

The Pulse

Market Growth, Risks and Outlook

Shrawan 2077



Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

NEPSE Outlook

A. Current Overview



After reaching a low of 1,102.47 points on 25th November 2019, NEPSE witnessed an upswing (51.27% rise) in a very short span of time to reach a high of 1,667.75 on 1st March 2020 buoyed by positive investor sentiment following a prolonged period of sustained decline.

This was then followed by a corrective downfall (31.07% decline) driven in part by the spread of COVID-19 and looming prospect of mass infections and impending lockdown as observed the world over. The benchmark index thus settled on a support level of 1,149.55 points on 29th June 2020.

Following the easing out of lockdown restrictions and the reopening of the markets after more than 3 months of inactivity (with a two-day period of limited transaction in between); NEPSE again restarted its upward journey to make a recent high of 1,556.20 points (a bounce back of 35.37%) on 20th July 2020. From that point, NEPSE has gone into corrective mode to close at 1,431.52 points on 29th July 2020.

Though the 20 days Moving Average (MA) is still above the 50 days MA, the Relative Strength Index (RSI) which measures the magnitude of recent price changes to evaluate whether a scrip is overbought or oversold is currently 57 for NEPSE which falls in the relatively overbought zone; this can be clearly observed in the market where due to profit booking, slight correction is being witnessed in NEPSE.

Similarly, looking at the Moving Average Convergence Divergence (MACD) line, we can see that NEPSE is in the positive zone above the trigger line indicating continuation of upward trend for the market.

The Directional Movement Index (DMI) which identifies the direction in which the price of an asset is moving shows that +DMI is above the -DMI which shows upward pricing pressures. Similarly, the Average Directional Index (ADX) used in looking at trend direction as well as the strength of that trend is currently +32 with a slight bend in the ADX line indicating a relatively weak upward trend.

The immediate support levels of NEPSE index stands at: (S₁) 1,400 and (S₂) 1,350, whereas the resistance levels hold at the recent high of: (R₁) 1,556.20 and (R₂) 1,667.75.

B. Long Term Outlook



If we look at the long-term overview of the market, the bearish run started after making a high of 1,881 in the month of July, 2016. 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, being tested almost four times in the last three years, which is highlighted by the purple-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 to making a golden cross.

Hence, the bullish run in NEPSE holds true, with some expected correction/swings on the journey towards upward trend.

C. Sectoral Analysis

Sector	Open	Close	% Change (29 June-29 July)
Banking	1,016.28	1,233.49	17.61%
Trading	790.39	846.83	6.66%
Hotels	1,530.25	1,575.66	2.88%
Development Bank	1,624.68	1,806.10	10.04%
Hydro Power	886.33	961.49	7.82%
Finance	625.14	665.91	6.12%
Non-Life Insurance	5,040.79	6,526.13	22.76%
Manufacturing and Production.	2,493.63	2,755.85	9.52%
Others	661.82	805.84	17.87%
Microfinance	1,968.92	2,432.99	19.07%
Life Insurance	6,747.07	8,561.14	21.19%
Mutual Fund	9.63	10.54	8.63%

Following the reopening of the stock market, all sectors have experienced a rebound and are now doing better. However, due to the hotel sector being the most highly affected due to COVID-19 on first glance and facing uncertain prospects, there has been a minimal recovery. Similarly, there still seems to be skepticism on the part of hydropower projects as was observed before the market shutdown and sectors such as trading, and manufacturing have also not moved a lot due to ongoing concerns. Microfinance sector as always seems to do well due to limited supply as has insurance. Similarly, commercial banks have also rebounded substantially as they saw steep falls. Development Banking and Finance Sectors have also been slow to react to the increasing market.

Key Movers

The key gainer for the markets were Shikhar Insurance which is the major Non-Life Scrip and Blue Chip Company as well as Nepal Reinsurance which rebounded from a fall from its opening price to set new highs and Neco Insurance another major player in the Non-Life Segment. Suryodaya Laghubitta and Gurans Laghubitta also saw rises due to limited supply.

Major Gains

S.N.	Scrip	Change%
1	SLBS	44.4%
2	SICL	36.6%
3	GLBSL	35.3%
4	NRIC	34.6%
5	NIL	31.0%

Major Losers in the market involved three hydropower companies whose prices fell on the back of continuing skepticism about hydropower scrips in the market. Ghalemdi, Barun and Khanikhola Hydropowers all lost value in the market. Everest Bank Convertible Preference also fared poorly in the market alongside Global IME Samunnat Scheme.

Major Losses

S.N.	Scrip	Change%
1	GHL	-5.2%
2	EBLCP	-6.2%
3	GIMES1	-6.7%
4	BARUN	-7.6%
5	KKHC	-8.0%

Interest Rate Scenario

Short Term Interest Rates	Rate	Transaction Date
A. Weighted Average Treasury Bills Rate		
28 Days	0.0936	July 21, 2020
91 Days	0.1873	July 28, 2020
182 Days	1.435	July 13, 2020
364 Days	2.2574	July 13, 2020
B. Weighted Average Interbank Rate (Daily)	0.1	July 15, 2020
C. Weighted Average Repo Rate		
7 Days (Regular)	0.0464	July 23, 2020
D. Weighted Average Reverse Repo Rate		
7 Days (Regular)	1.2777	June 10, 2020
E. Weighted Average Deposit Auction Rate (Regular)		
15 Days	0.9914	August 4, 2019
30 Days	3.3993	July 25, 2018
60 Days	3.4705	August 1, 2018
90 Days	3.7739	July 29, 2018
F. Interest rate corridor (IRC)		
Weighted Average Deposit Auction Rate (14 Days)	3	July 12, 2018
Weighted Average Repo Rate (14 Days)	5	April 19, 2019

Macro-Economic Indicators

Description	11 Months Data (2019/20)		Change (%)
	2018/19	2019/20	
Inflation	6.16%	4.54%	-35.68%
Imports Expansion	17.30%	-15.30%	-32.60%
Exports Expansion	19.40%	0.20%	-19.20%
Net service (In Billions NPR)	-9.27	-4.89	-89.57%
Increase in Remittance	17.50%	3.00%	-14.50%
Current Account Surplus (In Billions NPR)	-249.08	-71.64	-247.68%
FDI Inflows (In Billions NPR)	11.8	18.72	36.97%
Government Expenditure (In Billions NPR)	792.63	843.94	6.08%

Description	11 Months Data (2019/20)		Change (%)
	2018/19	2019/20	
Government Revenue (In Billions NPR)	745.59	647.8	-15.10%
Increase in Deposit Collection	13.30%	13.30%	0.00%
Increase in Credit	17.00%	12.60%	-34.92%
Forex Reserves (In Billions NPR)	1038.92	1306.46	20.48%

It can be clearly seen that owing to the effect of the prolonged lockdown, consumption has reduced substantially 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 the decline in Remittance income was much lower than expected.

Overall, the reduction in consumption has hit government finances hard with Revenue Dropping by 15% while expenditure is on an upwards trend owing mainly to high recurrent expenditure. This means the government would need to borrow heavily to plug this gaping hole in it finances which would probably entail greater internal and external borrowing which has already been observed in the annual budget.

Scrip Analysis

A. Shikhar Insurance Company Limited (SICL)

I. Technical Analysis



The stock price of SICL closed at Rs. 1,215 on 29th July 2020. A golden crossover has been observed in this stock with 50 days MA crossing over 200 days MA from below indicating upward trend in the long run.

MACD line is also well above the trigger line in the positive zone, which gives the confirmation of upward trend. Similarly, +DMI is above the -DMI with an ADX of 44, which indicates good strength in the ongoing upward trend.

The company's RSI is at 65 which falls relatively in the overbought zone, due to which some selling pressure could be witnessed due to profit booking.

The immediate support levels of the stock based on Fibonacci retracement levels are: (S1) Rs. 1,172 and (S2) Rs. 1,088. Whereas, the immediate resistance level is the recent high of Rs. 1308 and the breakout from that level could create a new high in this stock.

II. Stock Valuation

The final average valuation of SICL based on absolute approach (viz. Earnings Valuation Method and Discounted Cash Flow Method) as well as relative approach (i.e. Market Price Model) has been computed as **NPR 873.59**, which has been tabulated below:

Methodology	Valuation Price
Earnings Valuation	634.24
Discounted Cash Flow	957.83
Market Price Model	1,028.71
Final Average Valuation	873.59

III. Recommendation

Shikhar Insurance Co. Ltd. (SICL) is the industry leader in Non-Life Insurance business, in terms of premium collection and total number of policies with an insurance fund of NPR 1.24 billion. It has net premium to gross premium ratio of 46.78%. The company has strong fundamentals with an EPS of Rs. 34.97 and is currently trading at a P/E ratio of 35.54.

While, the company could not provide any dividend in FY 2074/75 due to additional heavy provisioning requirements arising out of a move to the NFRS standard for accounting, SICL had instead opted to make a 30% rights issue in line with its capital plan. Historically, the company has had a stable dividend history and unless for regulatory issues or additional provisioning requirements, it may provide a good dividend from the FY 2075/76.

The company is overpriced at 1215 (almost 40% greater than our valuation of 873). Thus, the stock is "HOLD" for the long-term, whereas in the short-term it is at a profit booking stage and the resulting price correction could provide with the buying opportunity at support levels.

Issue of the month

A. Book Building

What is Book Building?

Book building is a method for setting the price of a Stock for its public offering. In this the pricing of a Stock for an IPO is set after receiving bids from Institutional Investors on how much they would be willing to pay for the stock. It helps determine the exact price investors are willing to pay for a stock.

How is it different from current system of IPO pricing?

In the current system of IPO pricing, a unit of stock in a company is generally priced at 100 per unit. This is called a fixed price regime and currently stocks are priced this way in Nepal. In Book Building, the price of a unit of stock can vary above or below this price and will depend on how much investors are willing to pay for it.

How does it Work?

In this method, during the period for which the IPO is open, bids are collected from qualified institutional investors at various prices, which are above or equal to the floor price. The offer price is determined after the bid closing date. After the bidding process is complete, the cut-off price is arrived at based on the demand for securities. This will be the price at which the stock will be offered in an IPO.

How does Book Building help the Stock Market?

Book Building gives companies greater control over the price they can get for their stocks in a public offering as the price will be set as per the demand in the market. This would help bring more real sector companies from trading and manufacturing who are currently underrepresented in the stock market. This would help grow the market's scope.

How Does it affect the common Investor?

This does not change the IPO process for the common investor very much, the process for applying will be the same. The price of the issue however will not be fixed at 100 and will be reflective of market demand for that stock.

Key Dates

SN	Scrip	Type	Quantity	From	To	Issue Manager	Status
1	NLG	Auction	81,224 (P)	2020/08/06 AD 2077/04/22 BS	2020/08/13 AD 2077/04/29 BS	Laxmi Capital	Coming Soon
2	NLG	Auction	79,853 (O)	2020/08/06 AD 2077/04/22 BS	2020/08/13 AD 2077/04/29 BS	Laxmi Capital	Coming Soon
3	SICL	Auction	87,412 (O)	2020/08/05 AD 2077/04/21 BS	2020/08/12 AD 2077/04/28 BS	NIBL ACE Capital	Coming Soon
4	CIT	Auction	50,000 (P)	2020/07/27 AD 2077/04/12 BS	2020/08/03 AD 2077/04/19 BS	Nepal SBI Merchant	Open
5	PICL	Auction	54,631 (O)	2020/07/27 AD 2077/04/12 BS	2020/08/03 AD 2077/04/19 BS	NMB Capital	Open
6	United Idi Mardi	IPO	1,050,000 (O)			Global IME Capital	Coming Soon
7	NRN Infrastructure	IPO	3,160,183 (O)	2020/07/31 AD 2077/04/16 BS	2020/08/05 AD 2077/04/21 BS	Sanima Capital	Coming Soon
8	LECL	IPO	1,500,000 (O)	2020/07/22 AD 2077/04/07 BS	2020/08/05 AD 2077/04/21 BS	NIBL Ace Capital	Open
9	CLBSL	Rights	1,141,140 (O)	2020/08/09 AD 2077/04/25 BS	2020/08/30 AD 2077/05/14 BS	Century Capital	Coming Soon

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 Report is a proprietary document prepared by Himalayan Capital Limited (HCL)'s Research and Investment Unit. (HCL) does not assume any liability for any financial or other loss resulting from this report in consequence of any undertaking made dependent on this report.