

# The Pulse

Market Growth, Risks and Outlook

Kartik 2077



**Himalayan Capital**

A Wholly Owned Subsidiary of Himalayan Bank Limited

# NEPSE Outlook

## A. Current Overview



The benchmark NEPSE index closed at 1,645.67 points at the end of the review period (i.e. 29<sup>th</sup> October, 2020), and is moving within the channel pattern as shown by the dotted lines with the major support at 1,560 level and the immediate support at 1,610 points.

The 20 days Moving Average (MA) is well above the 50 days MA 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 74 in the overbought zone indicating dominance of buying pressure in the market.

Similarly, looking at the Moving Average Convergence Divergence (MACD) line, we can see that the MACD line is still in the positive zone and has crossed over the trigger line from below indicating continuation of an upward trend.

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 that the gap between the two is rising which combined with Average Directional Index (ADX) of 38 indicates good strength in the ongoing upward trend.

The immediate support levels of NEPSE index stands at: (S<sub>1</sub>) 1,610 and (S<sub>2</sub>) 1,560, whereas the resistance levels hold at: (R<sub>1</sub>) 1,667 and (R<sub>2</sub>) 1,710.

## B. Long Term Outlook



As we can see in the chart above, the 38.2% retracement level of the 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, getting tested almost four times in last three years, which is highlighted by the red-colored trend line in the above chart.

On the other hand, after making a low of 1,102.47 points on 25<sup>th</sup> 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 21<sup>st</sup> 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 making a golden cross.

Thus, the long-term outlook of the market looks bullish, however natural corrections for maintaining overall momentum might be witnessed throughout the journey.

## C. Sectoral Analysis

| Sector                     | Open     | Close    | % Change (1 Oct-31 Oct) |
|----------------------------|----------|----------|-------------------------|
| Banking                    | 1,258.48 | 1,340.92 | 6.55%                   |
| Development Bank           | 1,946.89 | 2,135.89 | 9.71%                   |
| Finance                    | 784.31   | 860.43   | 9.71%                   |
| Hotels                     | 1,749.16 | 1,751.81 | 0.15%                   |
| Hydro Power                | 1,292.38 | 1,389.93 | 7.55%                   |
| Life Insurance             | 9,639.13 | 9,719.31 | 0.83%                   |
| Manufacturing & Processing | 3,039.22 | 3,043.78 | 0.15%                   |
| Microfinance               | 2,556.86 | 2,573.88 | 0.67%                   |

| Sector             | Open     | Close    | % Change<br>(1 Oct-31 Oct) |
|--------------------|----------|----------|----------------------------|
| Mutual Fund        | 10.81    | 10.63    | -1.67%                     |
| Non-Life Insurance | 8,044.04 | 8,080.80 | 0.46%                      |
| Others             | 1,011.61 | 1,059.42 | 4.73%                      |
| Trading            | 1,057.33 | 1,105.35 | 4.54%                      |

Most Sectoral Indices grew on the back of a surging NEPSE Index with only Mutual Fund sector experiencing a mild decline attributable in part to adjustment of cash dividends. BFI's excluding Microfinance companies grew on the back of better than expected stock dividend by various companies with Finance Companies being followed by Development Banks and Commercial Banks in growth owing to the available supply in the market.

## Key Movers

This month was dominated by two finance companies, Nepal Finance which grew on the back of 125% Rights Issue with ICFC Finance following on the back of speculated improved performance. MHNL, RHPC, and RRHP which were lower priced in Hydropower Sector also caught up to the previous high movers.

Major Losers in the market were Convertible Preference Stock of Everest Bank, Reliance Life Insurance which is stabilizing from its initial IPO High, Gurans Laghubitta, Sunrise First Mutual Fund and United Finance which is also stabilizing after a good price hike in the earlier months.

### Major Gains

| S.N. | Scrip | Change% |
|------|-------|---------|
| 1    | NFS   | 54.11%  |
| 2    | ICFC  | 49.00%  |
| 3    | MHNL  | 37.68%  |
| 4    | RHPC  | 25.17%  |
| 5    | RRHP  | 25.00%  |

### Major Losses

| S.N. | Scrip | Change% |
|------|-------|---------|
| 1    | EBLCP | -7.34%  |
| 2    | RLI   | -6.03%  |
| 3    | GLBSL | -5.90%  |
| 4    | SFMM  | -5.57%  |
| 5    | UFL   | -5.10%  |

## Interest Rate Scenario

| Short Term Interest Rates                      | Rate   | Transaction Date |
|--|--------|------------------|
| <b>A. Weighted Average Treasury Bills Rate</b> |        |                  |
| 28 Days  | 0.1066 | October 13, 2020 |
| 91 Days  | 0.7801 | October 28, 2020 |
| 182 Days                                       | 1.6036 | October 20, 2020 |

| Short Term Interest Rates                          | Rate   | Transaction Date   |
|--|--------|--------------------|
| 364 Days   | 2.2311 | October 28, 2020   |
| B. Weighted Average Interbank Rate (Daily)         | 0.1951 | October 29, 2020   |
| C. Weighted Average Repo Rate                      |        |                    |
| 7 Days (Regular)                                   | 4.7881 | March 1, 2020      |
| D. Weighted Average Reverse Repo Rate              |        |                    |
| 7 Days (Regular)                                   | 0.0228 | August 6, 2020     |
| E. Weighted Average Deposit Auction Rate (Regular) |        |                    |
| 15 Days  | 0.9914 | August 4, 2019     |
| 30 Days  | 0.4    | September 24, 2020 |
| 60 Days  | 3.3993 | July 25, 2018      |
| 90 Days  | 3.4705 | August 1, 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                               | Two Month |         | Change (%) |
|---|-----------|---------|------------|
|   | 2019/20   | 2020/21 |            |
| Inflation                                 | 6.16%     | 4.52%   | -36.28%    |
| Imports Expansion                         | -1.20%    | -22.10% | -20.90%    |
| Exports Expansion                         | 25.90%    | 10.50%  | -15.40%    |
| Net service (In Billions NPR)             | -5.8      | -5.45   | -6.42%     |
| Increase in Remittance                    | 0.60%     | 8.10%   | 7.50%      |
| Current Account Surplus (In Billions NPR) | -22.69    | 26.07   | 187.03%    |
| FDI Inflows (In Billions NPR)             | 1.98      | 2.44    | 18.85%     |
| Government Expenditure (In Billions NPR)  | 43.12     | 53.55   | 19.48%     |
| Government Revenue (In Billions NPR)      | 141.51    | 105.37  | -34.30%    |
| Increase in Deposit Collection            | 0.40%     | 0.50%   | 20.00%     |
| Increase in Credit                        | -0.10%    | -0.30%  | 66.67%     |
| Forex Reserves (In Billions NPR)          | 1078.94   | 1433.67 | 24.74%     |

Economic Activities seem to be picking up on the back of ease down of lockdown restrictions and are supported by higher remittance numbers. Foreign Exchange Reserves have grown in part due to the massive reduction in imports. However, looking at government revenue and expenditure, the telltale signs of economic recovery still do not appear to be imminent. Even the government is borrowing larger chunks of money due to lower interest rates and reduced tax revenue on the back of reduced consumption and imports.

# Scrip Analysis

## A. Siddhartha Bank Limited (SBL)

### I. Technical Analysis



The stock price of SBL closed at Rs. 347 on 29<sup>th</sup> October, 2020 after taking support at major Fibonacci retracement levels with the recent one being 38.2% (i.e. Rs. 318). Its RSI is at 76 in the overbought zone indicating attraction of investors towards this stock.

20 days MA is above the 50 days MA indicating upward trend. The MACD line is also in the positive zone and has crossed over the trigger line from below giving upward indication.

+DMI is above the -DMI and the widening gap between them indicates huge buying pressure of the investors. Also the ADX of 35 indicates good strength in the upward trend.

The immediate support levels of the stock are: (S<sub>1</sub>) Rs. 332 and (S<sub>2</sub>) Rs. 318, whereas, its resistance levels are: (R<sub>1</sub>) Rs. 360 and (R<sub>2</sub>) Rs. 380.

### II. Stock Valuation

The final average valuation of SBL based on Absolute Approach (viz. Capitalized Earnings, Earnings Valuation and Discounted Cash Flow) as well as Relative Approach (viz. Market Price Model, P/B Model and Price/Operating Profit Model) has been computed as **NPR 362.86**, which has been tabulated below:

| Methodology                    | Valuation Price |
|--------------------------------|-----------------|
| Capitalized Earnings           | 335.56          |
| Earning Valuation              | 341.50          |
| Discounted Cash Flow           | 377.37          |
| Market Price Model*            | 308.01          |
| P/B Model                      | 366.71          |
| Price/Operating Profit Model   | 447.99          |
| <b>Final Average Valuation</b> | <b>362.86</b>   |

\*120 Day's Closing Price Average

### III. Recommendation

The stock is trading at Rs. 347 below its intrinsic value at P/E ratio of 16.23, below the industry average P/E ratio of 21.05, with an EPS of Rs. 21.38 and distributable profit per share of Rs. 8.85 (excluding share premium available in the reserve) based on unaudited report of Fourth Quarter of FY 2076/77.

The deposit and loan base of SBL increased by 21.50% and 17.83% respectively in Fourth Quarter of FY 2076/77 compared to previous FY. Though the net profit of SBL has declined by 9.36% due to huge provisioning, it has reported 8.52% growth in operating profit before any provisions. Its CAR stands at 12.97%, with cost of fund of 6.59% and relatively lower CCD ratio of 72.85%.

The stock is “good buy” at the price range of Rs. 335-345 below its valuation price of Rs. 362.86, with the target price of Rs. 380 in the short run.

## Issue of the month

### A. Value Investing through Graham's Number

#### What is Value Investing

Value investing refers to the strategy of investing in stocks that are trading at a significant discount to their intrinsic value. In order to achieve this a value investor must look for companies that are undervalued based on valuation metrics, typically low multiples of their profits or assets, for reasons which are not justified over the longer term.

This approach requires a long-term investment horizon and assures outperforming of index returns across multiple equity markets.

#### Graham's Number

Graham's Number is a concept based on Benjamin Graham's conservative valuation of companies. It calculates the intrinsic value of a company based on its earnings per share and book value per share. Different Investors use different metrics for looking at Graham's Number. If a stock's market price exceeds its graham's number, the stock is considered overpriced whereas a price below the number is considered good value.

Different investors use the formulae in its entirety or the formula's singular constituents to quickly calculate whether a stock is worth investing in or not.

The composite formula for graham's number is as follows:

$$\text{Graham's Number} = \sqrt{15 \times 1.5 \times EPS \times BVPS}$$

where,

$$EPS = \frac{\text{net income}}{\text{shares outstanding}}, \quad BVPS = \frac{\text{shareholder's equity}}{\text{shares outstanding}}$$

The individual components are also used for quickly comparing stocks as:

$$\text{Graham's Number} = 1.5 \times BVPS$$

$$\text{Graham's Number} = 15 \times EPS$$

#### Why is it useful?

Graham's number uses two major indicators of a company's financial health and performance, how much money it is making for each shareholder and how much assets it holds to calculate the best value for a stock. It does not mean that the stock cannot be bought above that price but provides a simple measure to control risk exposure of an investor and helps towards guaranteeing stabler returns.



## Key Dates

| SN | Scrip | Type    | Quantity      | From                           | To                             | Issue Manager                      | Status |
|----|-------|---------|---------------|--------------------------------|--------------------------------|------------------------------------|--------|
| 1  | API   | Right   | 5,670,000 (O) | 2020/10/30 AD<br>2077/07/14 BS | 2020/11/19 AD<br>2077/08/04 BS | Siddhartha<br>Capital<br>Limited   | Open   |
| 2  | CBL   | Auction | 867,604 (P)   | 2020/10/02 AD<br>2077/06/16 BS | 2020/11/17 AD<br>2077/08/02 BS | Civil Capital<br>Market<br>Limited | Open   |

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