

The Pulse

Market Growth, Risks and Outlook

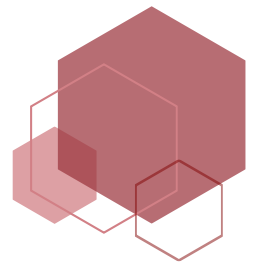
Falgun 2077



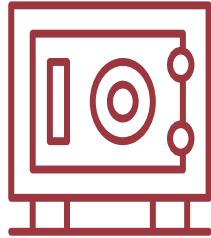
Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

Macroeconomic Overview



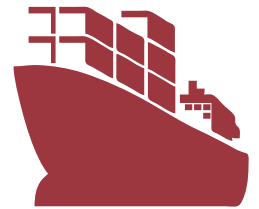
Inflation
3.56% ↑



Deposit Growth (YOY)
22.0% ↑



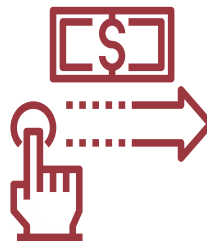
Credit Growth (YOY)
20.1% ↑



Import Growth (YOY)
-4.8% ↓



Export Growth (YOY)
6.1% ↑



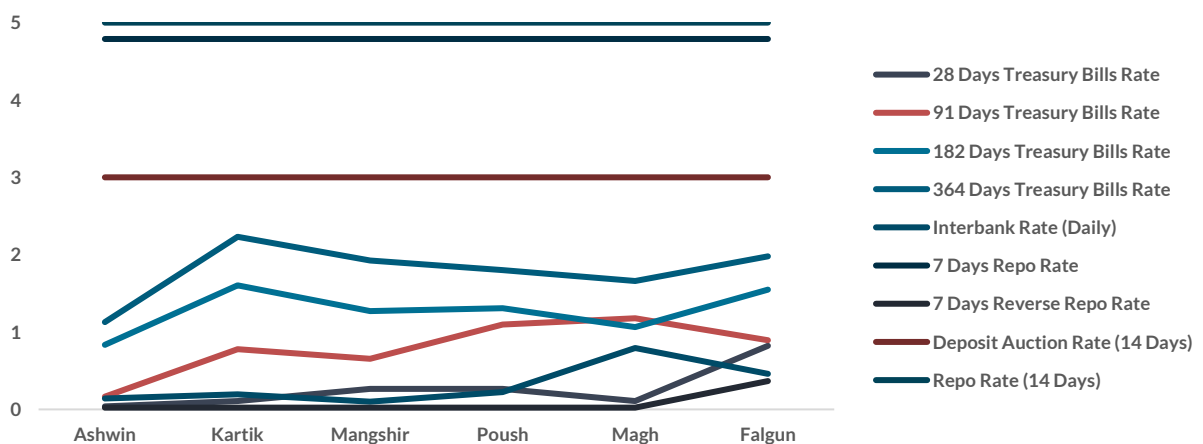
Remittance Growth (YOY)
11.07% ↑

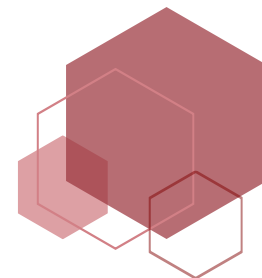


FOREX Reserve Growth (YOY)
36.29% ↑

*YOY here refers to change between the first six months of this FY vs first six months of Last FY.

Short Term Rates





Current Overview



The benchmark NEPSE index closed at 2,554.13 points at the end of the review period (i.e., 25th February 2021).

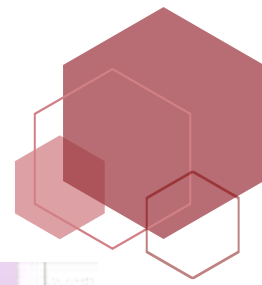
The 20 days Exponential Moving Average (EMA) is above the 50 days EMA indicating that the ongoing upward trend is still intact, while the Relative Strength Index (RSI) which measures the magnitude of recent price changes to evaluate whether a scrip is overbought or oversold which had been hovering around 64-84 level in the overbought zone has now dropped to 58, due to profit booking for the flagship index.

Similarly, looking at the Moving Average Convergence Divergence (MACD) line, it is still in the positive zone but has crossed the trigger line from above signaling some correction in the upward trend.

The falling Average Directional Index (ADX) line of NEPSE, which stands at 46 indicates NEPSE is going on a consolidation phase, which might witness some corrections as well, since the +DMI (purple colored line) is nearing towards -DMI (yellow colored line).

The Directional Movement Index (DMI) which identifies the direction in which the price of an asset is moving shows that +DMI (purple colored line) is nearing towards -DMI (yellow colored line)

The immediate support levels of NEPSE index stand at: (S₁) 2,462, (S₂) 2,350 and (S₃) 2,250, whereas the resistance levels hold at: (R₁) 2550, (R₂) 2,630 and (R₃) 2,700.



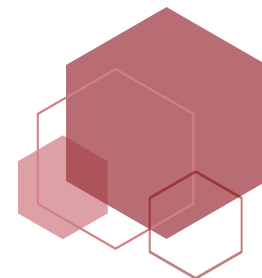
Long Term Outlook



After making a low of 1,102.47 points on 25th November 2019, NEPSE began its upward journey with a confirmation of golden crossover (i.e., crossover between 50 days MA and 200 days MA from below) as well as a clear breakout from the green-colored trend line shown above, and there has been no looking back for NEPSE as it is breaking records with new highs supported by huge turnover on a daily basis.

As shown in the chart above, the NEPSE index has already achieved the Trend-Based Fibonacci Extension of 1.61 (2,101.69 points) as well as 2.61 extension (2,667.62 points) within very short span of time.

Though the long-term outlook of the market is still bullish, minor correction from here is very likely as the market is at profit booking stage since it had been trading at overbought zone for quite some time now. This consolidation/ or, correction could be a fresh buying opportunity and shall only provide more stability in the long bullish journey ahead.



Market Movement

Sectoral Change (27 Jan-26 Feb 2021)		
Sector	% Change	
Mutual Fund	9.85%	↑
Others	7.35%	↑
Microfinance	7.14%	↑
Non-Life Insurance	6.59%	↑
Hydro Power	5.95%	↑
Banking	5.37%	↑
Development Bank	4.73%	↑
Trading	0.70%	↑
Hotels	0.12%	↑
Finance	-1.04%	↓
Life Insurance	-1.52%	↓
Manufacturing & Processing	-5.80%	↓

Mutual Fund Sector saw the highest rise (9.85%) in the last month as investors realized that all mutual funds were trading at a substantial discount while having great dividend capacity. Microfinance, Others and Non-Life Insurance saw good rises on the back of a growing market. Manufacturing and Processing saw some correction as it had grown continuously in the previous months.

The major gainers for the month were HURJA and AHPC representing Hydropower Sector while JSLBB and USLB represented Microfinance. A main mover for the month was GBIME which increase significantly despite huge supply in the market.

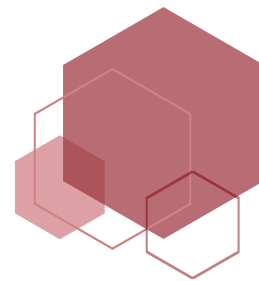
The largest loser for the month was GLBSL with BNT, RLFL, NABBC and NCCB following shoot. Apart from BNT which lost some ground due to poor revenue numbers, the rest seem to be experiencing a correction after moving positively in the previous months

Major Gains

SN	Scrip	Change%
1	HURJA	49.28%
2	JSLBB	45.56%
3	GBIME	38.92%
4	AHPC	35.08%
5	USLB	33.87%

Major Losses

SN	Scrip	Change%
1	GLBSL	-14.13%
2	BNT	-11.87%
3	RLFL	-10.71%
4	NABBC	-9.38%
5	NCCB	-9.14%



SCRIP ANALYSIS

Neco Insurance Company Limited (NIL)

A. Technical Analysis



The stock price of NIL is trading at Rs. 1,755 as on 25th February 2021. Its RSI is at 68 in the overbought zone indicating good demand of the stock, however small correction might be witnessed due to profit booking.

The long-term trend of the stock is bullish, as golden crossover (upward crossover of 50 days MA and 200 days MA) is still intact.

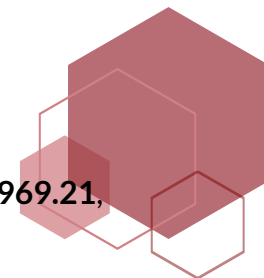
Though the MACD line is still in the positive zone, it has crossed the trigger line from above indicating downward correction, which could provide buying opportunities.

Falling ADX of 52 with +DMI nearing towards -DMI indicates the upward trend is slightly getting weak.

The immediate support levels of the stock are: (S1) Rs. 1,720, (S2) Rs. 1,655 and (S3) Rs. 1,610, whereas its resistance levels are: (R1) Rs. 1,830, (R2) Rs. 1,900 and (R3) Rs. 1,980.

B. Stock Valuation

The final average valuation of NIL based on Absolute Approach (viz. Capitalized Earnings, Earnings Valuation and Discounted Cash Flow) as well as Relative Approach



(viz. P/E Model, P/B Model and Market Price Model) has been computed as **NPR 969.21**, which has been tabulated below:

Method	Valuation Price
Capitalized Earnings	563.50
Earning Valuation	592.54
Discounted Cash Flow	781.34
P/E Model	1,864.52
P/B Model	755.41
*Market Price Model	1,257.94
Final Average Valuation	969.21

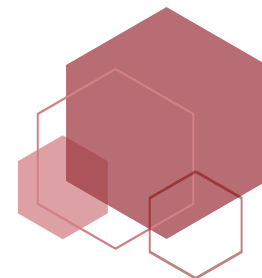
*120 Day's Closing Price Average

C. Recommendation

The last traded price of NIL as on 25th February 2021 is Rs. 1,755. It is trading below the industry average P/E ratio of 46.52 at 43.79 with an EPS of Rs. 40.08. Its book value per share stands at Rs. 148.82.

In the first six months of this fiscal year (i.e., Q2 2077/78), its net insurance premium has grown by 33% and the claim ratio (net claim divided by net premium) of the company is 27.32%. Its net profit in Q2 FY 2077/78 has increased by massive 60.22% compared to the same quarter last year, mainly due to impressive growth in premium collection and good management.

The company is yet to announce dividend for the fiscal year 2076/77 to its shareholders. Thus, based on valuation, the stock is overvalued; however, its' performance is above average compared to its peers. The stock is "HOLD" for the long-term, whereas in the short-term it is at a profit booking stage, as the stock is in the overbought zone. Therefore, the resulting price correction in this stock could be a buying opportunity to accumulate for another motive wave.



The Four Stages of a Bull Market

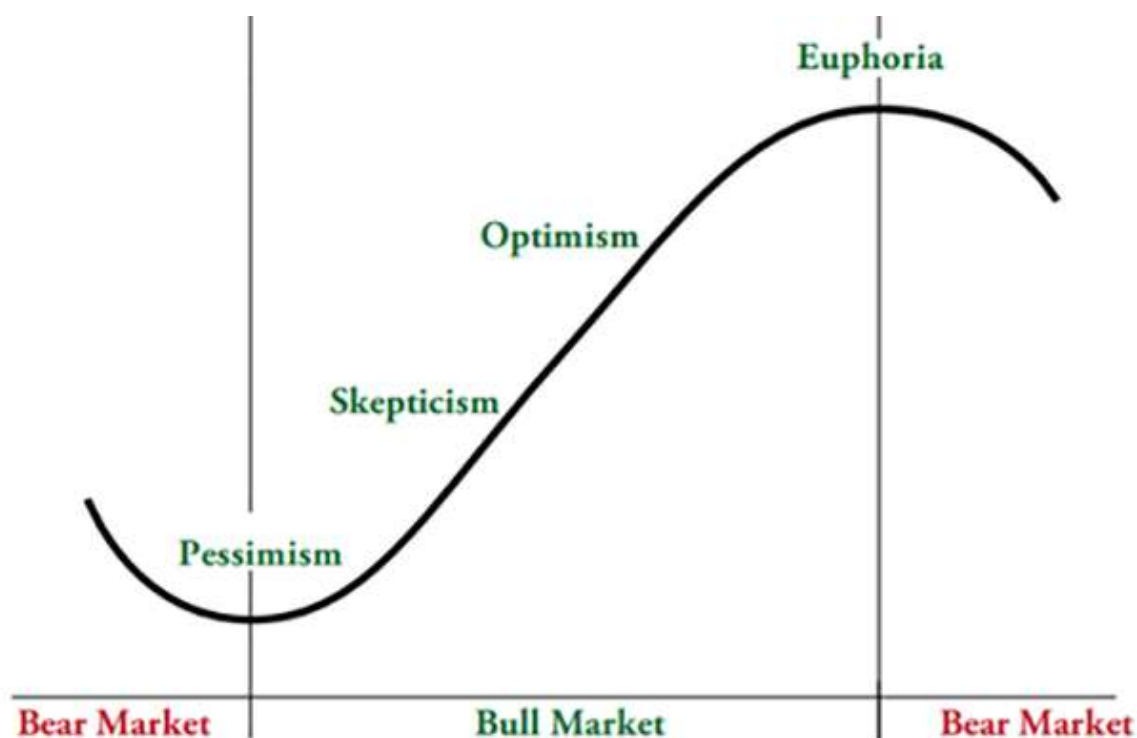
“Bull Markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria.”- Sir John Templeton

A. What is a Bull Market?

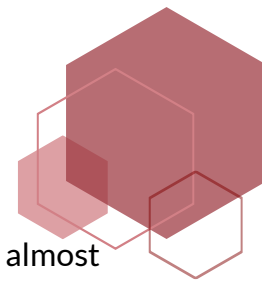
A bull market, also known as a bull, run, is a long, extended period in the market when stock prices are on the rise. There is no single stat or metric that defines when we are in a bull market, but the most common definition is when stock/asset prices increase at least 20% from their most recent low,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

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

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



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



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

I. Pessimism

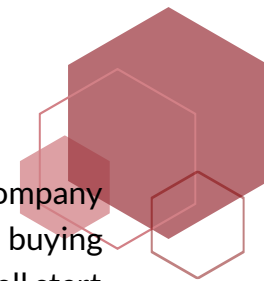
Bull Markets typically tend to begin when investors show their loss of confidence by selling assets at lower valuations. Good Stocks can be bought below their fair valuations and headlines about market volatility or emphasis on massive amounts of fear about investing in stocks are common. The continuous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

II. Skepticism

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

III. Optimism

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



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

IV. Euphoria

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

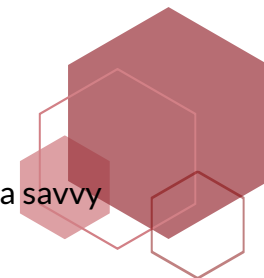
Stock Market news drives the headline and everyone who can invest will start to invest in the markets. Everyone becomes a pundit because all the stocks keep on moving higher. Investors start chasing the hot stock picks and trade based on rumor. People tend to believe something that has had a strong bull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

C. Understanding how to act.

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

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

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



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

KEY DATES

Scrip	Type	Quantity	From	To	Issue Manager
KEF	IPO	80,000,000 (O)	2021/02/26 AD 2077/11/14 BS	2021/03/02 AD 2077/11/18 BS	Kumari Capital
RJPL	IPO	407,705 (O)	2021/02/19 AD 2077/11/07 BS	2021/03/05 AD 2077/11/21 BS	NMB Capital
UICPO	Auction	95,649 (P)	2021/02/18 AD 2077/11/06 BS	2021/03/04 AD 2077/11/20 BS	Prabhu Capital
GBLBSP	Auction	25,200 (P)	2021/02/18 AD 2077/11/06 BS	2021/03/04 AD 2077/11/20 BS	Prabhu Capital
RMDCPO	Auction	5,770 (P)	2021/02/18 AD 2077/11/06 BS	2021/03/04 AD 2077/11/20 BS	Prabhu Capital
DDBLPO	Auction	23,500 (P)	2021/02/17 AD 2077/11/05 BS	2021/03/07 AD 2077/11/23 BS	Sanima Capital

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