

The Pulse

Market Growth, Risks and Outlook

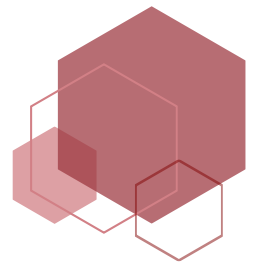
Magh 2077



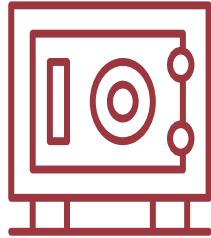
Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

Macroeconomic Overview



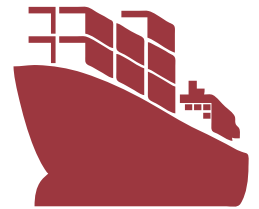
Inflation
2.93% ↓



Deposit Growth (YOY)
21.6% ↑



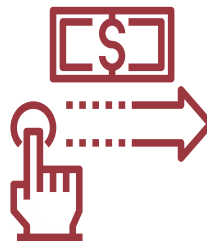
Credit Growth (YOY)
16.3% ↑



Import Growth (YOY)
-9.6% ↓



Export Growth (YOY)
5.1% ↑



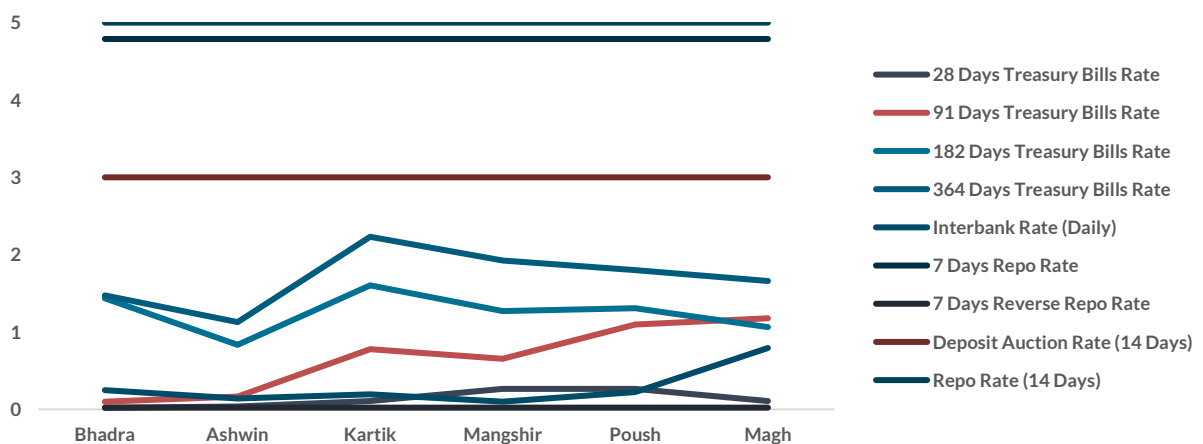
Remittance Growth (YOY)
10.94% ↑

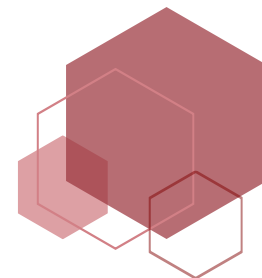


FOREX Reserve Growth (YOY)
35.47% ↑

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

Short Term Rates





Current Overview



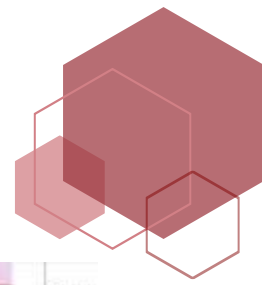
The benchmark NEPSE index closed at an all-time high of 2,441.85 points at the end of the review period (i.e., 27th January 2021) with a high turnover of NPR 8 billion. The benchmark index has been breaking records and creating new highs with an increasing volume signifying the bullish trend.

The 20 days Exponential Moving Average (EMA) is well above the 50 days EMA indicating continuation of ongoing upward trend, 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 at 81 in the overbought zone indicating high dominance of buyers over the sellers in the market.

Similarly, looking at the Moving Average Convergence Divergence (MACD) line, which is still in the positive zone, with the trigger line already crossed over from below signaling upward trend.

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 above the -DMI (yellow colored line) indicating strong bullish momentum in the ongoing upward trend. Rising Average Directional Index (ADX) line is at 50.

The immediate support levels of NEPSE index stands at: (S₁) 2,400, (S₂) 2,350 and (S₃) 2,225, whereas the resistance levels hold at: (R₁) 2,462, (R₂) 2,550 and (R₃) 2,630.



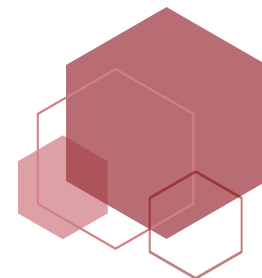
Long Term Outlook



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 (2,061.59 points) within very short span of time and is heading towards the next level extension of 2.61 (i.e., 2,625.01 points).

Thus, the long-term outlook of the market remains strongly bullish, and the minor correction in between shall only provide more stability in the long journey ahead.



Market Movement

Sectoral Change (30 Dec-27 Jan 2020)		
Sector	% Change	
Trading	51.65%	↑
Life Insurance	35.94%	↑
Finance	35.53%	↑
Non-Life Insurance	29.42%	↑
Microfinance	27.14%	↑
Others	23.65%	↑
Hydro Power	21.15%	↑
Development Bank	19.11%	↑
Manufacturing & Processing	16.32%	↑
Banking	15.00%	↑
Mutual Fund	8.38%	↑
Hotels	7.70%	↑

It was a good month for all Sectors as they grew on the back of NEPSE making new highs. Among the sectors, Trading performed the best at 51.65% followed by Life Insurance at 35.94% Finance at 35.53% and Non-Life Insurance Sectors at 29.42%

Hotels sector grew the least at 7.7% followed by Mutual Funds and Banking at 8.38% and 15% respectively.

The major gainers for the month mostly belonged to the financial sector with development banking sector represented by CORBL and NABBC growing on the back of proposed Right Issues, whereas GUFL grew on great EPS growth and GLBSL and ACLBSL mirrored the growth of microfinance sector.

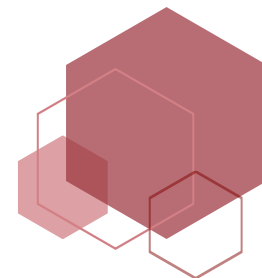
Major losses for the month Debentures from various banks as investor interest moved towards common stock of various companies. Even then, the decrease was minimal.

Major Gains

SN	Scrip	Change%
1	CORBL	160.66%
2	GUFL	123.86%
3	NABBC	113.33%
4	GLBSL	106.32%
5	ACLBSL	97.15%

Major Losses

SN	Scrip	Change%
1	NIBD2082	-3.21%
2	SBIBD86	-2.36%
3	GBD80/81	-1.96%
4	KBLD86	-1.89%
5	NICAD8283	-1.74%



SCRIP ANALYSIS

Manjushree Finance Limited (MFIL)

A. Technical Analysis



The stock price of MFIL closed at Rs. 441 on 27th January 2021. As we can see in the chart above, it is in an upward trend moving on a parallel channel pattern taking support and resistance within that pattern.

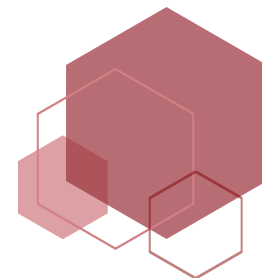
Its RSI is at 76 in the overbought zone indicating good demand of the stock, however small correction might be witnessed due to profit booking.

20 days MA is still above the 50 days MA indicating continuation of an upward trend and the MACD line as well is in the positive zone crossing the trigger line from below indicating an upward trend.

ADX of 47 with +DMI above the -DMI indicates good strength in the ongoing trend.

The immediate support levels of the stock are: (S₁) Rs. 416 and (S₂) Rs. 405, whereas its resistance levels are: (R₁) Rs. 454 and (R₂) Rs. 482

The final average valuation of MFIL 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 353.69, which has been tabulated below:



Method	Valuation Price
Capitalized Earnings	357.26
Earning Valuation	326.69
Discounted Cash Flow	339.38
P/E Model	443.23
P/B Model	299.28
*Market Price Model	356.29
Final Average Valuation	353.69

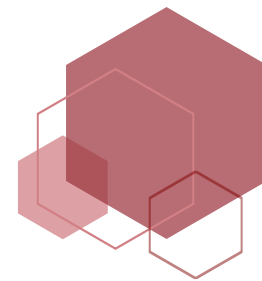
*120 Day's Closing Price Average

B. Recommendation

The last traded price of MFIL as on 27th December 2021 is Rs. 441. It is trading at P/E of 18.77 with an EPS of Rs. 23.49. Its book value per share stands at Rs. 142.09. The financial institution has CAR of 13.68%, a CCD ratio of 78.56% and the NPL is on the higher side at 3.01%, but it is a decline compared to previous quarter (Q1 2077/78), which was 3.16%.

In the first six months of this fiscal year (i.e., Q2 2077/78), its deposit has grown by 35.04% and the reported loan growth is 16.30%, which is low compared to the deposit growth rate due to low demand for credit in the financial system right now. Its net profit in Q2 FY 2077/78 has declined by 20.97% compared to the same quarter last year; mainly due to hike in impairment charge, however, the net interest income is stagnant.

The company announced handsome dividend of 18% bonus and 5.5% cash (already book closed) to its shareholders for the FY 20276/77, which is the highest benchmark in its dividend history. The stock is "HOLD" for the long-term, whereas in the short-term it is at a profit booking stage, as the stock is overvalued compared to its valuation price and technically as well it is in the overbought zone. However, the resulting price correction could provide with the buying opportunity.



Understanding Stock Splits

In a modern economy, the evaluation of the performance of a company is closely tied to its stock price. Hence, there is a lot of pressure on management to maintain a good stock price for their common stock. The management of a company thus has various tools to increase the per unit value of its common stock. A stock-split is one of the tools/methods through which a company can improve the per unit value of its share.

A. What is a Stock Split?

A stock split occurs when the management (Board of Directors) of a company decides to increase the number of its outstanding shares by issuing more shares to its current shareholders. This will be done by reducing the par value per share and increasing the number of outstanding shares in a proportionate manner.

For example: In the case of a 2-for-1 stock split, the company basically increases the number of shares held by a shareholder by a factor of 2 while the par value of the share is also reduced by a factor of two. Hence, if a stockholder were holding 50 units of a company's common stock with a par value of 100 per unit of stock, a 2-for-1 stock split would increase their holdings to 100 units of stock at a par value of 50 per unit of stock.

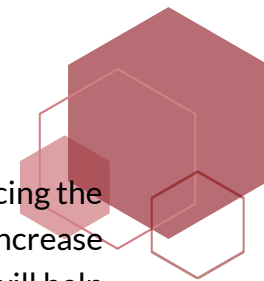
Similarly, if the company performing the split had 100 million shares outstanding before the split, it would have 200 million shares outstanding after a 2-for-1 split.

B. Does a Stock Split directly affect Market Capitalization?

A stock split will not affect the Market Capitalization of company as a direct consequence of a split i.e., a 2-for-1 stock split will not double a company's capitalization overnight. This is because the split will also be reflected in the Traded Price of the Company which will also be reduced by a factor of 2 keeping the overall Market Capitalization same.

C. Why do companies perform Stock Split?

The price of any asset is determined by two factors, the supply available in the market and the demand for that asset. Given a stable supply and normal conditions, the demand becomes the driving factor in the price of an asset. Since the performance of a company is directly correlated to the increase in stock price of a company by the stakeholders, management will always be looking for different tools to maintain/improve the stock price of the company's common stock.

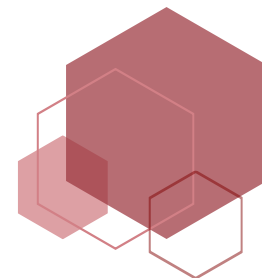


However, the company can go about doing so in one of two ways, either by reducing the available supply at the given price or to increase aggregate demand. In order to increase demand a company may launch a buyback scheme for its common stock which will help reduce the number of publicly traded outstanding shares consequently driving the stock price higher.

Alternatively, a company may also perform a stock-split to increase demand for its common stock in the market. This is different from an approach of issuing bonus or right shares which increase a company's overall capital as the capitalization of the company remains the same with only the par value of existing stocks decreasing with a proportional increase in shares outstanding.

Although, it may seem counterintuitive to increase supply, as it would likely affect aggregate demand, it must be noted that the supply created will be at a much lower cost which can enable more individuals to buy the stock. This is especially true for companies which command hefty premiums in the stock exchange. In this case, even though an investor may be willing to buy the stock, the high cost associated with the purchase of a minimum number of units will deter them from investing. This will in turn limit the demand for the stock in the market, reducing its potential for growth as the demand for an asset is driven by both the willingness and the ability to pay for an asset by a consumer/client. In this regard, as a unit of the stock becomes cheaper, it becomes accessible to a larger pool of investors as the per unit cost decreases which in turn helps increase the willingness of investors to invest in the stock.

The split will also increase the liquidity of the stock and with more investors it will also increase the goodwill of the company. A stock split is a good buying indicator which signals that the prices of shares of a company are increasing. This is why a split occurs; to decrease the price of a unit making it more accessible to everyone.



KEY DATES

Scrip	Type	Quantity	From	To	Issue Manager
NABBC	Right	656,169 (O)	2021/01/26 AD 2077/10/13 BS	2021/02/15 AD 2077/11/03 BS	Global IME Capital
CIT	Right	13,592,592 (O)	2021/01/12 AD 2077/09/28 BS	2021/02/01 AD 2077/10/19 BS	RBB Merchant Banking
SLICLP	Auction	185,694 (P)	2021/01/21 AD 2077/10/08 BS	2021/01/29 AD 2077/10/16 BS	NIC Asia Capital
NLICLP	Auction	94,866 (P)	2021/01/21 AD 2077/10/08 BS	2021/01/29 AD 2077/10/16 BS	NIC Asia Capital
CIT	Auction	202,560 (P)	2021/01/21 AD 2077/10/08 BS	2021/01/29 AD 2077/10/16 BS	NIC Asia Capital
MERO	Auction	598,598 (P)	2021/01/21 AD 2077/10/08 BS	2021/02/24 AD 2077/11/12 BS	NIC Asia Capital
MSLB	Auction	61,200 (P)	2021/01/21 AD 2077/10/08 BS	2021/02/24 AD 2077/11/12 BS	NIC Asia Capital
RMDCPO	Auction	436,361 (P)	2021/01/21 AD 2077/10/08 BS	2021/02/24 AD 2077/11/12 BS	NIC Asia Capital

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