

# The Pulse

## Market Growth, Risks and Outlook

# Mangsir 2081

### Inside This Edition

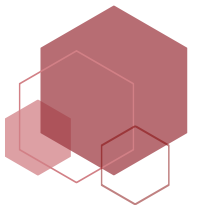
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हिमालयन क्यापिटल लि.



**Himalayan Capital**





A Subsidiary of Himalayan Bank Limited



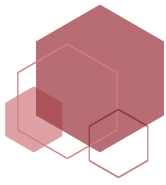
## Global Markets Overview

€	1.06 \$ (-2.56%)	S&P 500	6,051.50 (6.07%)
£	1.27 \$ (-0.94%)	BSE SENSEX	79,802.79 (0.52%)
₹	84.56* (0.56%)	NIKKEI 225	38,208.03 (-2.23%)
¥	149.77* (-1.68%)	FTSE 100	8,287.30 (2.18%)
A\$	0.65 \$ (-0.59%)	DAX	19,626.45 (2.88%)
C\$	0.71\$ (-0.46%)	CAC 40	7,235.11 (-3.92%)
		HANG SENG	19,423.61 (-4.40%)
		SSE COMPOSITE	3,326.46 (1.42%)

\*Values Per 1 \$

	<b>Gold(\$)</b> Per Oz. 2,650.25 (-3.22%)		<b>Bitcoin(\$)</b> 96,449.06 (37.36%)
	<b>Brent Crude(\$)</b> Per Barrell 72.31 (-1.17%)		<b>Ethereum(\$)</b> 3,705.71 (47.33%)

#All Changes are in MoM basis.



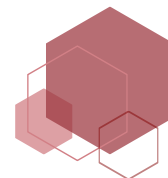
## Currency Market Trends

The currency data highlights a mixed performance for major currencies. The Euro and Japanese Yen experienced declines of -2.56% and -1.68%, respectively, while the British Pound fell by -0.94%. The Australian and Canadian Dollars showed slight decreases of -0.59% and -0.46%. In contrast, the Indian Rupee rose marginally by 0.56%, indicating a relative strengthening. These fluctuations reflect broader economic and geopolitical trends, including trade balances and interest rate policies.

Global stock market indices exhibited varied movements. The S&P 500 rose significantly by 6.07%, suggesting strong investor confidence in the U.S. economy. The BSE SENSEX in India recorded a modest increase of 0.52%, while European indices like the FTSE 100 and DAX grew by 2.18% and 2.88%, respectively. In contrast, Japan's NIKKEI 225 declined by -2.23%, and the Hang Seng in Hong Kong dropped sharply by -4.40%, indicating regional economic challenges. The CAC 40 also fell by -3.92%, showing weaker performance in France. China's SSE Composite rose by 1.42%, reflecting resilience in its markets.

Commodities and cryptocurrencies displayed contrasting trends. Bitcoin and Ethereum surged by 37.36% and 47.33%, respectively, signaling robust investor interest in digital assets. However, traditional safe-haven commodities like gold declined by -3.22%, likely due to increased risk appetite. Brent Crude oil also dipped slightly by -1.17%, reflecting concerns about global energy demand.

In conclusion, the data showcases a diverse set of trends across currencies, indices, and commodities. While cryptocurrencies experienced significant growth, traditional commodities faced challenges. Stock market performance varied by region, highlighting differing economic conditions. The currency market showed modest fluctuations, largely influenced by macroeconomic factors.



## Macroeconomic Overview



Inflation

4.82% ▲



Deposit Growth

12.85% ▲



Credit Growth

6.04% ▲



Import Growth

-4.2% ▼



Export Growth

-6.1% ▼



Remittance Growth

11.48% ▲



FX Reserve Growth

35.86% ▲

\* Growth refers to the change between three-month data of FY 80/81 and FY 81/82.

\* Credit refers to claim on private sector.

## Monthly Trading Statistics



Average  
Turnover

NPR 8.35 B

-24.21% ▼



Average  
Shares Traded

17.42 M

-32.67% ▼



Average  
Transactions

84.22 K

-32.42% ▼

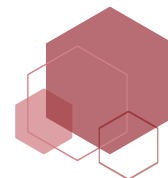


Average  
Scripts Traded

314

-1.68% ▼

\* For the period (November 1, 2024) – (November 28, 2024)



## Liquidity Overview

### A. Major Rates

Description	Value As On					Change		
	Ashwin-80	Bhadra-81	Ashwin-81	Mangsir 7	Mangsir 14	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	3.23	2.96	2.86	2.71	2.71	-0.37	-0.10	0.00
Wt.Avg 91 Days TB rate (%)	4.94	2.89	2.96	2.86	2.86	-1.98	0.07	0.00
Wt.Avg 364 Days TB rate (%)	5.87	3.03	3.02	2.98	2.98	-2.85	-0.01	0.00
Wt. Avg Interbank Rate (%)	2.24	3.00	3.00	3.00	3.00	0.76	0.00	0.00
CapEx (In Billion NPR)	17.83	14.89	29.37	35.91	37.68	11.54	14.48	1.77

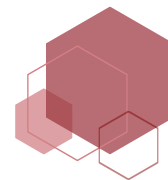
### B. BFI Statistics

Description	Value As On					Change		
	Ashwin-80	Bhadra-81	Ashwin-81	Mangsir 7	Mangsir 14	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	7.90	5.53	5.24	5.24	5.24	-2.66	-0.29	0.00
Wt. Avg Lending Rate (%)	12.11	9.52	9.33	9.33	9.33	-2.78	-0.19	0.00
Base Rate (%)	9.94	7.49	7.29	7.29	7.29	-2.65	-0.20	0.00
CD Ratio (%)	81.74	78.80	78.36	78.40	78.58	-3.38	-0.44	0.18
Fixed Deposits/Total Deposits (%)	59.74	56.35	54.49	54.49	54.49	-5.25	-1.86	0.00
Total Liquid Assets/Total Deposits (%)	27.46	27.00	25.76	25.76	25.76	-1.70	-1.24	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	Kartik 13	500.00	0.00	25	65	7.89	500.00	2.01	2.35	2.26
91 Days	Kartik 27	800.00	0.00	21	51	3.69	800.00	2.45	2.85	2.77
182 Days	Kartik 27	985.00	0.00	17	42		985.00	2.85	2.94	2.91
364 Days	Kartik 27	500.00	0.00	8	25	3.67	500.00	2.94	3.00	2.98

\*Figures are in Millions NPR

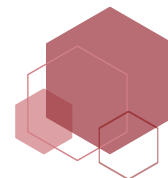


## Sectoral Movement

Index	Kartik 14	Mangsir 13	Change
NEPSE	2,677.62	2,748.05	2.63%
Trading	3,609.91	4,229.19	17.15%
Development Bank	5,330.30	5,861.12	9.96%
Hydropower	3,334.88	3,579.03	7.32%
Finance Company	3,462.69	3,638.25	5.07%
Microfinance	4,968.75	5,161.85	3.89%
Life Insurance	13,167.47	13,567.88	3.04%
Mutual Fund	21.31	21.86	2.58%
Investment	105.19	106.85	1.58%
Hotels & Tourism	6,803.87	6,896.54	1.36%
Others	2,060.08	2,058.43	-0.08%
Non Life Insurance	13,264.52	13,191.17	-0.55%
Commercial Bank	1,522.00	1,492.68	-1.93%
Manufacturing & Processing	6,997.92	6,828.56	-2.42%

## Major Movers

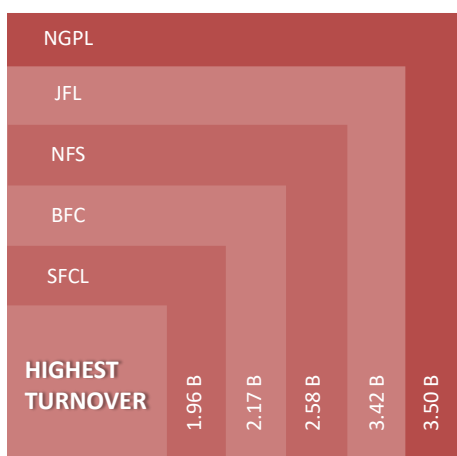
SMB	83.10%	SGIC	-9.60%
CORBL	69.04%	USHL	-7.10%
SAPDBL	65.02%	MLBBL	-7.08%
NABBC	60.12%	MSHL	-6.84%
RFPL	42.48%	NMLBBL	-5.96%



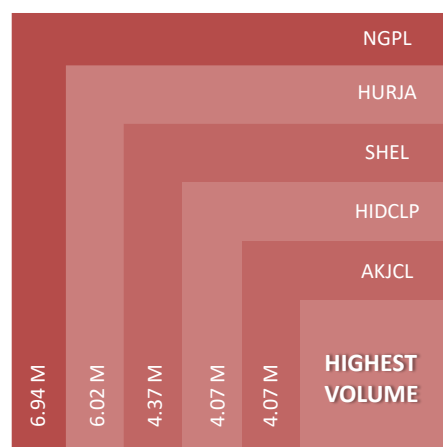
## Sectoral Divergence-Turnover

Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	11.01 B	8.35 B	-24.21%
Finance	1.31 B	1.60 B	21.76%
Development Banks	0.79 B	0.80 B	0.76%
Hydro Power	3.34 B	3.26 B	-2.41%
Microfinance	0.75 B	0.68 B	-10.08%
Non Life Insurance	0.53 B	0.39 B	-25.08%
Hotels And Tourism	0.25 B	0.18 B	-28.09%
Mutual Fund	0.01 B	0.01 B	-44.16%
Investment	0.76 B	0.42 B	-44.50%
Commercial Banks	1.32 B	0.73 B	-44.89%
Tradings	0.04 B	0.02 B	-46.98%
Life Insurance	0.60 B	0.32 B	-47.50%
Others	0.54 B	0.25 B	-54.08%
Manufacturing And Processing	0.50 B	0.21 B	-58.31%

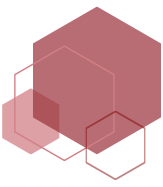
## Highest Turnover



## Highest Volume







# NEPSE Outlook

## A. Current Overview

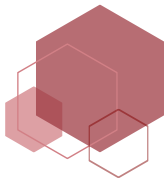


As of the end of November 2024, the NEPSE index closed at 2,748.05 points, recording a monthly increase of 70.43 points (2.63%) over 16 trading days. The average monthly turnover rose significantly to NPR 8.18 billion, compared to NPR 5.61 billion in October, reflecting improved investor sentiment following the festive season.

The Relative Strength Index (RSI) stands at 57.52, indicating neutral market conditions, while the Moving Average Convergence Divergence (MACD) points to a bullish trend, suggesting potential upward momentum.

Looking ahead, the NEPSE index has immediate support levels at 2,660 (S1), 2,590 (S2), and 2,435 (S3), with resistance levels at 2,870 (R1), 2,960 (R2), and 3,050 (R3). These critical levels serve as reference points for investors as they plan their trading strategies.





## B. Long Term Overview

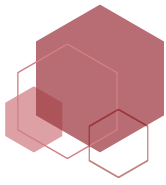


The NEPSE index has recently surpassed the psychological barrier of 2,200, a milestone not reached in over two years. This rally is fueled by several critical factors: a reduction in interest rates, the appointment of investor-favored Finance Minister Bishnu Prasad Paudel, and rate cuts by the Nepal Rastra Bank (NRB) aimed at stimulating economic growth.

These policy adjustments have particularly benefited the banking, financial institutions (BFI), and construction sectors. Additionally, the NRB's removal of the NPR 20 crore investment cap for institutional investors is expected to further enhance capital inflows into the market.

With these factors in play, the market is poised for continued upward momentum. If the NEPSE index breaks its previous high of 3,200, Trend-Based Fibonacci extension levels suggest potential targets at 3,400 and 3,690.

Conversely, in the event of a market pullback, long-term support levels are anticipated around 2,390, followed by 2,200—the former resistance level. These projections will depend on broader economic conditions and prevailing market sentiment.



## SCRIP ANALYSIS

### Nepal Doorsanchar Company Limited (NTC)

#### A. About the Company

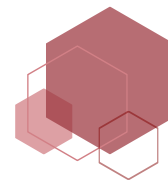
Nepal Doorsanchar Company Limited (NTC), established in 2004, is telecommunications provider, offering a wide range of services in cellular, broadband, internet, landline, and satellite communication. The Government of Nepal is the majority shareholder, and NTC operates across all seven provinces. It plays a pivotal role in the country's digital growth and connectivity. As a leader in innovation, NTC has pioneered 5G testing in select areas such as Kathmandu, Pokhara, and Birgunj in 2023, demonstrating its commitment to advancing Nepal's telecommunications infrastructure.

NTC's mobile services include 2G, 3G, and 4G networks, offering reliable voice and data connectivity with prepaid and postpaid plans tailored to customers' needs. In addition, the company provides high-speed fiber-optic broadband internet for homes and businesses, as well as ADSL services for areas without fiber access. NTC also offers fixed-line telephony for residential and commercial use and satellite communication services to connect remote and underserved areas. Furthermore, the company provides value-added services, such as mobile banking, SMS/MMS, and prepaid recharge vouchers.

According to the Nepal Telecommunications Authority's Telecom Indicator Report for the fiscal year 2080/81, Nepal Telecom (NTC) continues to dominate the telecom market. In voice services based on SIM subscriptions, NTC holds a commanding 63.55% market share, a substantial increase from 52.69% in FY 2076/77. In comparison, Ncell, the second-largest operator, has seen its market share decline to 36.45% from 41.63% over the same period.

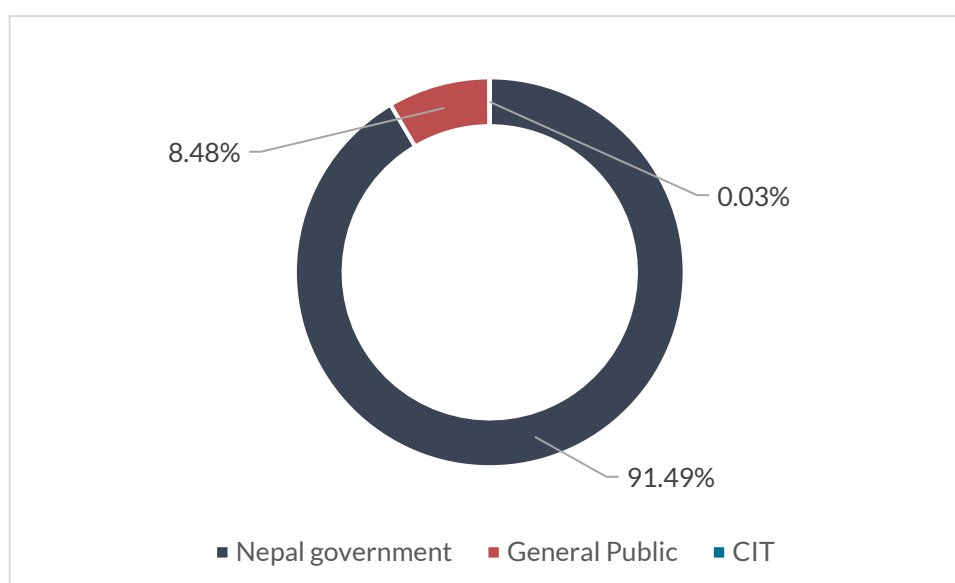
NTC also leads in broadband service subscriptions, which encompass ADSL/Cable, FTTH, Radio (WiFi), and mobile broadband technologies such as 2G, 3G, and 4G, with a market share of 66.81%. Specifically for mobile broadband services, NTC has an even higher share of 71.85%, underscoring its stronghold in Nepal's telecom sector.

In the fixed broadband segment, based on the number of subscribers, NTC ranks third with 313,545 users in FY 2080/81, up from 249,596 users in FY 2076/77. However,



its market share has declined from 21.30% in FY 2076/77 to 11.13% in FY 2080/81. This decrease is primarily due to the growing dominance of WorldLink Communications and Dish Media Network over the past five years.

Historically, NTC's primary income source revenue from voice calls has been declining due to the growing popularity of OTT platforms like WhatsApp, Viber, and other messaging services. The contribution of voice revenue to NTC's total revenue dropped significantly, from 65.64% in FY 2075/76 to 50.77% in FY 2079/80, with a compounded annual decline rate (CAGR) of 5.32% over this period. Conversely, income from data services has shown robust growth, increasing at a CAGR of 11.55% from FY 2076/77 to FY 2079/80. This shift highlights changing consumer preferences toward data-driven communication, and we believe that focusing on expanding and enhancing data services will be essential for sustaining and growing NTC's revenue streams in the future.

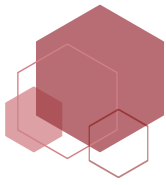


**Figure: Shareholding Pattern of NTC**

As of recent information, the Government of Nepal holds 91.49% of the total shares in Nepal Telecom (NTC). The breakdown of this government ownership includes:

- Ministry of Finance: 40.90%
- Ministry of Communications and Information Technology: 33.40%
- Other government-related entities: The remaining portion is owned by other public institutions.

*Source – NTC's annual report for FY 2079/80*



## SWOT Analysis

A SWOT analysis evaluates Nepal Doorsanchar Company Limited's (NTC) internal strengths and weaknesses and external opportunities and threats. This strategic assessment highlights NTC's competitive edge, potential growth areas, operational challenges, and industry risks, providing insights into its market positioning and future outlook.

### Strengths

- Strong brand reputation and customer trust.
- Comprehensive telecommunications infrastructure across Nepal.
- Diverse range of services, including mobile, internet, landline, and satellite communication.
- Availability of services nationwide, even in remote areas.
- Skilled and experienced workforce.

### Opportunities

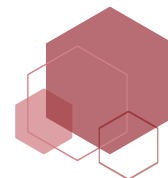
- Expanding telecommunication market with growing demand for data services.
- Development of new services like M-commerce, M-Wallet, VAS, and M2M technologies.
- Increasing demand for high-speed data services.
- Potential for investment diversification and infrastructure collaboration.

### Weaknesses

- Limited availability of telecommunications infrastructure in rural areas.
- Delays in adopting new technologies and project completion.
- Challenges in maintaining service quality and operational efficiency.
- High costs associated with technology upgrades and regulatory compliance.
- Bureaucratic delays due to government policies and decision-making.

### Threats

- Rapid technological changes and increasing market competition.
- Price wars and high costs of license renewals and spectrum fees.
- Changing customer preferences in service usage.
- Emergence of new service providers with innovative offerings.



## Comparative Annual Performance Visualizations

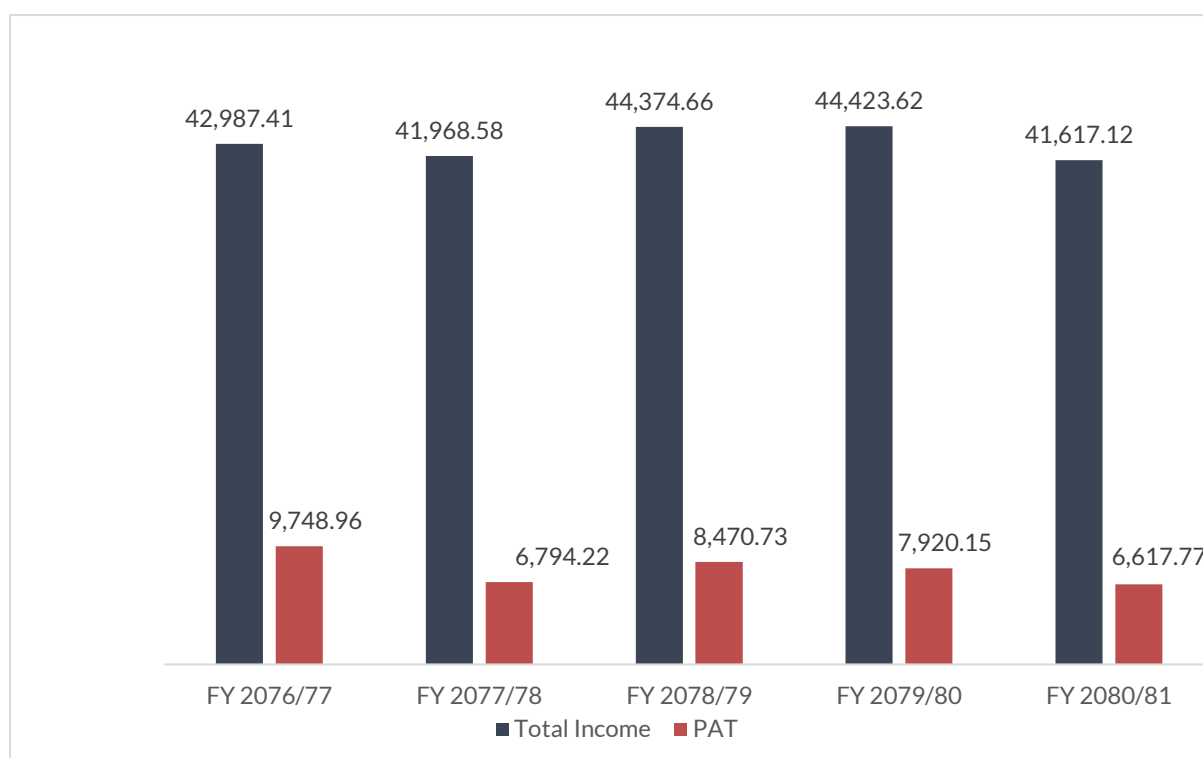


Figure: Annual Comparison of Revenue and Net Profit After Tax (PAT) in millions

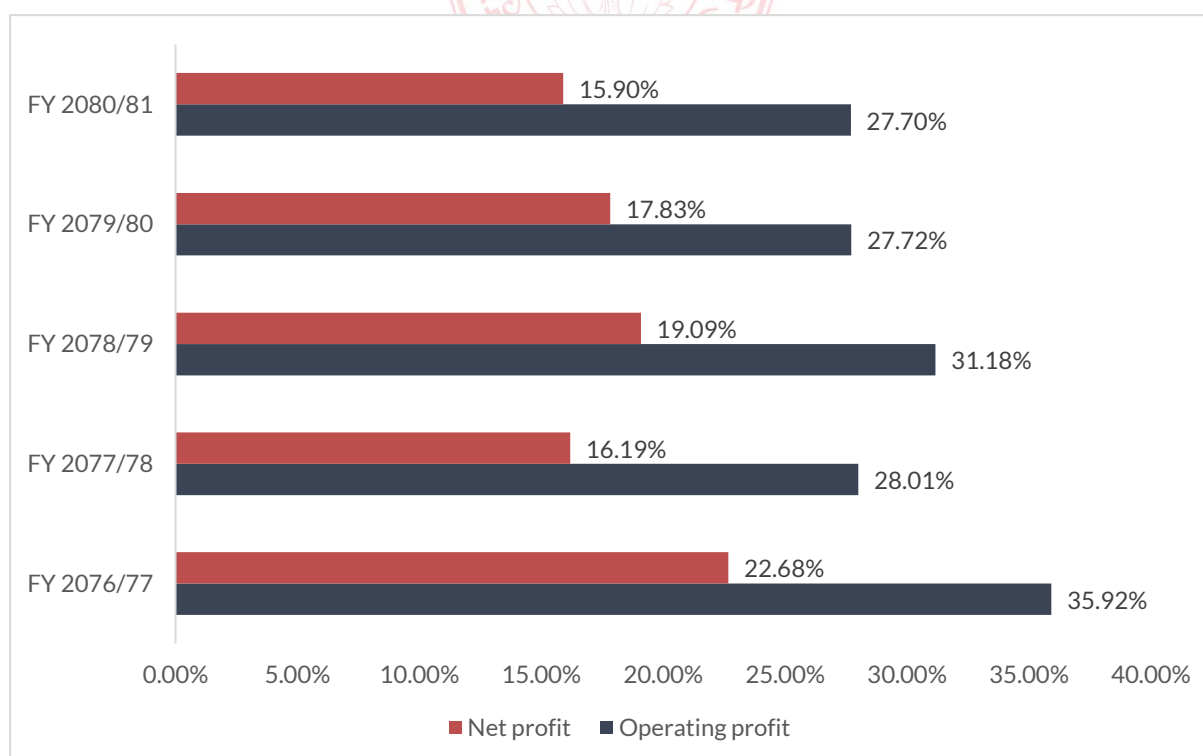
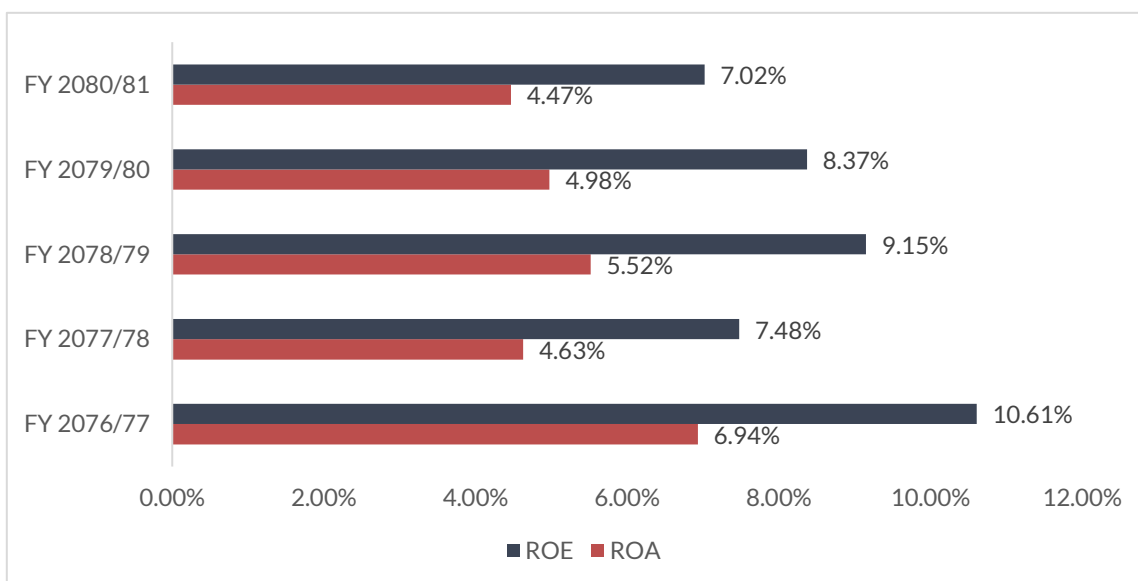
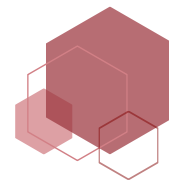
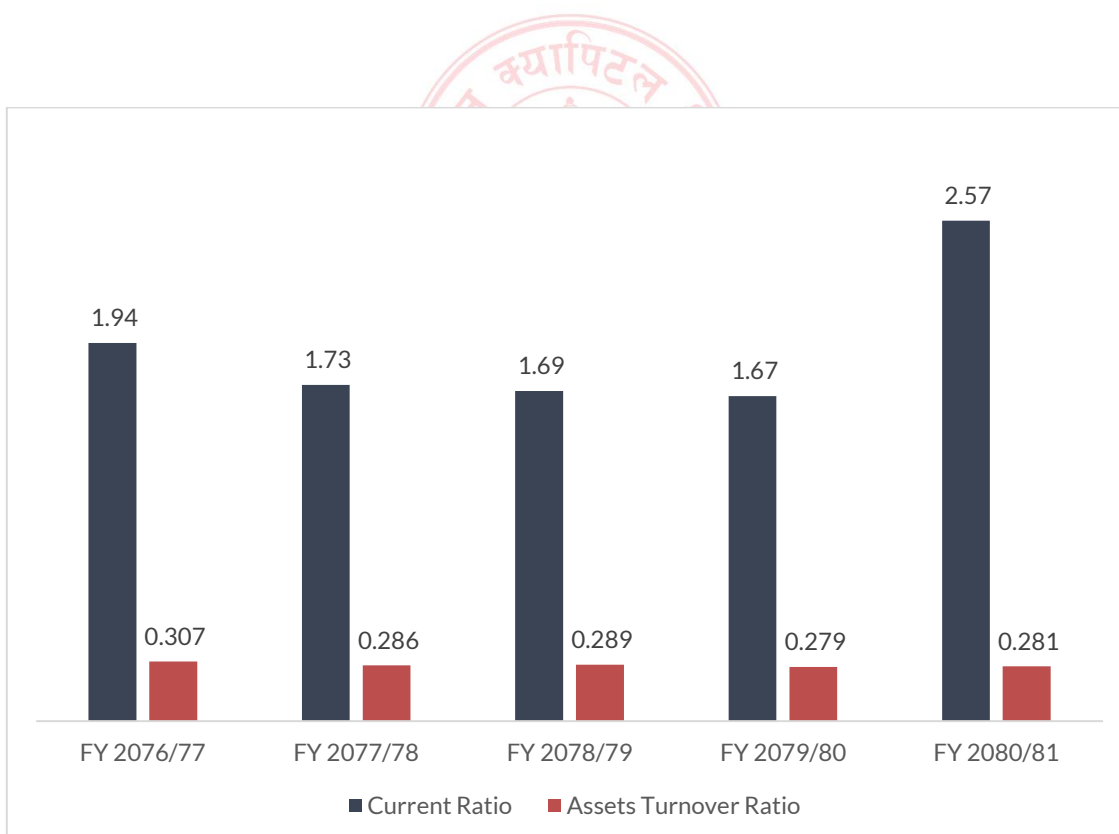


Figure: Annual comparison of Operating Profit Margin and Net Profit Margin



**Figure: Comparison of Return on Return on Asset (ROA) and Return on Equity (ROE)**



**Figure: Comparison of Current Ratio and Asset Turnover**

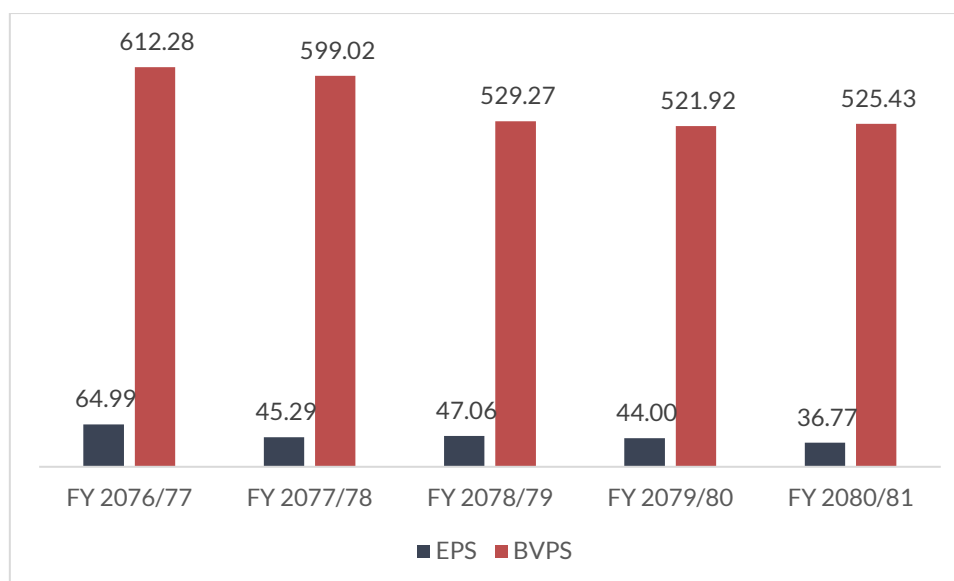
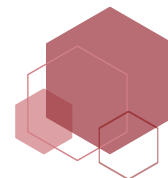


Figure: Comparison of EPS and Book Value Per Share

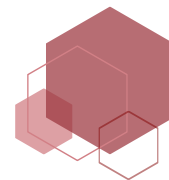
## Dupont Analysis

Particulars	Specifics	2077/78	2078/79	2079/80	2080/81
Tax Burden	Net Profit / Pre-Tax Income	0.62	0.65	0.67	0.58
Asset Turnover	Revenue / Average Total Assets	0.29	0.29	0.28	0.28
Financial Leverage	Average Total Assets / Average Equity	1.61	1.64	1.67	1.57
Interest Burden	Pretax Income / Operating Income	0.93	0.94	0.96	0.99
Operating Margin	Operating Income / Revenue	0.28	0.31	0.28	0.28
Final Return on Equity		7.48%	9.15%	8.37%	7.02%

The DuPont analysis provides insights into the factors driving Return on Equity (ROE) by breaking it into five components: tax burden, interest burden, operating margin, asset turnover, and financial leverage. ROE showed an upward trend from FY 2077/78 to FY 2078/79, peaking at 9.15%, but declined in subsequent years, reaching 7.02% in FY 2080/81. The primary reasons for the decline are stagnant revenue growth and a lack of operational efficiency, as highlighted by the analysis below:

- 1. Tax Burden:** The tax burden declined from 0.67 in FY 2079/80 to 0.58 in FY 2080/81, indicating a higher effective tax rate or reduced profitability before taxes. This significantly impacted overall profitability and ROE.





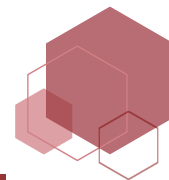
2. **Asset Turnover:** This ratio remained constant at 0.28–0.29 across the years, reflecting a lack of growth in revenue generation relative to assets. This stagnant efficiency contributed to the decline in ROE, as revenue growth was insufficient to drive higher returns.
3. **Financial Leverage:** Leverage ratios declined from 1.67 in FY 2079/80 to 1.57 in FY 2080/81, reflecting reduced reliance on debt financing. While this move likely reduced financial risk, it also limited the ability to amplify shareholder returns, further contributing to the ROE decline.
4. **Interest Burden:** The interest burden steadily improved, reaching 0.99 in FY 2080/81. This suggests better debt management, with minimal impact of interest expenses on pre-tax income. However, its positive contribution was not enough to offset the negative impact of stagnant revenue and reduced leverage.
5. **Operating Margin:** Operating margin peaked at 0.31 in FY 2078/79, indicating operational efficiency during that year. However, it declined to 0.28 in subsequent years, reflecting challenges in maintaining cost efficiencies relative to revenue.

#### Key Takeaways:

- The declining ROE trend is primarily driven by the lack of operational efficiency (stagnant **Asset Turnover**) and limited revenue growth.
- Reduced **Financial Leverage** and a lower **Tax Burden** further weighed on shareholder returns.
- To reverse this trend, the company needs to focus on improving revenue generation, optimizing asset utilization, and enhancing operational efficiency while maintaining a balanced capital structure.

#### Analysis of the Cash Flow Statement of UNL

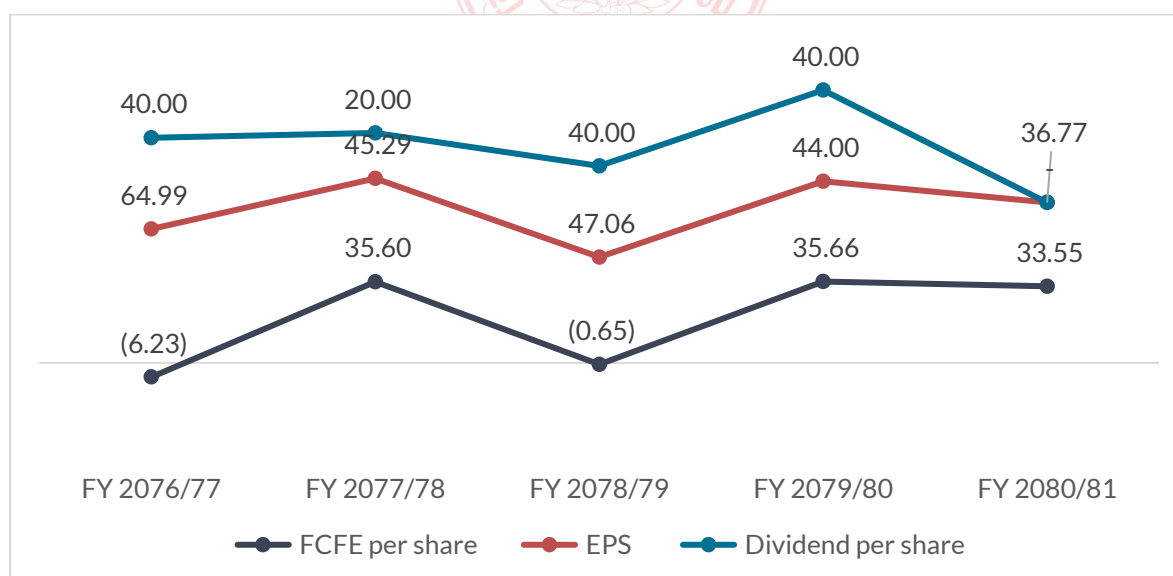
Particulars	2076/77	2077/78	2078/79	2079/80	2080/81
Net Cash Flow from Operations in billions	10.52	9.01	12.63	5.72	(14.10)
Acquisitions of PPE in billions	9.16	7.36	6.95	5.25	1.89
Acquisitions of intangible assets in billions	-	0.63	0.086	0.40	0.72
Sale of PPE in billions	-	-	-	-	-
Decrease in lease liabilities in billions	-	-	-	-	-
(Increase) / Decrease in investments in billions	(1.19)	(1.74)	(13.74)	(1.31)	16.73
Income from Investments in billions	6.14	4.94	5.71	7.63	6.56



Particulars	2076/77	2077/78	2078/79	2079/80	2080/81
(Increase) / Decrease in Capital Work in Progress in billions	(7.24)	1.12	2.31	0.035	(0.53)
FCFE in billions	(0.93)	5.34	(0.12)	6.42	6.04
Number of shares (in millions)	0.12	0.15	0.18	0.18	0.18
FCFE per share	(6.23)	35.60	(0.65)	35.66	33.55
EPS	64.99	45.29	47.06	44.00	36.77
Dividend per share	40.00	20.00	40.00	40.00	-
Dividend / FCFE	-642.50%	56.19%	-6195.65%	112.16%	0.00%
EPS / FCFE	-1043.95%	127.25%	-7289.12%	123.38%	109.58%

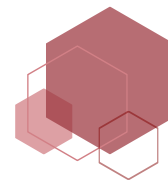
**Note:**

- ✓  $FCFE = \text{Cash Flow from Operations (CFO)} - \text{Acquisitions of PPE} - \text{Acquisitions of Intangible Assets} + \text{Sale of PPE} + \text{Decrease in lease liabilities} + (\text{Increase})/\text{Decrease in Investments} + \text{Income from Investments} + (\text{Increase})/\text{Decrease in capital Work in progress}$
- ✓ PPE stands for Property, Plant, and Equipment
- ✓ FCFE stands for Free Cash Flow to Equity which the cash available to shareholders after expenses, debt, lease liabilities, and reinvestment.



Over the past five fiscal years, the company's cash flow has been largely influenced by operating activities, capital investments, and income from investments.

In FY 2076/77, despite positive net cash flow from operations (CFO), the company faced negative Free Cash Flow to Equity (FCFE) due to high capital expenditures. However,



income from investments helped turn FCFE positive. This trend continued in FY 2077/78, FY 2078/79, and FY 2079/80, where FCFE remained positive mainly due to income from investments. Without this income, FCFE would have been negative in those years.

In FY 2080/81, the company faced a major cash outflow due to provisions for the telecom license renewal, leading to a negative CFO. However, income from investments and the sale of investments worth NPR 16.73 billion kept the FCFE positive, offsetting the negative impact of operating activities. In summary, income from investments and the sale of investments played a crucial role in ensuring positive FCFE in FY 2080/81, even amid substantial one-time costs and cash outflows.

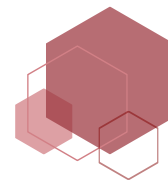
## B. Stock Performance Adjusted for Cash Dividends and Financial Performance



**Note – NEPSE is represented in blue, while NTC is highlighted in orange.**

Nepal Telecom (NTC) has underperformed the broader market over the past five years, with its stock gaining only 85.97% compared to NEPSE's 146.95%. Both experienced declines between 2021 and 2023, but NTC consistently lagged behind. During this period, NTC's net profit dropped by 32%, from NPR 9.74 billion to NPR 6.61 billion, due to increasing competition from ISPs, OTT platforms like WhatsApp and Viber, and its rival, NCELL. Declining revenue from core voice services, traditionally its largest source, further weakened its market share and investor confidence.

Despite strong EPS and consistent dividends, NTC struggles with operational inefficiencies, largely due to its government-owned, service-focused mandate prioritizing societal obligations over profitability. Its ROE, ranging from 7.02% to 10.61%, has trended downward, reflecting ineffective resource utilization and structural inefficiencies. Addressing these challenges and improving operational



efficiency is essential for NTC to enhance financial performance and regain market competitiveness.

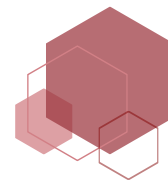
### Key Variables used for Valuation:

1. Sustainable Growth Rate for longer period projection to calculate terminal value= 4%
2. Other specifics are as follows:

Specifics	Value	Remarks
Adjusted Beta ( $\beta$ )	0.97	Assumption - The raw daily beta of 0.29 since its listing date will move towards the market beta of 1 over time.
Market Return ( $R_m$ )	11.04%	CAGR of closing prices of NEPSE from FY 2001/02 to FY 2023/24
Risk-Free Rate ( $R_f$ )	5.48%	The latest Development Bond Rate adjusted for a tax rate of 6.00%
Cost of Equity ( $K_e$ )	10.84%	As per the CAPM Model
Cost of Debt ( $K_d$ )	7.52%	As per the average monthly lending rates of commercial banks since February 2014 (adjusted as per tax rate)
Tax Rate	30.00%	As per the tax rate for telecom and ISP companies in Nepal
WACC	10.74%	Discount rate for the valuation (based on equity 98.08% and debt 1.92% in its capital structure)

### Other assumptions:

- ✓ For the valuation period from FY 2081/82 to 2085/86, the revenue projections for voice, data, SMS, and equipment sales have been modeled under three scenarios: base case, best case, and worst case, with respective compound annual growth rates (CAGR) based on historical trends and industry expectations.
- ✓ In the base case, revenues align with historical trends. Voice services are projected to decline at a CAGR of -3.54% due to the rise of OTT platforms like WhatsApp and Viber. Data revenue is expected to grow at 11.55%, driven by increasing internet use, while SMS revenue will rise by 12.67%, supported by commercial messaging. Equipment sales are anticipated to grow at 5%, reflecting steady demand.
- ✓ In the best case, favorable conditions lead to voice revenue growing by 2% with premium services, while data revenue surges by 15% due to digital adoption and 5G. SMS revenue grows by 15%, and equipment sales rise by 5.5%, reflecting market expansion and tech advancements.



- ✓ In the worst case, voice revenue declines by 5% due to OTT competition, data grows by 6.87%, SMS by 8.5%, and equipment sales by 4.5%, reflecting slower digital growth and reduced demand.
- ✓ This projection aligns with the broader industry trend, where data services are becoming the primary revenue driver due to the widespread adoption of smartphones, high-speed internet, and digital apps. Voice services, on the other hand, face declining usage as consumers increasingly shift to app-based communication platforms. As such, focusing on enhancing data infrastructure and exploring innovative service offerings will be critical to sustaining long-term revenue growth.
- ✓ Expenses are projected as per the historical averages.

### C. Stock Valuation

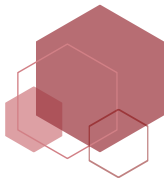
We have valued NTC using the Discounted Cash Flow (DCF) method. This valuation method estimates a company's value by projecting future cash flows and discounting them back to the present. It's commonly used because it considers the

time value of money, providing a comprehensive, long-term financial assessment.

Internationally, DCF valuation is widely used for its adaptability and detailed view of future cash flows. However, it's subjective, relying on assumptions about growth and risk, which can vary widely across analysts and markets.

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

DCF Valuation	Valuation Price (NPR)
Worst Case	576.26
Base Case	720.22
Bull Case	939.57
Average Valuation	745.35



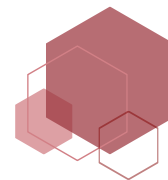
## D. Technical Analysis



Nepal Doorsanchar Company (NTC) suggests that the stock is currently consolidating within a symmetrical triangle pattern, indicating a potential breakout in the near future. The narrowing price range reflects indecision in the market, and the direction of the breakout will determine the next trend.

### Key Indicators and Observations:

- The stock is trading near critical levels, with resistance at NPR 1052, NPR 1107, and NPR 1150. A breakout above these levels could signal a bullish continuation.
- Support is established at NPR 899 and NPR 964. A breakdown below NPR 899 may trigger a bearish trend, increasing downside risks.
- The MACD line is approaching the signal line from below, showing signs of a **potential bullish crossover**. This indicates strengthening momentum and the possibility of an upward move. A confirmed crossover would add weight to the bullish thesis, especially if supported by price action.
- The RSI is at 50.33, reflecting neutral momentum. This suggests that the stock is neither overbought nor oversold, aligning with the current consolidation phase. If the RSI climbs above 60, it would signal renewed buying interest, whereas a drop below 40 could indicate bearish pressure.
- Volume is relatively low, which is typical during consolidation phases. A significant increase in volume during a breakout will confirm the strength and sustainability of the move, whether upward or downward.



### Analyst View:

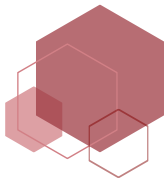
NTC's stock is at a pivotal point, with signs of a positive **MACD crossover** and a symmetrical triangle pattern suggesting a potential breakout. Investors should watch for a breakout above NPR 1052 to confirm bullish momentum, supported by increasing volume and RSI moving higher. If this occurs, the stock could target resistance levels at NPR 1107 and NPR 1150. However, if the price breaks below NPR 899, it could invalidate the bullish setup and lead to further declines. Traders should exercise caution, closely monitor key levels, and use tight stop-losses to manage risk effectively. The alignment of technical indicators points to a cautiously optimistic outlook, with the MACD crossover offering early signs of a potential bullish trend.

## E. Recommendation and Conclusion

We recommend a Hold for Nepal Telecom (NTC) if you currently have it in your portfolio, as several concerns limit its potential for significant shareholder returns. While NTC holds a dominant position in the market and offers consistent dividend payouts, its capital expenditures are disproportionately high compared to cash flows from operations. This raises concerns about the company's ability to generate enough operational cash flow to fund growth initiatives without relying on external financing, potentially affecting its long-term financial stability. That said, NTC's Free Cash Flow to Equity (FCFE) is positive, primarily driven by income from its investments. This indicates that, despite operational inefficiencies, the company can generate cash flow from its investment portfolio, which could provide some support for its ongoing capital expenditures and dividend payouts. However, this is not sufficient to offset the concerns over its high capital spending relative to operational cash flow.

Additionally, as a government-owned entity, NTC tends to prioritize national service obligations over profit maximization, which can result in more conservative growth strategies and limited efforts to enhance profitability. This service-oriented approach may restrict the company's ability to deliver higher shareholder returns, especially in comparison to private sector firms with stronger profit-driven motives. While NTC does have growth opportunities, particularly with its expansion into 5G and data services, its operational inefficiencies and government ownership structure make it less appealing as a high-growth investment. At the current market price of NPR 982, the stock does not present an attractive opportunity for investors seeking substantial short- to medium-term returns. In conclusion, while NTC remains a stable, reliable dividend-paying stock and its positive FCFE from investments provides some support, the company's inefficiencies, high capital expenditures, and lack of a strong profit motive detract from its growth potential. We recommend holding the stock but do not view it as a compelling buy at this time.





## 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.

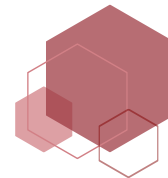
Contrarian investing is thus a market timing approach that may be used in any trading timeframe. Contrarians assume that financial instruments that have been consistently can reverse and begin to decrease, and vice versa. The contrarian trader thus buys a falling item or short-sells a rising one confident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

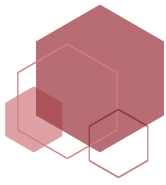
- Traditional price reversal patterns like the head and shoulders, double tops or bottoms, and price gaps – especially when these appear at or near resistance or support
- Volume indicators as well as volume spikes, a one-day or two-day exceptionally high number of trades
- Momentum oscillators, indicators 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.

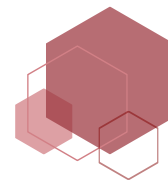
## F. Contrarians and the Dow Theory

***“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.



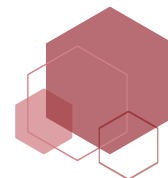
- ✓ The market tends to discount all news very quickly.
- ✓ Stock averages must confirm each other before a reversal is recognized.
- ✓ Volume confirms trends.
- ✓ Trends continue until a contrary signal is recognized and confirmed.

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.

*\*This article was previously published in the Poush, 2078 edition of The Pulse.*



## Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
LEC	RIGHT	7,500,000 (O)	2024/12/01 AD 2081/08/16 BS	2024/12/22 BS 2081/09/07 BS	Prabhu Capital
LICN	RIGHT	23,468,220 (O)	2024/11/27 AD 2081/08/12 BS	2024/12/17 BS 2081/09/02 BS	Nepal SBI Merchant Banking
NLG	RIGHT	9,631,220 (O)	2024/11/26 AD 2081/08/11 BS	2024/12/16 AD 2081/09/01 BS	Laxmi Sunrise Capital

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