

The Pulse

Market Growth, Risks and Outlook

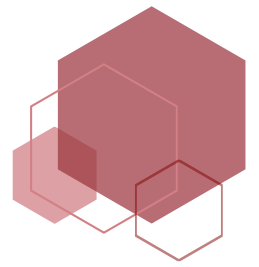
Poush 2077



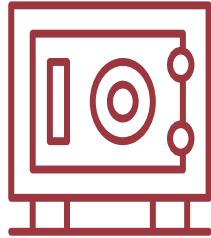
Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

Macroeconomic Overview



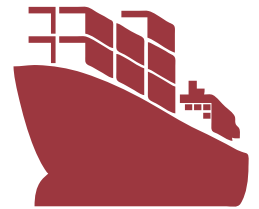
Inflation
4.05% ↓



Deposit Growth (YOY)
20.8% ↑



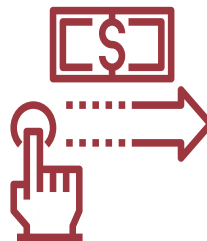
Credit Growth (YOY)
15.7% ↑



Import Growth (YOY)
-11.9% ↓



Export Growth (YOY)
9.75% ↑



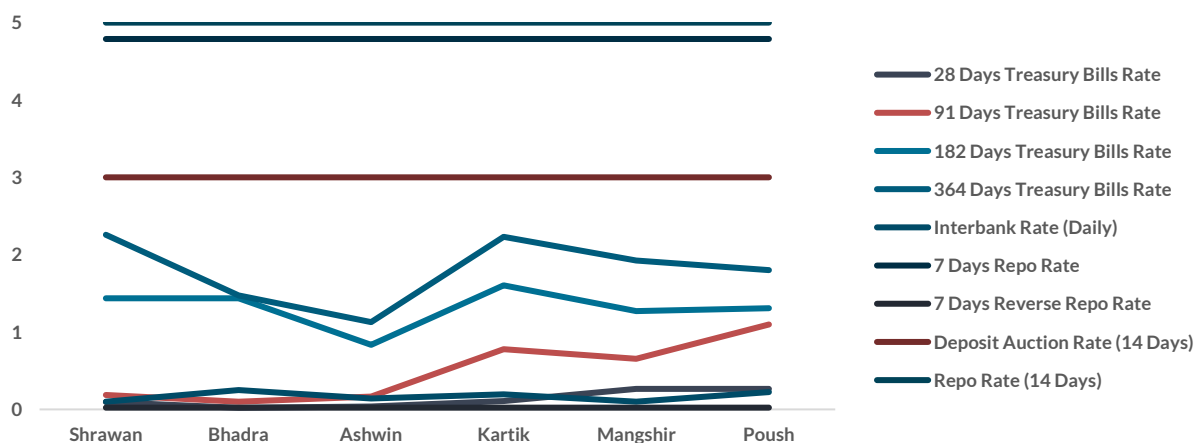
Remittance Growth (YOY)
9.7% ↑

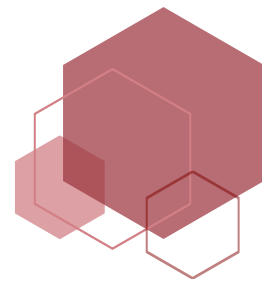


FOREX Reserve Growth (YOY)
26.75% ↑

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

Short Term Rates





Current Overview



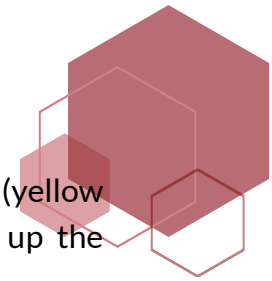
The benchmark index closed at 2,012.89 points at the end of the review period (i.e. 29th December, 2020), which is heading towards the (blue colored) trend line with major support at 1,920 level and strong resistance for break out at 2,070 level, where NEPSE has already tested three times making a triple top.

The 20 days Moving Average (MA) is well above the 50 days MA 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 56 relatively in the overbought zone indicating 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, it has crossed over the trigger line from above, as a result correction is being witnessed in NEPSE, which could be reflected through formation of triple top.

The Directional Movement Index (DMI) which identifies the direction in which the price of an asset is moving shows that +DMI is above -DMI and the gap between them has again started to increase with an Average Directional Index (ADX) of 58 indicating good strength in the ongoing upward trend.

A Falling Average Directional Index (ADX) at 36 indicates declining strength in the upward trend as the market has gone into consolidation phase. However, 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) and it has slightly started to move away from -DMI building up the momentum for upward swing.

The immediate support levels of NEPSE index stands at: (S1) 2,000, (S2) 1,920 and (S3) 1,881, whereas the resistance levels hold at: (R1) 2,070, (R2) 2,150 and (R3) 2,250.

Long Term Outlook

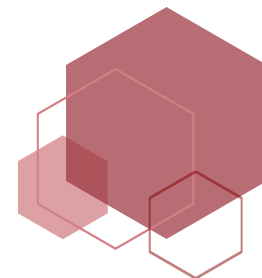


As we can see in the chart above, the 38.2% retracement level of last Bull Run was at 1,280 and 50% retracement level was at 1,092. Therefore, 1,100 level of NEPSE became a strong psychological support level for NEPSE, testing almost three times in last three years, which is highlighted by the trend 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) as well as a clear breakout from the trend line.

As shown in the chart above, the NEPSE index has already achieved the Trend-Based Fibonacci Extension of 1.61 (2,063.48 points) within very short span of time.

Thus, the long-term outlook of the market remains bullish, however the natural correction might be witnessed throughout the journey.



Market Movement

Sectoral Change (30 Nov-29 Dec 2020)		
Sector	% Change	
Manufacturing & Processing	14.70%	↑
Microfinance	9.44%	↑
Life Insurance	9.19%	↑
Others	0.37%	↑
Banking	-1.19%	↓
Hydro Power	-1.89%	↓
Mutual Fund	-2.33%	↓
Finance	-4.67%	↓
Non-Life Insurance	-4.85%	↓
Hotels	-6.23%	↓
Development Bank	-6.79%	↓
Trading	-20.81%	↓

The best performing sector for the last month was Manufacturing and Production followed by Microfinance sector and Life Insurance. The bullish momentum in Manufacturing continued despite corrections in the overall Index while NLIC's growth drove Life Insurance. Others was the only other sector to show an increase. In the Financial Sector Microfinance Institutions grew despite a correction while Commercial Banks, Development Banks, and Finance Companies all saw corrections while Trading saw the largest correction decreasing by 20.81%..

The major gainers for the month mostly belonged to the microfinance sector with MSLB, SLBS and GILB growing on the back of improved performance and/ or dividend announcements. NICA grew on the back of another strong showing with good growth in deposit and credit numbers alongside SHIVM which breached a technical zone.

Major losses for the month included two Hydropower Companies in HDHPC and PPCL, a development bank in GRDBL, as well as BBC and STC companies which had grown substantially over the preceding time periods. This was majorly attributable to correction in market as well as in Hydropower Sector as well as other sectors.

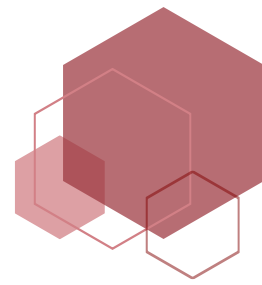
Major Gains

SN	Scrip	Change%
1	MSLB	73.85%
2	SLBS	30.70%
3	NICA	30.14%
4	SHIVM	28.47%
5	GILB	27.26%

Major Losses

SN	Scrip	Change%
1	HDHPC	-22.73%
2	PPCL	-21.60%
3	GRDBL	-21.55%
4	BBC	-21.36%
5	STC	-20.75%

SCRIP ANALYSIS



Api Power Company Limited (API)

A. Technical Analysis

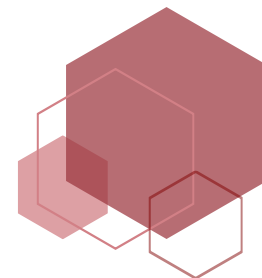


The stock price of API is trading at Rs. 240 as on 29th December 2020. The stock has already tested the Fibonacci retracement level of 23.60% (i.e., Rs. 236.22) and the next support level of the stock is Rs. 210.18, which happens to be the 38.20% retracement level, where there is strong support. Its RSI is at 49 in the middle zone, indicating good bargain going on between buyers and sellers.

20 days MA is still above the 50 days MA indicating continuation of an upward trend, however the MACD line has entered negative zone after crossing the trigger line from above indicating correction in the ongoing upward trend. But the MACD line is nearing towards the trigger line and crossover, along with entry in the positive zone could signal the end of correction. ADX of 23 indicates lack of strength in the ongoing trend indicating consolidation phase in the stock, as it is trading sideways within the range of Rs. 220-255. The immediate support levels of the stock are: (S1) Rs. 226 and (S2) Rs. 210, whereas its resistance levels are: (R1) Rs. 266 and (R2) Rs. 280.

B. Stock Valuation

The final average valuation of API based on Absolute Approach (viz. Capitalized Earnings, Earnings Valuation and Discounted Cash Flow) as well as Relative Approach (viz. P/E Model, Market Price Model and P/B Model) has been computed as NPR 213.33, which has been tabulated below:



Method	Valuation Price
Capitalized Earnings	208.50
Earning Valuation	180.43
Discounted Cash Flow	209.78
P/E Model	235.15
*Market Price Model	215.10
P/B Model	231.04
Final Average Valuation	213.33

*120 Day's Closing Price Average

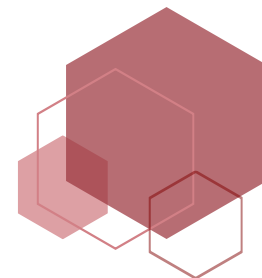
C. Recommendation

The company has strong promoters carrying years of experience from different hydropower projects. The company has already started generating revenue from its two projects: Naugarh Gad Small Hydroelectric Project (8.5 MW) and Upper Naugarh Gad Small Hydroelectric Project (8 MW).

Moreover, the company has obtained generation license for its 40 MW project namely, Upper Chameliya Hydroelectric Project, which is expected to start its commercial operation from Chaitra, 2079, which shall provide huge boost to its sales revenue. Also, the company has alternative source of revenue drivers in the form of dividend income through its major subsidiaries like: Arun Kabeli Power Ltd. and API Hydro Mechanical Ltd.

The company valuation of API based on absolute and relative approach has been computed as Rs. 213.33 and technically as well the company holds strong support at the level of Rs. 210 (38.2% Fibonacci Retracement level). Currently trading at Rs. 240, the company distributed 9% stock dividend from the FY 2076/77 after issuing 46.765% rights share, and the company is yet to issue the second phase of 200% rights issue, which is likely to intact the attraction towards this stock among investors in the secondary market.

Thus, the ongoing correction in the stock could be a good buying opportunity, as the stock holds good prospect in the long-term as well as short-term.



Trading through Fibonacci Analysis

Assets Price are primarily driven by human behavior; people make certain financial choices, and those choices can affect markets. This is because market participants are not perfectly rational and self-controlled but rather psychologically influential with somewhat normal and self-controlling tendencies. They have biases and are driven by the same and tend to exhibit herd behavior. This behavior is however not unique but tends to follow a certain pattern. Fibonacci Analysis helps understand some of this behavior and provides levels for trading.

A. What is Fibonacci Sequence

Referred to as "nature's secret code and universal rule", the Fibonacci sequence is one of the most famous formulas in mathematics and is said to govern various things ranging from how seeds grow to the dimensions of the Great Pyramid of Giza.

Each number in the sequence is the sum of the two numbers that precede it. Beginning from 0, and 1, the series goes as: 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, and so on.

B. Fibonacci Analysis for Trading

Financial asset prices follow certain patterns. A pattern that consistently occurs is consolidation between price ranges. Financial assets will often trade in a tight range, consolidating a recent move, and then move to another range and repeat the process.

Even when a market is following a specific trend, prices tend to target specific levels before moving on to the next region. One of the best ways to forecast what these levels will be is through Fibonacci Analysis. In terms of trading, the ratio between different numbers of the Fibonacci sequence will be the key to understanding how assets prices will move and settle. This is because numbers in the series exhibit particular relationships with each other such as:

- Dividing a number in the series by the next number gives a ratio of 0.618
- Dividing a number by the previous number in the series gives a ratio of 1.618
- The Square root of 0.618 is 0.786 and the square root of 1.618 is 1.27
- Dividing a number by the second number after it in the series gives a ratio of 0.382



These numbers/ratios form important support and resistance Fibonacci levels for assets prices in upward and downward trends such as 0.382, 0.5, 0.618, 0.786, 1.27, 1.618 and 2.618. Fibonacci Levels can be used to try and predict both retracement and extensions. The most important ratio even along these is 0.618 which is also known as the “**Golden Ratio**”. This level generally provides the strongest resistance or support depending upon the trend of the market.

I. Fibonacci Retracement

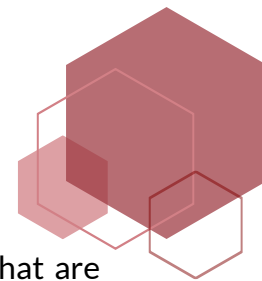
Fibonacci retracement levels are horizontal lines that indicate the price levels that are most likely to act as support for the price of any asset when its price falls from a higher point. It can be used to predict when an asset price may rebound or conversely how much the price of an asset can fall thus helping in making both buying and selling decisions.

Each retracement level is associated with a percentage that shows how much of a prior move the price will retrace. The Fibonacci retracement levels are 23.6%, 38.2%, 61.8%, and 78.6%. While not officially a Fibonacci ratio, 50% is also used as this number stems from Dow Theory's assertion that the Averages often retrace half their prior move.

The indicator is useful because it can be drawn between any two significant price points, such as a high and a low. The indicator will then create the levels between those two points.



The above chart shows the recent retracement of NLG Insurance Stock Price from 752.51 to 482.78 which was 61.8% Fibo Level after which it rebounded.



II. Fibonacci Extension

Fibonacci Extension levels are horizontal lines that indicate the price levels that are most likely to act as support and resistance for the price of any asset after it rebounds from a fall after making a high. It can be used to predict how much an assets price might grow and will help set viable profit targets.

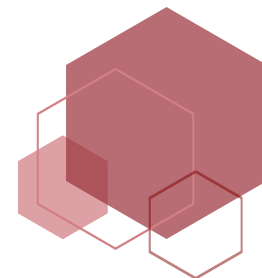
To draw a Fibonacci Extension in case of an uptrend we can join the lowest and the highest point of an uptrend and then after a retracement or a correction, the third point will be the low of the retracement if the price rebounds to an uptrend.

For example, suppose a stock moved from Rs 300 to Rs 400 and say after a retracement till 360, the stock moves in the direction of the original trend. So, the first point to draw Fibonacci extension would be 300, the second point will be 400 and the third point will be 360. This will give you probable price levels where the stock may face resistance in the near future.

The most common Fibonacci extension levels are 161.8%, 261.8% and 423.6%. Important resistance levels using Fibonacci extension come at 50%, 61.8%, 78.6% and 100%, When the stock is trading at a lifetime high area where there is no prior resistance, we can draw probable resistance levels using Fibonacci extension.



The above chart shows the recent extension of NEPSE from 1149.21 which has formed a triple top at around 2067 which is 161.8% Fibo Level extension .This level is thus currently acting as a major resistance point as evidenced by the Triple Top Formation.



KEY DATES

Scrip	Type	Quantity	From	To	Issue Manager	Status
ALICLP	Auction	139,470 (P)	2020/12/25 AD 2077/09/10 BS	2020/12/31 AD 2077/09/16 BS	NIC Asia Capital	Open
SLICLP	Auction	192,994 (P)	2020/12/25 AD 2077/09/10 BS	2020/12/31 AD 2077/09/16 BS	NIC Asia Capital	Open

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