

The Pulse

Market Growth, Risks and Outlook

Falgun 2078

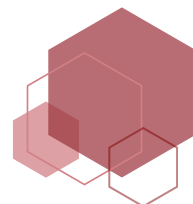
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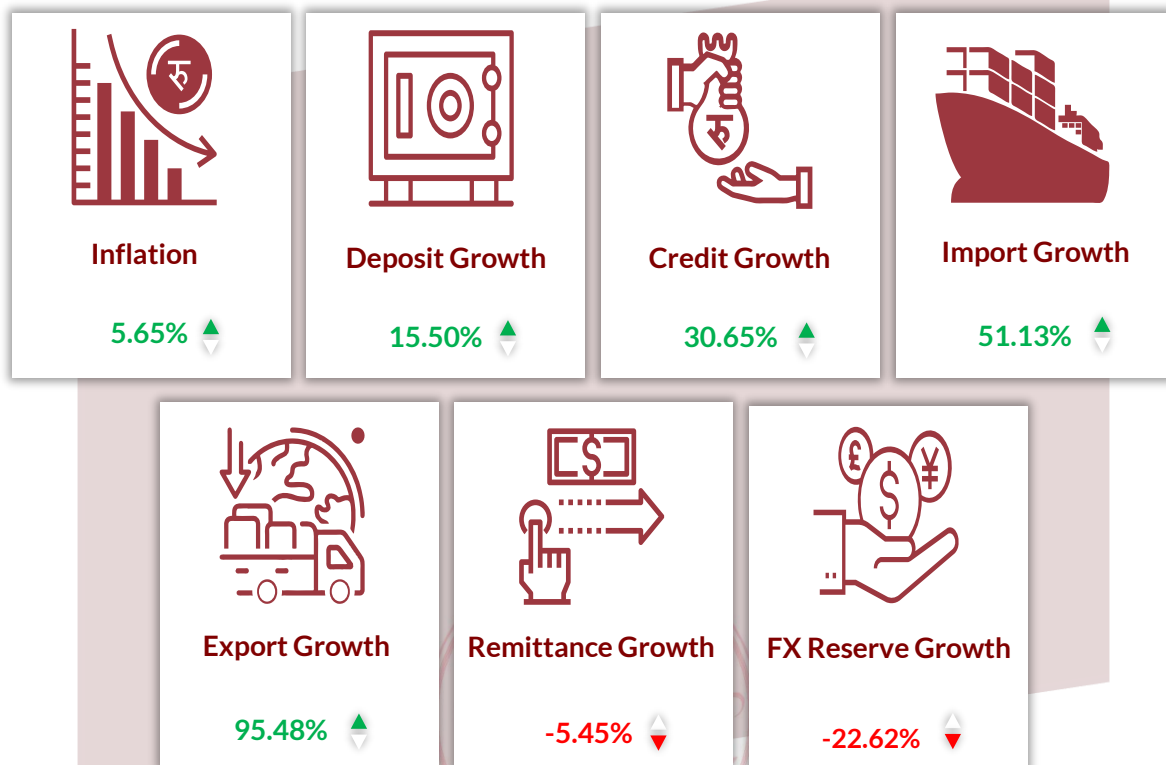


Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

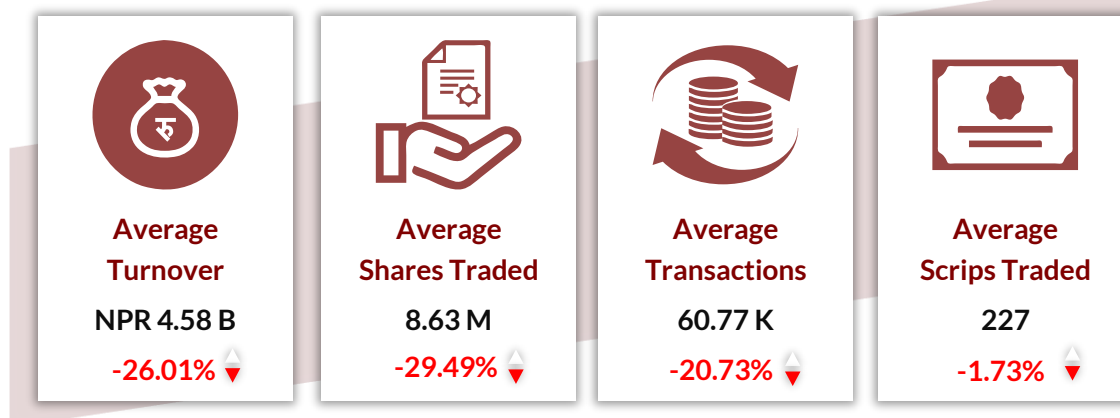


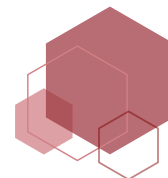
Macroeconomic Overview



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

Monthly Trading Statistics





Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Poush-77	Mangsir-78	Poush-78	06-Falgun	13-Falgun	YOY	MOM	WOW
Wt. Avg 28 Days TB rate (%)	0.11	5.05	4.72	5.64	5.64	4.61	-0.33	0.00
Wt. Avg 91 Days TB rate (%)	0.87	5.04	5.07	5.60	6.96	4.20	0.03	1.36
Wt. Avg 364 Days TB rate (%)	1.73	4.97	4.99	5.29	5.29	3.26	0.02	0.00
Wt. Avg Interbank Rate (%)	0.25	4.96	4.76	4.98	6.97	4.51	-0.20	1.99
CapEx (In Billion NPR)	50.81	28.40	50.80	64.82	67.86	-0.01	22.40	3.04

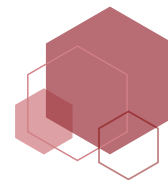
B. BFI Statistics

Description	Value As On					Change	
	Poush-77	Mangsir-78	Poush-78	06-Falgun	13-Falgun	YOY	MOM
Wt. Avg Deposit Rate (%)	5.00	6.24	6.37	6.37	6.37	1.37	0.13
Wt. Avg Lending Rate (%)	9.09	9.29	9.44	9.44	9.44	0.35	0.15
Base Rate (%)	7.18	8.25	8.42	8.42	8.42	1.24	0.17
CD Ratio (%)	86.37	91.24	89.95	90.35	90.35	3.58	-1.29
Fixed Deposits/ Total Deposits (%)	47.62	52.68	52.52	52.52	52.52	4.90	-0.16
Total Liquid Assets/ Total Deposits (%)	26.51	21.56	22.67	22.67	22.67	-3.84	1.11

Public Debt Subscription

d	Issue Date	Offered Amount	Payment By GoN	No. of Participants	No. of Bids	BID Ratio	Allocated Amount	Discount Rate		
								Low	High	Average
28 Days	Magh 25	200.00	0.00	17	47	3.18	200.00	5.09	5.88	5.64
91 Days	Falgun 10	223.32	0.00	18	67	6.01	223.32	6.20	7.09	6.96
182 Days	Falgun 10	600.00	0.00	27	105	3.28	600.00	6.40	7.22	7.05
364 Days	Magh 25	500.00	0.00	20	122	3.16	500.00	4.95	5.69	5.29

*Figures are in Millions NPR



Sectoral Movement

Index	Magh-16	Falgun-13	Change
NEPSE	2,885.53	2,661.44	-7.77%
Others	2,245.60	2,308.58	2.80%
Mutual Fund	16.04	15.64	-2.49%
Microfinance	3,433.46	3,281.87	-4.42%
Commercial Bank	95.23	88.23	-7.35%
Life Insurance	5,517.66	5,087.71	-7.79%
Hotels & Tourism	3,233.04	2,976.62	-7.93%
Trading	1,855.32	1,705.71	-8.06%
Hydropower	3,085.45	2,796.93	-9.35%
Development Bank	13,289.46	11,981.25	-9.84%
Non-Life Insurance	2,549.31	2,256.52	-11.49%
Finance Company	5,168.95	4,559.73	-11.79%
Investment	7,466.13	6,531.11	-12.52%
Manufacturing & Processing	16,656.36	14,236.05	-14.53%

Major Movers

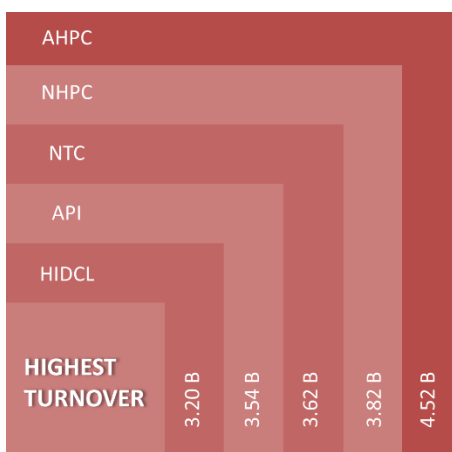
MBJC	197.13%	GUFL	-17.64%
UMRH	104.45%	NLIC	-14.44%
TPC	97.83%	SHIVM	-11.28%
SPC	79.41%	BNT	-10.52%
WNLB	73.29%	RMDC	-7.30%



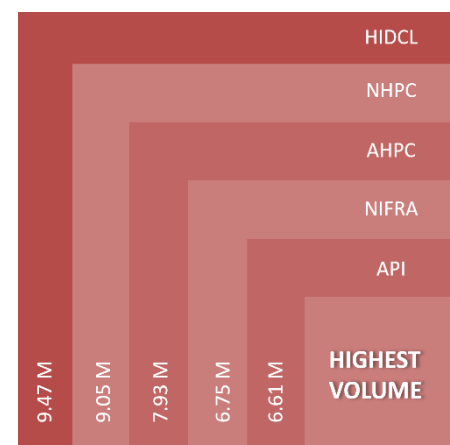
Sectoral Divergence-Turnover

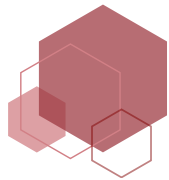
Index	90 Days Avg	Month Avg	Divergence
NEPSE	4.77 B	4.58 B	-3.98%
Investment	253.80 M	419.82 M	65.42%
Others	199.00 M	230.91 M	16.03%
Corporate Debenture	1.41 M	1.50 M	6.27%
Non-Life Insurance	280.20 M	295.94 M	5.62%
Hydro Power	1,344.96 M	1,410.57 M	4.88%
Life Insurance	294.47 M	296.17 M	0.58%
Manufacturing And Processing	195.59 M	157.34 M	-19.56%
Microfinance	465.34 M	372.94 M	-19.86%
Mutual Fund	16.18 M	10.64 M	-34.26%
Finance	387.49 M	249.97 M	-35.49%
Commercial Banks	777.61 M	449.87 M	-42.15%
Hotels	26.07 M	14.23 M	-45.40%
Development Banks	512.92 M	272.64 M	-46.85%
Trading	15.72 M	2.26 M	-85.60%
Preferred Stock	0.03 M	0.00 M	-100.00%

Highest Turnover



Highest Volume





NEPSE Outlook

A. Current Overview



The NEPSE index witnessed a downward trend throughout the week with a drop of 71.07 points (or, -2.6%) to close at 2,661.44 points on 24th February, 2022 compared to the previous week's closing of 2,732.51 points. The NEPSE broke the support level of 2,706.02 and now the benchmark index is taking good support at 50% Fibonacci retracement level of 2,620.28 points. The average turnover for the week also declined by 2.62% to NPR 3.54 billion, compared to previous week's turnover of NPR 3.64 billion.

The 20 days EMA and the 50 days EMA has closed the gap and joint at 2,744.80 point in the last trading day of the week indicating bearish signal, similarly, both 20 days EMA and 50 days EMA has crossed over the NEPSE Index from above signaling downward movement in the market.

The RSI is hovering relatively in the oversold zone at 39 indicating sellers are outweighing the buyers in the market due to still uncertainty regarding MCC decision, restriction of monetary policy in share loan and international conflict between Ukraine and Russia.

The MACD line has entered negative territory indicating weak sentiment in the market and it has already crossed over the trigger line from above signaling the ongoing downward trend.

+DMI and -DMI crossed multiple times within this week with the declining ADX of 16.57, which indicates the indecision regarding the direction of the market.



The immediate support levels of NEPSE index stands at: (S₁) 2,630, (S₂) 2,515 and (S₃) 2,450, whereas the resistance levels hold at: (R₁) 2,750, (R₂) 2,830 and (R₃) 2,915.

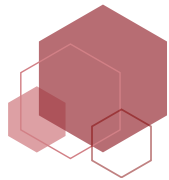
B. Long-Term Outlook



After breaking records after records, NEPSE went into corrective mode and declined by 916.18 points or, 28.65% from the recent all-time high closing to take support at 2,282.01 points, amidst various kind of intervention in the past months from the regulatory bodies, especially the cap of NPR 12 cr. for the loan against pledged share announced through monetary policy for FY 2078/79, as well as due to liquidity position getting tighter & BFIs increasing the interest rates to manage their liquidity, and also due to added fuel provided by the selling pressure amidst the nearing Poush end to arrange funds for interest and tax settlements.

As per the above given figure, the NEPSE index took the support at 2,282.01 points and started to incline by breaking the Trend-Based Fibonacci Extension of 2.61 (2,633.70 points) and, the resistance point of 2,850 points, it reached at 2,952.75 points. But due to many updates in monetary policy, uncertain decision of MCC and Russia-Ukraine conflicts, the NEPSE index went into corrective mode and declined by 9.86% within 26 days, and its new support level is 2,633.70 (As per Trend Based Fibonacci Extension of 2.61).

If we observe the 50 days EMA and 200 days EMA crossover for long-term trend, a death crossover was observed in NEPSE after a sharp decline in NEPSE, which indicated downward trend in the mid to long-term perspective. But now, the 50 days EMA has crossed over the 200 days EMA after the rise of NEPSE index, which indicates upward trend in the mid-term perspective.



The intermediate support levels of NEPSE index stands at: **(S₁) 2,630, (S₂) 2,500 and (S₃) 2,360**, whereas the resistance levels hold at: **(R₁) 2,800, (R₂) 3,000 and (R₃) 3,180**.

SCRIP ANALYSIS

IME General Insurance (IGI)

A. Technical Analysis



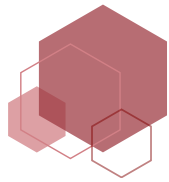
The stock price of IGI is Rs. 712 (25th Feb, 2022) after sharp fall of the price by 22.18% within a month.

The 50 days EMA has already crossed over 20 days EMA from above signaling downward trend.

The RSI of the stock is hovering around oversold area of 27.43. It shows the weak sentiment of the investors towards the stock.

The trigger line has crossed over the MACD line indicating downtrend, and also both lines are below the baseline which also indicates weak sentiment of the investors.

-DMI has crossed over + DMI on 10th Feb and the gap between these two lines are increasing with ADX of 29.45, indicating short term downfall of the stock.



The immediate support levels for this stock stands at: (S1) NPR 690, (S2) NPR 660 and (S3) NPR 600, whereas the resistance levels hold at: (R1) NPR 800, (R2) NPR 845 and (R3) NPR 900.

B. Stock Valuation

The final average valuation of IGI based on Absolute Approach (viz. Capitalized Earnings, Earnings Valuation and Discounted Cash Flow Method) as well as Relative Approach (viz. P/E Model and P/B Model) has been computed as NPR 438.33, which has been tabulated below:

Method	Valuation Price
Capitalized Earnings	261.13
Earning Valuation	236.20
Discounted Cash Flow	239.75
P/E Model	732.31
P/B Model	722.29
Final Average Valuation	438.33

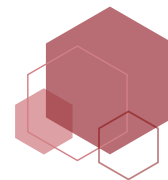
Assumptions

I. Perpetual Growth Rates

- Perpetual Growth Rate for longer period projection to calculate terminal value (Last 10 years average economy growth rate) =4.71%

II. Stable Earnings Growth Rate

- Stable Earnings Growth Rate for calculating capitalization rate = 8.54% (Last six year's average EPS growth rate)



III. Discounted Rate Using CAPM Model

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

Specifics	Value	Remarks
Weekly Beta (B)	1.09	As on 02/25/2022
Market Return (Rm)	15.94%	
Risk Free Rate (Rf)	9.00%	Citizen Saving Bond, 2083
Cost of Equity (Ke)	16.56%	

IV. Industry Average P/E Ratio

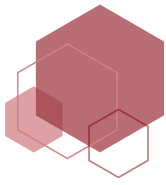
- Industry average P/E Ratio = 48.89 and P/B Ratio = 4.20

C. Recommendation

The last traded price of IGI as on 25th February, 2022 is Rs.712. It is trading slightly below the industry average P/E ratio of 48.89 at the P/E of 47.54 with an EPS of Rs. 14.98. The company has below average key factors with insurance fund of Rs. 53.05 crores, and net premium of Rs. 37.63 crores only. In the second quarter of FY 2078/79, its net profit has declined by 19.42% from last years' 2nd quarter report. The company could not generate enough income from its core operating activities as compared to last year 2nd quarter report.

Moreover, looking at the history of the company's dividend, the company has not distributed the dividend higher than 7.37%, so similar rate of dividend can be expected in near future from the company. The stock of the company is trading at a premium of 62.43% compared to its intrinsic value of Rs. 438.33, thus making it overvalued based on stock valuation. Now, talking from technical perspective, the major indicators like MACD, EMA and ADX are indicating downtrend of the company and weak sentiment of the investors towards the stock. But it might also become a good opportunity for the investors of IGI, as the stock is falling continuously, the RSI is in the oversold zone, so the investors can accumulate the stock to average out on the dip in medium term perspective.

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ISSUE OF THE MONTH

How Belief Preservation Affects Investment Decisions

“The ability to focus attention on important things is a defining characteristic of intelligence.” – Robert J. Shiller

A. What is Belief Preservation

Human behavior is determined by conscious and unconscious decisions, which can be influenced by behavioral biases. People tend to make judgments based on preconceived notions or, more problematically, on feelings alone, neglecting many crucial facts. This is a risky way of thinking and investing. Belief Preservation, which refers to an individual's inclination to stick to their previous belief even after hearing fresh evidence that contradict. It is one of the major cognitive biases affecting proper decision making.

One example of this bias in financial markets is when investors naturally think that excellent firms make good investments. However, this is not always the case. A corporation may be outstanding in their own industry but a bad judgment of other industries. Another example is analysts projecting future results based on past performance. Just because a firm has had rapid growth over the last five years does not guarantee that trend will continue permanently

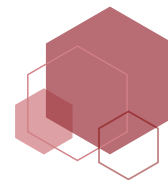
B. Types of Belief Preservation Errors

There are different types of belief preservation errors that investors can make which leads to poor investment decision. This includes:

I. Representativeness

Representativeness is a cognitive shortcut that substitutes a probability question with a resemblance inquiry. In other words, rather than analyzing the objective probability of a situation occurring, people choose to analyze how closely it relates to a comparable question. The representativeness bias lends credence to the idea that humans fail to appropriately analyze and apply probability in their decision-making. Investors may miss patterns or extrapolate data incorrectly because it does not suit their existing assumptions.

The conjunction error is the most typical error caused by this bias. When the likelihood of A&B occurring is deemed to be greater than the probability of A. For example, after reading a brief character description of someone who lacked imagination but was



extremely analytical, people thought such a figure was more likely to be both an investor and a guitarist than simply a guitarist.

They failed to see that an investor who plays guitar is a subset of everyone who plays guitar. When reading crucial indications in the markets, investors may confront the conjunction fallacy. Bringing this issue to people's attention does not prevent them from making the same mistake again. People are prone to committing simple calculating errors, notwithstanding their understanding of the basic calculating error. What's more, specialists who make high-stakes choices commit the conjunction error as well. Almost all economists, analysts, and expert statisticians failed to spot nested situations, demonstrating how difficult it may be to prevent this error.

II. Conservatism

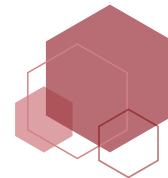
Conservatism refers to the propensity to not alter one's beliefs appropriately when confronted with fresh data. In other words, it happens when a person overestimates their existing knowledge while underestimating new information. Even though there is no rational basis for this assumption, the original knowledge is perceived to be more relevant and valuable than the new information. Conservatism in finance can lead to investors underreacting to company events such as earnings releases, dividends, and stock splits.

III. Confirmation Bias

Confirmation bias refers to the propensity to seek, interpret, favor, and recall evidence that confirms one's previous ideas. People, for example, have a tendency to selectively acquire or recall information, or to interpret confusing data in a way that supports their previous perspective. Confirmation bias is also seen when people intentionally seek out and give more weight to evidence that confirms what they already believe, while ignoring or underweighting material that contradicts it. In finance, confirmation bias can cause investors to dismiss data that suggests their strategy may lose money, leading to overconfidence.

IV. Hindsight Bias

Hindsight bias occurs when prior events appear to be more prominent than they actually were, enabling an individual to assume that the occurrences were predicted even when there was no objective foundation for doing so. Essentially, this bias happens when a person feels they "knew it all along" after seeing the conclusion of an unusual occurrence.



V. Illusion of Control

The illusion of control happens when individuals overvalue their capacity to influence events or outcomes, particularly random ones, despite the fact that such a belief is unfounded. This bias in finance may cause investors to overestimate risks and struggle to respond to negative events.

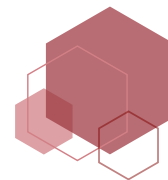
C. Dealing with Belief Preservation

Belief Preservation is difficult to avoid, but there are certain steps you may take to mitigate its consequences. This can help you make more correct decisions in your daily life; they include:

- Recognizing belief preservation: When people acknowledge that they are using the belief preservation, they are more likely to correct themselves and produce more accurate evaluations.
- Checking your judgments for bias: Take a few moments before making judgements about individuals or circumstances to evaluate how prejudice may be impacting your choices.
- Using logic to solve difficulties: When dealing with challenges, attempt to think things out rationally. It may also be advantageous to understand more about critical thinking abilities and logical fallacies.
- Requesting comments from others: It might be difficult to identify the application of representativeness in your own thinking, so getting feedback from others can be useful. Explain your reasons and encourage them to check for any biases.

One Investor specific mitigation technique to mitigate belief preservation is keeping an investment journal: This helps in writing down investment rationale and then comparing it to the consequences, whether positive or negative which can be used to evaluate one's decision making and improve on it.

Thus, understanding that we have this bias and making decisions logically can help us make better investment decisions.



Key Dates

Scrip	Issue Type	Quantity	Issue From	Issue Till	Issue Manager
GVL	IPO	3,125,000 (O)	2022/02/14 AD 2078/11/02 BS	2022/02/28 AD 2078/11/16 BS	Laxmi Capital
BALEFI	IPO	1,827,970 (L)	2022/02/10 AD 2078/10/27 BS	2022/03/03 AD 2078/11/19 BS	Global IME Capital
SFCL	Right	2,729,705 (O)	2022/02/20 AD 2078/11/08 BS	2022/03/13 AD 2078/11/29 BS	BOK Capital
NLICP	Auction	50,000 (P)	2022/02/25 AD 2078/11/13 BS	2022/03/04 AD 2078/11/20 BS	NIC Asia Capital
NLICLP	Auction	100,000 (P)	2022/02/25 AD 2078/11/13 BS	2022/03/04 AD 2078/11/20 BS	NIC Asia Capital
GBLBSP	Auction	23,000 (P)	2022/02/25 AD 2078/11/13 BS	2022/03/04 AD 2078/11/20 BS	NIC Asia Capital
ICFCPO	Auction	48,000 (P)	2022/02/25 AD 2078/11/13 BS	2022/03/04 AD 2078/11/20 BS	NIC Asia Capital
RMDCP	Auction	149,800 (P)	2022/02/17 AD 2078/11/05 BS	2022/03/23 AD 2078/12/09 BS	BOK Capital Market
CBBLPO	Auction	606,140 (P)	2022/02/17 AD 2078/11/05 BS	2022/03/23 AD 2078/12/09 BS	BOK Capital Market

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