

The Pulse

Market Growth, Risks and Outlook

Kartik 2019

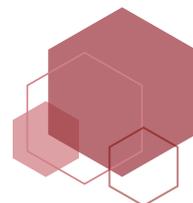
Inside This Edition

Macroeconomic Overview	1
Monthly Trading Statistics	1
Liquidity Overview	2
Public Debt Subscription	2
Sectoral Movement	3
Major Movers	3
Sectoral Divergence-Turnover	4
Highest Turnover, Volume	4
NEPSE Outlook	5
Scrip Analysis-GFCL	7
Issue of the Month - Contrarian Investing	10
Key Dates	14

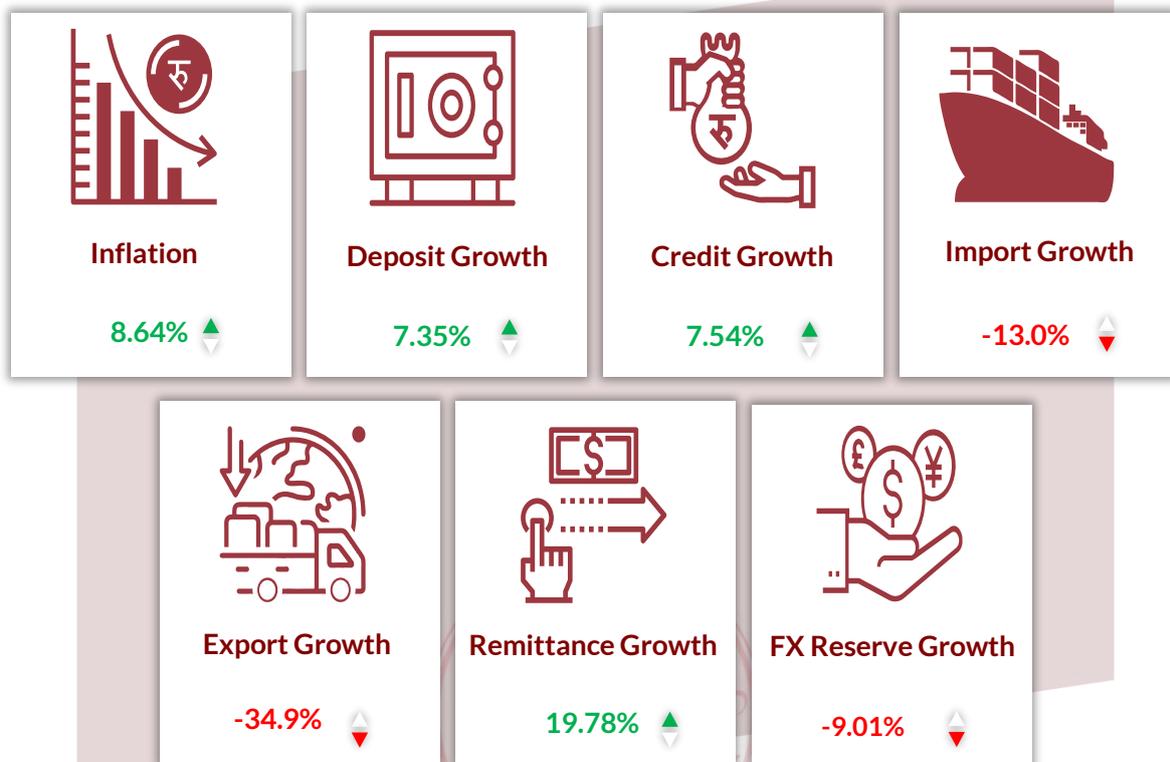


Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited



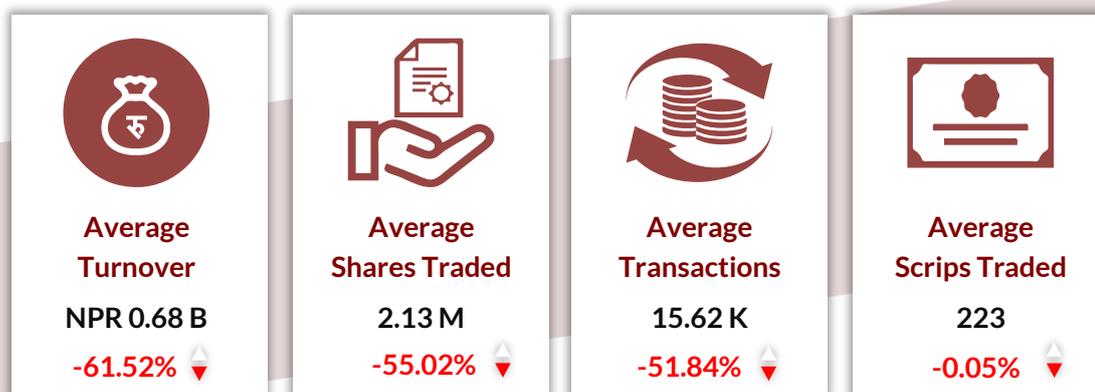
Macroeconomic Overview



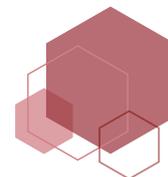
* Growth refers to the change between Second months of FY 78/79 and FY 79/80

*Credit refers to claim on private sector

Monthly Trading Statistics



* For the period (September-29) - (October-30)



Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Shrawan-78	Ashad-79	Shrawan-79	Ashoj-28	Kartik-4	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	0.17	10.34	9.00	8.93	8.62	8.83	-1.34	-0.31
Wt.Avg 91 Days TB rate (%)	0.66	216.37	9.50	10.60	10.72	8.84	-0.18	0.12
Wt.Avg 364 Days TB rate (%)	3.96	9.85	9.85	9.03	10.77	5.89	0.00	1.74
Wt. Avg Interbank Rate (%)	2.13	10.34	9.00	8.50	8.52	6.87	-1.34	0.02
CapEx (In Billion NPR)	0.94	216.37	1.48	18.79	20.45	0.54	-214.89	1.66

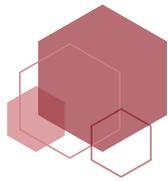
B. BFI Statistics

Description	Value As On					Change		
	Shrawan-78	Ashad-79	Shrawan-79	Ashoj-28	Kartik-4	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	4.76	7.41	7.64	7.25	7.25	2.88	0.23	0.00
Wt. Avg Lending Rate (%)	8.48	7.41	7.64	11.42	11.42	-0.84	0.23	0.00
Base Rate (%)	6.71	7.41	7.64	9.30	9.30	0.93	0.23	0.00
CD Ratio (%)	86.98	86.22	88.06	87.01	86.91	1.08	1.84	-0.10
Fixed Deposits/Total Deposits (%)	49.34	54.97	58.14	47.36	47.36	8.80	3.17	0.00
Total Liquid Assets/Total Deposits (%)	24.24	27.52	25.16	24.82	24.82	0.92	-2.36	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	Ashoj 31	200.00	0.00	20	68	5.64	200.00	8.55	9.00	8.62
91 Days	Ashoj 31	520.00	0.00	25	101	2.29	520.00	9.97	11.45	10.72
182 Days	Ashoj 31	500.00	0.00	18	80	1.55	500.00	9.80	11.75	10.85
364 Days	Ashoj 31	600.00	0.00	18	72	1.42	600.00	10.00	11.77	10.77

*Figures are in Millions NPR



Sectoral Movement

Index	Ashoj 13	Kartik 13	Change
NEPSE	1,853.76	1,858.49	0.26%
Manufacturing & Processing	4,702.98	4,822.39	2.54%
Hotels & Tourism	2,535.18	2,576.74	1.64%
Commercial Bank	1,302.37	1,321.22	1.45%
Development Bank	3,309.31	3,335.36	0.79%
Others	1,303.65	1,304.52	0.07%
Microfinance	4,191.83	4,191.03	-0.02%
Non Life Insurance	7,501.31	7,496.78	-0.06%
Life Insurance	8,714.26	8,683.16	-0.36%
Mutual Fund	13.53	13.47	-0.44%
Finance Company	1,508.55	1,500.82	-0.51%
Trading	1,791.66	1,764.86	-1.50%
Investment	56.78	55.60	-2.08%
HydroPower	1,967.67	1,915.56	-2.65%

Major Movers

AVYAN	74.86%	EBLD86	-18.35%
RURU	23.02%	SPC	-13.81%
SMFDB	14.75%	MHL	-13.36%
CMF1	12.03%	SLBSL	-11.29%
EBL	5.21%	CCBD88	-8.86%



Sectoral Divergence-Turnover

Index	90 Days Avg	Week Avg	Divergence
NEPSE	1.77 B	0.68 B	-61.52%
Preferred Stock	0.0 M	0.0 M	0.00
Hotels	13.78 M	6.97 M	-49.41%
Commercial Banks	274.02 M	91.40 M	-66.65%
Mutual Fund	5.83 M	1.43 M	-75.55%
Development Banks	150.41 M	35.62 M	-76.32%
Investment	87.84 M	16.18 M	-81.58%
Non Life Insurance	53.72 M	9.81 M	-81.74%
Finance	151.15 M	27.08 M	-82.09%
Life Insurance	92.93 M	16.44 M	-82.31%
Microfinance	213.73 M	36.15 M	-83.09%
Manufacturing And Processing	138.85 M	23.25 M	-83.25%
Corporate Debenture	0.99 M	0.16 M	-84.06%
Hydro Power	419.30 M	63.71 M	-84.81%
Others	73.38 M	10.47 M	-85.74%
Tradings	9.93 M	1.16 M	-88.27%

Highest Turnover



Highest Volume





NEPSE Outlook

A. Current Overview



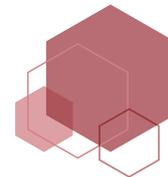
On October 23, 2022, the NEPSE index reached 1,858.49 points with a total turnover of NPR 516 million. On average, the market seemed bearish before the holidays for Tihar, however, on the last trading day (i.e. 23rd October) the index rose by 14.35 points. Compared with last month's index movement, the index is moving in somewhat similar range with low daily turnover. It indicates that the market sentiment of the investors is still weak.

According to Bollinger Band, the index is hovering around the median band indicating that the market is in neutral region. This means that the market is neither facing high selling pressure nor high buying pressure.

The Moving Average Convergence Divergence (MACD) still indicates the weak momentum in the market, as MACD line is below the baseline (i.e. Negative territory), however the MACD crossover indicates the bullish trend along with the formation of positive histogram.

The Relative Strength Index (RSI) is at 43.86 points indicating that the market is in neutral region. Compared to last month's RSI, lower selling pressure was felt in this month.

The NEPSE index's immediate support levels of NEPSE index stands at: (S1) 1,843, (S2) 1,813 and (S3) 1,785, whereas the resistance levels hold at: (R1) 1,900, (R2) 1,984 and (R3) 2,060



B. Long Term Overview

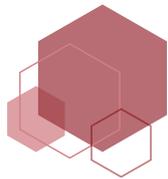


The NEPSE index has been declining with brief market upswings interspersed since the beginning of August, and now it is resting at 1,858.49 on 23rd October, 2022 after declining by 16% (357 points) from 1st August, 2022. The major reasons for the decline of the index are the liquidity crisis in the banking sector, and rising interest rate of deposits. As a result, the index is currently heading down with a little uptick in between, and it is possible that it may continue to move sideways.

On August 11, 2022, a death crossover was visible if we look at the crossover of the 50-day and 20-day exponential moving averages (EMA). Since then, the market has entered the bearish trend and is still unable to rise despite all the applied indices and economic considerations.

The NEPSE index is receiving strong support at the base of Trend-Based Fibonacci Extension (i.e. 1808.67), according to the trend-based Fibonacci Extension plotted from 1,808.67 points (trend initial point) to the most recent high point of 2,225.43 points (end of the initial trend) and extending the line to 1,808.67 points (end of the secondary trend). The index's resistance level is 1,907 points, while its support level is 1,808 points, according to the indicator.

The intermediate support levels of NEPSE index stand at: (S1) 1,808, (S2) 1,780 and (S3) 1,706, whereas the resistance levels hold at: (R1) 1,907 (R2) 1,960 and (R3) 2,005.



SCRIP ANALYSIS

Goodwill Finance Company Limited (GFCL)

A. Technical Analysis

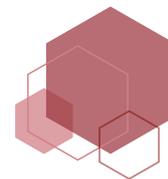


The stock price of GFCL is NPR 428 (31st October 2022). The stock price of the company is seen moving downwards for the past 2 months with brief upswings. From the stock's recent high point formed on 3rd August, 2022, the stock has declined by 32.54% (i.e. NPR. 206).

The major reason for the declining of the stock might be the declining performance by the company on the 1st quarter comparing with previous year's 1st quarter performance.

The exponential Moving Average (EMA) of 20 days and EMA of 50 days are indicating downward trend after the occurrence of a bearish crossover on 8th September. And still the indicator signals that the stock price might go down.

The stock's Relative Strength Index (RSI) of the stock is at 38.96, which falls on the neutral region.



Based on the Moving Average Convergence Divergence (MACD) Line, it shows the weak sentiment of the investors towards the stock. As the stock is hovering below the baseline with bearish crossover and diminishing negative histogram.

Based on Average Directional Index (ADX), and Directional Movement Index (DMI), the ADX line is at 17.96 point which indicates that the current trend is not strong, and the positive DMI is crossed over by negative DMI indicating downward trend.

The immediate support levels for this stock stand at: (S1) NPR 420, (S2) NPR 380 and (S3) NPR 360, whereas the resistance levels hold at: (R1) NPR 470, (R2) NPR 506, and (R3) NPR 567.

B. Stock Valuation

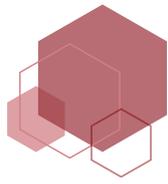
The final average valuation of Goodwill Finance Company Limited (GFCL) has been calculated at NPR 240.58 and is based on both the Relative Approach (i.e., Graham's Number Model) and the Absolute Approach (i.e., Capitalized Earnings, Earnings Valuation, and Excess Equity Return (ERM)).

Methodology	Valuation Price (NPR)
Capitalized Earnings	136.31
Earning Valuation	356.96
Discounted Future Earnings	164.86
Graham's Number	304.18
Final Average Valuation	240.58

Assumptions

✓ Major Variables

Specifics	Value
Beta (1 Monthly)	1.20
Market Return (R _m) (CAGR)	13.63%
Current Inflation Rate	6.73%
91 days T-Bills (average of last 10 years)	2.08%



Nominal Risk-Free Rate (After Tax)	8.95%
Risk Premium	4.68%
Cost of Equity by CAPM Method	14.57%
Tax Rate	30%
Sustainable Growth Rate	4.20%
Deposit Growth Rate	18.29%
Loan Growth Rate	19.58%

C. Recommendation

Goodwill Finance Company Limited (GFCL) was incorporated in September 1994 and it started its commercial operation from May 1995. The company is now operating as national-level finance company. The company is promoted by a diversified range of promoters involved in different professions. Share capital of the company is distributed among promoter and public in the ratio of 51:49. The company's equity share is listed in the Nepal Stock exchange.

When compared to its recent 1st quarter report with previous year 1st quarter report, the company's performance in this quarter has declined though it was able to generate higher net interest income of Rs.150 million. Due to higher provision for loan losses in this quarter, the net income of the company has declined. However, considering the current macro-economic conditions of the economy, the company provisioning for higher loan losses might be a good strategy for the company on future.

Now, based on the fundamental analysis, the final average value was determined at Rs. 240.58 which is lower than the current trading price of Rs. 428, thus, meaning the stock price of the company is overvalued by 48% than the determined final valuation price. Hence, it means that it is not wise enough to invest on the company's stock price considering the company's future earnings and other fundamental aspects. If the price falls on the determined range, then, it would be wise for investors to take positions for long run.

Similarly, based on technical analysis, the stock is hovering around the major-recent support level of Rs. 420. Considering the major technical indicators, they are indicating downward trend with weak market sentiment. Hence, the probability for the stock's price to move down is still high. And, if the stock's price breach the major support level, it might be a good purchase for the investors investing for short-term.



ISSUE OF THE MONTH

Contrarian Investing

A. What is a Contrarian?

“Contrarian – A trader whose reasons for making trade decisions are based on logic and analysis and not on emotional reaction.”

A contrarian investment approach is one that is built on spotting and betting against stock price fluctuations that reflect changes in the majority of investors' views. A contrarian takes judgments for reasons that other traders do not. Most people purchase because they are greedy and sell because they are panicked. As a result, people have a predisposition to make poor judgments. A contrarian does not just behave in opposition to the majority of traders, but also does not follow the majority if indications support the opposite conclusion.

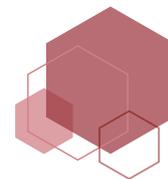
Contrarian investing is thus a market timing approach that may be used in any trading timeframe. Contrarians assume that financial instruments that have been consistently can reverse and begin to decrease, and vice versa. The contrarian trader thus buys a falling item or short-sells a rising one confident in that the trend will reverse in some time based on market indicators.

B. How most traders trade (trading tendencies and market behavior)

Everyone has heard the phrase "buy low, sell high." This appears to be simple, yet most traders tend to do the exact opposite. They tend to purchase high (because of greed) and sell low (due to panic). A contrarian behaves differently and tries to "buy cheap and sell high" by looking for market over-reactions to certain news which underprice or overprice a stock.

C. How a Contrarian trades:

A contrarian understands that most traders follow the majority, and the majority often tends to be wrong due to excessive greed or fear i.e., As prices rise, a growing number of people tend to buy, and the higher the price, the more buyers enter the market and when prices fall, a growing number of people tend to sell, and the lower the price, the more sellers will try to exit the market creating great buy and sell opportunities in the process.



Knowing this, A Contrarian thus attempts to make decisions in spite of what the majority is doing but does not do so on a whim rather making wise decisions more often than not, based on analysis and reading of signals. They tend to buy when prices are depressed, especially if reversal signals indicate a coming uptrend and sell when prices rise to new heights, especially if reversal signals indicate a coming downtrend.

Thus, a Contrarian not only employs logic and analysis, but also times trades based on strong reversal signals found in price patterns, candlestick indicators, volume spikes and momentum oscillators. Contrarians assume the confirmation of reversals, using the same signals and indicators as reversals; and the stronger the confirmation, the more confidence a contrarian will have. A contrarian avoids placing too much capital into any single trade, to minimize losses and to avoid large losses and uses other risk reduction methods such as hedging and diversification

A contrarian will continuously observe market trends and look for reversals in the following indicators to make a contrarian call/trade.

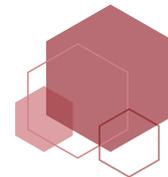
- Traditional price reversal patterns like the head and shoulders, double tops or bottoms, and price gaps – especially when these appear at or near resistance or support
- Volume indicators as well as volume spikes, a one-day or two-day exceptionally high number of trades
- Momentum oscillators, indicators designed to reveal how quickly trends develop, when they begin to slow down, and when a stock is overbought (a bearish signal) or oversold (a bullish signal)

D. Contrarians and the efficient market hypothesis

“Efficient Market Hypothesis – The belief that all current prices are based on the accumulation of all known facts and news about the company, meaning that all prices are currently fair and efficient.”

Contrarians think that prices may be forecast to some extent based on a rational and analytical examination of market behavior and news. This notion is challenged by the efficient market hypothesis (EMH), which holds that the market is efficient, and that all information is integrated into a stock's price.

However, if markets were genuinely efficient, prices would respond uniformly to all news, such as profits or merger announcements. According to EMH, reactions to earnings shocks should be calculated and accurate, and they should not be open to



rectification. EMH fails to understand market behavior factors, which might be the most significant feature of stock market investing and trading.

A contrarian has seen how price behaves irrationally and how price tends to overreact to any unexpected news. Contrarians feel the market is highly inefficient under these conditions. If such is the case, then the one-day price change will be overstated. If that is true, then exaggerated one-day price movements present an opportunity to exploit inefficiency.

E. Contrarians and the Random Walk Theory

“Random Walk Theory – A theory about the market stating that it is impossible to predict the direction of price movement, and that any price today has a 50% chance of rising or falling.”

Contrarians also oppose the Random Walk Theory because they believe that price movements may be forecast based on market activity and fundamental analysis. If the random walk hypothesis is correct, all types of analysis are rendered meaningless. For this reason, the contrarian rejects the hypothesis.

It wouldn't matter which stock was chosen if all prices were 50/50 bets; half would increase and half would fall. You must reject the impacts of high sales and profitability in one firm vs low outcomes in another under the random walk. You would also have to discard reputation, competitive success, and outstanding management. All of this would be irrelevant since price movement would occur independently of these variables.

F. Contrarians and the Dow Theory

“Dow Theory – A series of “rules” about market trends and how they are set and reversed. The theory is based on the teachings of Charles Dow, one of the two founders of the Dow Jones company.”

Contrarians accept the basis of the Dow Theory over the long term, while also recognizing that short-term price behavior tends to be chaotic and irrational. The contrarian views the Dow Theory as an organizing principle of technical analysis, while also observing how volatile short-term price movement and market behavior present trading opportunities.

I. The tenets of the Dow Theory

- ✓ The market consists of three movements: primary, secondary, and short-term.
- ✓ Trends consist of three phases: accumulation, public participation, and distribution.



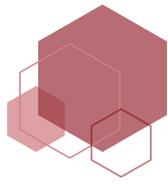
- ✓ The market tends to discount all news very quickly.
- ✓ Stock averages must confirm each other before a reversal is recognized.
- ✓ Volume confirms trends.
- ✓ Trends continue until a contrary signal is recognized and confirmed.

Many have pointed to the tenet that the market discounts news, to support the efficient market hypothesis. It is true that the market behaves in this manner, but it often takes several days for the discounting to go into effect. Contrarians are strong proponents of the Dow Theory over the long term and recognize that the core of trend analysis rests with recognition of reversal and confirmation.

G. Finally

Contrarians although appearing to act in opposition to the majority do not act so on a whim, rather they tend to make decisions for different reasons than others – utilizing reasoning and analysis rather than emotion, which makes them more successful in the long run. Contrarian investing thus is similar to value investing as a contrarian seeks out mispriced stocks and purchases those that appear to be undervalued by the market. Thus Warren Buffett, one of the best-known value investors is also the most well-known example of a contrarian investor. One of his most famous phrases sums up his approach to contrarian investing: "be fearful when others are greedy, and greedy when others are fearful." Thus, recognizing when to be free of the effect of trends, observing changes in market behaviors, and acting on well-founded information become key in making more profitable investments.

**This article was previously published in the Poush, 2078 edition of The Pulse.*



Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
BHPL	IPO	250,000(O)	2022/10/21 AD 2079/07/04 BS	2022/11/04 AD 2079/07/18 BS	NIBL Ace Capital
ALBSLP	Auction	789,900(P)	2022/10/09 AD 2079/07/01 BS	2022/11/21 AD 2079/08/05 BS	Prabhu Capital
BARUN	Auction	355,060(O)	2022/10/31 AD 2079/07/14 BS	2022/11/07 AD 2079/07/21 BS	RBB Merchant Banking

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Himalayan Capital Limited
Karmachari Sanchaya Kosh Bhawan,
Thamel, Kathmandu
Contact: 01-5358345, 5363147
www.himalayancapital.com
info@himalayancapital.com