

The Pulse

Market Growth, Risks and Outlook

Ashwin 2077



Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

NEPSE Outlook

A. Current Overview



The benchmark index closed at 1,550.43 points at the end of the review period (i.e. 30th September 2020), which is very significant level for NEPSE as it is moving within the channel pattern with major support at 1,550 level.

The 20 days Moving Average (MA) is above the 50 days MA while the Relative Strength Index (RSI) which measures the magnitude of recent price changes to evaluate whether a scrip is overbought or oversold is currently above 60 relatively in the overbought zone indicating dominance of buying pressure in the market.

Similarly, looking at the Moving Average Convergence Divergence (MACD) line, we can see that the MACD line is in the positive zone but has crossed over the trigger line from above indicating some correction in the market after witnessing an upward run.

The Directional Movement Index (DMI) which identifies the direction in which the price of an asset is moving shows that +DMI is still above -DMI. However, they are closing in on each other and a falling Average Directional Index (ADX) which stands at 37 indicates the consolidating trend between 1,535-1,560 level.

The immediate support levels of NEPSE index stands at: (S₁) 1,520 and (S₂) 1,480, whereas the resistance levels hold at: (R₁) 1,600 and (R₂) 1,667.75.

B. Long-Term Outlook



As we can see in the chart above, the 38.2% retracement level of last Bull Run is 1,280 and 50% retracement level is at 1,092. Therefore, 1,100 level of NEPSE became a strong psychological support level for NEPSE, getting tested almost four times in last three years, which is highlighted by the red-colored trend line in the above chart.

On the other hand, after making a low of 1,102.47 points on 25th November, 2019, NEPSE seems to have ended its bearish run and entered into a bull run, which can be confirmed with a golden crossover observed in NEPSE (i.e. crossover between 50 days MA and 200 days MA from below) on 21st January, 2020, when the index was at 1,320.47 points. This could be further confirmed through a breakout from the green-colored trend line, which was just prior making a golden cross.

Thus, the long-term outlook of the market looks bullish. However, minor corrections/swings cannot be ruled out throughout the journey.

C. Sectoral Analysis

Sector	Open	Close	% Change
			(1 Sep- 1 Oct)
Banking	1,217.97	1,258.48	3.33%
Development Bank	1,759.70	1,946.89	10.64%
Finance	667.19	784.31	17.55%
Hotels	1,511.60	1,749.16	15.72%
Hydro Power	1,012.98	1,292.38	27.58%

Life Insurance	9,308.39	9,639.13	3.55%
Manufacturing & Processing	3,006.18	3,039.22	1.10%
Microfinance	2,483.56	2,556.86	2.95%
Mutual Fund	10.70	10.81	1.03%
Non-Life Insurance	7,528.83	8,044.04	6.84%
Others	944.78	1,011.61	7.07%
Trading	895.66	1,057.33	18.05%

Hydropower Sector which had been long stagnant in the market, finally picked up some steam in anticipation of growth in profits due to reduction in interest payments which constitutes a major part of their obligations as interest rate drew down on the back of excess liquidity in the market. Undervalued sectors such as Finance Companies and Development Banks grew after the growth of hydropower sector made these sectors relatively lucrative and due to their lower supply as opposed to commercial banks with much larger supplies. Hotels rebounded on the back of reopening expectations for internal tourism.

Key Movers

This month was dominated by Hydropower companies all of which woke up from a period of extensive stagnation to reach new highs within a months' time. The highest gainers among those scrips however are fundamentally weak companies such as KKHC, DHPL, AKJCL, and UNHPL that have grown due to the bullish sentiment in the sector. AHPC is the only fundamentally strong company in this list.

Major Gains

S.N.	Scrip	Change%
1	KKHC	129.41%
2	AHPC	129.00%
3	DHPL	125.49%
4	AKJCL	118.52%
5	UNHPL	103.33%

Major Losers in the market were NRN Hydropower which had reached highs after its IPO while GLBSL, KMCDB, and SLBSL represented the microfinance sectors which has stagnated in the last month. UNL (Unilever) went down following huge drop in its earnings and a dividend declaration of 100 % against 770% in the previous FY

Major Losses

S.N.	Scrip	Change%
1	NRN	-19.33%
2	GLBSL	-9.36%
3	KMCDB	-5.41%
4	SLBSL	-5.29%
5	UNL	-5.14%

Interest Rate Scenario

Short Term Interest Rates	Rate	Transaction Date
A. Weighted Average Treasury Bills Rate		
28 Days	0.0390	15th September, 2020
91 Days	0.1649	29th September, 2020
182 Days	0.8347	29th September, 2020
364 Days	1.1285	22nd September, 2020
B. Weighted Average Interbank Rate (Daily)		
	0.1395	30th September, 2020
C. Weighted Average Repo Rate		
7 Days (Regular)	4.7881	1st March, 2020
D. Weighted Average Reverse Repo Rate		
7 Days (Regular)	0.0228	6th August, 2020
E. Weighted Average Deposit Auction Rate (Regular)		
15 Days	0.9914	4th August, 2019
28 Days	0.4000	24th September, 2019
30 Days	3.3993	25th July, 2019
60 Days	3.4705	1st August, 2019
90 Days	3.7739	29th July, 2020
F. Interest rate corridor (IRC)		
Weighted Average Deposit Auction Rate (14 Days)	3.0000	12th July, 2020
Weighted Average Repo Rate (14 Days)	5.0000	19th April, 2020

Macro-Economic Indicators

Description	Annual Data		Change (%)
	2019/20	2020/2021	
Inflation	6.95%	3.49%	-3.46%
Imports Expansion	-11.50%	-19.60%	70.43%
Exports Expansion	27.70%	8.90%	-67.87%
Net service (In Billions NPR)	-3.41	-2.45	-28.15%
Remittance Inflow	75.40	92.71	22.96%
Current Account Surplus (In Billions NPR)	-9.37	25.41	-371.18%

FDI Inflows (In Billions NPR)	1.44	1.39	-3.47%
Government Expenditure (In Billions NPR)	2.62	1.95	-25.57%
Government Revenue (In Billions NPR)	77.53	58.81	-24.15%
Increase in Deposit Collection	-0.40%	-0.10%	-75.00%
Increase in Credit	-1.10%	-1.40%	27.27%
Forex Reserves (In Billions NPR)	1064.64	1436.73	34.95%

In line with observations in the last month, the effect of the prolonged lockdown has increased and led to substantial reduction in as observed by the decrease in imports in the market and can also be seen in the decrease in credit dispersion which would have ultimately affected consumption directly. As a result, net service deficit has decreased significantly while Forex Reserves have improved as a decline in Remittance Income has been forthcoming as of now.

Overall, the reduction in consumption has added to the woes in government finances as overall revenue dropped by 24% compared to the same period last year government expenditure has also decreased pointing towards an economic slowdown even if lockdown measures are removed.

Scrip Analysis

A. Nepal Doorsanchar Company Limited (NTC)

I. Technical Analysis



The stock price of NTC closed at Rs. 702 on 30th September 2020, which is moving in a channel pattern shown in the chart above and is taking support in the lower trend line. Its RSI is at 54 in the middle zone as the price is consolidating at the price level of Rs. 700.

The Golden Crossover of 50 days and 200 days MA from below indicates upward trend in the long run. Similarly, though the MACD line is still in the positive zone, it has crossed over the trigger line from above indicating correction in the price of the stock.

+DMI is still above the -DMI with an ADX of 44 indicating good strength in the upward trend.

The immediate support levels of the stock are: (S₁) Rs. 690 and (S₂) Rs. 675, whereas its resistance levels are: (R₁) Rs. 750 and (R₂) Rs. 798.

II. Stock Valuation

The final average valuation of NTC based on Absolute Approach (viz. Earnings Valuation, Dividend Discount Model and Net Worth per share) as well as Relative Approach (i.e. Market Price Model) has been computed as **NPR 599.29**, which has been tabulated below:

Methodology	Valuation
Earning Valuation	655.98
Dividend Discount Model	453.79
NWPS (Q4 76/77)	620.92
Market Price Model	666.46
Final Average Valuation	599.29

III. Recommendation

NTC is sole telecommunication sector stock listed in NEPSE, which is less impacted by COVID-19. It is a recession-proof defensive stock with good dividend history, with an average dividend yield of 7.68% in last 8 years (2012 through 2019).

Its fourth quarterly report of FY 2076/77 stated decline in total revenue by 4.57% and a decline in net profit by 16.15% mainly due to domestic completion and decline in revenue from basic telephone service as well as CDMA service. However, the company has huge reserve and surplus of NPR 78.14 billion, which is 5.21 times of its paid-up capital of NPR 15 billion. The stock is trading at Rs. 702 at P/E ratio of 12.30 with an EPS of Rs. 57.06 and NWPS of Rs. 620.92.

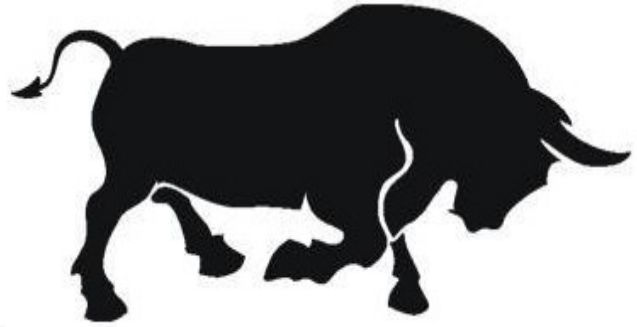
Thus, the stock is “good buy” at Rs. 690-700 level based on its fundamental strength and current valuation with good dividend payout, which shall help to defend and balance the investment portfolio in the long run.

Issue of the month

A. Bull Market

What is a Bull Market?

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



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

What happens in Bull Markets?

As the bull markets are a sign of increasing investor confidence, the actions performed by investors in such markets are also indicative of the same which include:

- a. Investors buy more stock: Since stock prices are in an upward trajectory in bull market, investors become convinced they'll keep doing so, so they keep on buying which raises prices even higher, as the supply cannot keep up with demand.
- b. Companies go on an expansion spree: Owing to consumer buying, companies tend to make more investments due to the confidence shown by investors, this usually means companies hire more workers and paying existing employees more money.
- c. Consumer Spending Increase: As stock prices keep on going up, so do investor earning which tends to drive people to spend more money as they are confident their assets will generate even higher returns.
- d. This leads to higher inflation as: More consumer spending increases the money supply which ultimately increase the prices of everything as the value of money decreases.

How long do bull markets last?

As per standard convention, a bull market is considered over when stocks start a period of steady decline, falling at least 20% from their peak. However, this does not necessarily mean that the market will be declining henceforth. It is just that the bull run of that particular phase

of the market is over. This ties into the view of looking at market movements in specific small phases rather than the whole as is the case in trading.

Bull Markets generally tend to end when markets change fundamentally or when the impetus that drove the market forward ends, when prices have risen too high or too fast, or when some other event forces investors to feel pessimistic about the future such as with the recent COVID-19 scare that affected both Global and Nepali Markets.

Investing in a Bull Market.

Investing in bull markets is risky but also offers great rewards, the key to investing in the markets is understand how the markets move and recognize entry and exit points. In this regard, a smart investor would invest as follows:

i. Invest in a diversified portfolio

It becomes very tempting to invest in a stock that has grown rapidly and looks like it will keep on doing so for some time. However, sometimes stock tend to get overpriced and the momentum they carried can evaporate in an instant. An investor who only buys specific stocks is always at risk of loss if a stock reverses its course. Maintaining a diversified portfolio shields an investor from booking huge losses. This also means the investors can get good returns even if certain sectors grow much better than others.

ii. Stick to your strategy

It is during bull-markets that even weak companies look like they will grow substantially. However, these companies stock price growths are driven purely by investor sentiments rather than their own fundamentals. They can easily turn around and follow a downward trajectory similar to how they had moved up. Relying on market news and speculation and investing on companies is not a very sound strategy. While it may result in profits in the short run, they can become traps for investors that may not understand all the dynamics of the market. It is better to stick to own strategy on investing in stocks which are fundamentally well and will not fall down a cliff if things go bad quickly.

iii. Know Your Levels.

The interesting thing about the markets is that the nature and mood of a market can only be truly ascertained after the fact or in hindsight. Even the savviest of investors/traders do not manage to get it right every time. It is therefore very difficult to time the markets. It is much simpler to just set your levels and buy and sell according to those benchmarks and not get caught up in the hype as market grow and fall similarly.

However, one thing is for certain, that despite some falls, the markets always move upwards over an extended period of time. Therefore, establishing defined levels for buying and selling and acting accordingly will always yields good returns in the long run.

Key Dates

SN	Scrip	Type	Quantity	From	To	Issue Manager	Status
1	GLICL	Auction	252,449 (O) 337,565 (P)	2020/09/29 AD 2077/06/13 BS	2077/06/19 BS 2077/06/19 BS	NMB Capital	Open
3	MEGA	Auction	707,394 (O)	2020/09/27 AD 2077/06/11 BS	2020/10/04 AD 2077/06/18 BS	Mega Capital	Open
4	SUNRISE CAPITAL	Auction	428,580 (P)	2020/09/22 AD 2077/06/06 BS	2020/10/06 AD 2077/06/20 BS	RBB Merchant Banking	Open
5	NCCB	Auction	500,000 (P)	2020/09/18 AD 2077/06/02 BS	2020/10/22 AD 2077/07/06 BS	NIBL ACE Capital	Open
6	UNITED IDI MARDI	IPO	420,000 (O)	2077/06/07 BS 2020/10/07 AD	2020/10/07 AD 2077/06/21 BS	Global IME Capital	Open
7	SANIMA GENERAL INSURANCE	IPO	2,730,000 (O)	2020/10/07 AD 2077/06/21 BS	2020/10/11 AD 2077/06/25 BS	NIC ASIA Capital	Coming Soon
8	SFCL	Right	3,639,606 (O)	2020/10/02 AD 2077/06/16 BS	2020/10/22 AD 2077/07/06 BS	B.O.K. Capital	Coming Soon

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