

# The Pulse

Market Growth, Risks and Outlook

Asadh 2078

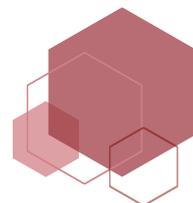
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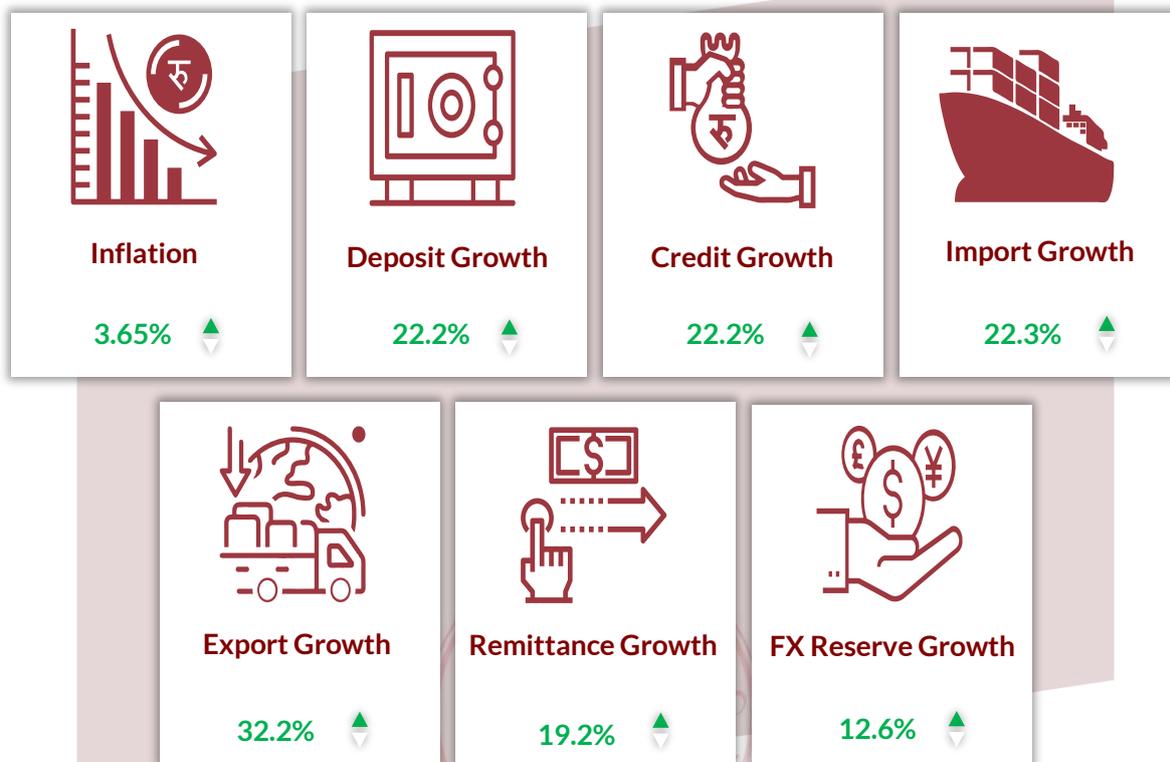


**Himalayan Capital**

A Wholly Owned Subsidiary of Himalayan Bank Limited

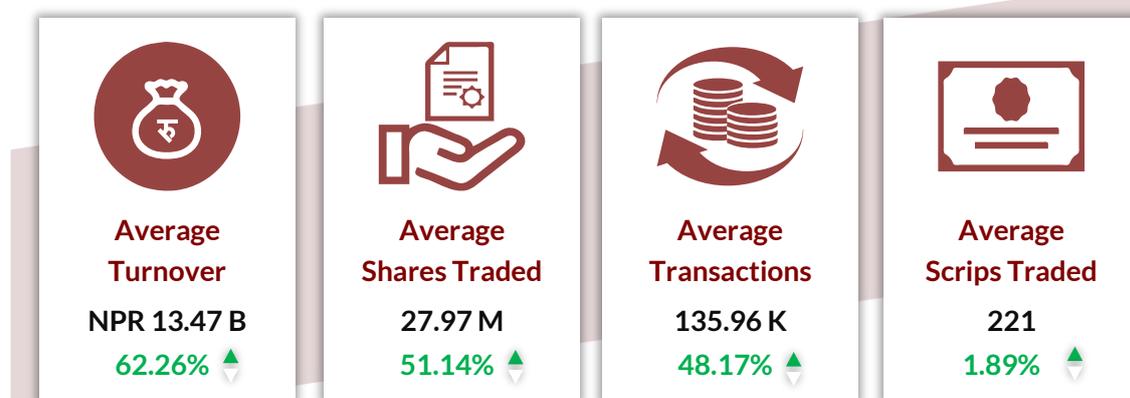


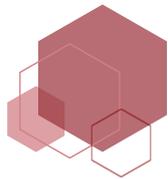
## Macroeconomic Overview



\*Growth refers to the change between the first ten months of this FY and ten months of Last FY.

## Monthly Trading Statistics





# Liquidity Overview

Description	Value as On				Change (In %)		
	May-20	May-21	19-June	26-June	YOY	MOM	WOW
Wt. Avg 28 Days TB rate	4.33%	2.13%	2.13%	4.68%	0.35	2.55	2.55
Wt. Avg 91 Days TB rate	2.81%	2.26%	4.68%	4.99%	2.19	2.73	0.31
Wt. Avg 364 Days TB rate	4.23%	4.05%	4.45%	4.45%	0.22	0.40	0.00
Wt. Avg Interbank Rate	0.80%	2.55%	4.82%	4.85%	4.05	2.30	0.03
Wt. Avg Deposit Rate (CB)	6.17%	4.81%	4.81%	4.81%	-1.36	N/A	N/A
Wt. Avg Lending Rate (CB)	10.43%	8.53%	8.53%	8.53%	-1.90	N/A	N/A
Base Rate(CB)	8.66%	6.09%	6.83%	6.83%	-1.83	-0.07	N/A
CCD Ratio	71.93%	78.9%	78.7%	78.55%	6.62	-0.35	-0.15
Fixed Deposit/Total Deposits	46.72%	48.12%	48.12%	48.12%	1.40	N/A	N/A
Total Liquid Assets/Total Deposits	25.05%	23.93%	23.93%	23.93%	-1.12	N/A	N/A

# Major Movers





## Sectoral Movement

	28th May	28th June	% CHANGE
Finance Company	1,650.83	2,132.05	32.13%
Trading	4,469.29	3,731.25	23.28%
Development Bank	3,450.10	4,235.30	22.24%
HydroPower	3,016.47	2,890.08	19.99%
Non Life Insurance	14,761.55	14,385.10	14.43%
Others	2,196.93	2,188.52	11.05%
Life Insurance	18,437.77	17,338.38	8.90%
Mutual Fund	014.13	015.40	5.53%
Manufacturing & Processing	5,850.45	5,941.41	5.20%
Investment	102.71	112.10	5.17%
Commercial Bank	1,857.05	1,950.44	4.29%
Microfinance	5,435.05	5,191.16	4.11%
Hotels & Tourism	3,450.10	3,570.33	1.36%

## Public Debt Subscription

T-Bill	Issue Date	Issue Amount	Total Applicant	Total Bids	Bid Amount	Excess/Under	Discount Rate		
							Low	High	Avg
28 Days	Ashar 8	500.00	21	93	1,223.00	723.00	1.74	5.23	4.68
91 Days	Ashar 8	1,153.00	29	127	2,550.00	1,097.00	3.55	5.25	4.99
182 Days	Ashar 8	1,000.00	31	157	2,514.00	1,514.00	3.49	5.17	4.86
364 Days	Ashar 1	600.00	28	157	2,310.00	1,710.00	4.09	4.63	4.45

\*Figures are in Millions NPR



# NEPSE Outlook

## A. Current Overview

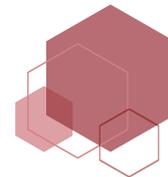


During the first half of the review period, the benchmark NEPSE index witnessed an upward swing closing at an all-time high of 3,025.82 points on 14th June 2021 with a whopping turnover of NPR 18.88 billion. Following this, the market went into a corrective mode with approximately 200 points decline from an all-time due to a variety of reasons such as profit booking by investors at major psychological level of 3,000 points, a slight rise in interest rates as a result of tightening liquidity, partial removal of lockdown, and tax segregation for long-term and short-term investors and closed at 2,828 points at the end of the review period (i.e. 29th June, 2021) with a declining average turnover of NPR 7.40 billion over the last five trading days.

This declining turnover in a corrective market could be viewed as a good indication in the bullish trend; inferring that most investors are not willing to give up their holdings at falling prices and are holding their scrips tightly. As can be seen in the chart above, the NEPSE index has been moving upward in a parallel channel pattern taking support and resistance within that pattern.

Thus, even though the NEPSE index has crossed over the 20 days MA (moving Average) from above signaling a correction in the short term, the 20 days MA is still above the 50 days MA indicating that the upward trend remains intact in the medium term.

The Relative Strength Index (RSI) for the Index is at 45: relatively in the oversold zone, due to profit booking at higher levels. And even though the Moving Average



Convergence Divergence (MACD) line is in the positive zone, it has crossed over the trigger line from above indicating the market is in a correction phase.

The Directional Movement Index (DMI) which identifies the direction in which the price of an asset is moving shows that +DMI has fallen below the -DMI, with a falling Average Directional Index (ADX) of 18 indicating a consolidation phase in the market.

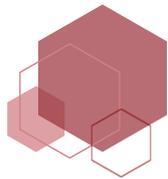
The immediate support levels of NEPSE index stand at: (S1) 2,760, (S2) 2,700 and (S3) 2,670, whereas the resistance levels hold at: (R1) 2,883, (R2) 2,940 and (R3) 3,000.

## B. 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 started breaking records after records with new highs supported by the record breaking turnover of NPR 19.55 billion in the history of NEPSE on 13th June, 2021.

As shown in the chart above, NEPSE index has already achieved the Trend-Based Fibonacci Extension of 1.61 (2,109.70 points) and 2.61 (2,680.73 points) within a very short span of time, even breaking out that level and testing the 3.61 extension of 3,251.76 points. The index however failed in reaching this extension level as the market witnessed a good correction after touching the 3,000 level. Despite this, the long-term trend of the market is still up and there is a likelihood that the index will test the 3.61 extension in the near future. Nonetheless, natural corrections like the ongoing one cannot be ruled out during this bullish journey.



# SCRIP ANALYSIS

## Jyoti Bikas Bank Limited (JBBL)

### A. Technical Analysis



The stock is in a corrective mode after making an all-time intraday high of NPR 548 on 14th June 2021. The stock has retraced by up to 50% from the all-time high level to close at NPR 407 at the end of the review period (i.e., 29<sup>th</sup> June 2021) with the next support being at NPR 370 which is the 61.8% retracement level. Similarly, even though the scrip has crossed over the 20 days MA from above indicating short term correction, however, the 20 days MA is still above the 50 days MA signaling upward momentum in the medium term.

The RSI of the stock is at 46 relatively in the oversold zone due to profit booking at top level. The MACD line is in the positive zone but has crossed over the trigger line from above signaling correction after a sharp rise. The falling ADX of 50 with +DMI closing in towards -DMI signals losing strength in the upward momentum.

The support levels for this stock are: (S1) Rs. 400, (S2) Rs. 370 and (S3) Rs.321, whereas its resistance levels are: (R1) Rs. 450, (R2) Rs. 480 and (R3) Rs. 530.



## B. Stock Valuation

The final average valuation of JBBL 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 368.27, which has been tabulated below:

Method	Valuation Price
Capitalized Earnings	310.18
Earning Valuation	300.79
Discounted Cash Flow	391.67
P/E Model	467.38
P/B Model	430.70
*Market Price Model	308.88
<b>Final Average Valuation</b>	<b>368.27</b>

*\*120 Day's Closing Price Average*

## Assumptions

### I. Projected Growth Rates

- Perpetual Growth Rate (for longer period projection to calculate terminal value in Earnings Valuation & DCF): last 10 years economy growth rate is 4.65%
- Stable earnings growth rate (assuming the company will grow double the economy growth) for calculating capitalization rate in Earning Capitalization Method) is 9.30%

**Rationale for using above rates:**

- ✓ Simplicity and wide use in overall sectors.



- ✓ Company's last three year's earnings growth rate is 5% only due to negative growth last year, while last 3 quarter's earnings growth rate is 17.83%.

## II. Company EPS and Growth Rate

### A. Quarterly Data

Description	Q1	Q2	Q3	Average
EPS	15.05	17.49	20.89	17.81
Growth	-	16.21%	19.44%	17.83%

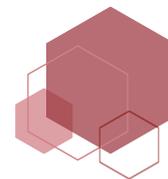
### B. Annual Data

Description	74/75	75/76	76/77	Average
EPS	13.34	17.14	13.97	13.97
Growth	-	28.49%	-18.49%	5.00%

### C. Cost of Equity (CAPM Model)

$$R_e = R_f + (R_m - R_f) * B$$

Specifics	Value	Remarks
Weekly Beta	0.98	As on 6/29/2021
Market Return (Rm) (average)	15.60%	
Risk Free rate	9.00%	Citizen Saving Bond, 2082
Return on Equity	15.47%	



## C. Recommendation

The last traded price of JBBL as on 29th June 2021 is Rs. 407. It is trading at low P/E of 19.48 compared to an industry average P/E ratio of 22.37, with an EPS of Rs. 20.89. Its book value per share stands at Rs. 133.53. The financial institution has CAR of 12.68%, a CCD ratio of 79.54% and a controlled NPL of 0.58%, with relatively low cost of fund of 5.77%.

In the first nine months of this fiscal year (i.e., Q3 2077/78), its deposit base has grown by 24.48% and the reported credit growth is 40.29%, which is higher compared to the deposit growth rate, indicated by its tight CCD ratio. In spite of a decline in its core business income by 6.33%, it has reported a significant growth in its net profit by 38.19%, which can be attributed to its mammoth growth in other operating income.

The bank has a long history of Merger and Acquisitions (M&A), which has helped to create synergy effect and helped position it as one of the good national level development banks of the country. Starting with an initial paid up capital of NPR 259 Million, the bank has reached a paid-up capital of NPR 3.84 billion with the latest acquisition of Hamro Bikas Bank Limited. In the journey of almost 12 years, the Bank merged with Jhimruk Bikas Bank Limited in FY 2073/74 and had acquired 2 more regional level development banks namely, Raptiveri Bikas Bank Limited in FY 2074/75 and Hamro Bikas Bank Limited in FY 2075/76.

Moreover, the company has a good year-on-year dividend history and is backed up by good corporate governance. The stock is trading at a premium of 10.52% compared to its intrinsic value of Rs. 368.27, but based on PE model; the stock is already undervalued compared to its peers. Since the stock is in correction phase and the RSI is around the oversold zone, it could be a good opportunity to “BUY” or, accumulate to average out on this stock for both medium and long-term, as the fourth quarter performance report and dividend announcement after the year-end awaits.

**Disclaimer:** Investment in equity shares has its own risks. The information contained herein is based on analysis and on sources that we consider reliable. This material is for personal information, and we are not responsible for any loss incurred due to it & take no responsibility whatsoever for any financial profits or loss which may arise from the recommendation above.



## ISSUE OF THE MONTH

### Understanding Divergences for Smart Investing

Human behavior is shaped by conscious and unconscious decisions which can be swayed by behavioral biases. One such bias is confirmation bias wherein people tend to search for, interpret, favor, and recall information in a way that confirms or supports their prior beliefs or values. This bias becomes more prominent in case of stock market trends, especially when the markets have been moving in the same direction for a sustained period of time. This builds a mindset in people where they assume the markets will keep on moving in the same direction which is not always true. The markets do change their trend and the key to understanding when this change may occur is by understanding when divergences occur and what they mean.

#### A. What is Divergence?

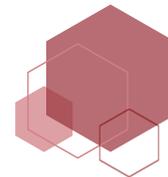
Divergence is when the price of a stock is moving in the opposite direction of a technical indicator or is moving contrary to other data. Divergence informs an investor that the current price trend may be weakening, which in some cases may lead to the price changing direction. The indicator in question may be the MACD, RSI, or Price Volume Indicators.

#### B. What causes divergence?

A Divergence occurs when the underlying factors supporting the directional movement of a trend begin to weaken/start having less of an effect on the trend. However, these changes are not highly pronounced initially but rather start affecting the market environment in a more gradual manner; A divergence is an indicator of the forces supporting a trend starts to weaken which in turn can change the entire trend altogether if the change in forces is substantial enough.

#### C. Divergence and Confirmation

A divergence occurs when the price movement of a stock and the various technical indicators of the stock tell an investor different thing. A confirmation occurs when the price movement of the stock and different technical indicators tell the investor the same thing. A divergence thus is like a warning to investors to be careful about the ongoing market trend whereas a confirmation tells an investor to either enter or exit a position in the market.

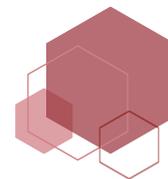


For example, the price of a stock making higher highs shows bullish momentum and so does an increase in overall turnover. However, the increase in turnover can mean two things; the first is that the price of the stock and number of shares traded are both in an increasing trend; the second is that only the price of the stock is increasing but the number of shares traded may be the same or lower. In the second case, a large increase in the price of the stock may mask stagnation/ smaller decrease in the number of shares traded and support increasing turnover. The first case is confirmation of a bullish trend whereas the second case shows a divergence in the trend wherein falling investor participation is hidden due to large increase in stock price.

## **D. Why Understanding Divergence is Essential?**

The price of any stock is driven by a complex interrelationship between a myriad of factors. This includes both stock specific and macroeconomic factors which combine together to affect overall investor sentiment. However, it is very difficult for a common investor to understand all these factors in play and accurately gauge any changes that may be occurring. The most commonly available information for a common investor regarding a stock are its regular price and volume information which can be used to determine the overall trend in the stock. In this regard, a divergence in price action and volume action can provide an indicator about impending change in the current trend of the stock.

For better informed investors with knowledge of technical indicators, a divergence within the RSI, between RSI and Price or Price and other more advanced indicators can indicate a change in trend. This will help better inform an investor about preparing to enter/ exit the market. However, a divergence is only one of the various technical tools which becomes more effective when used in conjunction with other technical indicators. Even then, it does provide an idea about any impending changes in a market trend.



## KEY DATES

Scrip	Issue Type	Quantity	From	To	Issue Manager
RMDCPO	Auction	384,995(P)	2021/06/29 AD 2078/03/15 BS	2021/07/05 AD 2078/03/21 BS	NIC Asia Capital
MEROPO	Auction	58,568(P)	2021/06/29 AD 2078/03/15 BS	2021/07/05 AD 2078/03/21 BS	NIC Asia Capital
MSLBP	Auction	55,070(P)	2021/06/29 AD 2078/03/15 BS	2021/07/05 AD 2078/03/21 BS	NIC Asia Capital
CIT	Auction	350,369(P)	2021/06/29 AD 2078/03/15 BS	2021/07/05 AD 2078/03/21 BS	NIC Asia Capital
NLICLP	Auction	25,996(P)	2021/06/29 AD 2078/03/15 BS	2021/07/05 AD 2078/03/21 BS	NIC Asia Capital
FMDBLP	Auction	100,000(P)	2021/06/27 AD 2078/03/13 BS	2021/08/01 AD 2078/04/17 BS	BOK Capital Market
PCBLP	Auction	170,000(P)	2021/06/25 AD 2078/03/11 BS	2021/07/02 AD 2078/03/18 BS	NIC Asia Capital
GBLBSP	Auction	35,000(P)	2021/06/25 AD 2078/03/11 BS	2021/07/02 AD 2078/03/18 BS	NIC Asia Capital
NLICLP	Auction	225,000(P)	2021/06/25 AD 2078/03/11 BS	2021/07/02 AD 2078/03/18 BS	NIC Asia Capital
PRVUPO	Auction	100,000(P)	2021/06/25 AD 2078/03/11 BS	2021/07/02 AD 2078/03/18 BS	NIC Asia Capital
CIT	Auction	100,000(P)	2021/06/25 AD 2078/03/11 BS	2021/07/02 AD 2078/03/18 BS	Nabil Investment
AHPC	Auction	435,894(O)	2021/06/23 AD 2078/03/09 BS	2021/06/30 AD 2078/03/16 BS	Muktinath Capital
SWBBLP	Auction	190,653(P)	2021/06/20 AD 2078/03/06 BS	2021/06/29 AD 2078/03/15 BS	Nabil Investment

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**Himalayan Capital Limited**  
**Karmachari Sanchaya Kosh Bhawan,**  
**Thamel, Kathmandu**  
**Contact: 01-5258345, 5263147**  
**[www.himalayancapital.com](http://www.himalayancapital.com)**  
**[info@himalayancapital.com](mailto:info@himalayancapital.com)**