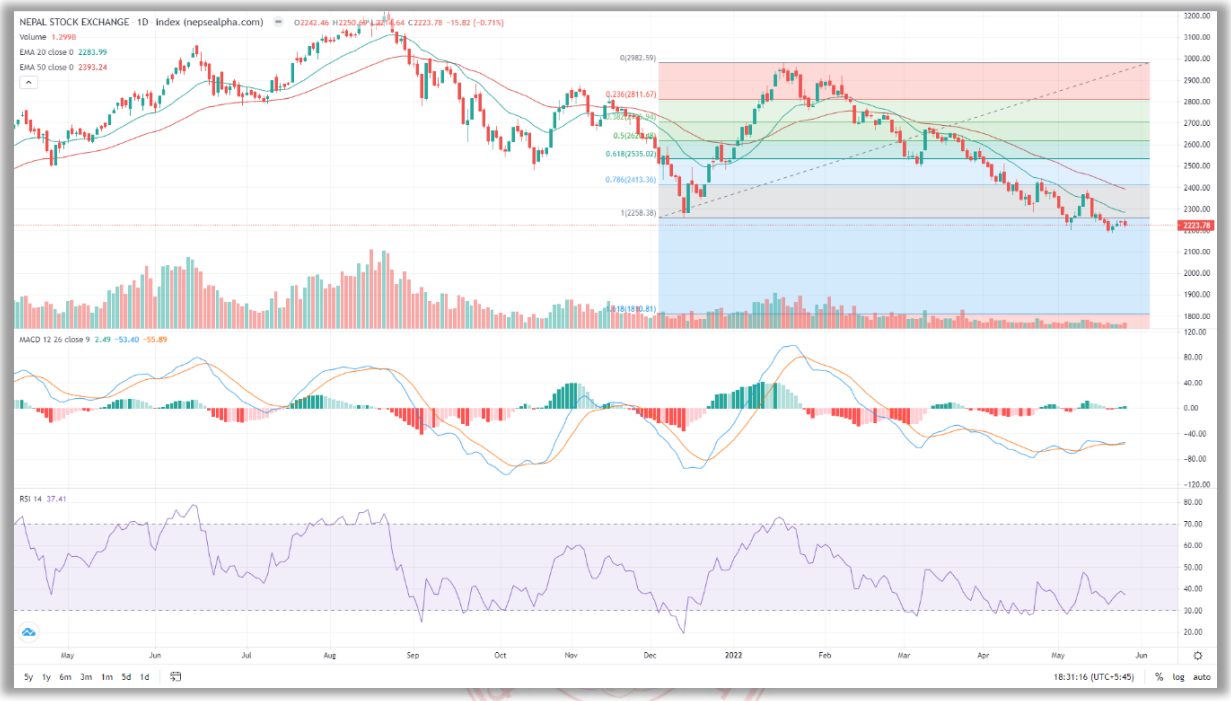


Highest Volume



NEPSE Outlook

A. Current Overview



On May 27, 2022, the flagship NEPSE index reached 2,223.78 points, with a total turnover of NPR 1.298 billion. This week's purchasing pressure was stronger than in previous weeks, but the index was unable to break through the current resistance level. The index dropped just 11.31 points (0.50%) compared to last week's closing price and average turnover, with a low weekly average transaction of NPR 1.138 billion, down 12 percent from the previous week's weekly average turnover.

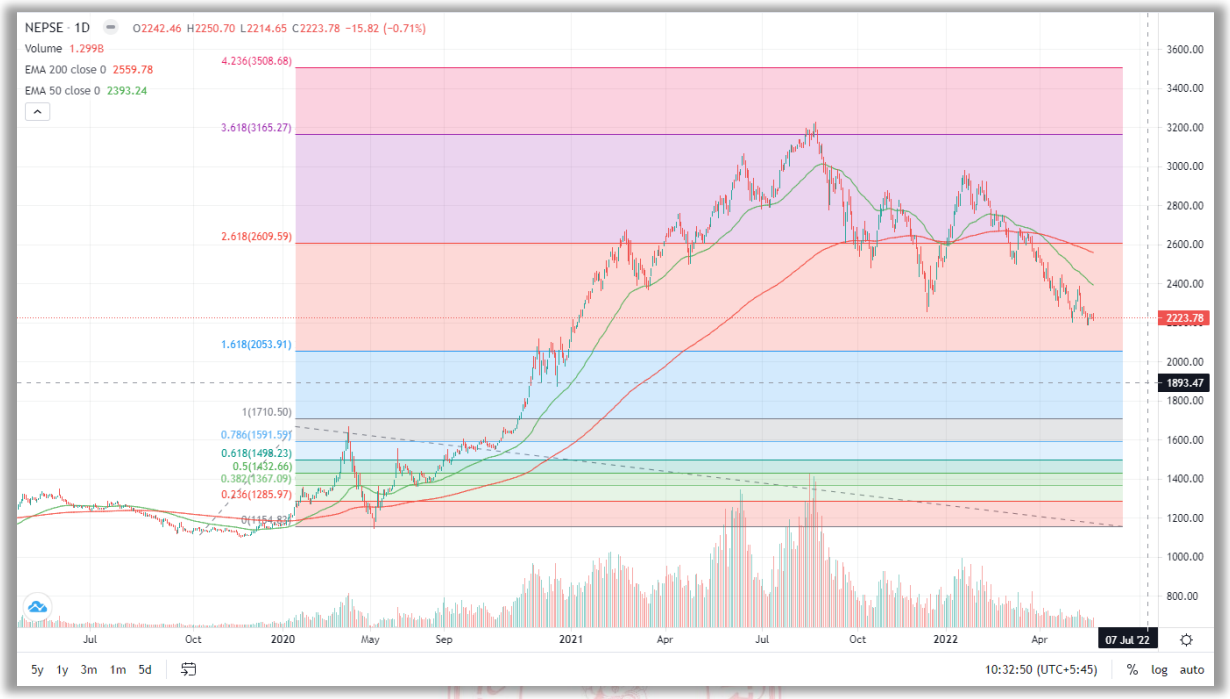
The Exponential Moving Average (EMA) indicator is continuing displaying a downward trend, with the 50-day EMA crossing over the 20-day EMA line, indicating a bearish trend.

The MACD line is in negative territory, suggesting that the market is losing momentum. However, after the negative histogram, the positive MACD histogram may be seen, and the MACD crossover indication implies a short-term bullish trend.

The Relative Strength Index (RSI) is at 37.41, indicating that sellers outnumber buyers in the market.

The immediate support levels of NEPSE index stand at: (S1) 2,151, (S2) 2,090 and (S3) 1,932, whereas the resistance levels hold at: (R1) 2,260, (R2) 2,340 and (R3) 2,510.

B. Long-Term Outlook



The NEPSE index has been trending lower for the previous two months, with occasional minor pullbacks (in between). The NEPSE index is now at 2,223.78 points, with firm support at 2,150 points. Because the situation of liquidity scarcity persists, there is no strong purchasing demand in the market. As a result, the index is trending lower with brief upward pulls.

According to the preceding data, the NEPSE index peaked at 2,981 points on January 18, 2022, and then began a downward trend with heavy selling pressure, breaching the Trend-Based Fibonacci Extension of 2.618. (2,609 points). The index is now finding strong support at 2053 points, which corresponds to a Trend-Based Fibonacci Extension of 1.618.

If we look at the 50-day and 200-day EMA crossovers, we can see that there was a death crossover in the first week of April. The market has decreased by 13.13 percent since the date of the observation of death crossover till today. As a result, owing to all of the applicable indicators and economic considerations, the market remains weak to increase.

The intermediate support levels of NEPSE index stands at: (S1) 2,150, (S2) 2,053 and (S3) 1,872, whereas the resistance levels hold at: (R1) 2,390, (R2) 2,575 and (R3) 2,650.

SCRIP ANALYSIS

Nyadi Hydropower Limited (NYADI)

A. Technical Analysis

- The stock price of NYADI is NPR 360 as of May 2, 2022, and it has been drifting sideways for the previous two days after breaking out of the upward level of the parallel channel.
- For the past two trading days, the stock ended at NPR 360. Looking at the stock's historical pattern, the stock broke out the upward level of the parallel channel, indicating an upward trend.
- The Exponential Moving Average (EMA) indicator is signaling a negative trend, since a death cross over was detected in the first week of April, and the stock has dropped by 17% since then.
- The stock's Relative Strength Index (RSI) is at 41.44, indicating that it is in neutral motion.
- The MACD line is below negative area, suggesting weak market momentum, but it has crossed over the signal line from below, which is bullish, and the positive MACD histogram can be seen, showing the market has a favorable emotion toward the stock.

- Similarly, typical bullish divergence can be seen in both the RSI and the MACD indicator in relation to the price movement of the stock. Based on Fibonacci retracement, the stock is finding strong support at the 100 percent level, 331, and has yet to surpass this level.
- This stock's immediate support levels are (S1) NPR 331, (S2) NPR 316, and (S3) NPR 280, while its resistance levels are (R1) NPR 393, (R2) NPR 420, and (R3) NPR 470.

B. Stock Valuation

Nyadi Hydropower Limited (NYADI) has been valued at NPR 250.27 using the Discounted Future Earnings valuation approach. In this method, the company's income statement is projected for 36 years by incorporating all of the necessary information of the project's power generation capacity on a seasonal basis, royalty cost, and building some assumptions for other factors such as administration expenses, depreciation, interest expenses, and so on.

Similarly, using the P/B valuation approach, the company's intrinsic value has been calculated as NPR. 354.05. In this case, relative valuation was performed by multiplying the PBV (Price to Book Value) of the entire hydropower industry by the company's BVP (Book Value per Share).

As a result, the ultimate average value from both models is NPR. 302.16.

Assumptions

I. Major Variables

Specifics	Value	Remarks
Generation License Period	36 years	(Additional year due to COVID-19 pandemic)
Royalty cost	NPR 100/KW for first 15 years and NPR 1000/KW after 15 years.	
Administrative Cost	2% of total sales revenue	
Major Replacement Cost	NPR 200 million between 16th year to 20th year of project operation	
Debt Repayment Period	12 Years	Interest Rate is Assumed at 10%
Annual Depreciation	NPR 139 million	Straight Line Method is Used
Tax Rate	Years 1-10 (0%)- Full Exemption Years 10-15 (10%)- 50% Exemption Year 16 Onwards (20%)	

II. Discounted Rate Using CAPM Model

- Ke = Rf + (Rm - Rf)*B

Specifics	Value	Remarks
Weekly Beta (B)	1.23	Hydropower Industry Weighted Beta
Market Return (Rm)	13.63%	
Inflation Adjusted Nominal Risk-Free Rate (Rf)	2.95%	Extrapolated using government bond rate and current inflation rate
Cost of Equity (Ke)	16.08%	

C. Recommendation

Following the valuation using the discounted future earnings approach, the ultimate value of the firm is NPR 250.27, indicating that the present market price of the stock is 44 percent overpriced. The project's future earnings are estimated based on 30 MW of power generation and revenue collection from electricity sales on a seasonal basis, i.e., dry and rainy seasons, with an efficiency level of 85 percent. Profits are discounted back to current value in each year of operation after evaluating all relevant components of the profit and loss statement. After 36 years, the firm must give over the project to the Nepal Electricity Authority (NEA). The company must hand over the project to Nepal Electricity Authority after 36 years (NEA).

According to the relative valuation approach, the company's intrinsic value is NPR 354.06, making the current market price of the stock 1.65 percent overpriced. So, by averaging the intrinsic value calculated by both valuation methods, the company's ultimate average value is NPR. 302.16, which is trading at a premium of 16%, making it overpriced based on stock valuation.

Based on dividend history, the firm has never given a dividend till now since its earnings are negative. However, if the corporation begins to produce income from the sale of power, earnings are expected to be positive, which is a good indicator for boosting shareholder and corporate value.

In terms of technical indicators, the stock is finding strong support at the Fibonacci Retracement level of 100 percent (NPR 331) and has been trading sideways for a few days. According to indicators such as RSI and MACD, the stock may rise in the short term since the MACD crossing indicates an upward trend and favorable sentiment in the

market for the stock. Similarly, both the RSI and MACD lines show the usual bullish divergence.

Fundamentally, the firm's current performance may not be particularly promising, but after producing power, the company has a strong chance of generating a decent return for investors if invested for the long term. As a result, it would be a wise investment for investors if the stock could be acquired around the calculated final average value. Similarly, from a technical standpoint, the stock is receiving strong support from NPR 331. If the stock does not breach that support level, it would be a smart buy (for the short term) since the stock and the industry's MACD and RSI indicators show a typical bullish divergence, indicating that the possibility of the stock heading up is strong.

ISSUE OF THE MONTH

Gambler's Fallacy and Poor Investment Decisions

"Nobody can predict interest rates, the future direction of the economy or the stock market. Dismiss all such forecasts and concentrate on what's actually happening to the companies in which you've invested." - Peter Lynch

The assumption that previous conduct predicts future behavior is known as the Gambler's Fallacy. It's a useful tactic in everyday life since events in the past might influence happenings in the future in a variety of ways. When gamblers use that concept in a casino, things soon deteriorate. At the very least, individuals suffer; the casino may profit from that cognitive prejudice, as it did on August 18th, 1913, at the Monte Carlo Casino. It was an average night until someone observed that the roulette ball had been on black for an extended period of time. People became curious when it continued to fall. Then they began putting money on the table.

The reasoning process was that the ball had hit black so many times that it had to hit red shortly .For some reason, the ball was quite tenacious, and it continued to fall on the black pockets for the following few rounds, much to the shock and bewilderment of the gamblers. As the ball continued to land in the black pockets, the gamblers increased their bets on the red pockets, expecting that the ball would land on a red pocket shortly. The ball did indeed land on a red on the 27th spin of the roulette wheel. So, while the ones who bet on a red in the 27th spin won big, a considerably larger number of others lost big because of the extended run of blacks. This occurrence was genuinely spectacular, which is why the gambler's fallacy is also known as the Monte Carlo fallacy.

What Happened?

We can readily anticipate that on the first spin, the ball has a 50 percent chance of falling on a black pocket and a 50 percent chance of landing on a red pocket. The misapprehension issue or error, however, began with the second spin. Most people assumed that because the first spin resulted in a black, the likelihood of the second spin being black was 50 percent multiplied by 50 percent or half multiplied by half, which came to 1 by 4 or 25 percent. This meant that the majority of participants assessed the likelihood of the second spin being a red as 1 minus 25%, or 75%. This was the issue since spin 1 and spin 2 were two fully independent occurrences, much like spin 3, spin 4, spin 5, and so on.

This meant that the likelihood of the ball landing in a black or red pocket was the same in any spin, which was 50% or 1 by 2. In the example of the 1913 game, the real likelihood of obtaining a red on the sixth spin was actually 50%, but due to the gambler's fallacy, the casino assessed the probability of a red as 98.43 percent. Similarly, during the 15th spin, the incorrect likelihood of a red was 99.996 percent, while the true probability was still 50%. And, on the disastrous 27th spin, the gamblers who bet on red were certain that the ball would land in a red pocket as its probability was 99.9999993 percent. It implies that the gamblers who bet on red evaluated the chance of the ball dropping into yet another black pocket to be just 0.0000007 percent. This is a one-in-133 million probabilities.

The right probability however was one out of two. The gambler's fallacy is however not limited to coin tosses or the roulette table; it occurs in a variety of other situations and in the most casual manner. For example, we may say, "It hasn't rained in a few days, therefore it seems like it will rain in a day or two."

Consider a series of 20-coin flips that all landed with the "heads" side up. According to the gambler's fallacy, a person can anticipate that the following coin flip would land with the "tails" side up. Because the chance of a fair coin landing on heads is always 50%, this line of thought demonstrates an incorrect grasp of probability. Because each coin flip is an autonomous event, prior flips have no influence on future flips.

People's relationships with slot machines are another typical illustration of the gambler's fallacy. We've all heard of folks who sit for hours at a time at a single machine. Most of these folks feel that every lost draw brings them closer to winning the jackpot. What these gamblers don't grasp is that the odds of winning a jackpot from a slot machine are identical with every draw (just like flipping a coin), thus it doesn't matter if you play with a machine that just struck the jackpot or one that hasn't recently paid out.

A. Gambler's Fallacy in Investing

It is easy to see how, in some situations, investors may succumb to the gambler's fallacy. We all know that trading choices based on "gut feelings" are foolish. However, many traders make unsafe and unsuccessful trading decisions as a result of such erroneous assumptions. The problem is that our brain is highly adept at drawing conclusions. We collect items, combine them, connect them, and draw conclusions. A probabilistic strategy, on the other hand, does not always succeed. Simply put, our brain can detect patterns that do not exist in reality.

A typical illustration of the gambler's fallacy in investing may be discovered when investors begin to liquidate their positions in an asset that is constantly setting new

highs because they do not believe the position will continue to rise. Other investors, on the other hand, may continue to hold a stock that has declined in many sessions because they believe future drops are "improbable." Just because a stock has risen in six consecutive trading sessions does not imply it will rise in the following session.

A succession of past occurrences has no bearing on the likelihood of a specific event occurring in the future. The same is true for your transactions: your previous trades do not match to your future trades. Each transaction is self-contained. Rather than purchasing or selling a company because you believe the long-term trend will reverse at any time, you should base your trading decisions on rigorous fundamental and technical research. This will provide you with far more accurate knowledge on what will happen with the asset's trend.

The famous British economist and mathematician John Maynard Keynes once said: "The market can stay irrational longer than you can stay solvent."

B. Avoiding Gambler's Fallacy

It is critical to realize that in the case of independent occurrences, the odds of any certain outcome occurring on the next chance stay constant regardless of what came before it. The same rationale applies to the level of noise in the stock market: Purchasing a stock because you expect the long-term trend may reverse at any time is illogical. Rather, investors should make judgments based on basic evidence-based research.

One should not seek out the best-performing mutual fund or buy equities just because they are trading around their 52-week low. Allow evidence and rationale to guide your financial decisions rather than your apparent forecasting talent.

Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
UHHL	IPO	500,000(O)	2022/05/24 AD 2079/02/10 BS	2022/06/07 AD 2079/02/24 BS	NMB Capital
NFS	Right	3,454,474(O)	2022/05/20 AD 2079/02/06 BS	2022/06/09 AD 2079/02/26 BS	Prabhu Capital
LGILPO	Auction	122,287(P)	2022/05/27 AD 2079/02/13 BS	2022/06/10 AD 2079/02/27 BS	Kumari Capital
NMFBSP	Auction	79,873(P)	2022/05/12 AD 2079/01/29 BS	2022/06/15 AD 2079/03/01 BS	NIBL Ace Capital
KDY	Mutual Fund	120,000,000(O)	2022/05/26 AD 2079/02/12 BS	2022/05/31 AD 2079/02/17 BS	Kumari Capital

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