

The Pulse

Market Growth, Risks and Outlook

Jestha 2080

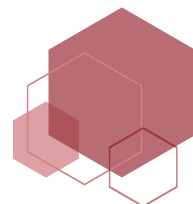
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Himalayan Capital





A Wholly Owned Subsidiary of Himalayan Bank Limited



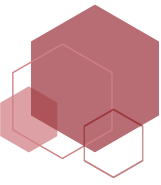
Global Markets Overview

€	1.07 \$ (-1.71%)	S&P 500	4,133.53 (1.52%)
£	1.23 \$ (-0.26%)	BSE SENSEX	61,872.62 (2.866%)
₹	82.59* (1.35%)	NIKKEI 225	30,801.06 (8.46%)
¥	140.55* (8.40%)	FTSE 100	7,570.88 (-4.06%)
A\$	0.65 \$ (-8.09%)	DAX	15,793.80 (-0.49%)
C\$	0.73 \$ (-1.57%)	CAC 40	7,229.27 (-4.01%)
		HANG SENG	18,746.92 (-4.99%)
		SSE COMPOSITE	3,201.26 (-1.68%)

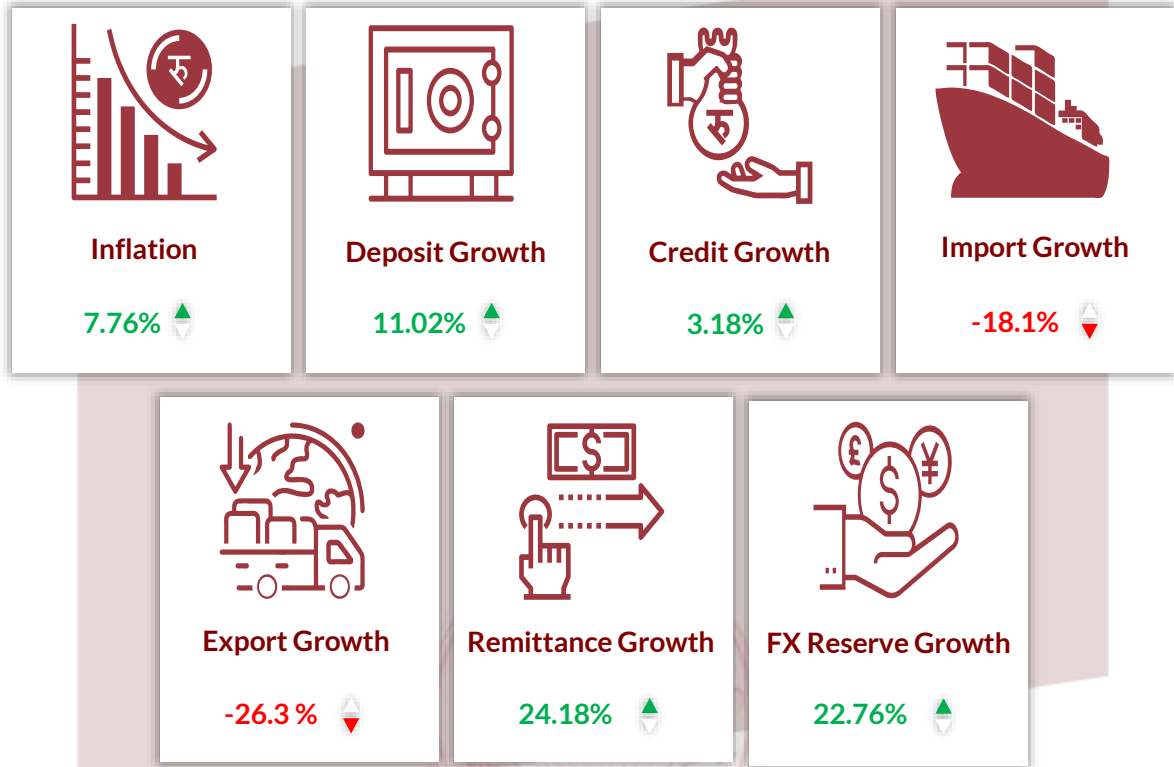
*Values Per 1 \$

	Gold(\$) Per Oz. 1,989.58 (-0.36%)		Bitcoin(\$) 26,723.20 (-5.89%)
	Brent Crude(\$) Per Barrell 77.07 (-0.80%)		Ethereum(\$) 1,829.09 (-2.02%)

#All Changes are in MoM basis.



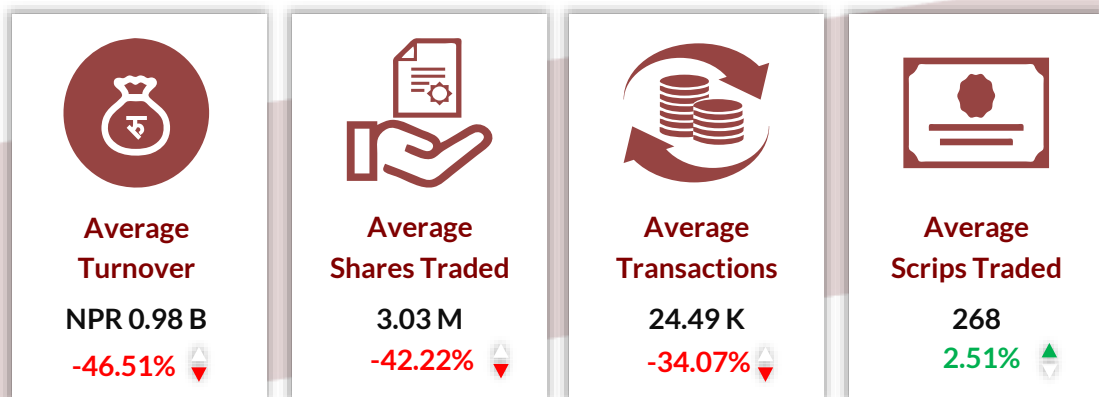
Macroeconomic Overview



* Growth refers to the change between ninth months of FY 78/79 and FY 79/80

* Credit refers to claim on private sector

Monthly Trading Statistics



* For the period (April-27, 2023) - (May-24, 2023)



Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Chaitra-78	Falgun-79	Chaitra-79	Jestha-5	Jestha-12	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	7.43	7.39	8.82	8.09	7.91	1.39	1.43	-0.18
Wt.Avg 91 Days TB rate (%)	7.99	9.33	9.74	9.66	9.33	1.75	0.41	-0.33
Wt.Avg 364 Days TB rate (%)	7.81	9.60	9.71	8.99	8.81	1.90	0.11	-0.18
Wt. Avg Interbank Rate (%)	6.99	7.18	7.01	7.00	7.00	0.02	-0.17	0.00
CapEx (In Billion NPR)	103.79	84.26	107.24	129.56	134.75	3.45	22.99	5.19

B. BFI Statistics

Description	Value As On					Change		
	Chaitra-78	Falgun-79	Chaitra-79	Jestha-5	Jestha-12	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	7.11	8.37	8.26	8.26	8.26	1.15	-0.11	0.00
Wt. Avg Lending Rate (%)	10.78	13.03	12.84	12.84	12.84	2.06	-0.19	0.00
Base Rate (%)	9.17	10.64	10.48	10.48	10.48	1.31	-0.16	0.00
CD Ratio (%)	90.06	85.60	85.60	84.92	84.83	-4.46	0.00	-0.09
Fixed Deposits/Total Deposits (%)	54.48	59.33	59.33	59.63	59.63	4.85	0.00	0.00
Total Liquid Assets/Total Deposits (%)	24.43	24.30	24.30	24.60	24.60	-0.13	0.00	0.00

Public Debt Subscription

Category	Issue Date	Offered Amount	Payment By GoN	No. of Participants	No. of Bids	BID Ratio	Allocated Amount	Discount Rate		
								Lowest	Highest	Average
28 Days	Jestha 1	500.00	0.00	11	49	1.89	500.00	7.75	8.26	8.09
91 Days	Jestha 1	800.00	0.00	21	85	1.53	800.00	9.17	9.85	9.66
182 Days	Jestha 1	985.50	0.00	16	70	1.43	985.50	8.97	9.80	9.51
364 Days	Jestha 1	189.00	0.00	16	59	5.40	189.00	8.90	9.00	8.99

*Figures are in Millions NPR

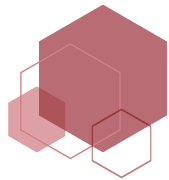


Sectoral Movement

Index	Baisakh 13	Jestha 13	Change
NEPSE	1,892.00	1,959.12	3.55%
Hotels & Tourism	3,512.62	4,009.96	14.16%
Manufacturing & Processing	4,408.93	4,921.93	11.64%
Non Life Insurance	8,600.98	9,558.46	11.13%
Life Insurance	9,440.48	10,102.78	7.02%
Microfinance	3,382.36	3,612.67	6.81%
Investment	63.07	67.18	6.52%
Trading	2,105.95	2,230.91	5.93%
Development Bank	3,469.40	3,593.02	3.56%
Finance Company	1,586.79	1,640.84	3.41%
Mutual Fund	13.59	13.77	1.32%
Commercial Bank	1,233.58	1,246.26	1.03%
Hydropower	2,436.36	2,428.58	-0.32%
Others	1,409.02	1,401.80	-0.51%

Major Movers

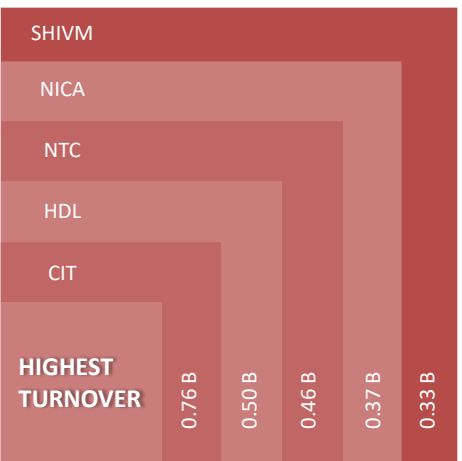
UNL	30.69%	NMBD87/88	-21.94%
TRH	24.00%	UNLB	-18.05%
RBCL	20.43%	TAMOR	-11.97%
SFEF	19.64%	ADLB	-11.51%
SHL	19.49%	EHPL	-8.79%



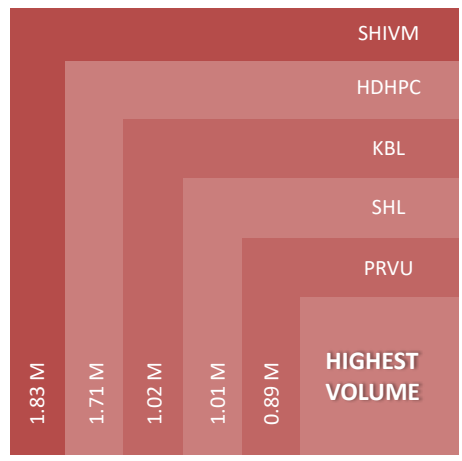
Sectoral Divergence-Turnover

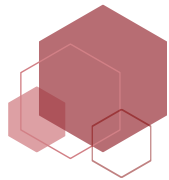
Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	1.84 B	0.98 B	-46.51%
Hotels And Tourism	0.04 B	0.06 B	62.24%
Others	0.05 B	0.05 B	-13.43%
Manufacturing And Processing	0.12 B	0.10 B	-13.47%
Commercial Banks	0.26 B	0.20 B	-21.10%
Non Life Insurance	0.08 B	0.06 B	-21.77%
Investment	0.07 B	0.05 B	-28.07%
Mutual Funds	0.00 B	0.00 B	-37.84%
Life Insurance	0.07 B	0.05 B	-38.31%
Development Banks	0.10 B	0.05 B	-49.03%
Tradings	0.01 B	0.01 B	-50.04%
Microfinance	0.19 B	0.08 B	-54.85%
Hydro Power	0.61 B	0.27 B	-55.64%
Finance	0.09 B	0.03 B	-63.06%

Highest Turnover



Highest Volume





NEPSE Outlook

A. Current Overview



On May 26, 2023, the NEPSE flagship index reached 1,959.12, with a daily turnover of NPR 1.87 billion. Compared to the previous month, the index has increased, accompanied by an upward trend in daily transactions.

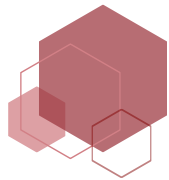
During this month, a classical bullish divergence was observed in the Relative Strength Index (RSI). Based on this data, the index showed a 7% increase following the bullish divergence, along with higher trading volumes.

The Bollinger Band analysis indicates that the index is currently trading near the upper band line. The gap between the upper and lower bands widened after the index rose, suggesting a potential upward trend.

The Relative Strength Index (RSI) is currently at 68.21 points, close to the overbought region. This month saw more buying pressure compared to the corresponding date in the previous month, leading to a rise in the RSI.

The Moving Average Convergence and Divergence (MACD) confirms an upward trend as the MACD line and signal line crossed in a bullish manner. These lines are also hovering around the baseline, indicating a strong market sentiment. The positive histogram further suggests upward movement.

Looking ahead, NEPSE's immediate support levels are at (S1) 1,880, (S2) 1,840, and (S3) 1,810. The resistance levels are at (R1) 1,980, (R2) 2,020, and (R3) 2,090. These support



and resistance levels can serve as valuable indicators for investors when making trading decisions.

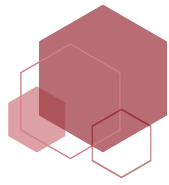
B. Long Term Overview



During the last 30 days, the NEPSE index reached a high of 1,962.66 points and a low of 1,807.53 points. It is currently at 1,959.12 points, indicating a 4.73% increase from the previous month.

Currently, the NEPSE index is finding strong support at the 50% Trend-Based Fibonacci Extension, located at 1,880 points. This support level is calculated by plotting the Fibonacci Extension from the initial point of 292 points to the end of the initial trend at 1,888 points, and extending the line to the end of the secondary trend at 1,107 points. The long-term resistance level for the index is at 3,632 points, while the support level is at 1,703 points based on the indicator.

In addition to these levels, there are intermediate support levels for the NEPSE index at (S1) 1,816, (S2) 1,699, and (S3) 1,437. Similarly, the resistance levels are at (R1) 2,280, (R2) 2,652, and (R3) 3,215. These levels can provide further guidance to investors when making trading decisions.



SCRIP ANALYSIS

Nepal Life Insurance Company Limited (NLIC)

A. Technical Analysis



On 24th May 2023, the stock price of NLIC closed at NPR 716.90. The stock was consolidating at the price range of NPR 645 to NPR 665 prior to sudden rise of the stock's price along with the daily transaction.

With the sudden rise of the stock, the Exponential Moving Average (EMA) indicator shows short bullish trend due to the bullish crossover between 20 days EMA and 50 days EMA.

The Relative Strength Index (RSI) of the stock is at 76.81, indicating the stock is in overbought region.

The Moving Average Convergence Divergence (MACD) indicator is also indicating positive signals due to the bullish crossover of the MACD line and the signal line, and the positive histogram. Moreover, the lines are trading above the baseline, indicating strong momentum of the stock.



According to On-Balance Volume (OBV), a strong uptrend can be observed due to rising stock price and the rising OBV line.

The immediate support levels for NLIC stand at NPR 645 (S1), NPR 632 (S2), and NPR 597(S3), whereas the resistance levels hold at NPR 753 (R1), NPR 777 (R2), and NPR 805 (R3).

B. About the Company

On April 5, 2001 (2058/01/21 according to the Nepali calendar), Nepal Life Insurance Company (NLIC) was founded as a public limited company in accordance with the Company Act 2053 and the Insurance Act 2049. NLIC stands as the prominent life insurance company established by private investors. The company's promoters consist of a collective of reputable Nepalese businessmen and business entities. Over the course of its twenty-one years of operation, NLIC has demonstrated an impressive business track record and has established a robust financial position.

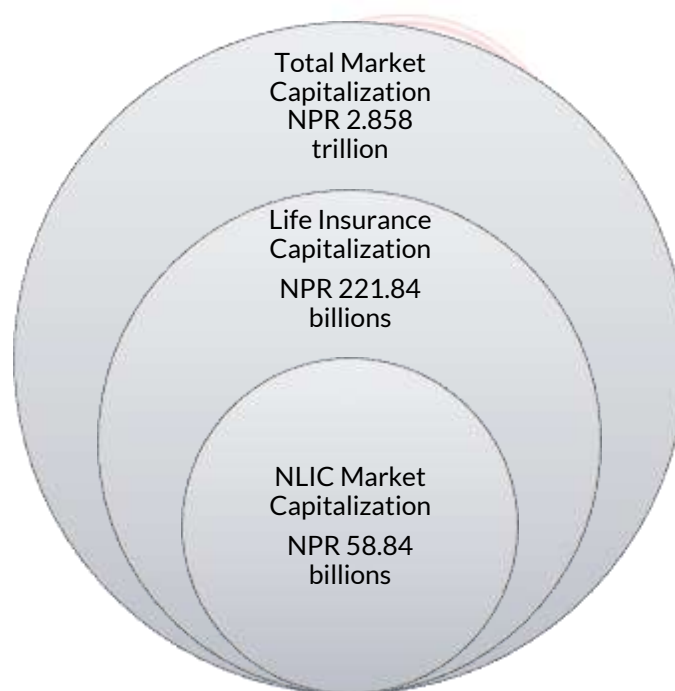


Figure 1: Capitalization of NLIC, Life Insurance and Whole market

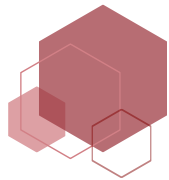


Table 1: Shareholders with more than 1% of total shares (As of 2078)

Name	Percentage
Suvash Chandra Sanghai	6.69%
Govinda Lal Sanghai	5.37%
Anuj Agrawal	5.33%
Pawan Kumar Golyan	4.08%
Bishal Agrawal	3.75%
Suvash Chandra Sanghai	6.69%
Purushottam Lal Sanghai	3.45%
Basudev Golyan	3.07%
Kavita Sanghai	2.15%
Tulasi Ram Agrawal	1.86%

C. Quarterly Performance of the Life Insurance Companies

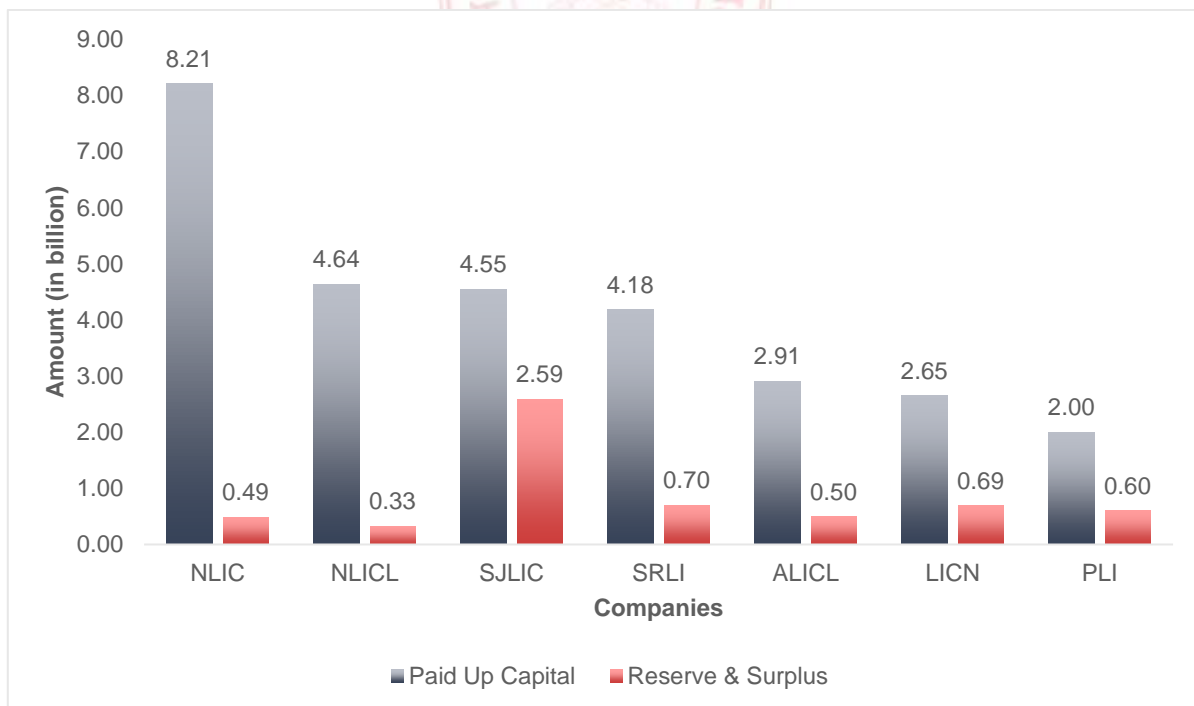


Figure 2: Paid-up capital and Reserve & Surplus (Q3)

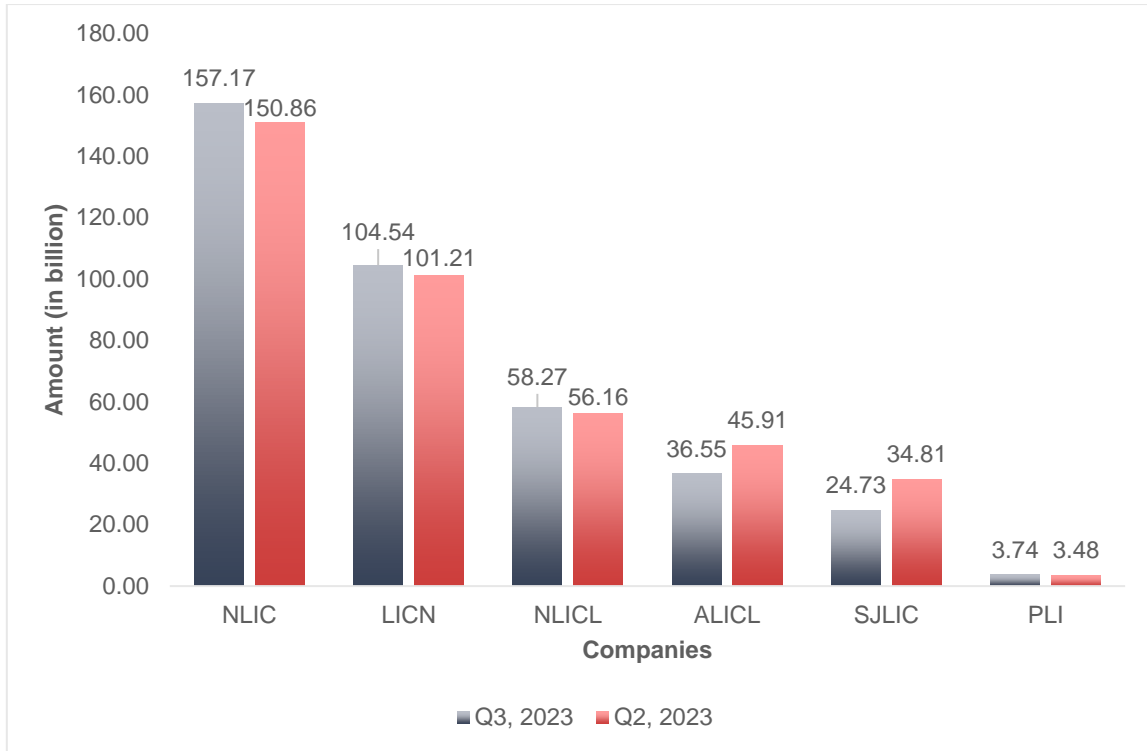
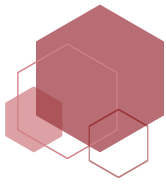


Figure 3: Insurance Fund of the Life Insurance Companies

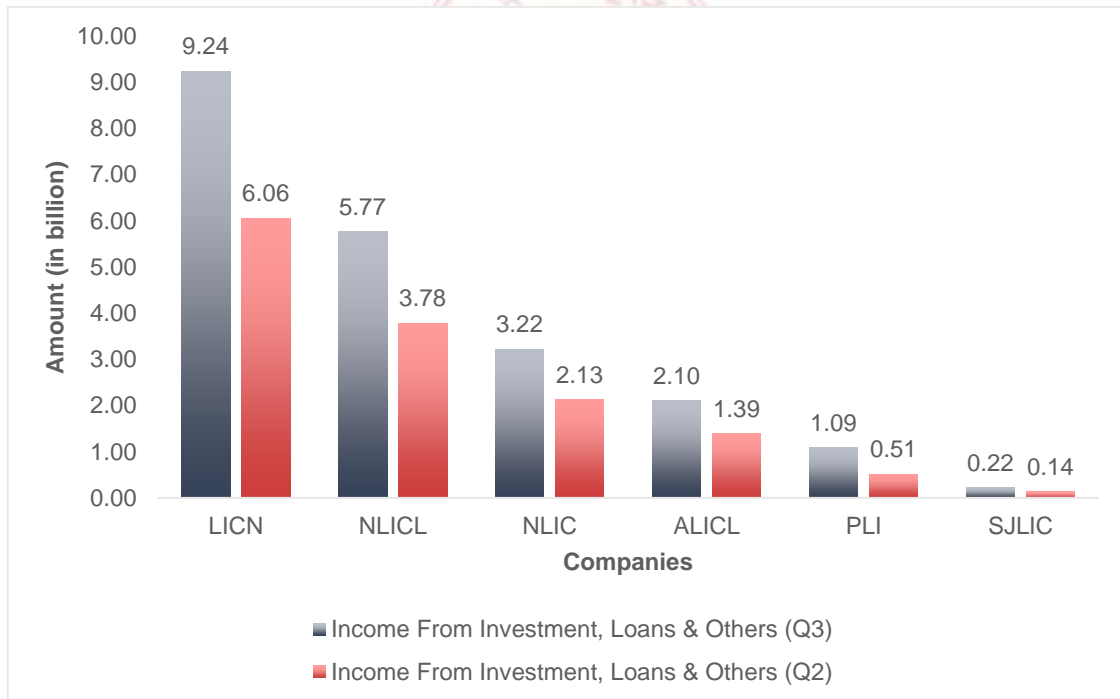


Figure 4: Income from Investment, Loans and Others

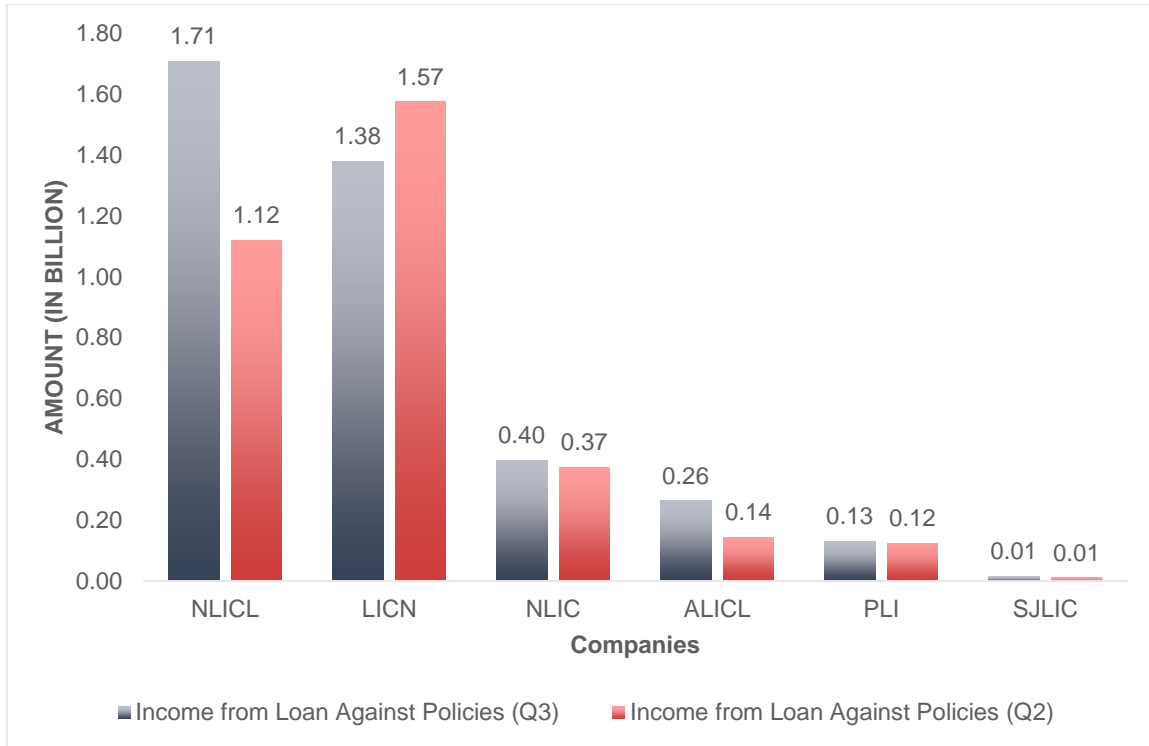
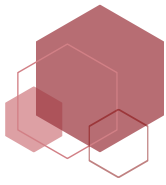


Figure 5: Income from Loan against Policies

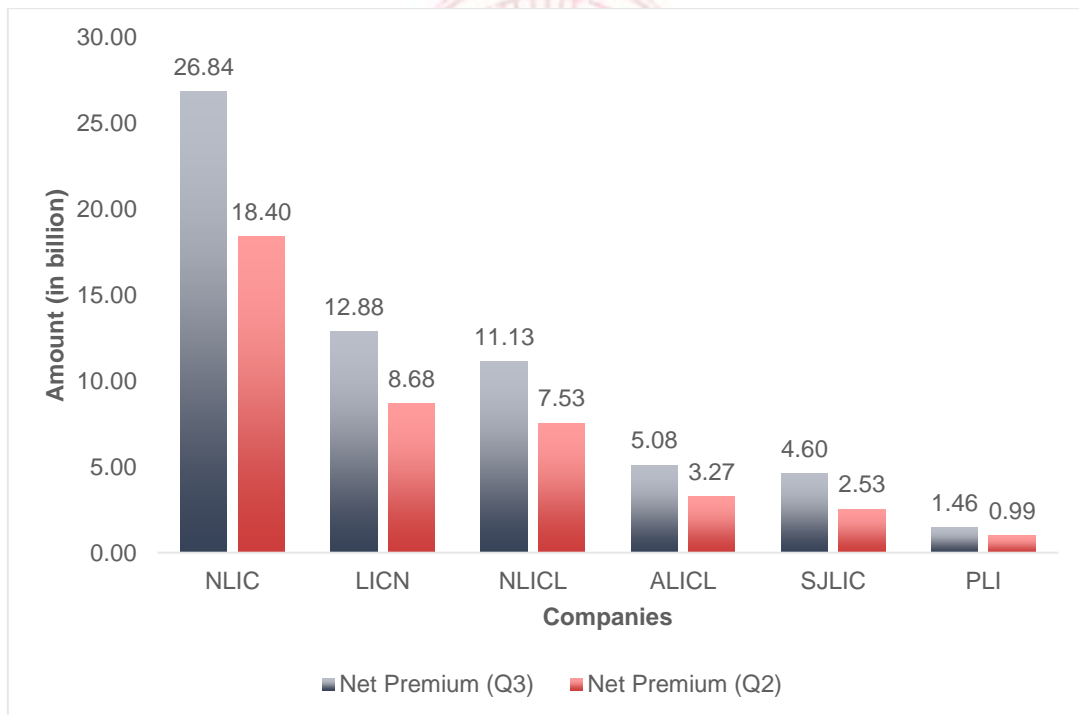


Figure 6: Net Premium

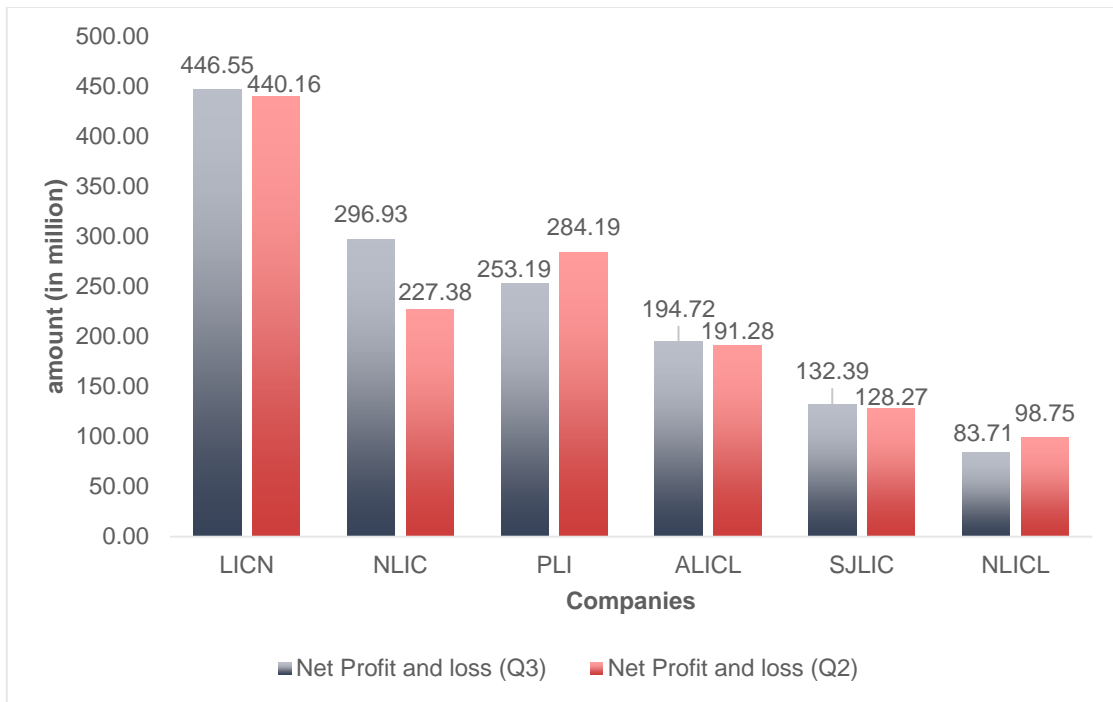
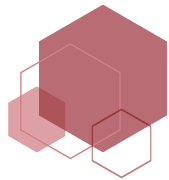


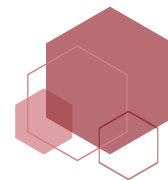
Figure 7: Net Profit of the companies

D. Key Variables used for Valuation and Assumptions:

Specifics	Value
Beta (Monthly)	1.35
91 days T-Bills (10yrs Average)	2.08%
Market Return (CAGR)	13.38%
Current Inflation	7.80%
Nominal Risk-Free Rate	10.04%
Risk Premium	3.34%
Cost of Equity (CAPM)	14.55%
Tax Rate	30.00%
Sustainable Growth Rate	4.28%

E. Stock Valuation

The final average valuation NLIC is based on the average of Absolute Approach (viz. Embedded Valuation, Discounted Future Earnings and Earnings Capitalization) as well as the Relative Approach (viz. PE Method and PB Method), and Book Value per share. The Final Average value of **NPR 464.84** has been determined.



Method	Intrinsic Value
Embedded Valuation	659.87
Earnings Capitalization	300.40
Discounted Future Earnings	556.36
Book Value per Share	105.93
PE Method	655.26
PB Method	511.22
Final Average Value	464.84

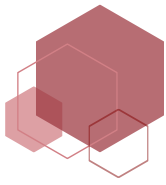
F. Recommendation

NLIC reported the highest net profit of NPR 44.65 crores among the life insurance sector in the recent quarter. It also holds the top position in terms of paid-up capital, with NPR 8.20 Arba, followed by National Life Insurance Company Limited (NLICL). NLIC has the highest insurance fund worth NPR 1.57 Kharba and a net premium of NPR 2.68 Arba. It holds 1.010 million policies and stands at the top in terms of claims, with a worth of NPR 11.82 Arba. Overall, NLIC has dominated the sector in terms of profitability, quarter-on-quarter growth, and business performance.

The Nepal Insurance Authority (NIA) authorized the insurance sector to increase its paid-up capital to NPR 5 billion for life insurance companies and NPR 2 billion for non-life insurance companies. Prior to these directives, NLIC already had paid-up capital higher than NPR 5 billion, which may have contributed to the decline in the stock price. However, the situation in the life insurance sector has now normalized as most companies meet the regulatory criteria.

Regarding valuation, the company's average intrinsic value is determined to be NPR 464.84, while the last trading price of NLIC is NPR 716.90, indicating an overvaluation of 54%. The absolute valuation method determines an intrinsic value of NPR 505.54, suggesting a 42% overvaluation of the current stock price. Similarly, the relative valuation method indicates an intrinsic value of NPR 583.24, indicating a 23% overvaluation of the current stock price.

From a technical perspective, NLIC's stock price is rising with above-average daily transactions. Indicators such as RSI, MACD, OBV, and EMAs suggest a short-term bullish trend, with buyers outweighing sellers and positive investor sentiment, along with moderate accumulation of the stock. Taking a position in the company's stock at the major support of NPR 635 could be a favorable decision.



Considering the qualitative, fundamental, and technical aspects of the company, investing in NLIC at a discount to the last trading price (LTP) may prove to be a good long-term investment. However, investors should carefully evaluate the company's valuation and consider investing at a discount to potentially realize gains from a rise in the share price.

ISSUE OF THE MONTH

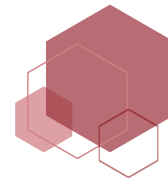
Momentum Effect in Stock Market

A. Introduction

The momentum effect in the stock market refers to the phenomenon where stocks that have performed well in the recent past continue to outperform, while stocks that have performed poorly continue to underperform in the near future. It is based on the assumption that there is persistence in stock price movements over a certain time period.

The presence of the momentum effect in the stock market can be attributed to a combination of behavioral biases, market inefficiencies, and information diffusion processes. Here are some rationales that help explain the existence of the momentum effect:

- **Investor Herding and Behavioral Biases:** Investors are prone to behavioral biases such as herd behavior, anchoring, and confirmation bias. These biases can cause market participants to follow the crowd and chase stocks that have shown positive momentum, leading to further price increases. Additionally, investors may anchor their expectations to past prices, which can contribute to the persistence of momentum.
- **Delayed Information Processing:** It takes time for market participants to process and react to new information. As a result, stock prices may not fully reflect all available information immediately. This delayed information processing can create momentum as the market gradually incorporates new information into stock prices, leading to trends that persist over time.
- **Underreaction and Overreaction:** Research has shown that investors tend to underreact to new information initially and then overreact later. This can create momentum in stock prices as the market gradually adjusts to new information. Investors may initially underestimate the impact of positive news or earnings



surprises, leading to a gradual increase in stock prices as the information is more widely recognized.

- **Investor Risk Aversion:** Investors often exhibit risk aversion and prefer to invest in assets that have shown recent positive performance. This preference for winners can create momentum as investors allocate their capital to stocks with positive momentum, driving prices higher.
- **Limits to Arbitrage:** The presence of transaction costs, short-sale restrictions, and other market frictions can limit the ability of arbitrageurs to exploit mispricing in the market. These limitations prevent arbitrageurs from quickly correcting mispricing caused by momentum, allowing the momentum effect to persist.

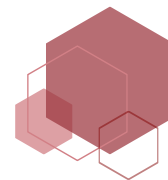
B. Momentum Effect and Efficient Market Hypothesis

The momentum effect contradicts the efficient market hypothesis, which suggests that stock prices fully reflect all available information and follow a random walk pattern. According to the efficient market hypothesis, it should not be possible to consistently profit from momentum strategies.

However, empirical studies have shown that the momentum effect exists and can persist over medium to long-term horizons, typically spanning several months to a year. Investors and traders have observed that stocks that have exhibited positive price momentum in the recent past tend to continue their upward trend, while stocks with negative momentum continue to decline.

Momentum strategies can be implemented in various ways, such as buying stocks that have shown positive price momentum and selling stocks with negative momentum. However, it is important to note that momentum investing carries risks, and past performance is not always indicative of future results. It is essential for investors to conduct thorough research and analysis before making investment decisions. When utilizing the momentum effect in the stock market, there are several strategies that investors and traders can employ. Here are some common approaches:

- **Trend Following:** This strategy involves identifying stocks or other financial instruments that are in a clear uptrend and investing in them. Traders using this strategy may use technical analysis tools like moving averages, trendlines, or price patterns to identify stocks with positive momentum. They aim to ride the trend until there are signs of a reversal.
- **Relative Strength Investing:** With this strategy, investors compare the performance of different stocks or sectors and allocate their investments to those with the strongest relative strength. This involves identifying stocks that



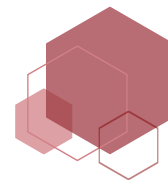
have outperformed their peers over a specific time period. The idea is to capitalize on the continued outperformance of these stocks.

- **Momentum Rotation:** This strategy involves rotating investments among different assets or sectors based on their recent performance. Investors periodically review the performance of various assets or sectors and allocate their investments to those that have exhibited the strongest momentum. The rotation can occur on a monthly, quarterly, or yearly basis.
- **Breakout Trading:** This strategy involves identifying stocks that have recently broken out of a well-defined trading range or chart pattern. Traders look for stocks that have experienced a significant price move with high trading volume, indicating a potential momentum breakout. They aim to enter positions as the stock price breaks out and continues its upward movement.
- **Systematic Momentum Investing:** This strategy involves building a systematic approach to capture momentum across a broad set of stocks or assets. It typically involves using quantitative models and algorithms to identify stocks with positive momentum based on predefined criteria. Systematic momentum strategies can be implemented through rules-based investment strategies or quantitative funds.
- **Risk Management:** Regardless of the specific momentum strategy employed, risk management is crucial. Setting clear entry and exit points, using stop-loss orders, and managing position sizes are essential to mitigate potential losses. Additionally, diversification across different stocks or asset classes can help spread risk and reduce the impact of any individual stock's performance.

C. Risks associated with Momentum Effect.

While applying the momentum effect in investing can potentially lead to profits, it also carries certain risks. Here are some risks associated with momentum investing:

- **Reversals and Price Volatility:** Momentum strategies rely on the continuation of price trends. However, stock prices can reverse abruptly, and trends can quickly change direction. Sudden market shifts or unexpected news can cause significant price volatility and result in losses for momentum investors.
- **Overvaluation and Market Bubbles:** Momentum strategies may lead to overvaluation of certain stocks or sectors. As more investors chase stocks with positive momentum, prices can become disconnected from their underlying fundamentals. This can create market bubbles, which are vulnerable to sharp corrections when the momentum subsides.
- **Limited Diversification:** Momentum strategies often concentrate investments in a subset of stocks or sectors that have exhibited strong momentum. This



concentration can increase the risk of portfolio losses if the momentum reverses or specific sectors underperform.

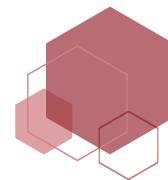
- **Transaction Costs:** Frequent buying and selling of stocks in a momentum strategy can generate higher transaction costs, including brokerage fees, spreads, and taxes. These costs can erode the overall returns of the strategy, especially when trading in smaller or less liquid stocks.
- **Behavioral Biases and Timing**
- **Risks:** Applying momentum strategies requires disciplined adherence to predetermined rules and overcoming behavioral biases such as chasing past performance. Timing the entry and exit points for stocks based on momentum can be challenging, as momentum can fade quickly or persist longer than expected.
- **Data Mining and False Signals:** The process of identifying and selecting stocks based on historical momentum can be susceptible to data mining biases. Historical performance may not reliably predict future performance, and false signals can lead to poor investment decisions.
- **Underperformance in**
- **Sideways or Trendless Markets:** Momentum strategies rely on the presence of trends in the market. In sideways or trendless markets, where prices fluctuate within a narrow range, momentum strategies may underperform as there is insufficient sustained momentum for profitable trades.

It's important for investors to carefully assess these risks, conduct thorough research, and consider risk management techniques when implementing momentum strategies. Diversification, setting clear exit criteria, and having a well-defined investment plan can help mitigate some of these risks.

D. How Investors can correctly utilize momentum effect?

To utilize momentum effect effectively in the stock market, investors should follow a disciplined approach. Firstly, they should identify and measure momentum by analyzing past price performance and using indicators to quantify momentum. It is crucial to confirm the fundamental strength of the stocks or sectors exhibiting momentum, considering factors such as positive earnings growth, strong financials, and favorable industry trends. This combination of momentum and fundamental analysis helps identify stocks with sustainable momentum.

Implementing risk management is essential to mitigate potential losses. Investors should establish clear entry and exit criteria, set stop-loss levels to limit downside risk, and diversify their portfolio across multiple stocks or sectors. Continuously monitoring momentum is key, staying updated with relevant news, market trends, and changes in company fundamentals. Being prepared to adjust positions or exit trades if momentum weakens or market conditions change is crucial for successful momentum investing.



Combining momentum with other complementary strategies, such as value investing or trend following, provides diversification and adaptability to different market conditions. Maintaining discipline and overcoming behavioral biases, such as chasing past performance, is essential. Adhering to predetermined rules and a well-defined investment plan helps in executing momentum-based strategies effectively. Lastly, investors should continuously learn, adapt, and stay informed about research and market developments to refine and improve their momentum strategies over time. Thorough research, risk management, and a disciplined approach are vital for utilizing the momentum effect while being mindful of the associated risks.

Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
UPPER SYANGE	IPO	65,000(O)	2023/05/15 AD 2080/02/01 BS	2023/05/30 AD 2080/02/16 BS	Siddhartha Capital
NEPALREPUBLIC	IPO	435,300(OO)	2023/05/14 AD 2080/01/31 BS	2023/05/28 AD 2080/02/14 BS	Mega Capital Market
GHORAH	IPO	397,190(O)	2023/05/02 AD 2080/01/19 BS	2023/05/31 AD 2080/02/17 BS	Himalayan Capital/Nabil Investment Banking
UNLB	FPO	379,425(O)	2023/05/25 AD 2080/02/11 BS	2023/05/30 AD 2080/02/16 BS	Muktinath Capital
KBLPO	AUCTION	1,483,378(P)	2023/05/26 AD 2080/02/12 BS	2023/06/02 AD 2080/02/19 BS	B.O.K Capital
PCBLP	AUCTION	351,817(P)	2023/05/17 AD 2080/02/03 BS	2023/05/31 AD 2080/02/17 BS	Sanima Capital

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