

The Pulse

Market Growth, Risks and Outlook

Baisakh 2078

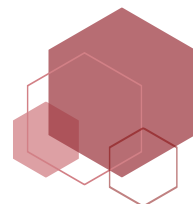
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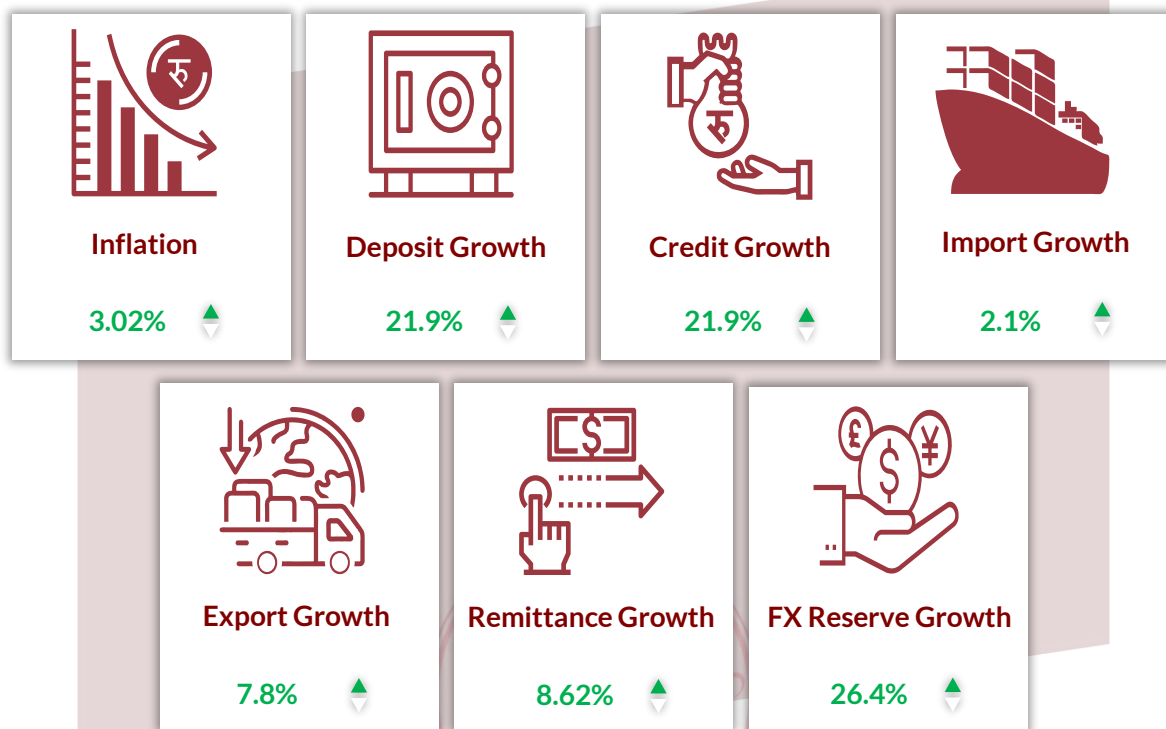


Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

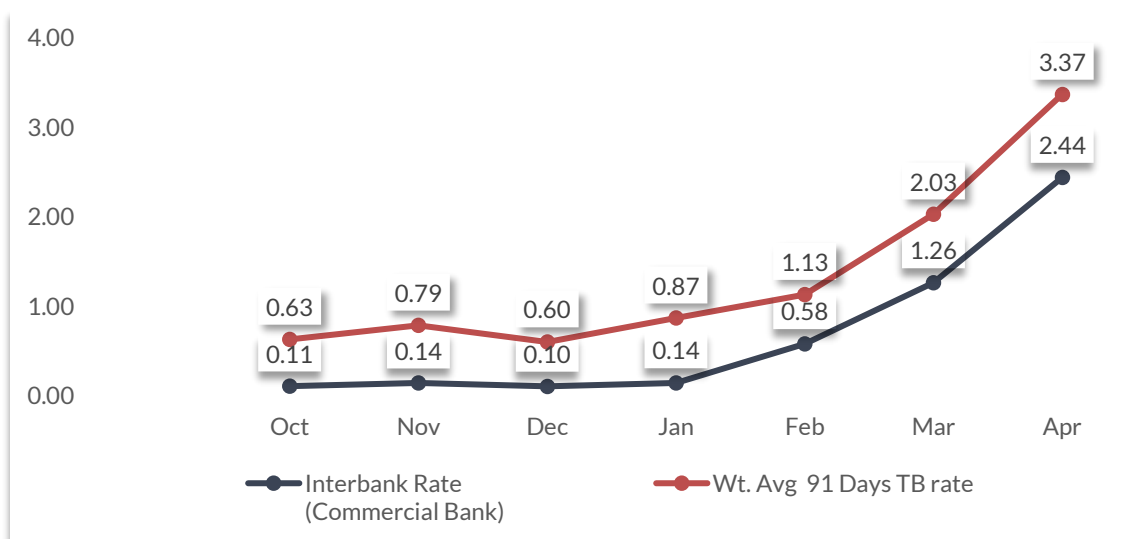


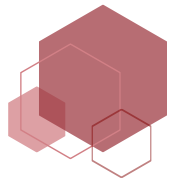
Macroeconomic Overview



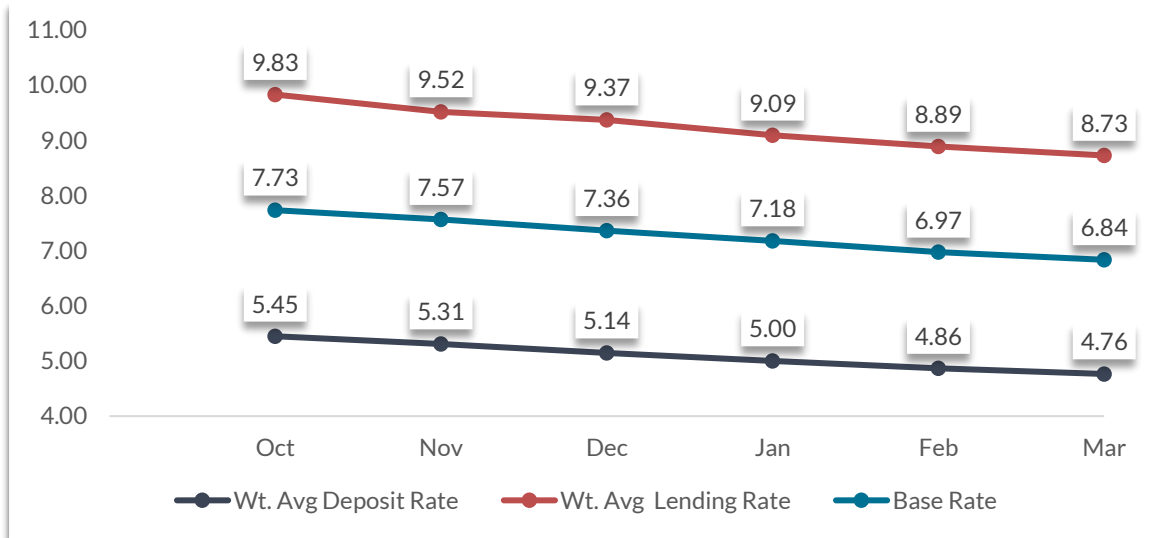
*Growth refers to the change between the 1st eight months of this FY and 1st eight months of Last FY.

Short Term Rates





BFI Rates

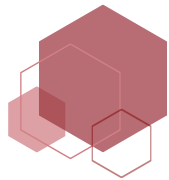


NEPSE OUTLOOK

A. Current Overview



During the review period, the benchmark NEPSE index witnessed a swing after closing at an all-time high of 2,735.46 on 15th April 2021; Profit booking amidst renewed gains was accompanied by panic selling due to the uncertainty created by the rapid spread of novel corona virus which was further exacerbated by the ongoing political



instability leading the index to make a low of 2,500.74 on 26th April 2021. The benchmark index took support at 2,500 level after witnessing a correction of 8.58% to close at 2,585.28 points at the end of the review period (i.e., 28th April 2021).

Regardless of the natural correction, the long-term trend still remains upward in NEPSE as the golden crossover between 50-day MA (Moving Average) and 200-day MA is still intact. Looking at other technical indicators, NEPSE index took support at the oversold zone of RSI at 37. The Moving Average Convergence Divergence (MACD) line has crossed over trigger line from above and is nearing towards the MACD zero line (or, the centerline) indicating corrective mode in NEPSE due to heavy downward momentum.

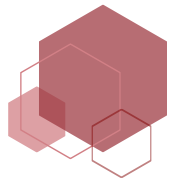
As we can see in the chart above, the red colored falling Average Directional Index (ADX) line stands at 26 indicating the consolidation phase in NEPSE. The Directional Movement Index (DMI) which identifies the direction in which the price of an asset is moving shows that +DMI (blue colored line) is still below the -DMI (orange colored line) indicating heavy weight of downward momentum in current trend of NEPSE.

The immediate support levels of NEPSE index stands at: (S1) 2,560, (S2) 2,500 and (S3) 2,460, whereas the resistance levels hold at: (R1) 2,670, (R2) 2,700 and (R3) 2,785.

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 with new highs supported by good volume.

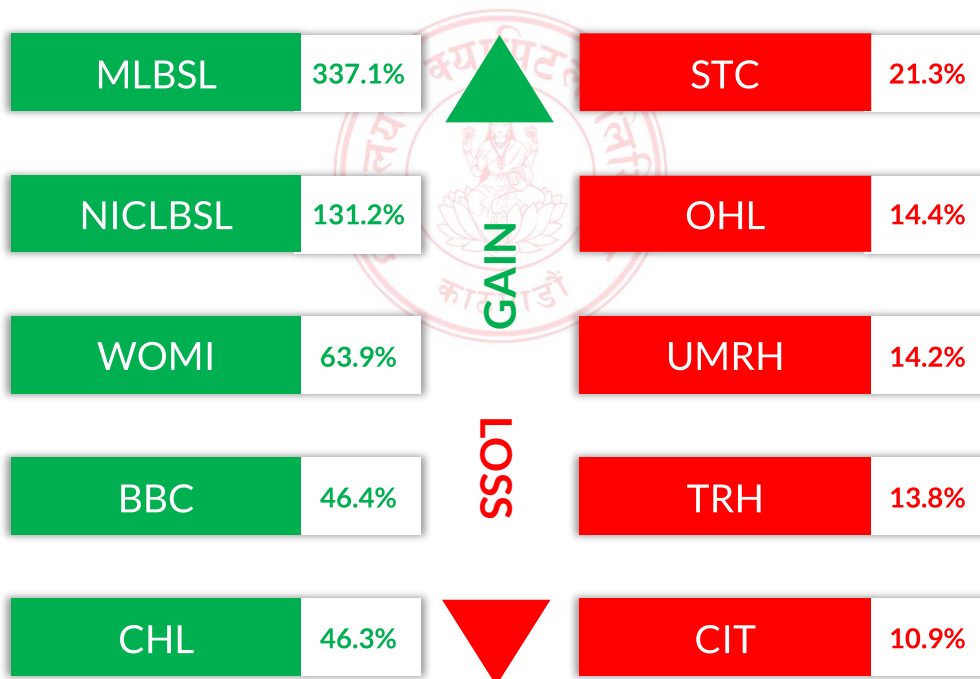


As shown in the chart above, the NEPSE index has already achieved Trend-Based Fibonacci Extension of 1.61 (2,104.08 points) as well as 2.61 extension (2,673.18 points) within a very short span of time and minor retracements are natural in that they create a stronger base for long-term upward trend as they offer fresh buying opportunities to new entrants in the market.

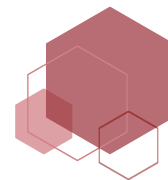
During the recent correction in NEPSE, it took a major support at 2,369.52 points and the with the recent support being 2,500.74 points, the index is making higher lows, which is one of the distinctive features of a bullish trend. Therefore, regardless of the short-term corrective mode in NEPSE, the long-term outlook of the market remains bullish.

Market Movement

A. Major Movers



It can be seen that the major four gainers are companies which were freshly/re listed for trading in the stock exchange, MLBSL following an IPO, NICLBSL and WOMI following a merger and BBC after revocation from trading. The stocks increase can be attributed to catching up to their relative industry valuations. STC saw the highest fall due to lower dividend announcement while OHL and TRH represent the hospitality sector which will be the most affected due to the corona virus wave.



B. Sectoral Movement

	29-MAR-21	27-APR-21	% CHANGE
MICROFINANCE	4,670.76	5,174.17	10.78%
DEVELOPMENT BANK	2,552.75	2,798.34	9.62%
HYDROPOWER	2,319.48	2,495.13	7.57%
FINANCE	1,165.01	1,233.86	5.91%
OTHERS	1,926.45	1,996.1	3.62%
MANUFACTURING &	5,513.8	5,632.27	2.15%
MUTUAL FUND	13.11	13.38	2.06%
BANKING	1,756.57	1,766.61	0.57%
NON-LIFE INSURANCE	12,926.45	12,794.88	-1.02%
LIFE INSURANCE	17,008.82	16,781.6	-1.34%
HOTELS AND TOURISM	3,476.43	3,317.52	-4.57%
INVESTMENT	103.66	97.57	-5.87%
TRADING	4,398.57	3,634.49	-17.37%

Microfinance sector grew on the back of anticipation of excellent business growth which was realized in the quarterly report with smaller development banks pulling the entire development banking sector buoyed by right announcement of EDBL which helped grow a perennially undervalued sector. Growth in Hydropower was initiated by UPPER and followed by government affiliated stocks such as SJCL and RHPL which pulled the entire sector with them. This was assisted by the assumption that the current low interest rates would boost Hydropower project performance into the next FY. CIT (Investment) and STC (Trading) pulled down their sectors while Hotels and Tourism lost ground due to impending lockdown and travel restrictions.



SCRIP ANALYSIS

Kumari Bank Limited (KBL)

A. Technical Analysis



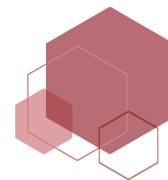
The stock made a recent high of Rs. 345 and witnessed a correction of 10.43% to take support at Rs. 309 around the trend line shown above. The stock is currently trading at Rs. 314 as on 28th April 2021. The 50 days MA is still above the 200 days MA validating golden crossover and indicating upward trend in the long-term.

The RSI of the stock stands at 49 in the middle zone, however observing its recent price movement, it has bounced back in between the RSI of 43 to 50 as shown in the RSI chart above.

Though the MACD line has crossed the trigger line from above, indicating downward trend, it is still in the positive zone signaling minor degree correction.

The rising ADX line has witnessed a bend which now stands at 29 indicating change of trend and stock going into corrective mode. However, though the +DMI is nearing towards -DMI, it is still above the -DMI.

The immediate support levels of the stock are: (S1) Rs. 309, (S2) Rs. 300 and (S3) Rs. 289, whereas its resistance levels are: (R1) Rs. 322, (R2) Rs. 335 and (R3) Rs. 350.



B. Stock Valuation

The final average valuation of KBL based on Absolute Approach (viz. Capitalized Earnings, Earnings Valuation and Discounted Cash Flow) as well as Relative Approach (viz. Market Price Model, P/E Model and P/B Model) has been computed as **NPR 311.45**, which has been tabulated below:

Method	Valuation Price
Capitalized Earnings	281.11
Earning Valuation	271.82
Discounted Cash Flow	274.99
Market Price Model*	298.72
P/E Model	391.41
P/B Model	350.66
Final Average Valuation	311.45

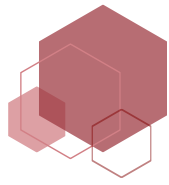
*120 Day's Closing Price Average

C. Recommendation

The stock is trading at Rs. 314 around its intrinsic value at P/E ratio of 18.07, below the industry average P/E ratio of 22.53, with an EPS of Rs. 17.37.

The deposit and loan base of KBL has increased by 9.57% and 17.27% respectively in the first nine months of this fiscal year compared to last fiscal year end 2076/77. Compared to deposit growth, its loan growth is much higher due to which its CCD ratio now stands at 81.23%.

The company's net profit has witnessed astounding growth of 78.58% in Q3 FY 2077/78 compared to same quarter last year mainly due to impressive growth in its core business income and also boosted by growth in other operating income as well as write back of loan loss provisioning.



Thus, the stock is “good buy” at the price range of Rs. 310-315 as it is trading around its intrinsic value of Rs. 311.45, with the target price of Rs. 350 in the short run.

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ISSUE OF THE MONTH

Investing for Passive Income.

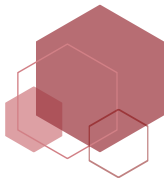
"The key to financial freedom and great wealth is a person's ability or skill to convert earned income into passive income and/or portfolio income." - Robert Kiyosaki

Having a stable source of income is pivotal for an individual to maintain their lifestyle and work towards their goals. However, where this income comes from defines the level of financial freedom a person can have in their lifetime. This is because, while having an active income may provide economic benefits similar to those achieved through passive income for the duration an individual is actively working; this situation will change drastically once an individual exits the workforce as active income requires you to be active to gain that income while passive income is generated without you needing to work.

A. Active Income Vs Passive Income

Active Income is the income generated by an individual in exchange for providing a service while passive income is income generated by an individual without having to actively participate in the act of product/service delivery. Active income means that you are doing something in order to receive income: perform some type of work or make certain effort. This requires the exertion of energy and time for generating that income. Passive income on the other hand refers to the regular income that is generated without the need to make an effort to generate the income. Simply put, passive income is income generated through investments such as stocks and real estate whereas Active income is money earned by performing a service such as wage, or salary.

Passive income is important because it can be generated without one's participation whereas active income will cease if a person starts working. Similarly, this also means that a person can have multiple sources of passive income working independently to add to that individual's wealth whereas, a person can realistically have no more than 2 sources of active income.



B. Importance of Passive Income

Passive income is the key to financial freedom as having a source of passive income make you less dependent on the income from your job. And when your passive income exceeds your expenses, you can even stop working while continuing to live your desired lifestyle. That is financial freedom.

More importantly, having a passive income source will allow you to scale up your earnings rapidly because when you start earning money that does not require your active input, there is no reason you cannot use your free time to set up another source of passive income through the reinvestment of your earnings. Thus, every time you add another source of passive income, you can increase your potential earnings several fold. Similarly, you can also increase the earning potential of a passive income source simply by investing more money into it and scaling it up directly.

C. Sources of Passive Income

There are various sources of passive income available to the Nepali Investor. The most common sources include:

1. Dividend Stocks

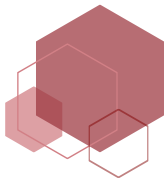
Dividend stocks are a tried and tested way to earn passive income. Searching for good dividend stocks takes research and if you consistently invest money into good dividend stocks you can amass a nice residual income over time. These stocks can also be sold for good capital gains in the future.

2. Rental Properties

A cash flowing rental property is a fantastic way to bring in a monthly income. However, not all rental properties generate equal value. Rental Properties in commercial areas have the highest yield while rental income for suburban areas tends to provide lower yield.

3. Fixed Deposits and Debentures.

Fixed Deposits offer good returns for parking your money with a given BFI for a fixed period in time. However, you need to be well researched to find the BFI providing highest rates and also mindful of the liquidity situation in the market as BFIs tend to offer higher rates during time of liquidity crisis. The same applies for debentures which can also be traded in the stock exchange besides providing higher interest rates in line with fixed deposits.



4. Bullion

Due to their limited availability, Bullion (Gold and Silver) tend to gradually appreciate in value over time and can provide stable returns .

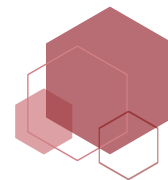
5. Mutual Funds

Mutual Funds allow investors that have limited knowledge on the mechanisms of the stock market to invest in the stock market. Mutual funds tend to pool funds from a large number of investors to invest in money market and capital market instruments. They invest in a diversified manner and provide good returns with comparatively lower risks.

6. Business

One way of generating passive income is to invest and be a silent partner in a business. This is very risky, but with risk comes the potential for high returns. Smaller businesses can scale up quickly and can offer high returns in the future.

Overall, having a passive income source will mean that you can work in a normal way and still make a good income since your passive residual income is not dependent on a 9 to 5 work week. Investing your existing wealth in various assets like equity, debt, and real estate in a planned way can help generate good cash inflow in a regular interval. Investing your existing wealth into various assets according to your needs and risk-taking ability is also comparatively easier than trying to learn a new skill but still requires substantial initial planning and effort. However, once the early effort is completed, the income thus generated will allow you the freedom to choose when and where you wish to work as you will not need to work compulsorily to maintain your lifestyle. This is the goal of having a passive income.



KEY DATES

Scrip	Issue Type	Quantity	From	To	Issue Manager
AHPC	Right	5,241,197 (O)	2021/04/19 AD 2078/01/06 BS	2021/05/09 AD 2078/01/26 BS	Muktinath Capital
NIBSF2	IPO	120,000,000 (O)	2021/04/26 AD 2078/01/13 BS	2021/04/29 AD 2078/01/16 BS	NIBL ACE Capital
RMDCPO	Auction	149,800 (P)	2021/04/27 AD 2078/01/14 BS	2021/05/04 AD 2078/01/21 BS	NIC Asia Capital
CBBLPO	Auction	200,000 (P)	2021/04/27 AD 2078/01/14 BS	2021/05/04 AD 2078/01/21 BS	BOK Capital Market
NMFBSP	Auction	50,000 (P)	2021/04/26 AD 2078/01/13 BS	2021/05/30 AD 2078/02/16 BS	Siddhartha Capital
MEROPO	Auction	62,388 (P)	2021/04/25 AD 2078/01/12 BS	2021/05/03 AD 2078/01/20 BS	NIC Asia Capital
RMDCPO	Auction	458,355 (P)	2021/04/25 AD 2078/01/12 BS	2021/05/03 AD 2078/01/20 BS	NIC Asia Capital

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