

# The Pulse

Market Growth, Risks and Outlook

**Shrawan 2080**

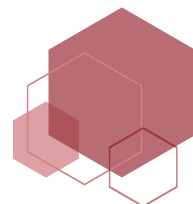
## Inside This Edition

Global Markets Overview	1
Macroeconomic Overview	2
Monthly Trading Statistics	2
Liquidity Overview	3
Public Debt Subscription	3
Sectoral Movement	4
Major Movers	4
Sectoral Divergence-Turnover	5
Highest Turnover, Volume	5
NEPSE Outlook	6
Scrip Analysis-Himalayan Bank Limited (HBL)	7
Issue of the Month – Gambler’s Fallacy and Poor Investment Decisions	12
Key Dates	15



**Himalayan Capital**





A Wholly Owned Subsidiary of Himalayan Bank Limited



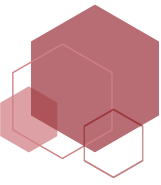
## Global Markets Overview

€	1.10 \$ (1.03%)	S&P 500	4,537.40 (2.90%)
£	1.28 \$ (1.69%)	BSE SENSEX	66,160.20 (4.67%)
₹	82.23* (0.25%)	NIKKEI 225	32,759.16 (-1.89%)
¥	141.16* (-2.13%)	FTSE 100	7,695.41 (1.44%)
A\$	0.67 \$ (0.60%)	DAX	16,409.30 (2.05%)
C\$	0.75 \$ (-0.02%)	CAC 40	7,451.17 (2.32%)
		HANG SENG	19,913.29 (4.47%)
		SSE COMPOSITE	3,275.93 (1.10%)

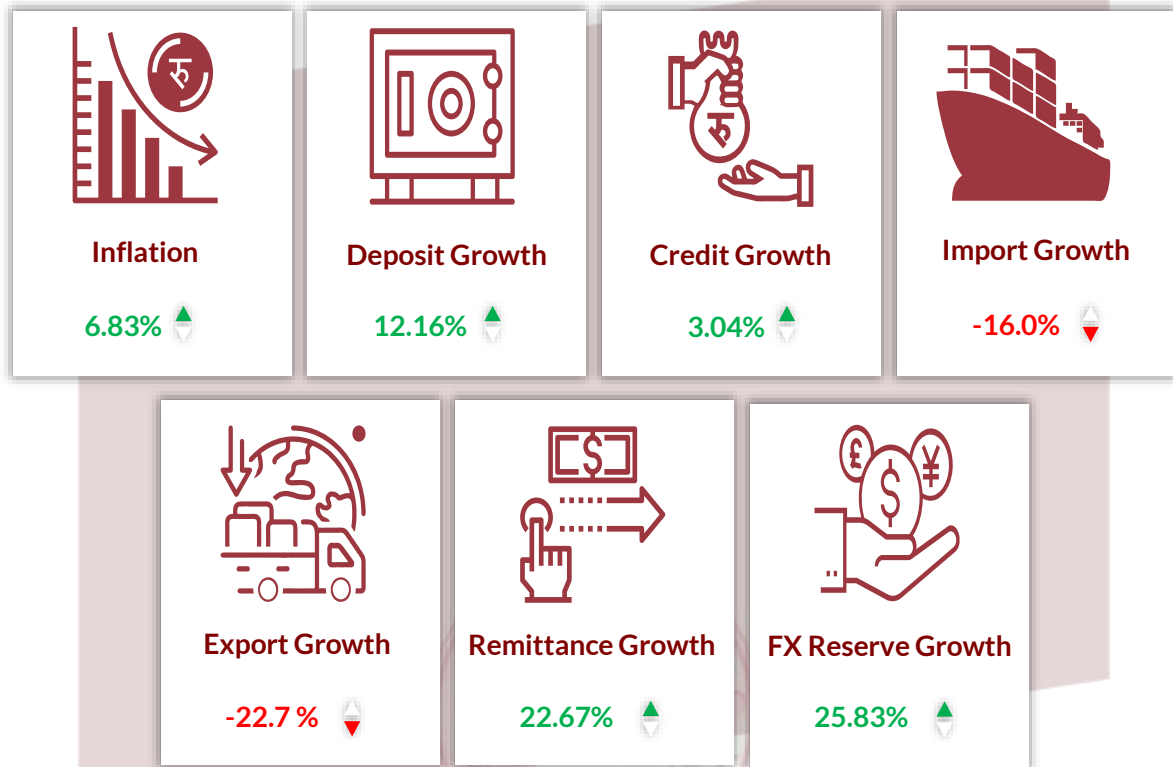
\*Values Per 1 \$

	<b>Gold(\$)</b> Per Oz. 1,961.43 (2.17%)		<b>Bitcoin(\$)</b> 29,355.70 (-2.67%)
	<b>Brent Crude(\$)</b> Per Barrell 84.26 (13.10%)		<b>Ethereum(\$)</b> 1,880.71 (2.67%)

#All Changes are in MoM basis.



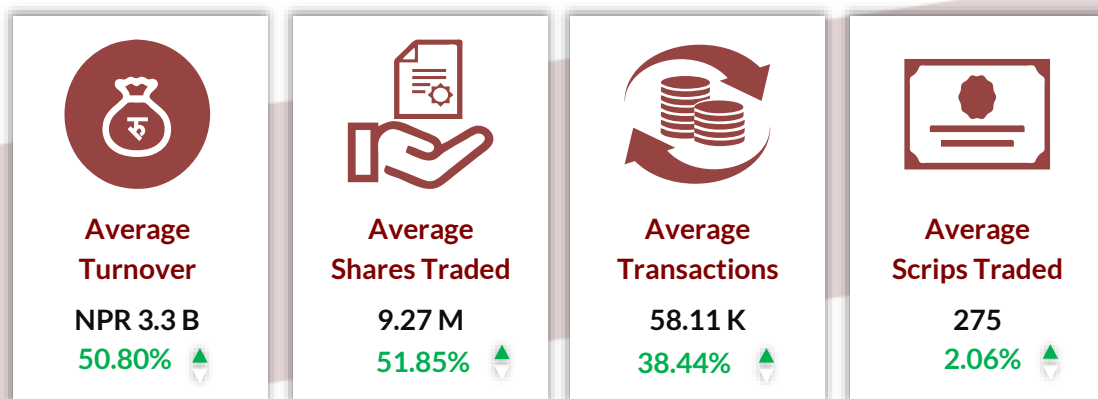
## Macroeconomic Overview



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

\* Credit refers to claim on private sector

## Monthly Trading Statistics



\* For the period (June-29, 2023) - (July-28, 2023)



# Liquidity Overview

## A. Major Rates

Description	Value As On					Change		
	Jetsha-79	Baisakh-80	Jestha-80	Shrawan-5	Shrawan-12	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	8.18	8.45	7.56	4.16	4.16	-0.62	-0.89	0.00
Wt.Avg 91 Days TB rate (%)	10.49	9.66	9.07	5.19	5.19	-1.42	-0.59	0.00
Wt.Avg 364 Days TB rate (%)	10.53	9.43	8.55	6.35	6.35	-1.98	-0.88	0.00
Wt. Avg Interbank Rate (%)	7.34	7.01	6.68	6.82	6.82	-0.66	-0.33	0.00
CapEx (In Billion NPR)	137.96	125.68	153.08	0.00	0.00	15.12	27.40	0.00

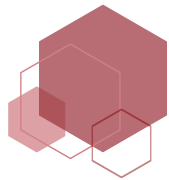
## B. BFI Statistics

Description	Value As On					Change		
	Jetsha-79	Baisakh-80	Jestha-80	Shrawan-5	Shrawan-12	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	7.34	8.08	7.99	7.99	7.99	0.65	-0.09	0.00
Wt. Avg Lending Rate (%)	7.34	12.65	12.53	12.53	12.53	5.19	-0.12	0.00
Base Rate (%)	9.39	10.27	10.18	10.18	10.18	0.79	-0.09	0.00
CD Ratio (%)	89.61	85.63	83.96	83.06	83.06	-5.65	-1.67	0.00
Fixed Deposits/Total Deposits (%)	56.41	59.63	59.30	59.30	59.30	2.89	-0.33	0.00
Total Liquid Assets/Total Deposits (%)	25.38	24.60	25.21	25.21	25.21	-0.17	0.61	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	Shrawan 2	1000.00	0.00	12	64	1.26	1000.00	2.97	5.24	4.16
91 Days	Shrawan 2	770.00	0.00	18	90	2.81	770.00	4.50	5.47	5.19
182 Days	Shrawan 9	400.00	400.00				0.00	0.00	0.00	0.00
364 Days	Shrawan 9	860.00	811.00	25	131	52.94	49.00	4.64	5.30	5.09

\*Figures are in Millions NPR

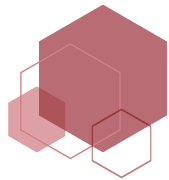


## Sectoral Movement

Index	Ashad 13	Shrawan 12	Change
NEPSE	2,163.92	2,126.48	-1.73%
Others	1,555.00	1,572.03	1.10%
Hotels & Tourism	5,806.33	5,789.81	-0.28%
Mutual Fund	14.87	14.82	-0.34%
Commercial Bank	1,314.74	1,301.64	-1.00%
Investment	73.86	72.85	-1.37%
Hydropower	2,394.09	2,347.77	-1.93%
Trading	2,973.03	2,897.09	-2.55%
Development Bank	4,081.01	3,974.60	-2.61%
Non Life Insurance	11,594.73	11,282.11	-2.70%
Microfinance	4,082.59	3,963.39	-2.92%
Manufacturing & Processing	5,942.40	5,744.15	-3.34%
Life Insurance	12,122.02	11,677.33	-3.67%
Finance Company	1,956.41	1,874.41	-4.19%

## Major Movers

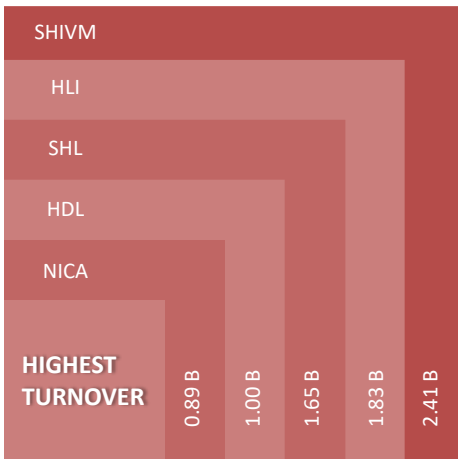
CITY	72.81%	HHL	-15.72%
KLBSL	26.83%	HLI	-14.32%
MBLD2085	22.98%	JALPA	-14.32%
GBBD85	20.19%	BEDC	-13.88%
NBBD2085	19.26%	JSLBB	-13.45%



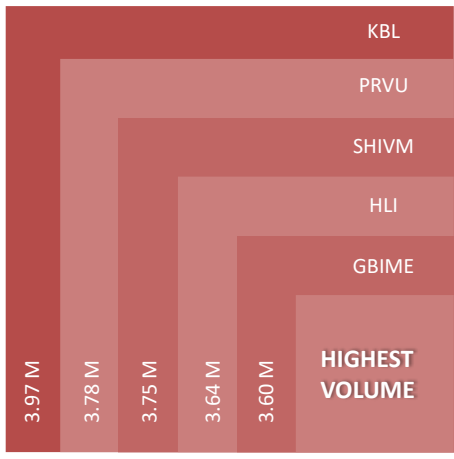
# Sectoral Divergence-Turnover

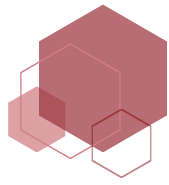
Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	2.19 B	3.30 B	50.80%
Finance	0.12 B	0.31 B	159.46%
Mutual Funds	0.01 B	0.01 B	146.78%
Development Banks	0.13 B	0.30 B	129.92%
Microfinance	0.16 B	0.33 B	108.05%
Tradings	0.01 B	0.03 B	102.46%
Hotels And Tourism	0.12 B	0.23 B	93.90%
Commercial Banks	0.28 B	0.54 B	91.74%
Non Life Insurance	0.15 B	0.29 B	88.64%
Life Insurance	0.11 B	0.19 B	71.36%
Investment	0.10 B	0.17 B	67.72%
Manufacturing And Processing	0.18 B	0.30 B	65.17%
Others	0.07 B	0.10 B	54.39%
Hydro Power	0.41 B	0.53 B	28.07%

## Highest Turnover



## Highest Volume





# NEPSE Outlook

## A. Current Overview

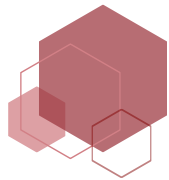


On July 31<sup>st</sup>, 2023, the flagship NEPSE index recorded 2,106.18 points, accompanied by a daily turnover of NPR 1.86 billion. Compared to the previous month's index movement, the index has decreased, along with a decrease in daily transactions.

The Relative Strength Index (RSI) is currently at 49.76 points, falling into the neutral region. This month had more selling pressure compared to the corresponding date of the previous month, resulting in a decrease in the RSI.

The Moving Average Convergence and Divergence (MACD) indicator is signaling a downtrend trend due to a bearish crossover between the MACD line and the signal line. Similarly, the indicator lines are hovering above the baseline, reflecting rising positive sentiment in the market.

Looking ahead, the NEPSE index's immediate support levels stand at (S1) 2,110, (S2) 2,040, and (S3) 1,960, whereas the immediate resistance levels hold at (R1) 2,205, (R2) 2,275, and (R3) 2,380. These support and resistance levels can provide guidance to investors when making trading decisions.



## B. Long Term Overview



As depicted, the local bourse has experienced a significant decline of more than 40%, but it now appears to be finding some stability around the previous resistance zone of the 1,800-1,900 level. Interestingly, during the previous cycle, this zone also served as a major support level.

Considering this historical bull-bear pattern, the 1,800 level can be seen as the bottom of this cycle, holding the potential to rise as high as the 3,800-4,000 level from a long-term perspective, as projected by the Fibonacci extension and pitchfork bands.

In addition to these levels, the NEPSE index has intermediate support levels at (S1) 2,110, (S2) 2,040, and (S3) 1,960, while the immediate resistance levels are at (R1) 2,205, (R2) 2,275, and (R3) 2,380.

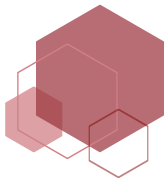
## SCRIP ANALYSIS

### Himalayan Bank Limited (HBL)

#### A. Technical Analysis







On July 31<sup>st</sup>, 2023, the stock price of HBL closed at NPR 223.00. It is worth noting that the stock experienced a decrease of 7.00% from its recent high price.

Currently, the Relative Strength Index (RSI) for the stock stands at 54.39 points, indicating that it is in the neutral region. This suggests a balanced state between buying and selling pressures in the market.

Furthermore, the Moving Average Convergence Divergence (MACD) indicator is signaling a bullish trend for the stock, as there has been a bullish crossover between the MACD line and the signal line. This suggests a potential upward movement in the stock's price.

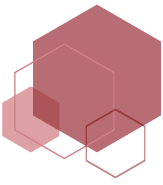
As for the immediate support and resistance levels for HBL, they provide valuable insights for investors. The support levels are identified at NPR 213.00 (S1), NPR 190.00 (S2), and NPR 165.00 (S3), which might act as critical price levels where the stock could find support during potential declines. On the other hand, the resistance levels are situated at NPR 240.00 (R1), NPR 260.00 (R2), and NPR 290.00 (R3), serving as significant price barriers where the stock may face selling pressure.

## **B. About the Company**

Himalayan Bank Limited is a joint venture company with Habib Bank Limited of Pakistan which was established in 1993. Himalayan Bank Limited holds a vision to become a leading bank of the country by providing premium products and services to the customers, thus ensuring attractive and substantial returns to the stakeholders of the bank.

All branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking.

Himalayan Bank limited(HBL) recently acquired Civil Bank Limited (CBL) in a swap ratio of 100:80.28.



## I. Comparative Quarterly Performance Visualizations

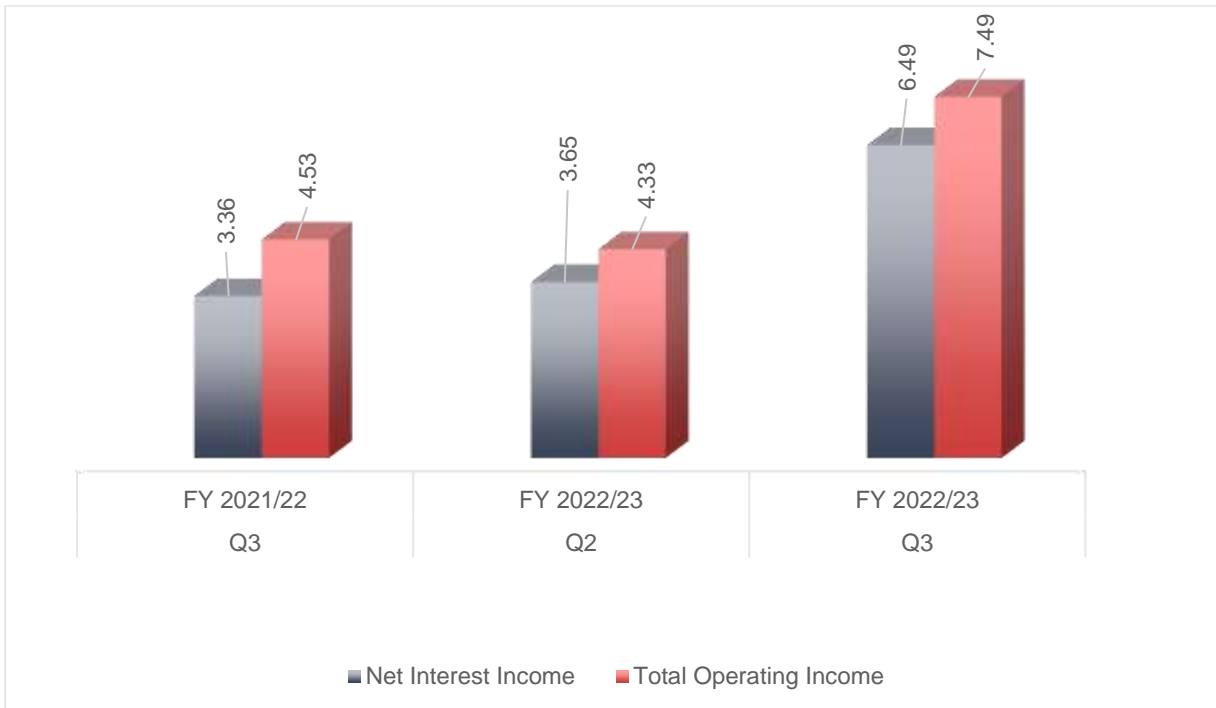


Figure: Quarterly comparison of Net Interest Income and Total Operating Income

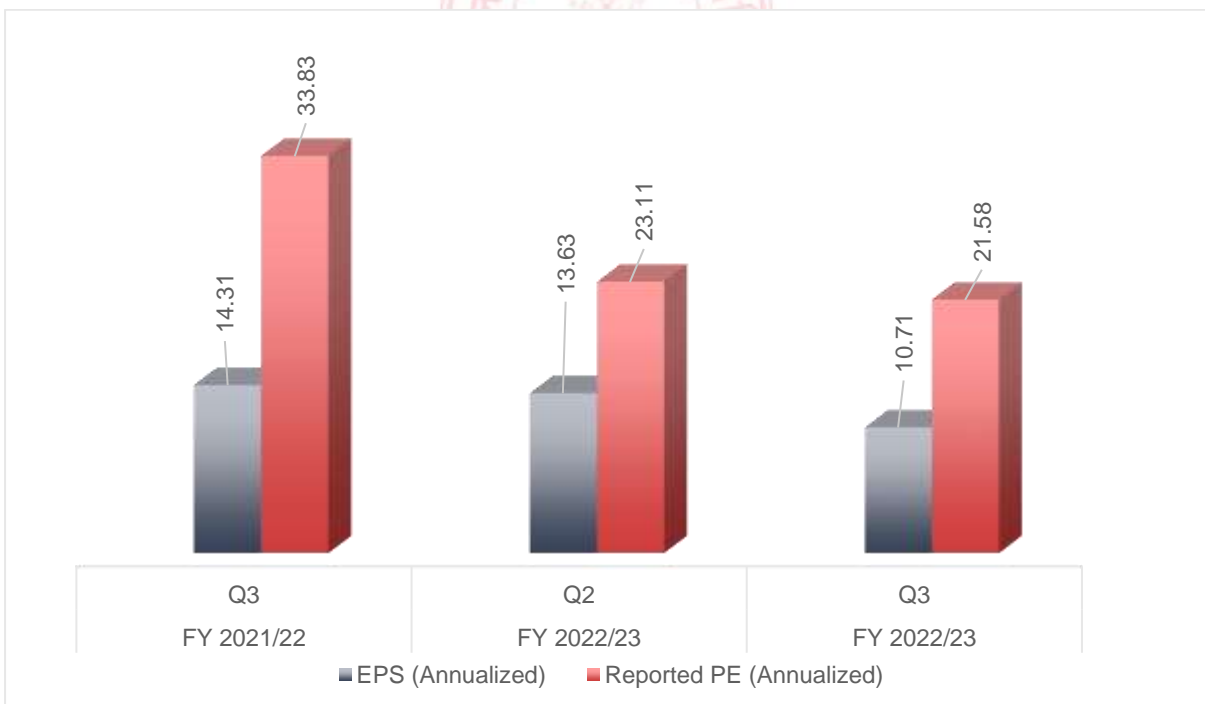
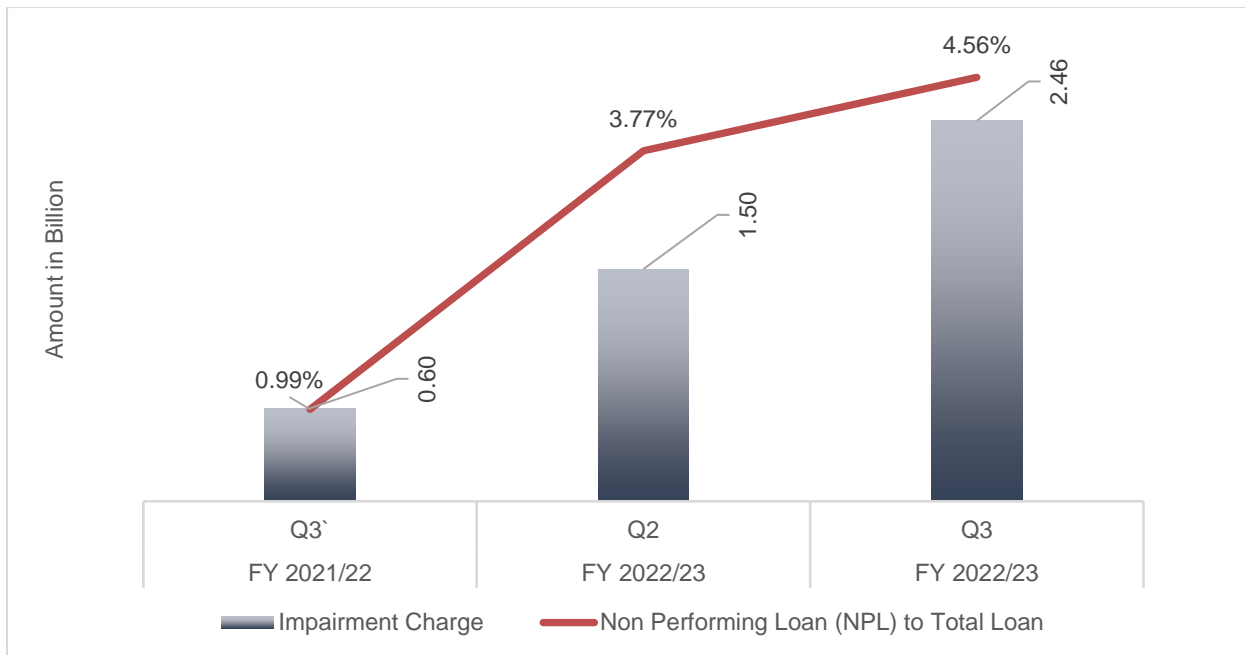
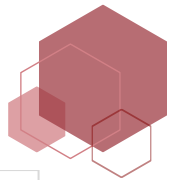
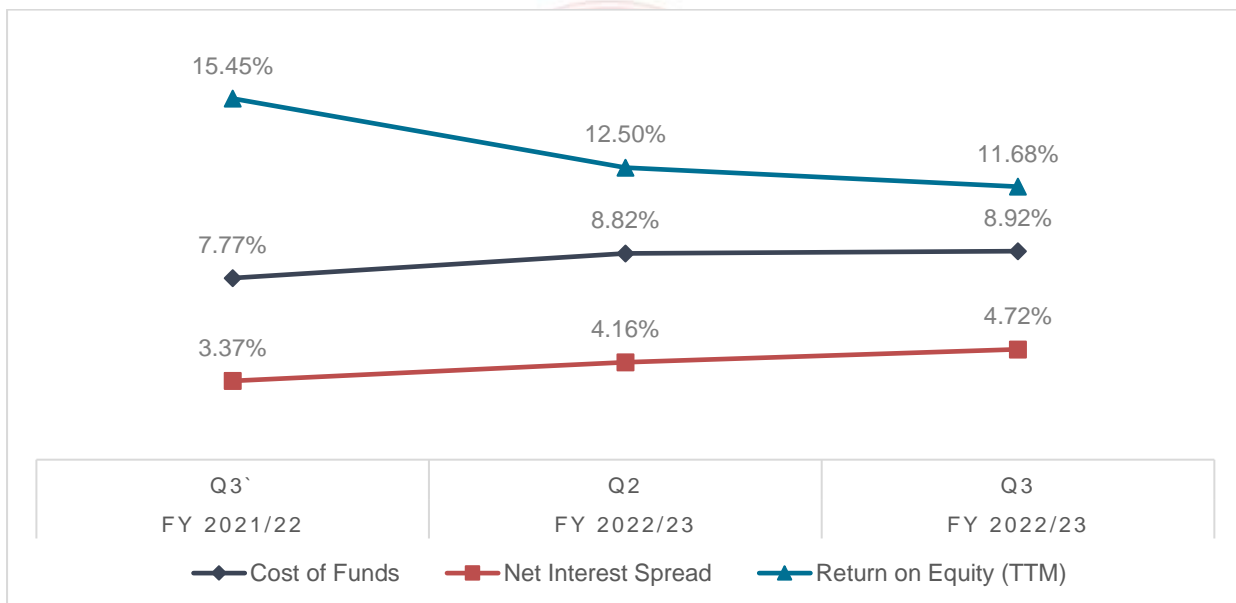


Figure: Quarterly Comparison of EPS and PE



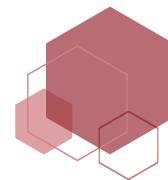
**Figure: Quarterly Comparison of Impairment Charges and NPL (%)**



**Figure: Quarterly Comparison of Cost of funds, Return on Equity and Net Interest Spread**

## II. Key Variables used for Valuation and Assumptions:

1. Deposits Growth rate= 13.55%
2. Loan Growth Rate = 15.22%
3. Perpetual Growth Rate for longer period projection to calculate the terminal value (Last 10 years average economic growth rate) = 4.20%
4. Discount rate using CAPM Model:



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

Where,

$$R_f \text{ (Last 10 years average 91 days T-Bills)} = 2.08\%$$

$$R_m \text{ (Expected Market Return)} = 13.63\%$$

$$B \text{ (Beta Monthly)} = 0.60$$

$$K_e \text{ (Cost of equity)} = 12.48\%$$

5. Industry average P/E Ratio = 16.68 and P/B Ratio = 1.76

### C. Stock Valuation

The final average valuation Himalayan Bank Limited (HBL) is based on the Absolute Approach (viz. Excess Equity Return (ERM)) as well as the Relative Approach (viz. P/E Model and P/B Model) has been computed as NPR 260, which has been tabulated below:

Method	Intrinsic Value
Excess Equity Model	282.77
PE Valuation	227.37
PB Valuation	269.86
<b>Final Average Value</b>	<b>260.00</b>

### D. Conclusion

After the valuation from three different methodologies, the final average value of the company was calculated NPR 260. Looking at the Absolute Valuation Method and Relative Valuation Method, the values were NPR 282.77 and NPR 248.61 respectively. Comparing the final average value with the last trading price of HBL, the company's stock price is undervalued by 15.58% of the final average value.

With the publication of 3<sup>rd</sup> quarter report for FY 2079/80, the bank's quarterly performance had increased drastically in terms of core operating income generation. In the quarter, the bank's Net Interest Income stood at NPR 6.49 Billion which was an increase of 77.95% compared to the previous quarter and 93.13% from the corresponding quarter of previous fiscal year. Similarly, the impairment charges of the bank had also ballooned to NPR 2.46 Billion an increase of 63.80% from the previous quarter. Hence, in the last quarter report, the bank's profit might look lucrative as the



probability of write back of impairment charges is high in next quarter. Along with the rise of impairment charges, the Non-Performing Loans (NPL %) had also increased to 4.56% from 3.77% as can be expected.

Similarly, the current Earnings per Share (EPS) and Price to Earnings (PE ratio) of the company stands at NPR 10.71 and 21.58 times making it below industry average and above industry average respectively. Looking at other major ratios/indicators, return on Equity (ROE) stands at 11.68%, Cost of Fund is at 8.92% and the Net Interest Spread is at 4.72%.

From the technical analysis of the HBL, the stock is currently resting at NPR 223 after reaching the recent high on 23<sup>rd</sup> July, 2023. Currently, the stock seems bullish in nature as MACD line has crossed signal line from above. If the stock breaches down the most immediate support level of NPR 213, then the next support level stands at NPR 190, and this can be a good point for purchasing the stock.

Therefore, considering all fundamental, and technical factors, the stock at its latest trading price looks undervalued.

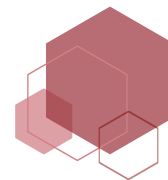
## ISSUE OF THE MONTH

### Gambler's Fallacy and Poor Investment Decisions

*"Nobody can predict interest rates, the future direction of the economy or the stock market. Dismiss all such forecasts and concentrate on what's actually happening to the companies in which you've invested." - Peter Lynch*

The assumption that previous conduct predicts future behavior is known as the Gambler's Fallacy. It's a useful tactic in everyday life since events in the past might influence happenings in the future in a variety of ways. When gamblers use that concept in a casino, things soon deteriorate. At the very least, individuals suffer; the casino may profit from that cognitive prejudice, as it did on August 18th, 1913, at the Monte Carlo Casino. It was an average night until someone observed that the roulette ball had been on black for an extended period of time. People became curious when it continued to fall. Then they began putting money on the table.

The reasoning process was that the ball had hit black so many times that it had to hit red shortly. For some reason, the ball was quite tenacious, and it continued to fall on the black pockets for the following few rounds, much to the shock and bewilderment of the gamblers. As the ball continued to land in the black pockets, the gamblers increased



their bets on the red pockets, expecting that the ball would land on a red pocket shortly. The ball did indeed land on a red on the 27th spin of the roulette wheel. So, while the ones who bet on a red in the 27th spin won big, a considerably larger number of others lost big because of the extended run of blacks. This occurrence was genuinely spectacular, which is why the gambler's fallacy is also known as the Monte Carlo fallacy.

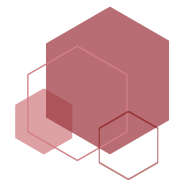
## A. What Happened?

We can readily anticipate that on the first spin, the ball has a 50 percent chance of falling on a black pocket and a 50 percent chance of landing on a red pocket. The misapprehension issue or error, however, began with the second spin. Most people assumed that because the first spin resulted in a black, the likelihood of the second spin being black was 50 percent multiplied by 50 percent or half multiplied by half, which came to 1 by 4 or 25 percent. This meant that the majority of participants assessed the likelihood of the second spin being a red as 1 minus 25%, or 75%. This was the issue since spin 1 and spin 2 were two fully independent occurrences, much like spin 3, spin 4, spin 5, and so on.

This meant that the likelihood of the ball landing in a black or red pocket was the same in any spin, which was 50% or 1 by 2. In the example of the 1913 game, the real likelihood of obtaining a red on the sixth spin was actually 50%, but due to the gambler's fallacy, the casino assessed the probability of a red as 98.43 percent. Similarly, during the 15th spin, the incorrect likelihood of a red was 99.996 percent, while the true probability was still 50%. And, on the disastrous 27th spin, the gamblers who bet on red were certain that the ball would land in a red pocket as its probability was 99.9999993 percent. It implies that the gamblers who bet on red evaluated the chance of the ball dropping into yet another black pocket to be just 0.0000007 percent. This is a one-in-133 million probabilities.

The right probability however was one out of two. The gambler's fallacy is however not limited to coin tosses or the roulette table; it occurs in a variety of other situations and in the most casual manner. For example, we may say, "It hasn't rained in a few days, therefore it seems like it will rain in a day or two."

Consider a series of 20-coin flips that all landed with the "heads" side up. According to the gambler's fallacy, a person can anticipate that the following coin flip would land with the "tails" side up. Because the chance of a fair coin landing on heads is always 50%, this line of thought demonstrates an incorrect grasp of probability. Because each coin flip is an autonomous event, prior flips have no influence on future flips.



People's relationships with slot machines are another typical illustration of the gambler's fallacy. We've all heard of folks who sit for hours at a time at a single machine. Most of these folks feel that every lost draw brings them closer to winning the jackpot. What these gamblers don't grasp is that the odds of winning a jackpot from a slot machine are identical with every draw (just like flipping a coin), thus it doesn't matter if you play with a machine that just struck the jackpot or one that hasn't recently paid out.

## **B. Gambler's Fallacy in Investing**

It is easy to see how, in some situations, investors may succumb to the gambler's fallacy. We all know that trading choices based on "gut feelings" are foolish. However, many traders make unsafe and unsuccessful trading decisions as a result of such erroneous assumptions. The problem is that our brain is highly adept at drawing conclusions. We collect items, combine them, connect them, and draw conclusions. A probabilistic strategy, on the other hand, does not always succeed. Simply put, our brain can detect patterns that do not exist in reality.

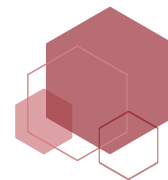
A typical illustration of the gambler's fallacy in investing may be discovered when investors begin to liquidate their positions in an asset that is constantly setting new highs because they do not believe the position will continue to rise. Other investors, on the other hand, may continue to hold a stock that has declined in many sessions because they believe future drops are "improbable." Just because a stock has risen in six consecutive trading sessions does not imply it will rise in the following session.

A succession of past occurrences has no bearing on the likelihood of a specific event occurring in the future. The same is true for your transactions: your previous trades do not match to your future trades. Each transaction is self-contained. Rather than purchasing or selling a company because you believe the long-term trend will reverse at any time, you should base your trading decisions on rigorous fundamental and technical research. This will provide you with far more accurate knowledge on what will happen with the asset's trend.

The famous British economist and mathematician John Maynard Keynes once said: "The market can stay irrational longer than you can stay solvent."

## **C. Avoiding Gambler's Fallacy**

It is critical to realize that in the case of independent occurrences, the odds of any certain outcome occurring on the next chance stay constant regardless of what came before it. The same rationale applies to the level of noise in the stock market: Purchasing



a stock because you expect the long-term trend may reverse at any time is illogical. Rather, investors should make judgments based on basic evidence-based research.

One should not seek out the best-performing mutual fund or buy equities just because they are trading around their 52-week low. Allow evidence and rationale to guide your financial decisions rather than your apparent forecasting talent.

*\*This article was previously published in the Jestha, 2079 edition of The Pulse.*

## Key Dates

Scrp	Issue Type	Quantity	From	To	Issue Manager
Hathway	IPO	292,500(O)	2023/07/20 AD 2080/04/04 BS	2023/08/03 AD 2080/04/18 BS	Global IME Capital
Mathillo	IPO	1,150,000(O)	2023/07/20 AD 2080/04/04 BS	2023/08/03 AD 2080/04/18 BS	Sanima Capital
MANDU	IPO	272,730(O)	2023/07/13 AD 2080/03/28 BS	2023/08/03 AD 2080/04/18 BS	Prabhu Capital
NHPC	RIGHT	8,221,459.72(O)	2023/07/14 AD 2080/03/29 BS	2023/08/03 AD 2080/04/18 BS	Muktinath Capital
LVF2	MUTUAL FUND	68,000,000(O)	2023/07/21 AD 2080/04/05 BS	2023/08/04 AD 2080/04/19 BS	Laxmi Capital Market
NICAP	AUCTION	400,000(P)	2023/07/25 AD 2080/04/09 BS	2023/08/03 AD 2080/04/18 BS	NIMB Ace Capital
PCBLP	AUCTION	1,350,010(P)	2023/07/19 AD 2080/04/03 BS	2023/08/02 AD 2080/04/17 BS	Prabhu Capital

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