

The Pulse

Market Growth, Risks and Outlook

Jestha 2078

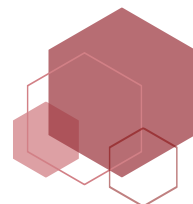
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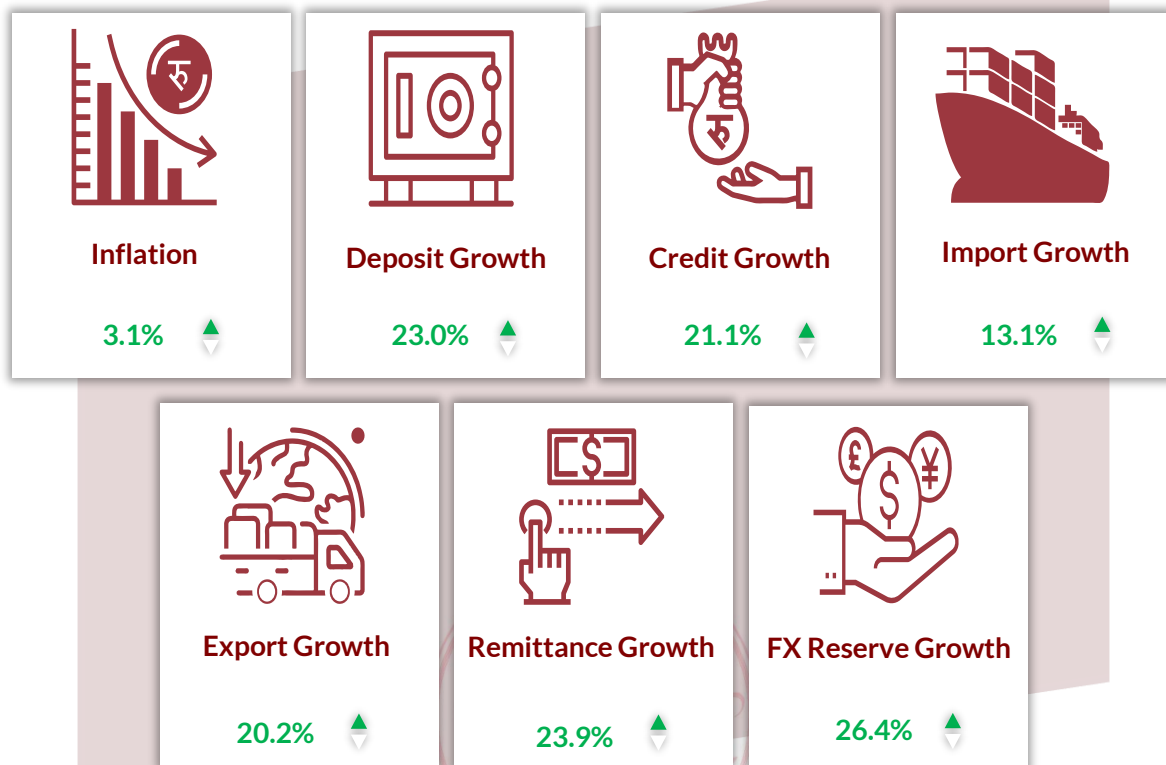


Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited

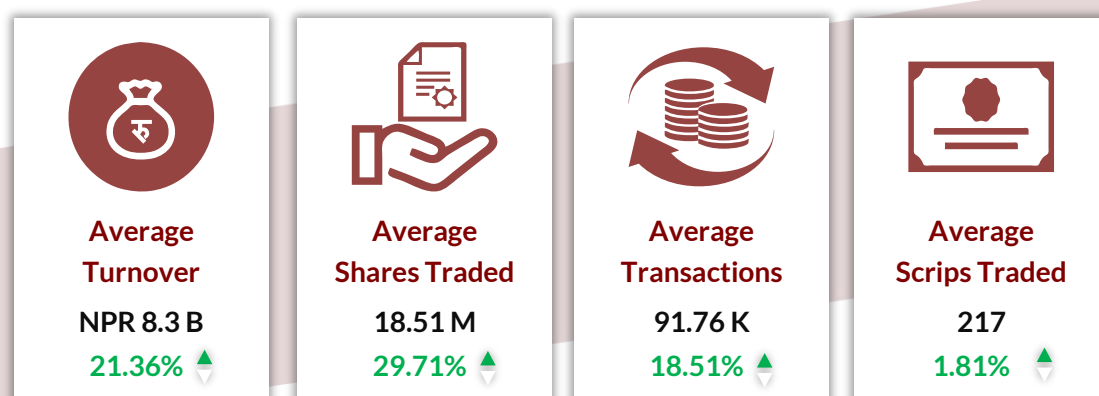


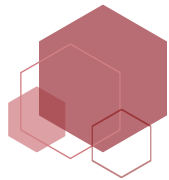
Macroeconomic Overview



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

Monthly Trading Statistics



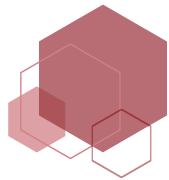


Liquidity Overview

Description	Value as On				Change (In %)		
	Apr-20	Apr-21	21-May	28-May	YOY	MOM	WOW
Wt. Avg 28 Days TBrate	4.33%	0.67%	1.68%	2.13%	-2.2	1.46	0.45
Wt. Avg 91 Days TB rate	2.13%	2.03%	2.37%	2.26%	0.13	0.23	-0.11
Wt. Avg 364 Days TB rate	3.94%	1.98%	3.43%	4.06%	0.11	2.08	0.62
Wt. Avg Interbank Rate	4.09%	3.43%	1.03%	4.66%	0.57	1.23	3.63
Wt. Avg Deposit Rate (CB)	6.74%	4.76%	4.79%	4.79%	-1.95	0.03	N/A
Wt. Avg Lending Rate (CB)	11.77%	8.73%	8.61%	8.61%	-3.16	-0.12	N/A
Base Rate(CB)	9.36%	6.84%	6.9%	6.9%	-2.46	0.06	N/A
CCD Ratio (CB)	77.01%	77.25%	78.73%	78.85%	1.84	1.6	0.12
Fixed Deposit/TotalDeposits (CB)	48.09%	47.24%	47.23%	47.23%	-0.86	-0.01	N/A
Total Liquid Assets/TotaDeposits (CB)	22.45%	24.48%	23.52%	23.52%	1.07	-0.96	N/A

Major Movers

RADHI	124.21%	GAIN	CGH	-7.95%
BARUN	124.21%		SLBS	-5.82%
DHPL	96.15%		NICLBSL	-4.67%
KKHC	91.67%		NUBL	-3.77%
RHPC	91.55%		USLB	-3.54%



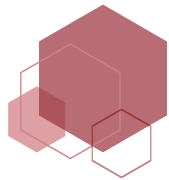
Sectoral Movement

	27 th April	27 th May	% CHANGE
Finance Company	1,249.40	1,650.83	32.13%
Trading	3,625.34	4,469.29	23.28%
Development Bank	2,822.45	3,450.10	22.24%
HydroPower	2,514.02	3,016.47	19.99%
Non Life Insurance	12,899.72	14,761.55	14.43%
Others	1,978.38	2,196.93	11.05%
Life Insurance	16,930.71	18,437.77	8.90%
Mutual Fund	013.39	014.13	5.53%
Manufacturing & Processing	5,561.29	5,850.45	5.20%
Investment	97.66	102.71	5.17%
Commercial Bank	1,780.69	1,857.05	4.29%
Microfinance	5,220.59	5,435.05	4.11%
Hotels & Tourism	2,822.45	3,382.28	1.36%

Public Debt Subscription

T-Bill	Issue Date	Issue Amount	Total Applicant	Total Bids	Bid Amount	Excess/ Under	Discount Rate		
							Low	High	Avg
28 Days	Jestha 11	500.00	10	35	730.00	230.00	0.97	4.77	2.13
91 Days	Jestha 11	223.32	19	52	697.50	474.18	1.47	2.88	2.26
182 Days	Jestha 11	1,247.00	25	108	1,837.50	590.50	2.47	4.72	3.93
364 Days	Jestha 11	750.00	26	143	2,057.00	1,307.00	3.25	4.39	4.06

*Figures are in Millions NPR



NEPSE Outlook

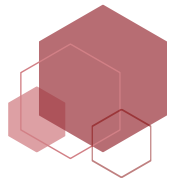
A. Current Overview



During the review period, the flagship NEPSE index witnessed an upward swing closing at an all-time high of 2,823.06 points on 24th May 2021 with a massive turnover of NPR 13.18 billion. The benchmark index closed slightly below at 2,815.39 points with an all-time high turnover of NPR 14.77 billion at the end of the review period (i.e. 27th May, 2021).

As can be seen in the chart above, NEPSE index has been moving upward in a parallel channel pattern taking support and resistance within that pattern. However, on the other hand, although prices are making higher highs, keys technical indicators such as Relative Strength Index (RSI) and Moving Average Convergence Divergence (MACD) are making lower highs indicating small divergence, which could imply minor correction or, a consolidation. The 20 days Moving Average (MA) is still above the 50 days MA indicating an upward trend in the short run. The RSI is at 69 relatively in the overbought zone, so a small correction due to profit booking cannot be ruled out. The MACD line is in the positive zone and above the trigger line indicating that the upward trend is still intact.

The Directional Movement Index (DMI) which identifies the direction in which the price of an asset is moving shows that although +DMI is still above -DMI, they are



nearing towards each other, with an Average Directional Index (ADX) of 25 indicating some losing strength in the ongoing upward trend.

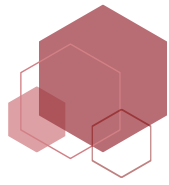
The immediate support levels of NEPSE index stand at: (S1) 2,760, (S2) 2,700 and (S3) 2,670, whereas the resistance levels hold at: (R1) 2,883, (R2) 2,940 and (R3) 3,000.

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 has started breaking records with new highs supported by good volume.

As shown in the chart above, the NEPSE index has already achieved the Trend-Based Fibonacci Extension of 1.61 (2,104.08 points) and 2.61 extension (2,673.18 points) within very short span of time and has also witnessed a breakout from that level to go on towards testing the 3.61 extension of 3,244.74 points. And since the long-term trend is upwards, there is a likelihood of testing the 3.61 extension in the near future, but the natural corrections in between towards that journey is also inevitable.



SCRIP ANALYSIS

Arun Valley Hydropower Development Company (AHPC)

A. Technical Analysis

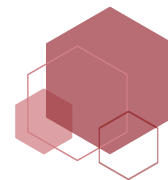


The stock has made an all-time high of NPR 480 at the end of the review period (i.e., 27th May 2021) to close at NPR 472. As shown in the chart above, the stock has just achieved the Trend-Based Fibonacci Extension of 2.61, which is NPR 482 after successfully breaking out the 100% level and 1.61 level extension, that too without any major correction. The 20 days MA is above the 50 days MA supporting the ongoing upward trend.

The RSI of the stock is at 91 in the highly overbought zone and may result in a correction as it is at a profit-booking stage. The MACD is also in the positive zone well above the trigger line signaling extreme bullish trend in this stock.

The rising ADX line is at 52 with +DMI above the -DMI indicating the ongoing upward trend is very strong.

The immediate support levels for this stock are: (S1) Rs. 436, (S2) Rs. 409 and (S3) Rs. 386, whereas its immediate resistance level is Rs. 482 and breakout from that point could lead to an undefined price territory for this stock.



B. Stock Valuation

The final average valuation of AHPC based on Absolute Approach (viz. Capitalized Earnings 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 279.91, which has been tabulated below:

Method	Valuation Price
Capitalized Earnings	174.27
Discounted Cash Flow	230.48
P/E Model	295.99
*Market Price Model	301.74
P/B Model	397.06
Final Average Valuation	279.91

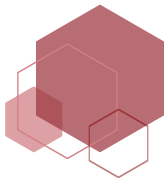
*120 Day's Closing Price Average

C. Recommendation

The company has a strong promoter background carrying years of experience in hydropower project development. The company has been generating revenue from its own 3 MW Piluwa Khola HEP, whose commercial operation started way back in September 2003.

The company recently issued 50% right shares to fund a new project of 9.94 MW Capacity namely, KABELI B-1 HEP which is in construction and development stage, with a Required Commercial Operation Date (RCOD) of 1st Ashwin, 2078. This project is likely to boost the company's income from sale of electricity from upcoming fiscal year onwards.

The company has also made good investments in other hydropower companies such as Arun Kabeli Power Limited, Himalaya Urja Bikas Company Limited, Ridi Hydro Power Development Company Limited, and others through which it generates



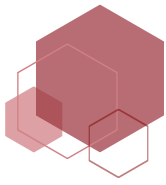
dividend income besides its core income from electricity generation. This shields its revenue from concentration risk.

Moreover, prospective policy action from Electricity Regulatory Commission of Nepal allowing hydropower companies to issue rights share to settle their bank loan under the condition of the company having distributed a dividend to its shareholders continually for the last 3 years is likely to benefit the company as AHPC is among the eight hydropower companies (viz. CHCL, BPCL, SHPC, API, NGPL, RHPC and UMHL) which is eligible under this provisions due to its good year-on-year dividend history and an outstanding loan of NPR 371.42 million as on Q3 FY 2077/78. Any issue of Rights can thus reduce debt servicing requirements which have been sweeping away major chunk of the company's earnings.

The current trading price for the company's stock is Rs. 472 as on 27th May 2021 and the company is trading at a premium of around 68% to its valuation price of Rs. 279.91. Looking at the stock technically, it is trading at the overbought zone, so a correction is very likely once profit-booking starts. However, the company carries a good prospect considering that its KABELI B-1 HEP (9.94 MW) is going to be completed soon. Similarly, the company could witness a boost in its earnings through higher dividend income from its investments as well as a decrease in its costs due to lower interest rates owing to the current excess liquidity position in the market. Thus, a good dividend can be expected in the next season too, along with the prospect of rights issue as well.

Therefore, even though the company is overvalued and, in the profit,-booking zone, the resulting correction in the stock price could offer a gradual buying opportunity, if the price retraces at the support zones of (S1) Rs. 436, (S2) Rs. 409 and (S3) Rs. 386.

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ISSUE OF THE MONTH

How Regret Avoidance Affects Investment Decisions

A. What is Regret Avoidance

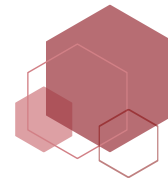
Human behavior is shaped by conscious and unconscious decisions which can be swayed by behavioral biases. Many people either tend to make decisions based on a set way of thinking or even more problematically based on feelings alone ignoring many relevant facts. This is a dangerous way to think and invest. Paradoxically, people who enter an early-stage bull market will stumble upon windfalls from time to time even through this approach as the markets will continue to go up for some time. However, the markets do move cyclically, so an investor is sure lose money if they persist in this manner in the long term.

One of the foremost biases that leads investors to lose money is Regret avoidance. Regret avoidance is the tendency for people to make emotional, rather than logical decisions in order to avoid feeling regret about making an investment. This generally causes a person to waste time, energy, or money in order to avoid feeling regret over an initial decision.

B. Effects of Regret Avoidance

Regret Avoidance causes an investor from truly grasping the fact that a poor investment decision was made; Investors will hang on to poor investments for a long time or even pour in additional funds in hopes that the situation will turn around and losses can be recovered, thus allowing them to avoid feeling regret. The resultant escalation of commitment wherein an investor keeps on pumping new funds into a fundamentally unsound investment generally leads to even greater losses down the line.

It can also reach a situation where the resources spent to ensure that the initial investment was not wasted can exceed the value of the initial investment itself. An example of this is the use of dollar cost averaging strategy during a bearish market for a fundamentally unsound stock that has low to no return potential besides capital gain. An investor keeps on averaging out the cost by buying at lower prices but because the fundamentals are not good on the stock, the investor may have to wait until the next bullish trend before recouping their losses. As admitting that an investment decision



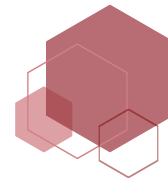
was bad can affect the psyche and overall outlook of an investor about their competency, many will cling to a failing security, or even throw more money at it, in the hopes that it will somehow recover and rally.

There is another aspect to regret avoidance as well which happens when an investor sells a stock after making certain profits because they are afraid that the gain materialized may be lost. While this strategy works well for short term trading, long term investment requires a more calculated approach. Nonetheless, this approach of selling quick is not highly detrimental as an investor will in most probability get a fair return nonetheless, whereas the escalation of commitment generally leads to higher losses.

C. Dealing with Regret Avoidance

Even the savviest of investors have their biases and because biases are a part of human nature they cannot be eliminated completely. However, they can be managed properly wherein people can make the right decision most of the time. This involves understanding your own biases, developing a fundamentally strong portfolio through research for long term investment, and strictly adhering to defined trading strategies with take-profit and stop-loss levels so as to limit the probability of engaging in destructive regret avoidance behavior.

Understanding that investing does not always entail profits, is the first step in managing regret avoidance as we will already be used to the idea of losses. The second step is to understand that our feelings and intuition are statistically prone to lead us to make bad decisions if they are not properly backed by data. Thus, taking a more calculated approach leads us to understand the true value of an asset which means it will be easier to get rid of an overpriced asset if its value starts coming down. Finally, we must understand that Regret Avoidance occurs because people have the tendency to not admit that they have made a mistake. Understanding this will enable a person to accept mistakes as being natural and ultimately lead to better decision making.



KEY DATES

Scrip	Issue Type	Quantity	From	To	Issue Manager
PRVUBD2087	IPO	4,000,000 (O)	2021/05/25 AD 2078/02/11 BS	2021/05/30 AD 2078/02/16 BS	MEGA Capital
NLICLP	Auction	41,896 (P)	2021/05/27 AD 2078/02/13 BS	2021/06/14 AD 2078/2/31 BS	NIC Asia Capital
MSLBP	Auction	56,270 (P)	2021/05/27 AD 2078/02/13 BS	2021/06/14 AD 2078/2/31 BS	NIC Asia Capital
NUBLPO	Auction	105,592 (P)	2021/05/27 AD 2078/02/13 BS	2021/06/03 AD 2078/02/20 BS	NIBL ACE Capital
CIT	Auction	350,369 (P)	2021/05/16 AD 2078/02/02 BS	2021/06/10 AD 2078/02/27 BS	NIC Asia Capital

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