

The Pulse

Market Growth, Risks and Outlook

Ashwin 2078

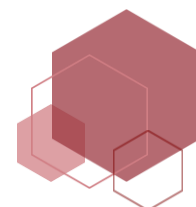
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Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited



Macroeconomic Overview



Inflation

4.35% ▲



Deposit Growth

19.6% ▲



Credit Growth

27.9% ▲



Import Growth

75.7% ▲



Export Growth

115.9% ▲



Remittance Growth

-18.1% ▼



FX Reserve Growth

-3.2% ▼

*Growth refers to the change between the first month of this FY and the first month of Last FY.

Monthly Trading Statistics



Average
Turnover

NPR 7.66 B

-51.26% ▼



Average
Shares Traded

15.06 M

-46.48% ▼



Average
Transactions

88.5 K

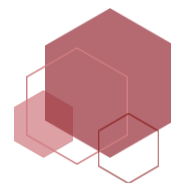
-39.43% ▼



Average
Scrips Traded

226

-0.22% ▼

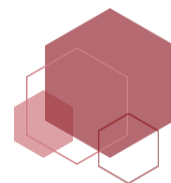


Liquidity Overview

Description	Value As On					Change		
	Shrawan-77	Asadh-78	Shrawan-78	8-Asoj	15-Asoj	YOY	MOM	WOW
Wt.Avg 28 Days TB rate	0.09	4.68	0.17	0.17	0.17	0.07	-4.51	0.00
Wt.Avg 91 Days TB rate	0.21	4.55	0.66	4.44	4.93	0.45	-3.89	0.50
Wt.Avg 364 Days TB rate	2.26	4.16	4.38	4.38	4.38	2.12	0.22	0.00
Wt. Avg Interbank Rate	0.30	4.14	2.13	4.88	4.94	1.83	-2.01	0.06
Wt. Avg Deposit Rate	5.77	4.65	4.76	4.76	4.76	-1.01	0.11	N/A
Wt. Avg Lending Rate	10.47	8.43	8.48	8.48	8.48	-1.99	0.05	N/A
Base Rate	8.08	6.86	6.71	6.71	6.71	-1.37	-0.15	N/A
CD Ratio	84.52%	87.13%	86.98%	87.89%	88.39%	0.02	0.00	0.01
Fixed Deposits/Total Deposits	49.02%	46.70%	49.34%	49.34%	49.34%	0.00	0.03	N/A
Total Liquid Assets/Total Deposits	28.33%	26.18%	24.24%	24.24%	24.24%	-0.04	-0.02	N/A
CapEx (In Millions NPR)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Major Movers

MKLB	382.08%	GAIN	JFL	-31.91%
SLI	73.14%		SFCL	-32.50%
MKJC	58.66%		SIFC	-32.99%
SBLD83	1.95%	LOSS	ICFC	-37.60%
CZBIL	1.02%		GFCL	-37.65%



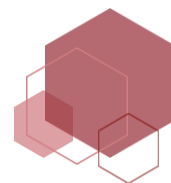
Sectoral Movement

Index	31 st Aug	30 th Sep	Change
NEPSE	2,975.84	2,633.42	-11.51%
Commercial Bank	1,972.19	1,869.40	-5.21%
Mutual Fund	16.40	15.03	-8.35%
Manufacturing & Processing	6,881.07	6,291.50	-8.57%
Hotels & Tourism	3,469.98	3,089.14	-10.98%
Others	1,912.94	1,702.86	-10.98%
Microfinance	5,649.68	4,962.57	-12.16%
Trading	3,574.95	3,128.19	-12.50%
Life Insurance	16,823.64	14,567.29	-13.41%
Non Life Insurance	13,795.36	11,535.26	-16.38%
Development Bank	5,700.96	4,740.73	-16.84%
Investment	105.99	86.95	-17.96%
HydroPower	3,468.11	2,818.64	-18.73%
Finance Company	3,190.06	2,243.29	-29.68%

Public Debt Subscription

T-Bill	Issue Date	Issue Amount	Total Applicant	Total Bids	Bid Ratio	Issued Amount	Discount Rate		
							Low	High	Avg
28 Days	Bhadra 1	500.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A
364 Days	Ashwin 21	200.00	18	82	7.30	200.00	4.00	4.55	4.38
91 Days	Ashwin 12	1,110.00	21	116	1.60	910.00	4.45	5.14	4.93
182 Days	Ashwin 5	300.00	19	98	4.61	300.00	4.50	4.92	4.78

*Figures are in Millions NPR



Sectoral Divergence-Turnover

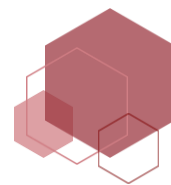
Index	90 Days Average	Monthly Average	Change
NEPSE	11.27 B	4.61 B	-59.12%
Corporate Debenture	2.67 M	1.68 M	-36.98%
Preferred Stock	0.02 M	0.01 M	-40.73%
Manufacturing And Processing	288.28 M	144.06 M	-50.03%
Hydro Power	3.17 B	1.45 B	-54.12%
Commercial Banks	2.20 B	993.48 M	-54.85%
Development Banks	1.31 B	553.36 M	-57.62%
Tradings	33.68 M	14.03 M	-58.34%
Finance	1.02 B	400.22 M	-60.66%
Microfinance	942.66 M	368.70 M	-60.89%
Life Insurance	501.11 M	190.20 M	-62.05%
Investment	505.70 M	166.21 M	-67.13%
Hotels	88.09 M	25.46 M	-71.10%
Non Life Insurance	758.07 M	197.30 M	-73.97%
Mutual Fund	103.63 M	23.89 M	-76.94%
Others	351.44 M	73.77 M	-79.01%

Highest Turnover

AHPC	4.61 B
UMHL	3.10 B
API	2.59 B
NHPC	2.59 B
RHPC	2.44 B

Highest Volume

AHPC	7.18 M
NBF2	6.01 M
NHPC	5.91 M
UMHL	5.52 M
API	5.34 M



NEPSE Outlook

A. Current Overview

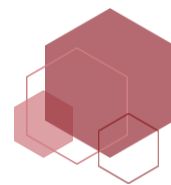


The benchmark NEPSE Index entered into a corrective mode and witnessed downward trend during the review month losing an overall 342.42 points, or a decline of 11.51% to close at 2,633.42 points at the end of the review period (i.e. September 30, 2021) compared to the previous month's closing of 2,975.84 points. The average turnover for the month of September dropped significantly by 52.63% in a month on month basis.

As displayed in the chart above, NEPSE index has been declining in a parallel channel pattern taking support and resistance within that pattern. The index is testing the mid-channel of the pattern to try and take the support at 2,600 level.

20 days Exponential Moving Average (EMA) has already crossed over 50 days EMA from above indicating downward trend in the short to mid-term. The Relative Strength Index (RSI) of NEPSE is hovering around the oversold zone indicating investors are in the selling mood and currently it stands at 33. From the Moving Average Convergence Divergence (MACD) perspective, the MACD line is in the negative territory after crossing over the trigger line from above signaling the ongoing downward trend in the market.

-DMI is above the +DMI signaling sellers are outweighing the buyers and the rising Average Directional Index (ADX) of 38 indicates that the ongoing downward trend is getting stronger.



The immediate support levels of NEPSE index stands at: (S1) 2,600, (S2) 2,550 and (S3) 2,500, whereas the resistance levels hold at: (R1) 2,700, (R2) 2,750 and (R3) 2,800.

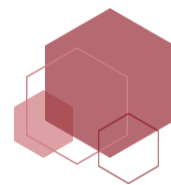
B. Long-Term Outlook



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 EMA and 200 days EMA from below) and NEPSE started breaking record after record closing at an all-time high of 3,198.19 points on August 18, 2021 supported by good volume and making the record breaking turnover of NPR 21.65 billion in the history of NEPSE on 15th August, 2021 during this bull run.

As shown in the chart above, the NEPSE index successfully achieved the Trend-Based Fibonacci Extension of 1.61 (2,101.21 points) and 2.61 extension (2,667.54 points) within very short span of time and after few up and down swings, the index even tested 3.61 Fibonacci extension of 3,233.87 points.

However, after that point the market went into a corrective mode and has already declined by 17.66% from the recent all-time high closing, amidst the shadow of various policy decisions, especially with the cap of maximum of NPR 12 cr. for margin lending enacted through the monetary policy for FY 2078/79, as well as due to the current liquidity position getting tighter and BFIs increasing interest rates to manage their liquidity. Thus, technically the market is at a very crucial support zone taking support at 200 days EMA (i.e. NEPSE level of 2,610 points) as illustrated in the chart above.



SCRIP ANALYSIS

Hydroelectricity Investment and Development Company Limited (HIDCL)

A. Technical Analysis



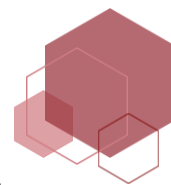
The stock is trading at NPR 332 as on 30th September 2021 after witnessing a correction of 42.26% from the recent high of NPR 575.

The stock was able to complete its fifth wave by successfully testing the Trend based Fibonacci extension levels of 1.61 (NPR 321.16), 2.61 (NPR 413.19), 3.61 (NPR 505.22) and 4.24 (NPR 562.09) as illustrated in the chart above. Thus, after the rise of approximately 408% within very short span of one year, the stock is in the corrective mode right now.

20 days EMA has crossed over the 50 days EMA from above indicating downward trend in the short to mid-term. The stock is in the oversold zone since quite some time with current RSI at 32. The MACD line is in deep negative zone after making a crossover with trigger line from above indicating ongoing bearish trend in the stock.

+DMI is below the -DMI indicating sellers are outweighing the buyers in this stock and the rising ADX line of 28 indicates the downward momentum is stronger.

The major long-term support for this stock holds at the previous cycle's all-time high of NPR 254.29, whereas the immediate support levels stand at (S1) NPR 317 and (S2) NPR 290, whereas its immediate resistance levels are (R1) NPR 358, (R2) NPR 381 and (R3) NPR 413. Stock Valuation



The final average valuation of HIDCL based on Absolute Approach (viz. Capitalized Earnings 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 260.90**, which has been tabulated below:

Method	Valuation Price
Capitalized Earnings	47.38
Discounted Cash Flow	36.64
P/E Model	267.74
Market Price Model	466.88
P/B Model	485.87
Final Average Valuation	260.90

Assumptions

I. Projected Growth Rates

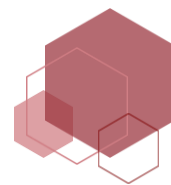
- Perpetual Growth Rate (for longer period projection to calculate terminal value (Last 10 years average economy growth rate)=4.71%
- Stable Earnings Growth Rate for calculating capitalization rate=5.80% (since the company has negative EPS growth, ROE of 5.80% multiplied by Retention Ratio of 1 has been used to calculate this growth rate)

II. Cost of Equity (CAPM Model)

$$K_e = R_f + (R_m - R_f) \times B$$

Specifics	Value	Remarks
Weekly Beta (B)	0.68	As on 09/31/2021
Market Return (R _m) (average)	15.94%	
Risk Free rate (R _f)	9.00%	Citizen Saving Bond, 2083
Cost of Equity (K _e)	13.72%	

- Industry average P/E Ratio = 72.56 and P/B Ratio = 4.39
- Market Price Model = 180 Day's Closing Price Average



B. Recommendation

HIDCL has major involvement of ranking officials and experts from government agencies which is beneficial to the overall decision and management of the company, as it was established as a public investment company, where 80% of equity is attributable to Government of Nepal (50%) and three state owned companies (30%) namely: EPF, CIT and Rastriya Beema Sansthan with 20% being set aside for general public which was called through Initial Public Offering (IPO).

As per its stated objective, the company has concentrated its investment in Energy sector. The company has invested NPR 255 million in its subsidiary company: Remit Hydro Limited with 100% ownership. Moreover, as of FY end 2076/77, the company has fulfilled 56.46% of its total loan commitment towards different hydropower projects, 37.81% of its total equity investment commitment towards hydropower related companies and 11.71% of its total equity investment commitment towards different hydropower projects.

The stock is overvalued based on the valuation price of NPR 260.90, mainly due to low absolute valuation because of low earnings projection in the immediate upcoming years as a result of diluted earnings after 100% capital increment from the rights issue increasing the paid-up capital from NPR 11 billion to NPR 22 billion, moderate revenue profile which will be concentrated in hydropower sector in future and also due to expected time overrun & project implementation risks involved in the long gestation period of its investment.

However, its 1:1 rights issue is likely to boost its investment capacity and create comfortable liquidity and financial risk profile with debt free nature of the company. In addition, the company could witness a boost in its earnings through an auction of its unclaimed shares from the recent right issue which would add extra income as Non-Operating Profit to Company's Books through premium generated with an auction as the minimum bid for the auction of unclaimed right shares is NPR 100.

Technically, the company is trading at NPR 332 after witnessing a good correction and is in the oversold zone with retracement of 42.26% from the recent high of NPR 575. The major long-term support for this stock holds at the previous cycle's all-time high of NPR 254.29. Therefore, though the company is overvalued, the ongoing correction/retracement from the all-time high could be a good opportunity to grab this stock at a discounted price in the long-term perspective

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ISSUE OF THE MONTH

How Self-Enhancement/Attribution Affects Investment Decisions

A. What is Self-Enhancement/ Attribution?

Human behavior is shaped by conscious and unconscious decisions which can be swayed by behavioral biases. Many people either tend to make decisions based on a set way of thinking or even more problematically based on feelings alone ignoring many relevant facts. This is a dangerous way to think and invest.

Self-enhancement is one such emotional bias in psychology. Also known as the self-enhancing bias, it is the propensity of people to only credit themselves for their achievements while discounting the role of other individuals or external circumstances in it.

B. Effects of Self-Enhancement/Attribution

Self-Enhancement tends to lead to overconfidence, and we all know that overconfidence in any form always puts investors at a disadvantage in the market. This is because investors that self-attribute tend to credit prior success to their own talents and dismiss the role of timing or other factors in those results. This makes them vulnerable to mistakes.

Investors with this bias are never able to enhance their grasp of how the market truly works as they credit all of their losses to the volatile market and all of their profits to their abilities. While they start by discounting information that questions their abilities, they move on to discounting any sort of market data that contradicts their investing philosophy. This creates many information blind spots for these investors while also making them context deaf w.r.t macro and micro economic factors ultimately setting them up for long term failure.

C. Dealing with Self-Enhancement/Attribution

Self-Enhancement biases can drive investors to make poor judgments and tend to impede them from continuously learning and improving their abilities and tactics. In this context, Recognizing and overcoming ones self-serving and self-enhancement bias will help an investor in improving their investment abilities and approach. However, in order



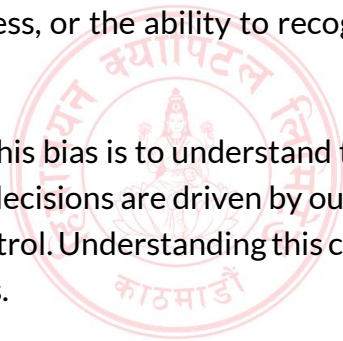
to do so, an honest and objective examination of our previous decisions, performance, and external circumstances is required.

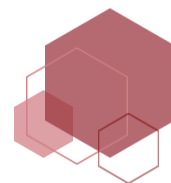
When we are mindful of our surroundings, we are better able to recognize our vulnerability to self-attribution bias. When a person becomes aware of typical cognitive biases, they may begin to recognize them in their daily life and rectify them.

Another approach to help reduce this prejudice is to develop self-compassion. When someone is self-compassionate, they are able to lower their defensiveness and take criticism more easily when trying to develop themselves. The capacity to notice and commit to reducing one's own pain is known as self-compassion. Self-compassion involves the following:

- An individual's ability to show self-kindness, particularly when confronted with a personal shortcoming.
- The ability of an individual to comprehend their shared humanity, or rather, the fact that they are human and that other individuals have similar experiences and failings, and
- An individual's awareness, or the ability to recognize unpleasant ideas without judging them.

Overall, the key to managing this bias is to understand that we are human after all and that the consequences of our decisions are driven by our own ability as well as external circumstances beyond our control. Understanding this can help us continue to learn and make more informed decisions.





Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
HIDCLP	Auction	33,000,000(P)	2021/09/23 AD 2078/06/07 BS	2021/09/30 AD 2078/06/14 BS	Global IME Capital
HIDCL	Auction	3,229,724(O)	2021/09/23 AD 2078/06/07 BS	2021/09/30 AD 2078/06/14 BS	Global IME Capital
CIT	Auction	381,902(P)	2021/09/22 AD 2078/06/06 BS	2021/10/01 AD 2078/06/15 BS	NIC Asia Capital
RMDCP	Auction	300,065(P)	2021/09/22 AD 2078/06/06 BS	2021/10/01 AD 2078/06/15 BS	NIC Asia Capital
MEROPO	Auction	84,829(P)	2021/09/22 AD 2078/06/06 BS	2021/10/01 AD 2078/06/15 BS	NIC Asia Capital
BNHCL	IPO	800,000(O)	2021/09/27 AD 2078/06/11 BS	2021/09/30 AD 2078/06/14 BS	Civil Capital Market

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