

The Pulse

Market Growth, Risks and Outlook

Bhadra 2078

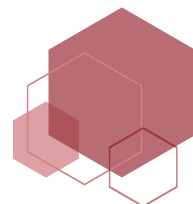
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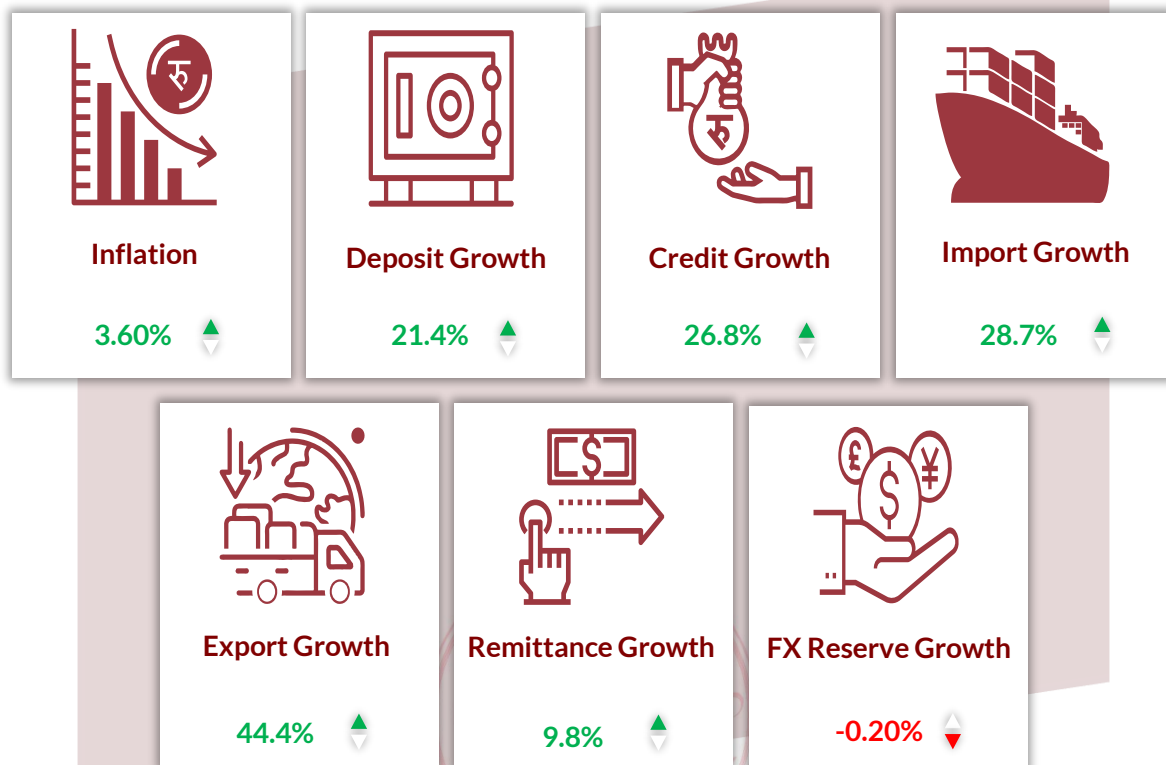


Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

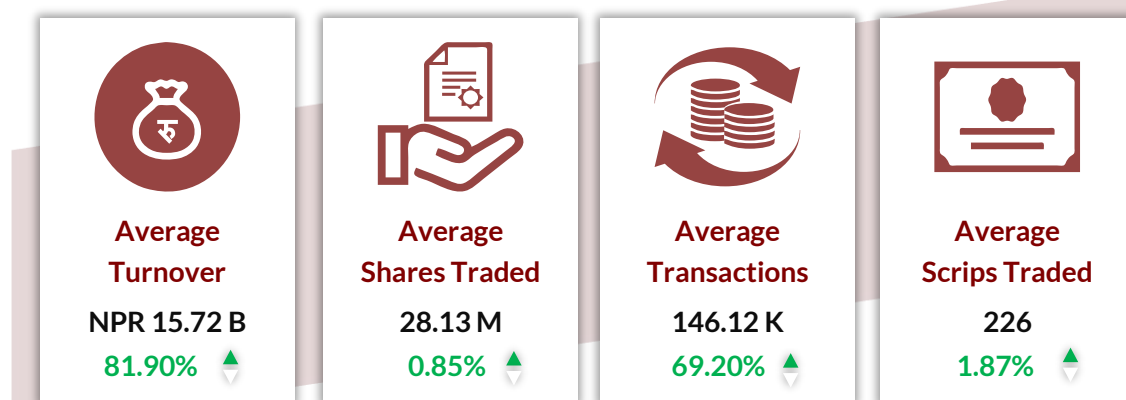


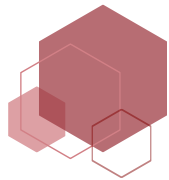
Macroeconomic Overview



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

Monthly Trading Statistics



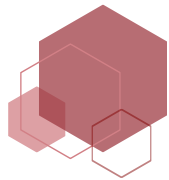


Liquidity Overview

Description	Value as On				Change		
	Last Year	Last Month	Last Week	This Week	YOY	MOM	WOW
Wt. Avg 28 Days TB rate	0.11%	2.13%	0.17%	0.17%	0.05	-1.96	N/A
Wt. Avg 91 Days TB rate	1.27%	3.79%	3.06%	3.07%	1.80	-0.72	0.01
Wt. Avg 364 Days TB rate	2.26%	4.22%	3.96%	3.76%	1.51	-0.46	-0.2
Wt. Avg Interbank Rate	0.10%	3.21%	4.11%	4.76%	4.66	1.55	0.65
Wt. Avg Deposit Rate (CB)	6.01%	4.72%	4.72%	4.65%	-1.36	-0.07	-0.07
Wt. Avg Lending Rate (CB)	10.11%	8.46%	8.46%	8.43%	-1.68	-0.03	-0.03
Base Rate (CB)	8.50%	6.66%	6.66%	6.86%	-1.64	0.2	0.2
CD Ratio	N/A	N/A	N/A	86.79%	N/A	N/A	N/A
Fixed Deposit/Total Deposits	46.9%	48.34%	48.34%	48.34%	1.44	N/A	N/A
Total Liquid Assets/Total Deposits	25.53%	24.01%	24.01%	24.01%	-1.52	N/A	N/A
Capital Expenditure (Billions NPR)	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Major Movers

JBLB	388.93%	GAIN	SFMF	-23.19%	
ICFC	57.86%		SIGS2	-27.35%	
CHDC	53.00%		SEF	-28.26%	
MEN	43.68%		LOSS	NIBLPF	-37.50%
CORBL	42.50%			LEMF	-37.93%



Sectoral Movement

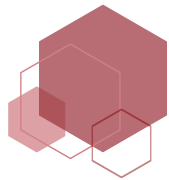
Index	Last Week	This Week	Change
NEPSE	3,079.83	3,044.86	-1.14%
Finance Company	2,685.49	3,290.46	22.53%
Development Bank	4,891.31	5,906.82	20.76%
HydroPower	3,213.11	3,593.56	11.84%
Manufacturing & Processing	6,650.01	7,089.77	6.61%
Microfinance	5,571.15	5,813.49	4.35%
Investment	113.22	108.88	-3.83%
Commercial Bank	2,099.58	1,995.02	-4.98%
Life Insurance	18,272.92	17,273.74	-5.47%
Non-Life Insurance	14,994.01	14,162.55	-5.55%
Mutual Fund	17.92	16.51	-7.87%
Trading	4,079.01	3,680.96	-9.76%
Others	2,201.22	1,975.08	-10.27%
Hotels & Tourism	3,933.97	3,521.72	-10.48%

Public Debt Subscription

T-Bill	Issue Date	Issue Amount	Total Applicant	Total Bids	Bid Amount	Excess/ Under	Discount Rate		
							Low	High	Avg
28 Days	Bhadra 1	500.00	-	-	-	-	-	-	-
91 Days	Bhadra 8	223.32	14	76	1,608.32	1,385.00	2.50	3.07	3.07
182 Days	Shrawan 19	500.00	26	139	2,544.00	2,044.00	.99	1.95	1.53
364 Days	Bhadra 8	200.00	16	79	1,835.00	1,635.00	3.00	4.04	3.76

Figures in Million

*Figures are in Millions NPR



Sectoral Divergence-Turnover

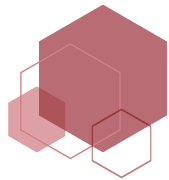
Index	90 Days Average	Monthly Average	Change
NEPSE	10.96 B	10.02 B	-8.60%
Preferred Stock	0.01 M	0.02 M	35.92%
Development Banks	1143.73 M	1537.46 M	34.43%
Finance	889.52 M	1122.39 M	26.18%
Manufacturing And Processing	277.52 M	311.07 M	12.09%
Hydro Power	2923.84 M	3258.81 M	11.46%
Investment	565.82 M	455.78 M	-19.45%
Microfinance	1051.04 M	734.73 M	-30.10%
Corporate Debenture	2.30 M	1.59 M	-30.66%
Commercial Banks	2152.19 M	1475.22 M	-31.46%
Life Insurance	517.90 M	351.71 M	-32.09%
Non Life Insurance	798.52 M	518.65 M	-35.05%
Tradings	40.69 M	20.10 M	-50.60%
Mutual Fund	98.75 M	47.05 M	-52.36%
Hotels	89.37 M	41.68 M	-53.37%
Others	411.58 M	143.37 M	-65.17%

Highest Turnover

AHPC	6.83 B
AKPL	5.47 B
NHPC	4.74 B
API	4.67 B
RHPC	4.37 B

Highest Volume

NHPC	10.38 M
AHPC	10.06 M
API	7.61 M
SFMF	7.57 M
NBL	7.55 M



NEPSE Outlook

A. Current Overview

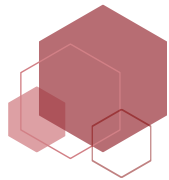


The benchmark NEPSE index witnessed a steep fall during the review period after making an intraday high of 3,227.11 on 19th August 2021 post NRB's unified directives regarding tightening of margin lending limit for a single individual/institution to NPR 4 crores from a BFI and a maximum of NPR 12 crores for all BFIs. The market tested the crucial support zone of 2,961 points during intraday trading to close at 2,977.02 points at the end of the review period (i.e., September 1, 2021).

As displayed in the chart above, NEPSE index had been moving upward in a parallel channel pattern taking support and resistance within that pattern, and lately witnessed a breakdown from the mid-channel and is trying to take support in the lower channel of around 2,960 level.

NEPSE index has crossed over both 20 days MA and 50 days MA from above, signaling downward trend in the short run. The index witnessed a pullback from the RSI of 74 from the overbought zone and currently it is at 36 in the oversold zone indicating sellers are outweighing the buyers in the market right now.

From the MACD perspective, though it is in the positive zone, it has crossed over the trigger line from above signaling a downward trend. +DMI has crossed over -DMI from above signaling sellers are outweighing the buyers and falling ADX of 28 indicates the market is in consolidation phase.



The immediate support levels of NEPSE index stands at: (S₁) 2,890, (S₂) 2,800 and (S₃) 2,770, whereas the immediate resistance levels hold at: (R₁) 3,050, (R₂) 3,145 and (R₃) 3,200.

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 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 (2,096.75 points) and 2.61 extension (2,662.74 points) within very short span of time and after few up and down swings, the index has even tested 3.61 Fibonacci extension of 3,228.74 points recently and is witnessing correction right now due to heavy sell pressure.



SCRIP ANALYSIS

Premier Insurance Company Limited (PIC)

A. Technical Analysis



Range-bound trading in between NPR 1,160 - NPR 1,360 has been witnessed for quite some time now in this stock. The stock is in declining mode, heading towards the support zone in the trend line shown above and is currently trading at NPR 1,211.10.

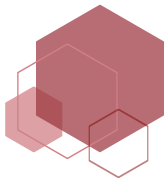
The scrip has crossed over both 20 days MA and 50 days MA from above indicating the downward trend going on in this stock.

The RSI of the stock is at 42 in the oversold zone due to huge selling pressure.

Though the MACD line is in the positive zone, it has crossed over the trigger line from above signaling downward trend.

+DMI has crossed over -DMI from above indicating seller's dominance and a falling ADX of 23 indicates the stock is in the consolidation mode.

The immediate support levels for this stock are: (S1) NPR 1,160, (S2) NPR 1,130 and (S3) NPR 1,070, whereas, its immediate resistance levels are: (R1) NPR 1,250, (R2) NPR 1,300 and (R3) NPR 1,360.



B. Stock Valuation

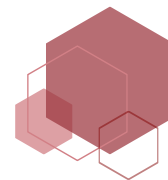
The final average valuation of PIC based on Absolute Approach (viz. Capitalized Earnings, Earnings Valuation and Discounted Cash Flow) as well as Relative Approach (viz. P/E Model, P/B Model and Market Price Model) has been computed as **NPR 903.52**, which has been tabulated below:

Method	Valuation Price
Capitalized Earnings	471.99
Earning Valuation	485.41
Discounted Cash Flow	656.81
P/E Model	1,431.54
P/B Model	1,123.58
Market Price Model	1,251.76
Final Average Valuation	903.52

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=12% (adopting conservative approach, through its growth rate stands at 17.99% using its ROE of 27.42% multiplied by Retention Ratio of 0.66)



II. Cost of Equity (CAPM Model)

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

Specifics	Value	Remarks
Weekly Beta (B)	1.31	As on 08/31/2021
Market Return (R _m) (average)	15.94%	
Risk Free rate (R _f)	9.00%	Citizen Saving Bond, 2083
Cost of Equity (K _e)	18.09%	

- Industry average P/E Ratio = 41.16 and P/B Ratio = 3.15
- Market Price Model = 120 Day's Closing Price Average

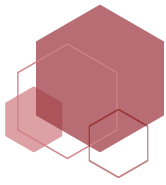
C. Recommendation

The last traded price of PIC as on September 1, 2021, is NPR 1,211.10. It is trading at a P/E ratio of 34.82, well below the industry average P/E ratio of 41.16, with an EPS of NPR 34.78. Its book value per share stands at NPR 221.52. The company has increased its net premium by 9.64% and its net premium by gross premium ratio stands at 39.90%. The company has paid up of NPR 1.07 Billion which is just greater than NPR 1 Billion mandated by the Insurance Board and the company is performing above average in the industry.

The company didn't give any dividend in FY 2075/76 and just gave 11.05% cash dividend in FY 2076/77; thus, it holds a capacity to give good dividend this year including stock dividend to increase its paid up base and business.

Based on stock valuation, it is overvalued as it is trading at premium compared to its intrinsic value of NPR 903.52, but the company is fairly price based on relative valuation as it is trading well below the industry average P/E ratio. The company is fundamentally sound with healthy financial ratios and dividend capacity and is trading near the support zone, the stock could be "HOLD/ BUY" from mid-term to long-term perspective.

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

Effect of Mental Accounting on Treatment of Money

A. What is Mental Accounting

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. Mental accounting is one such cognitive bias wherein people treat money differently based on a subjective criterion, and it often leads people to make financially counterproductive investment decisions.

It is the tendency people have to treat money differently depending on where it came from or what we intend to do with it. A simple example of this can be when a person experiences a certain financial windfall such as winning the lottery. In this case the person is most likely to spend the money on luxurious things as they are of the idea that since the money has come from lottery winning it is additional income that can be splurged without financial ramifications. They treat the additional income differently due to its source and thus fail to properly mobilize the additional resources at their hands.

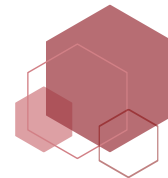
B. Why is mental accounting prevalent?

Since, normal people are not well versed with how money works and its proper application, they use mental accounts as a sort of self-control strategy to manage and keep track of their spending and resources. People tend budget money into mental accounts for specific expenses such as saving to purchase a home or expense categories such as maintenance costs for a car, or cost of vacation and generally tend to avoid spending money earmarked for specific purposes besides using it for the specific purpose.

This is because people are unaware of the fungible nature of money. Fungibility of money means that, regardless of where money originates or how we intend to use it, it is still the same money. It doesn't matter which account we spend money from, its value is the same and the reduction in value available to the person making the transaction is the same after making a transaction. However, people tend to not understand this and categorize money differently.

C. Mental Accounting in Investing

Mental accounting also exists in investing, as investors classify the securities in their portfolio as safe and speculative. In this case there is this assumption that safe



investments need not be sold even on a good profit as they offer stable returns whereas speculative investments need to be sold upon making small profits or even at a loss as it is better to sell a speculative portfolio than a safe portfolio. Investors even stand to reason that this is true even when both portfolios are making similar losses during a downward market. People would go so far as to even sell speculative portfolios with smaller losses than safer portfolios with larger losses as they are more afraid of losing money on a safe portfolio than on a speculative one even when the money lost on both is the same.

D. Pitfalls of Mental Accounting.

Like many other cognitive processes, mental accounting can prompt biases and systematic departures from rational, value-maximizing behavior leading to financially unsound decisions. These can take a number of forms such as:

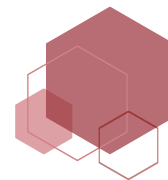
- Impeding financial progress when people treat specific inflows such as tax refunds or discounts as windfalls and spend them haphazardly unlike cash flow from their remuneration/salary.
- Paying high interest on debt while making low interest on savings that are meant to go towards building a house.
- Paying off low interest loans faster than necessary when the money from the loan could be used to get higher returns on investment.

E. Mitigating the Effects of Mental Accounting:

The following steps can be taken to mitigate the effects of mental accounting:

- Understand that money is fungible (is the same no matter its intended purpose) and treat all cash inflows and outflows the same.
- Understand your financial position and review it periodically to gauge what to do in case of significant cash inflows or outflow.
- Maintain financial discipline when cash flow is good to keep a nest for when things might be tricky.
- Don't make spur of the moment financial decisions based on a sudden windfall.

Overall, while mental accounting allows people to manage their cash flows in a systematic way, it also prevents people from truly being able to utilize the money they have. This is also true for investments wherein classifying an investment as safe or speculative affects an investor's ability to manage it significantly. Thus, understanding this bias and not making simple mental accounting mistakes can help us get better returns on our assets.



Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
PRVUPO	Auction	252,728(P)	2021/08/31 AD 2078/05/15 BS	2021/09/13 AD 2078/05/28 BS	Muktinath Capital
MFILPO	Auction	9,187(P)	2021/08/31 AD 2078/05/15 BS	2021/09/05 AD 2078/05/20 BS	NIBL ACE Capital
NMFBSP	Auction	18,000(P)	2021/08/31 AD 2078/05/15 BS	2021/09/08 AD 2078/05/23 BS	Siddhartha Capital
PCBLP	Auction	70,000(P)	2021/08/27 AD 2078/05/11 BS	2021/09/10 AD 2078/05/25 BS	NIC Asia Capital
GBLBSP	Auction	35,000(P)	2021/08/27 AD 2078/05/11 BS	2021/09/10 AD 2078/05/25 BS	NIC Asia Capital
NLICLP	Auction	50,000(P)	2021/08/27 AD 2078/05/11 BS	2021/09/10 AD 2078/05/25 BS	NIC Asia Capital
PRVUPO	Auction	50,000(P)	2021/08/27 AD 2078/05/11 BS	2021/09/10 AD 2078/05/25 BS	NIC Asia Capital
MEROPO	Auction	583,598(P)	2021/08/24 AD 2078/05/08 BS	2021/09/01 AD 2078/05/16 BS	NMB Capital

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Himalayan Capital Limited
Karmachari Sanchaya Kosh Bhawan,
Thamel, Kathmandu
Contact: 01-5258345, 5263147
www.himalayancapital.com
info@himalayancapital.com