

The Pulse

Market Growth, Risks and Outlook

Jestha 2081

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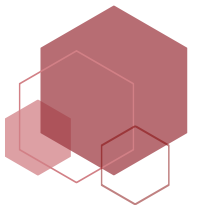
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हिमालयन क्यापिटल लि.



Himalayan Capital





A Subsidiary of Himalayan Bank Limited



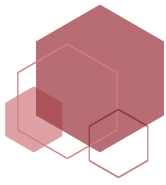
Global Markets Overview

€	1.08 \$ (1.43%)	S&P 500	5,235.48 (3.97%)
£	1.27 \$ (1.80%)	BSE SENSEX	74,094.15 (-0.46%)
₹	83.32* (-0.18%)	NIKKEI 225	38,019 (-1.02%)
¥	155.64* (-0.56%)	FTSE 100	8,231.05 (1.05%)
A\$	0.66 \$ (2.34%)	DAX	18,496.79 (3.15%)
C\$	0.73 \$ (0.57%)	CAC 40	7,978.51 (-0.03%)
		HANG SENG	18,234.15 (2.47%)
		SSE COMPOSITE	3,090.70 (-0.51%)

*Values Per 1 \$

	Gold(\$) Per Oz. 2,341.39 (2.21%)		Bitcoin(\$) 68,422.50 (12.87%)
	Brent Crude(\$) Per Barrell 82.66 (-5.92%)		Ethereum(\$) 3,746.22 (24.41%)

#All Changes are in MoM basis.



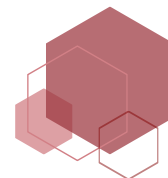
Currency Market Trends

The local currency (NPR) is trading in a tight range against the US dollar, falling from 133.65 to 133.55. Future depreciation is expected. The EUR and GBP gained against the USD, rising by 1.43% and 1.80% respectively. The Federal Reserve has kept its policy rate unchanged, with a potential 35 basis points rate cut anticipated. The Indian Rupee (INR) remains range-bound between 83.47 and 83.32, with a potential breakout to 84 after the Indian elections.

Global stock markets showed mixed performance. The S&P 500 rose by 3.97%, indicating strong investor confidence in the US. The BSE SENSEX and NIKKEI 225 fell by 0.46% and 1.02%, respectively, reflecting uncertainties in India and Japan. European markets varied, with the FTSE 100 up 1.05%, the DAX surging 3.15%, and the CAC 40 flat at -0.03%. Asian markets diverged; the HANG SENG rose 2.47% while the SSE COMPOSITE fell by 0.51%, highlighting concerns over China's economic slowdown.

Over the past month, cryptocurrency markets have shown significant growth, with Bitcoin rising by 12.87% from 60,621.80 to 68,422.50 and Ethereum surging by 24.41% from 3,011.28 to 3,746.22, reflecting strong investor interest and market momentum. Gold prices also experienced a moderate increase of 2.21%, moving from 2,290.71 to 2,341.39, likely due to its appeal as a safe-haven asset amid economic uncertainties. Conversely, Brent Crude oil prices declined by 5.92%, dropping from 87.86 to 82.66, possibly due to changes in global supply and demand dynamics or concerns over economic growth impacting energy consumption. This diverse performance across different asset classes underscores varying market conditions and investor sentiments.

In conclusion, the past month's financial markets showed varied performances across currencies, stocks, and commodities. While some markets and assets experienced growth and investor confidence, others faced declines due to economic concerns and uncertainties. This mixed landscape reflects the complexity and interconnectedness of global financial dynamics.



Macroeconomic Overview



Inflation

4.61% ▲



Deposit Growth

12.51% ▲



Credit Growth

4.94% ▲



Import Growth

-2.8% ▼



Export Growth

-3.7% ▼



Remittance Growth

19.84% ▲



FX Reserve Growth

33.35% ▲

* Growth refers to the change between nine months of FY 79/80 and FY 80/81.

* Credit refers to claim on private sector.

Monthly Trading Statistics



Average
Turnover

NPR 4.02 B

8.90% ▲



Average
Shares Traded

9.66 M

-3.89% ▼



Average
Transactions

59.55 K

-15.57% ▼

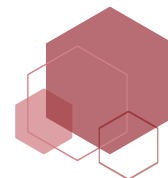


Average
Scrips Traded

315

1.43% ▲

* For the period (May-1, 2024) – (May-30, 2024)



Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Chaitra-79	Falgun-80	Chaitra-80	Jestha 11	Jestha 18	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	8.82	2.87	2.71	2.80	2.80	-6.11	-0.16	0.00
Wt.Avg 91 Days TB rate (%)	9.74	3.02	3.00	3.00	3.02	-6.74	-0.02	0.02
Wt.Avg 364 Days TB rate (%)	9.71	3.60	3.29	3.20	3.20	-6.42	-0.31	0.00
Wt. Avg Interbank Rate (%)	7.00	2.92	3.07	2.92	2.96	-3.93	0.15	0.04
CapEx (In Billion NPR)	107.24	81.21	97.38	123.49	126.41	-9.86	16.17	2.92

B. Money Market Indicators

Particulars	29-May-24	26-Apr-24	% Change	Month High	Month Low
SLF Rate	7.00%	7.00%	0.00%	7.00%	7.00%
Market Excess Liquidity (NPR in Billion)	-	77.05	-	129.00	-3.45

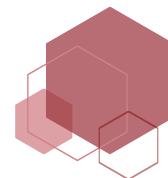
C. BFI Statistics

Description	Value As On					Change		
	Chaitra-79	Falgun-80	Chaitra-80	Jestha 11	Jestha 18	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	8.26	6.74	6.53	6.53	6.53	-1.73	-0.21	0.00
Wt. Avg Lending Rate (%)	12.84	10.78	10.55	10.55	10.55	-2.29	-0.23	0.00
Base Rate (%)	10.48	8.77	8.51	8.51	8.51	-1.97	-0.26	0.00
CD Ratio (%)	85.60	79.87	80.88	80.32	80.27	-4.72	1.01	-0.05
Fixed Deposits/Total Deposits (%)	59.63	58.40	58.50	58.50	58.50	-1.13	0.10	0.00
Total Liquid Assets/Total Deposits (%)	24.60	26.43	27.87	27.87	27.87	3.27	1.44	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	Chaitra 6	500.00	0.00	19	68	5.08	500.00	2.45	2.49	2.49
91 Days	Falgun 22	604.50	0.00	24	91	5.30	604.50	2.74	2.83	2.79
182 Days	Chaitra 6	430.00	0.00	18	60	4.64	430.00	3.05	3.12	3.10
364 Days	Chaitra 6	900.00	0.00	20	80	2.59	900.00	3.15	3.39	3.32

*Figures are in Millions NPR

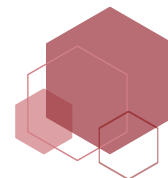


Sectoral Movement

Index	Baisakh 18	Jestha 17	Change
NEPSE	2,006.28	2,069.53	3.15%
Microfinance	4,031.62	4,357.91	8.09%
Commercial Bank	1,044.82	1,119.25	7.12%
Hotels & Tourism	5,064.97	5,341.28	5.46%
Mutual Fund	18.22	18.83	3.35%
Manufacturing & Processing	6,548.45	6,748.95	3.06%
Hydropower	2,433.38	2,485.48	2.14%
Investment	74.78	76.04	1.68%
Trading	2,729.72	2,749.23	0.71%
Non Life Insurance	10,506.64	10,574.47	0.65%
Others	1,641.19	1,636.21	-0.30%
Life Insurance	10,123.60	10,092.13	-0.31%
Finance Company	2,198.96	2,148.83	-2.28%
Development Bank	4,196.11	4,054.80	-3.37%

Major Movers

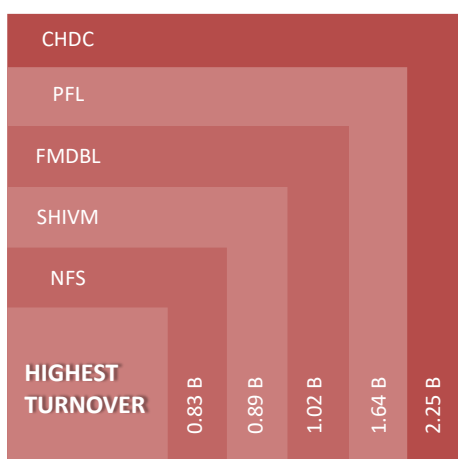
HLBSL	64.38%	PPL	-32.99%
KDL	47.82%	HDL	-11.29%
NABBC	40.18%	DHPL	-9.35%
SLBSL	38.79%	TVCL	-8.20%
SHLB	37.55%	JOSHI	-8.18%



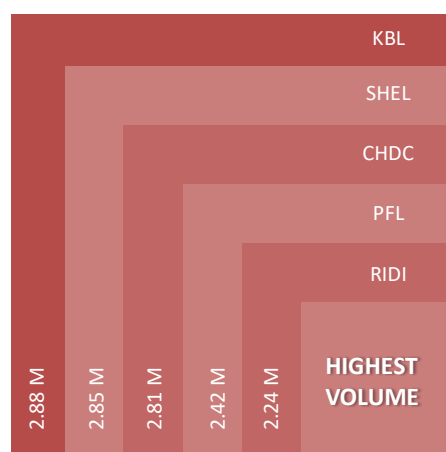
Sectoral Divergence-Turnover

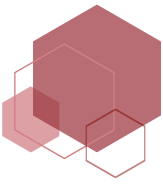
Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	3.69 B	4.02 B	8.90%
Microfinance	0.36 B	0.85 B	132.03%
Development Banks	0.20 B	0.35 B	74.74%
Finance	0.33 B	0.55 B	69.16%
Hotels And Tourism	0.08 B	0.13 B	52.79%
Commercial Banks	0.27 B	0.37 B	37.69%
Non Life Insurance	0.15 B	0.19 B	25.48%
Investment	0.20 B	0.25 B	24.11%
Life Insurance	0.23 B	0.25 B	10.10%
Mutual Fund	0.00 B	0.00 B	-14.63%
Manufacturing And Processing	0.31 B	0.25 B	-19.83%
Tradings	0.01 B	0.01 B	-21.01%
Hydro Power	1.15 B	0.85 B	-26.19%
Others	0.28 B	0.13 B	-51.89%

Highest Turnover



Highest Volume





NEPSE Outlook

A. Current Overview

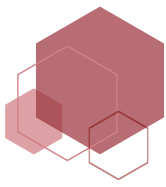


On May 30, 2024, the flagship NEPSE index concluded at 2,069.53 points, with a monthly average turnover reaching NPR 3.95 billion, signifying an increase compared to the previous month's average turnover of NPR 2.78 billion.

Presently, the Relative Strength Index (RSI) stands at 56.30 points, placing it within the neutral zone.

The Moving Average Convergence and Divergence (MACD) indicator currently indicates a bullish crossover between the MACD line and the signal line and the indicator lines are positioned above the baseline, reflecting a positive sentiment in the market.

Looking ahead, the NEPSE index's immediate support levels are identified as (S1) 2045, (S2) 2,025, and (S3) 2,000, while immediate resistance levels are recognized at (R1) 2,120, (R2) 2,150, and (R3) 2,200. These support and resistance levels serve as valuable indicators for investors when formulating trading decisions.



B. Long Term Overview

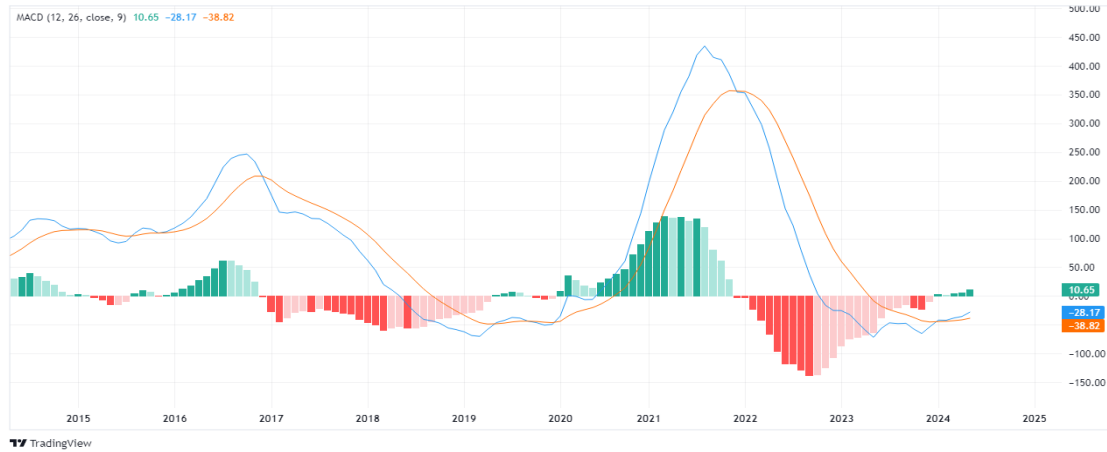
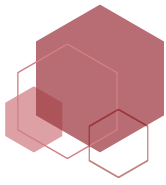


As observed from the above chart, NEPSE has experienced around 43% decline from the peak of the recent bull-run and appears to be consolidating around the resistance zone of the 2,100 - 2,200 level. This level has been tested multiple times in the past 1.5 years. The future trajectory of the index is of utmost importance for further analysis, especially considering that, currently, the flagship NEPSE index has not surpassed this resistance zone. It reached a recent intra-day high of 2,153.59 on May 29, 2024, following the quarterly monetary policy review by NRB for the 3rd quarter of FY 23/24, where the central bank introduced significant changes to improve the financial landscape. Banks can now sell equity up to 20% of their capital, increasing their profitability. Loan loss provisions for good loans have also been reduced from 1.25% to 1.20%. The central bank is gradually easing policies to reduce impairments and improve banks' profitability. These factors generated a positive investor sentiment in the market.

The national budget for FY 2024/25, while not introducing significant positive policies to meet investors' expectations for the stock market, also did not implement any measures that would negatively impact the market.

If there is a break out from this supply zone, the next target for the index would be at 2,450 and 2,600 levels (psychological resistance zones) as shown in the above figure.

Given the NEPSE index's repeated failure to breach the 1,800-level, it is reasonable to consider it as the bottom of the ongoing bearish cycle (Historical support zone). Considering if the index breaks the demand zone and drops below 1,800 levels, the long-term support zone would be at 1,750 and 1,600 levels (psychological support zones) as shown in the above figure.



The monthly NEPSE chart reveals that, for the first time since February 2022, the MACD line has recently started to cross above the signal line.

C. Hydropower Industry Analysis

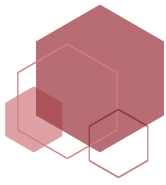
Nepal is endowed with abundant water resources, positioning it as a potential hydropower powerhouse in South Asia. The country possesses an economic hydroelectric capacity of 42,000 MW and a theoretical capacity of 83,000 MW. Despite this significant potential, Nepal's current installed capacity is approximately 2,800 MW. Nonetheless, the country has begun exporting surplus energy to India and aims to extend its exports to Bangladesh. With ambitious plans for future hydroelectric development, Nepal is on a trajectory to enhance its role in regional energy markets while addressing the challenges posed by climate change.

Historical Context and Policy Development

Nepal's journey in hydroelectricity began with the establishment of its first power plant in 1911, which had a capacity of 500 kW. For decades, the sector remained stagnant until the introduction of the Hydropower Development Policy in 1992, which allowed private sector involvement. This policy shift catalyzed a rapid acceleration in hydropower development. The Nepal Electricity Authority (NEA), a government organization, oversees the generation, transmission, and distribution of electricity. As of August 2023, Nepal's total electricity generation capacity reached 2,684 MW, with the private sector contributing 1,477 MW.

Current Status and Future Plans

In the fiscal year 2022–2023, Nepal's per capita annual energy consumption reached 380 units, with the government aiming to provide electricity access to the entire population within two years. Efforts are being made to increase internal energy consumption by expanding industries, promoting electric vehicles, supporting agriculture through irrigation, and encouraging electric cooking. The Ministry of



Energy, Water Resources, and Irrigation has developed an Energy Development Road Map and Action Plan, targeting a generation of 28,713 MW by 2035, with plans to export 15,000 MW to neighboring countries.

Cross-border Power Trade

Nepal's strategic location between India and China, combined with the growing energy demands of these economies and Bangladesh, offers significant opportunities for power export. Nepal currently exports up to 632 MW of hydropower to India. However, the cross-border power trade faces challenges, including insufficient transmission line capacity and the need for approvals from Indian authorities. The Dhalkebar-Muzaffarpur transmission line has a capacity of 1,000 MW, and another line, New Butwal-Gorakhpur, with a capacity of 2,000 MW, is under construction.

Climate Change Vulnerability

Despite minimal contributions to global warming, Nepal is highly vulnerable to climate change, experiencing rapid snow melt, flash floods, and landslides. These changes disrupt the hydrological patterns essential for hydroelectric projects. Large dam projects also have significant environmental and social impacts. Therefore, impact assessment tools, environmental monitoring, and management practices are crucial to minimize these effects.

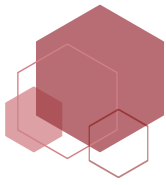
Green Incentives and Regional Contribution

Hydropower is increasingly recognized for its potential to mitigate climate change. Nepal's hydroelectricity can contribute to de-carbonizing South Asia, particularly by replacing coal-fired plants in India. India aims to achieve 50% of its energy consumption from renewables by 2030 and has set a target of 500 GW of renewable energy capacity by then. Nepal's hydropower can significantly supplement this goal, thus deserving green incentives and climate justice from neighboring countries.

Challenges and Opportunities

Market Expansion and Development

The government has awarded construction licenses for 8,792 MW across 238 hydroelectric projects, with applications for an additional 11,651 MW under review. Realistically, achieving the 28,713 MW target by 2035 is feasible, though challenges such as local obstructions, environmental clearances, and corruption need to be addressed.



Domestic Market Growth

Increasing per capita electricity consumption to 1,500 units by 2035 is a priority, with strategies focusing on shifting from fossil fuels to electricity in kitchens and transportation. Reducing reliance on imported fossil fuels and promoting energy security are critical goals.

Regional Power Trade

India has promised to buy 10,000 MW of power from Nepal over the next decade, and there is potential for exporting power to Bangladesh through existing transmission infrastructure. However, long-term agreements and favorable conditions are essential to attract investment and develop Nepal's hydropower potential.

Conclusion

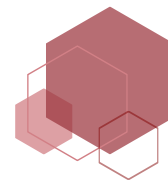
Nepal's hydropower sector holds immense promise for both domestic energy security and regional power trade. By addressing the challenges of climate change, infrastructure development, and market expansion, Nepal can significantly contribute to regional de-carbonization efforts and achieve national prosperity through its abundant water resources. The country's strategic planning and regional cooperation will be pivotal in realizing its hydropower potential.

SCRIP ANALYSIS

Mountain Energy Nepal Limited (MEN)

A. MEN Stock Price Analysis





As observed in the daily chart of MEN, following the end of the lock-in period of promoters, there was a selloff, which subsequently recovered. Currently, the stock is consolidating within a range of 497 to 614. It has tested the resistance level at 614 three times. If the stock breaks above the 614 price and sustains the breakout with good volume, we can expect an upward move to around 726.68.

B. About the Company

Mountain Energy Nepal Limited (MEN) is a public limited company promoted by business persons having experience in the hydropower sector. Aadhi Shakti Bidhyut Bikash Company Limited (ASBL) and Robust Energy Limited (REL) were subsidiaries of MEN and merged into MEN in FY2019. ASBL was involved in the operation of 5MW run-of-the-river Tadi Khola Hydroelectric Project (TKHEP) and REL was involved in the construction of 42MW Mistri Khola Hydroelectric Project (MKHEP). The projects are constructed under BOOT (Build, own, Operate and Transfer) mechanism. . MEN has also received a survey license for the 12MW Mistri Khola 2 Hydroelectric Project, a cascade development of MKHEP, with feasibility studies conducted by Hydro Consult Engineering and a connection agreement signed with the Nepal Electricity Authority. The project is currently in the process of finalizing a Power Purchase Agreement (PPA) and has an estimated total cost of 2,086.15 million NRs before interest during construction (IDC).

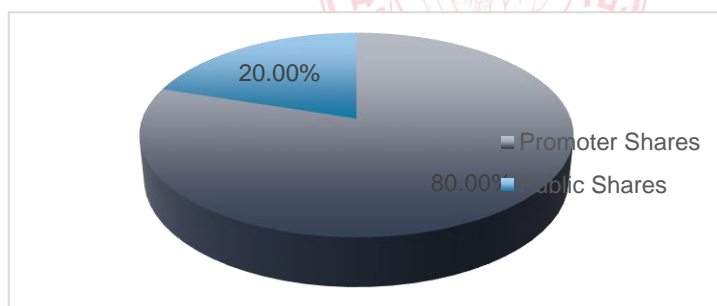
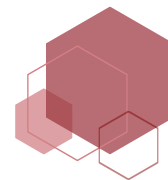


Figure: Shareholding Pattern (MEN)

Note: Shareholding Pattern of MEN is as per Nepalstock.com Updated On March 12, 2024.

Particulars	2076/77	2077/78	2078/79		2079/80
Sale of electricity-Tadi Khola	100%	73%	13%		10%
Sale of electricity-Mistri khola	0%	27%	87%		90%
Total	100%	100%	100%		100%

Figure - Percentage Breakdown of Revenue Sources for the Last 4 Fiscal Years



C. SWOT Analysis

Strengths:

Experienced Promoters and Management: MEN is led by a Board of Directors with extensive experience across various sectors. The chairperson, Mr. Suhrid Raj Ghimire, has over three decades of experience, and the Managing Director, Mr. Manohar Das Mool, brings diversified business experience.

Satisfactory Financial Performance: MEN have substantial gross cash accruals (GCA) of Rs. 631 million in FY23. Despite a decline in operating income, the company maintained a substantial cash reserve and continued dividend payments.

Low Gearing Profile: Improved gearing ratio from 1.41x in FY22 to 1.03x as of mid-January 2024. Adequate interest coverage ratio of 3.13x in FY23, improving to 4.58x in H1FY24. Power Purchase Agreements (PPAs): Long-term PPAs with Nepal Electricity Authority (NEA) ensure a stable revenue stream. Tariff escalation clauses provide incremental revenue growth.

Removal from Contingency Plan: The revocation of the contingency agreement for MKHEP increased energy generation and revenue.

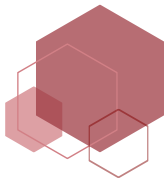
Favorable Government Policies: The Government of Nepal offers significant tax incentives and mandates bank loans to the energy sector, promoting investment and growth.

Weaknesses:

Moderate Operating Performance: Energy generation was below contracted capacity for both TKHEP and MKHEP in FY23. Reliance on seasonal river flows leads to variability in power generation.

Dependence on Two Projects: MEN's revenue is heavily dependent on the 5 MW TKHEP and the 42 MW MKHEP. Any operational issues in these projects can significantly impact financial performance.

Exposure to Natural Calamities: Hydropower projects in Nepal are vulnerable to floods, landslides, and other natural disasters, which can disrupt operations and damage infrastructure.



Hydrology Risk: Run-of-the-river projects like TKHEP and MKHEP depend on consistent river flows, making them susceptible to seasonal variations and dry periods.

Opportunities:

Government Support and Policy: Continued favorable policies and incentives from the Government of Nepal. Increased cross-border energy trade agreements with India, boosting demand for hydropower.

Growth in Domestic and Regional Demand: Rising domestic demand for electricity in Nepal. Opportunities to export electricity to neighboring countries under new bilateral treaties.

Expansion and Diversification: Potential to develop new hydropower projects. Diversification into other renewable energy sources.

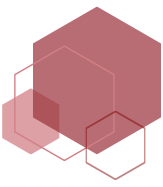
Threats:

Seasonal and Hydrology Risks: Variability in river flows can affect power generation capacity and revenue. Dependency on snow-fed rivers and climatic conditions for power generation.

Natural Calamities: High risk of natural disasters impacting hydropower projects in mountainous regions. Potential for significant infrastructural and financial damage from natural events.

Operational and Financial Risks: High operational leverage and maintenance costs. Risk of cost overruns and delays in project implementation.

Regulatory and Policy Risks: Changes in government policies or regulations could impact project operations and profitability. Dependence on NEA for power purchase agreements and tariff rates.



Comparative Annual Performance Visualizations

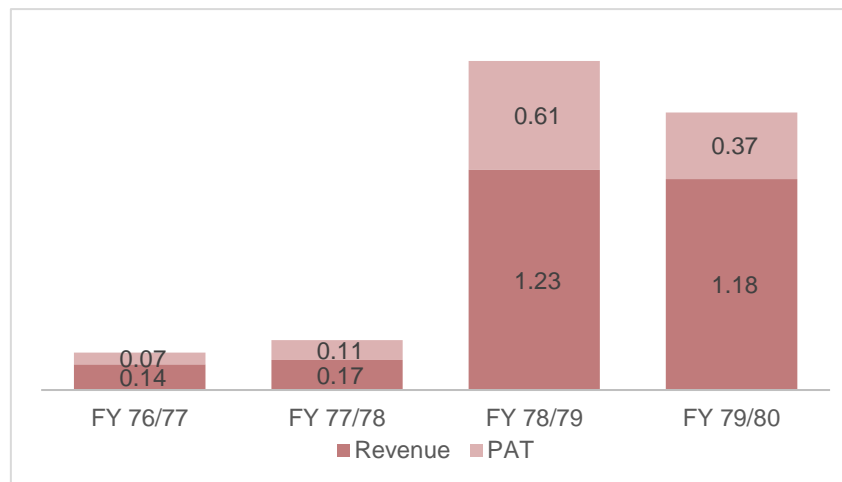


Figure: Annual Comparison of Revenue and Profit after Tax

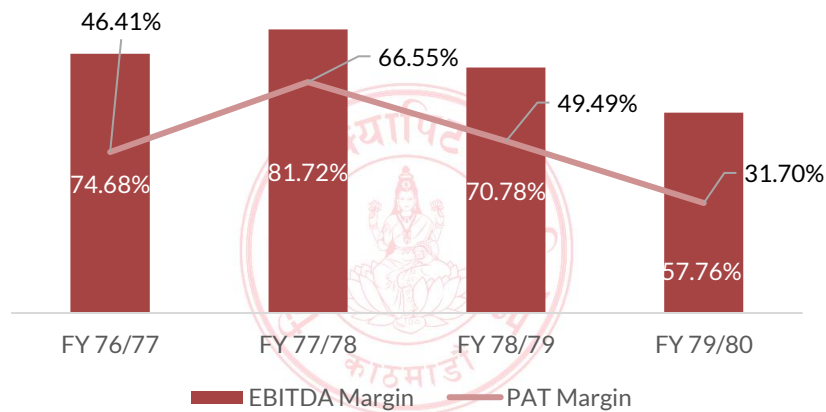


Figure: Annual comparison of EBITDA Margin and PAT margin Income

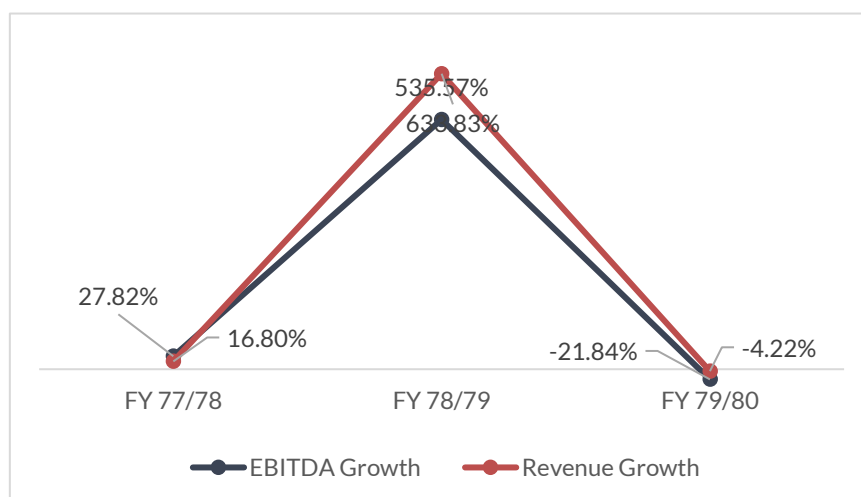


Figure: Annual Comparison of Revenue & EBITDA Growth (%)

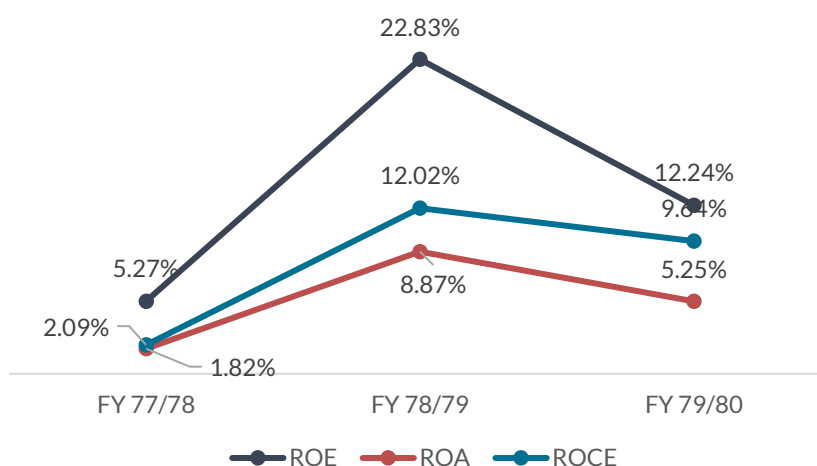
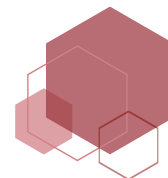


Figure: Annual Comparison of Return on Capital employed, Return on Asset and Return on Equity

Comparable Company Analysis

Company	CMP (in NPR)	Market Cap (Billions)	Debt / Equity	ICR	EPS	NPM%	ROCE%	ROA%	ROE%
MEN	574.00	12.99	1.03	2.28	19.04	31.70%	9.64%	5.25%	12.24%
SMHL	559.90	11.76	3.48	1.32	3.09	19.22%	3.01%	0.68%	3.29%
Average	566.95	12.37	2.25	1.80	11.07	25.46%	6.32%	2.97%	7.77%

Figure: Comparable Company Analysis

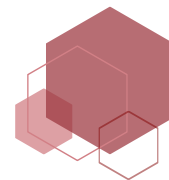
Company	Capacity	PLF	Cost Per MW	Dry Wet Mix
MEN	47	75.00%	13.98	13.89%
SMHL	44	62.95%	20.60	15.56%
Average	45.5	68.98%	17.29	14.72%

Figure: Comparable Company Analysis (Performance Metrics)

Note: SMHL has been compared with MEN due to the similar size range of projects under operation (40-50 MW).

Comparable Company Summary

The Comparable Company Summary highlights two players in the energy sector: MEN and SMHL. MEN boast a market capitalization of NPR 574.00 billion, slightly higher than SMHL's NPR 559.90 billion. However, MEN demonstrate a more favorable Debt/Equity ratio of 1.03 compared to SMHL's 3.48, indicating a stronger financial position. In terms of operational performance, MEN exhibit a superior Interest Coverage Ratio (ICR) of 2.28, suggesting its ability to comfortably service its debt.



obligations, while SMHL lags slightly behind with an ICR of 1.32. Profitability metrics favor MEN, with a higher Earnings per Share (EPS) of 19.04 and Net Profit Margin (NPM) of 31.70%, outperforming SMHL's EPS of 3.09 and NPM of 19.22%. Return on Capital Employed (ROCE), Return on Assets (ROA), and Return on Equity (ROE) metrics also favor MEN, reflecting its efficient utilization of capital and resources. On the operational front, MEN operate at a capacity of 47 MW with a Plant Load Factor (PLF) of 75.00%, while SMHL operates at a capacity of 44 MW with a PLF of 62.95%. Additionally, MEN boast a lower Cost Per MW of NPR 13.98 cr. compared to SMHL's NPR 20.60 Crore. Overall, while both companies are prominent players in the energy sector, MEN emerge as the stronger contender with robust financials and operational efficiency.

DuPont Analysis

Particulars	Specifics	FY 77/78	FY 78/79	FY 79/80
Tax Burden	Net Profit / Pre-Tax Income	99.90%	99.79%	99.24%
Asset Turnover	Revenue / Avg. Total Assets	0.03x	0.18x	0.17x
Financial Leverage	Average Total Assets / Avg. Equity	2.89x	2.57x	2.33x
Interest Burden	Pretax Income/ Operating Income	83.38%	71.25%	56.09%
Operating Margin	Operating income/ Revenue	79.89%	69.60%	56.94%
Final Return on Equity		5.27%	22.83%	12.24%

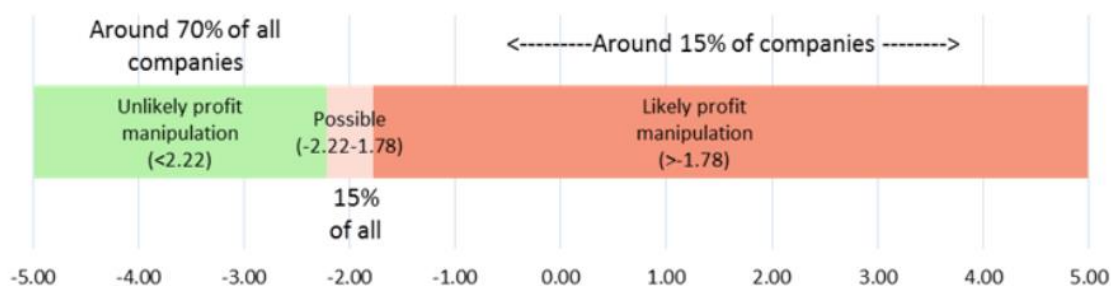
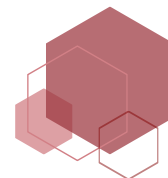
Figure: DuPont Analysis

DuPont Summary

The company's ROE peaked at 22.83% in FY 78/79, primarily driven by a significant improvement in asset turnover (0.18x). This increased efficiency in utilizing assets compensated for slight reductions in financial leverage and operating margin. In FY 79/80, ROE declined to 12.24% due to decreases in operating margin (56.94%) and financial leverage (2.33x). Despite maintaining a high tax burden and consistent asset turnover, reduced operational efficiency and leverage negatively impacted overall ROE. This analysis highlights the importance of asset utilization and operational efficiency in driving ROE.

Beneish Model

The Beneish Model is a statistical model used to detect earnings manipulation or financial fraud by analyzing financial ratios. It helps identify companies that may be manipulating their financial statements to appear healthier than they actually are.



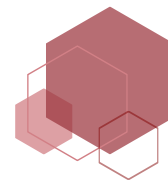
Particulars	2077/78	2078/79	2079/80
Days Sales in Receivable Index (DSRI)	1.347	0.582	1.629
Gross Margin Index (GMI)	0.708	0.784	1.202
Asset Quality Index (AQI)	1.134	0.893	1.004
Sales Growth Index (SGI)	1.168	4.88	0.958
Depreciation Index (DEPI)	0.906	0.997	1.067
SGA Index (SGAI)	0.788	0.37	1.563
Total Accruals to Total Assets (TATA)	-0.157	-0.004	-0.007
Leverage Index (LVGI)	0.948	0.922	0.942
Beneish Model M Score	-2.801	0.554	-1.931

Beneish M-score Formula = $-4.84 + 0.92 \times DSRI + 0.528 \times GMI + 0.404 \times AQI + 0.892 \times SGI + 0.115 \times DEPI - 0.172 \times SGAI + 4.679 \times TATA - 0.327 \times LVGI$.

Financial Ratio Analysis

Particulars	FY 77/78	FY 78/79	FY 79/80
ROE	5.27%	22.83%	12.24%
ROA	1.82%	8.87%	5.25%
ROCE	2.09%	12.02%	9.64%
DE Ratio	1.70	1.40	1.22
Interest Coverage Ratio	6.02	3.47	2.28
EPS in NPR	5.69	31.04	19.04
Gross Profit Margin	56.09%	71.59%	59.57%
EBITDA Margin	81.72%	70.78%	57.76%
Net Profit Margin	66.55%	49.49%	31.70%

Figure: Financial Ratio Analysis



Analysis of Cash Flow Statement of MEN

Particulars	2075/76	2076/77	2077/78	2078/79	2079/80
FCFE in 000'	79,853.94	24,728.28	(360,883.94)	475,966.37	303,487.56
Number of shares in 000'	15,744.22	15,744.22	19,680.27	19,680.27	19,680.27
FCFE per share	5.07	1.57	(18.34)	24.18	15.42
Cash Dividend per share	-	-	-	0.79	10.53
EPS	3.82	4.25	5.69	31.04	19.04
Cash Dividend / FCFE	-	-	-	3.27%	68.29%
Cash Dividend / EPS	-	-	-	2.55%	55.30%

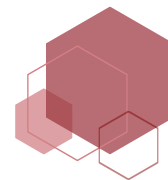
Note – $FCFF = EBIT \times (1 - \text{Tax Rate}) + \text{Depreciation} - \text{Capital Expenditure} - \text{Change in Net Working Capital}$

FCFE = Cash Flow from Operations – Capital Expenditure + Net Borrowing – Interest Expense

I. Key Variables used for Valuation:

1. Sustainable Growth Rate for longer period projection to calculate terminal value (Average Last 12 years GDP growth rate and Projected GDP growth rate for this FY by the World Bank) = 3.63%
2. Other specifics are as follows:

Specifics	Value	Remarks
Adjusted Beta (β)	1.20	Assumption - The raw beta of 1.29 as per system X, will move towards the market beta of 1 over time.
Market Return (R_m)	11.21%	CAGR of closing prices of NEPSE from FY 2001/02 to FY 2022/23
Risk Free Rate (R_f)	5.48%	Latest Development Bond Rate adjusted for tax rate of 6%
Cost of Equity (K_e)	12.40%	As per CAPM Model
Cost of Debt (K_d)	7.25%/6.53%/5.80%	As per ICRA rating report 28 March, 2024 (adjusted as per tax rate)
Tax Rate	0%/10%/20%	As per annual report
WACC	9.78%/9.41%/9.05%	Discount rate for the valuation (based on DE ratio of 1.03) as per change in tax rate



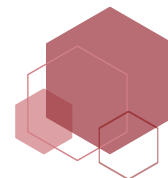
Other assumptions-

We have assumed 3 different PLF (Plant load Factor) for both projects for each case.

Scenario	5 MW	42 MW
Bear	65%	60%
Base	75%	65%
Bull	80%	70%

- No CAPEX over the project life span.
- No net changes in working capital.
- The recent resolution of the legal dispute with NEA has resulted in an amount of NPR 690 million being recorded as receivables on the balance sheet. This development has been factored into our valuation, reflecting a positive impact on the company's financial position.
- On January 29, 2024, the Supreme Court issued a mandamus order to immediately halt the construction of the Mistri Khola-2 Hydroelectric Project in the Myagdi district. Given this development, potential future revenue from this project has not been included in our valuation due to the prevailing uncertainty surrounding its completion.
- Revenue projections have been outlined up to Mangsir 5, 2103, for the 5 MW project, and up to Kartik 19, 2103, for the 42 MW project, corresponding to the expiration dates of their respective licenses.
- Escalations has been taken as per prospectus. It is mentioned in the following table.

Escalations for 5 MW		
Year	Price per unit (Wet)	Price per unit (Dry)
1	4.80	8.40
2	4.94	8.65
3	5.09	8.90
4	5.23	9.16
5	5.38	9.41
6	5.52	9.66



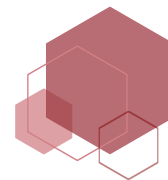
Escalations for 42 MW	
Year	Price per unit
1	5.40
2	5.56
3	5.73
4	5.90
5	6.08
6	6.26
7	6.45
8	6.64
9	6.84
10	7.04
11	7.25

Particulars	Value
Royalty on Capacity up 15 Years per KW in NPR	100
Royalty on Revenue up to 15 Years	2%
Royalty on capacity after 15 Years per KW in NPR	1000
Royalty on Revenue after 15 Years	10%

D. Stock Valuation

The final average valuation of MEN based on DCF Approach has been computed, which has been tabulated below.

DCF Valuation	Valuation Price
Bear Case	447.19
Base Case	462.29
Bull Case	542.56



E. Conclusion

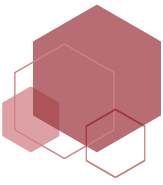
Mountain Energy Nepal Limited (MEN) has demonstrated resilience and strategic growth within the hydropower sector, supported by experienced leadership and robust financial performance. The company's strengths include a highly experienced management team, satisfactory financial performance with substantial cash reserves, improved gearing ratios, and secure long-term Power Purchase Agreements (PPAs) with the Nepal Electricity Authority (NEA). Additionally, favorable government policies provide significant support through tax incentives and mandated bank loans, promoting further investment and growth in the energy sector.

However, MEN face several challenges. The company's operating performance has been moderate, with energy generation below contracted capacity for both TKHEP and MKHEP in FY23, primarily due to reliance on seasonal river flows. The company's revenue is highly dependent on two major projects, which poses a risk if any operational issues arise. Moreover, hydropower projects in Nepal are vulnerable to natural calamities such as floods and landslides, and they face hydrology risks due to seasonal variations. The Supreme Court's mandamus order halting the construction of Mistri Khola-2 hydel project due to concerns over environmental impact signifies a critical setback for MEN. This not only jeopardizes the future revenue streams associated with the project but also highlights the vulnerability of hydropower projects to regulatory and environmental risks.

Continued government support and increased cross-border energy trade agreements with India present growth prospects. The rising domestic demand for electricity and the potential to export electricity to neighboring countries provide additional revenue streams. MEN can also explore developing new hydropower projects and diversifying into other renewable energy sources.

The company has faced specific issues such as penalties for short supply of electricity, disagreements over PPA rates, and deductions related to energy production. Notably, MEN has resolved disputes through arbitration and tribunal decisions, which were largely in favor of the company, leading to adjustments in its financials.

In conclusion, while MEN have a solid foundation and numerous growth opportunities, it must address operational challenges and manage risks associated with natural disasters and regulatory changes to sustain and enhance its performance in the hydropower sector.



F. Stock Performance Comparison

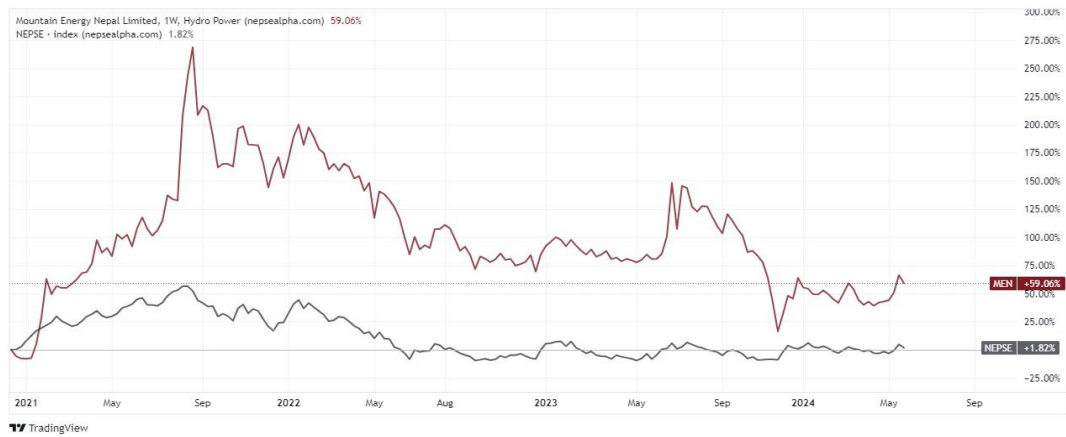


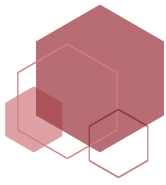
Figure: Comparison of Stock Performance: MEN vs. NEPSE (Weekly Chart since MEN's listing in NEPSE)

Note: RED Denotes MEN and Grey denotes NEPSE



Figure: Comparison of Stock Performance: MEN vs. NEPSE (1-year Weekly Chart)

Note: RED Denotes MEN and Grey denotes NEPSE



ISSUE OF THE MONTH

Gambler's Fallacy and Poor Investment Decisions

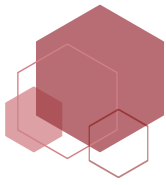
"Nobody can predict interest rates, the future direction of the economy or the stock market. Dismiss all such forecasts and concentrate on what's actually happening to the companies in which you've invested." - Peter Lynch

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."

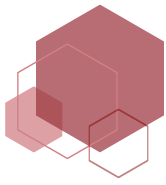
Consider a series of 20-coin flips that all landed with the "heads" side up. According to the gambler's fallacy, a person can anticipate that the following coin flip would land with the "tails" side up. Because the chance of a fair coin landing on heads is always 50%, this line of thought demonstrates 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.

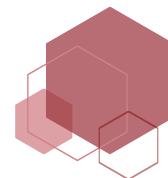
The famous British economist and mathematician John Maynard Keynes once said: "The market can stay irrational longer than you can stay solvent."

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.

**This article was previously published in the Jestha 2079 edition of The Pulse.*



Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
SKBBLP	AUCTION	30,000 (P)	2024/05/30 AD 2081/02/17 BS	2024/07/03 AD 2081/03/19 BS	NIC Asia Capital
PRVUPO	AUCTION	61,662 (P)	2024/05/29 AD 2081/02/16 BS	2024/07/01 AD 2081/03/18 BS	Laxmi Sunrise Capital
SWBBLP	AUCTION	16,528 (P)	2024/05/29 AD 2081/02/16 BS	2024/07/01 AD 2081/03/18 BS	Laxmi Sunrise Capital
KBLPO	AUCTION	1,000,000 (P)	2024/05/27 AD 2081/02/14 BS	2024/06/04 AD 2081/02/22 BS	Kumari Capital
CIT	AUCTION	50,000 (P)	2024/05/26 AD 2081/02/13 BS	2024/06/02 AD 2081/02/20 BS	NIC Asia Capital
MLBSL	AUCTION	199,472 (P)	2024/05/22 AD 2081/02/09 BS	2024/06/05 AD 2081/02/23 BS	Nepal SBI Merchant Banking

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