

# The Pulse

Market Growth, Risks and Outlook

Magh 2019

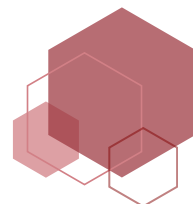
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**Himalayan Capital**





A Wholly Owned Subsidiary of Himalayan Bank Limited



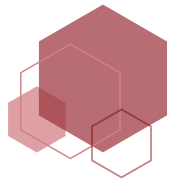
## Global Markets Overview

€	1.09 \$ (1.88%)	S&P 500	4,070.57 (5.88%)
£	1.24 \$ (2.67%)	BSE SENSEX	59,466.90 (-2.26%)
₹	81.51* (1.62%)	NIKKEI 225	27,402.06 (4.98%)
¥	129.87* (2.54%)	FTSE 100	7,765.14 (4.20%)
A\$	0.71 \$ (5.29%)	DAX	15,150.03 (8.81%)
₱	0.75 \$ (1.63%)	CAC 40	7,097.21 (9.63%)
		HANG SENG	22,688.90 (14.93%)
		SSE COMPOSITE	3,288.38 (6.45%)

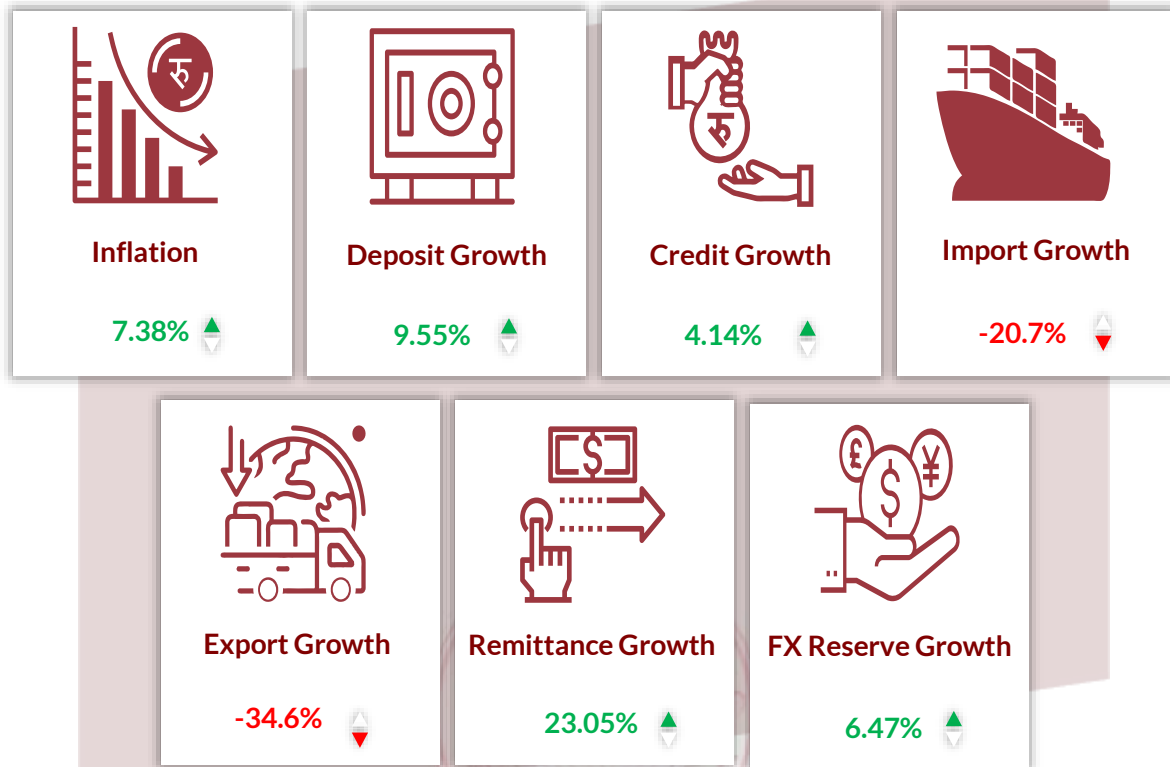
\*Values Per 1 \$

	<b>Gold(\$)</b> Per Oz. 1,945.10 (6.52%)		<b>Bitcoin(\$)</b> 23,783.90 (42.99%)
	<b>Brent Crude(\$)</b> Per Barrell 86.66 (5.35%)		<b>Ethereum(\$)</b> 1,648.33 (37.39%)

#All Changes are in MoM basis.



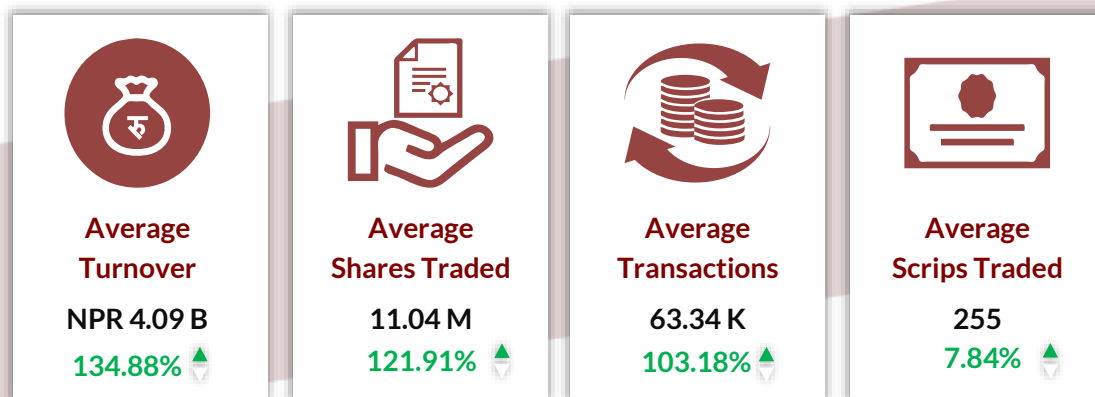
## Macroeconomic Overview



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

\* Credit refers to claim on private sector

## Monthly Trading Statistics



\* For the period (December-29, 2022) - (January-27, 2023)



# Liquidity Overview

## A. Major Rates

Description	Value As On					Change		
	Mangsir-78	Kartik-79	Mangsir-79	Magh-6	Magh-13	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	5.05	8.91	9.45	7.93	7.93	4.40	0.54	0.00
Wt.Avg 91 Days TB rate (%)	5.04	10.88	10.67	10.59	10.59	5.63	-0.21	0.00
Wt.Avg 364 Days TB rate (%)	4.97	10.80	11.52	11.94	11.94	6.55	0.72	0.00
Wt. Avg Interbank Rate (%)	4.96	8.50	7.96	7.22	4.73	3.00	-0.54	-2.49
CapEx (In Billion NPR)	28.43	26.30	33.99	55.79	59.16	5.56	7.70	3.37

## B. BFI Statistics

Description	Value As On					Change		
	Mangsir-78	Kartik-79	Mangsir-79	Magh-6	Magh-13	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	6.24	8.32	8.46	8.46	8.46	2.22	0.14	0.00
Wt. Avg Lending Rate (%)	9.29	12.65	12.74	12.74	12.74	3.45	0.09	0.00
Base Rate (%)	8.25	10.60	10.69	10.69	10.69	2.44	0.09	0.00
CD Ratio (%)	91.24	86.85	85.91	86.64	86.77	-5.33	-0.94	0.13
Fixed Deposits/Total Deposits (%)	52.68	59.25	56.92	56.92	56.92	4.24	-2.33	0.00
Total Liquid Assets/Total Deposits (%)	21.56	24.28	24.58	24.58	24.58	3.02	0.30	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	Poush 26	200.00	0.00	19	67	6.45	200.00	7.52	8.40	7.93
91 Days	Magh 10	360.00	0.00	23	90	3.58	360.00	10.35	9.00	9.82
182 Days	Poush 26	600.00	0.00	16	57	1.73	600.00	9.75	11.91	11.01
364 Days	Poush 19	750.00	0.00	24	98	1.99	750.00	11.36	12.14	11.94

\*Figures are in Millions NPR



## Sectoral Movement

Index	Poush 14	Magh 12	Change
NEPSE	2,029.03	2,183.21	7.60%
Commercial Bank	2,254.66	2,727.52	20.97%
Manufacturing & Processing	1,949.54	2,337.28	19.89%
Life Insurance	2,871.47	3,375.36	17.55%
Finance Company	8,294.75	9,488.40	14.39%
Non Life Insurance	62.05	69.37	11.80%
Development Bank	10,081.74	11,025.11	9.36%
Hotels & Tourism	13.72	14.86	8.31%
Trading	1,714.94	1,851.13	7.94%
Others	4,486.34	4,822.74	7.50%
HydroPower	3,599.58	3,849.90	6.95%
Mutual Fund	1,365.78	1,401.14	2.59%
Investment	5,206.19	5,239.76	0.64%
Microfinance	1,553.46	1,562.85	0.60%

## Major Movers

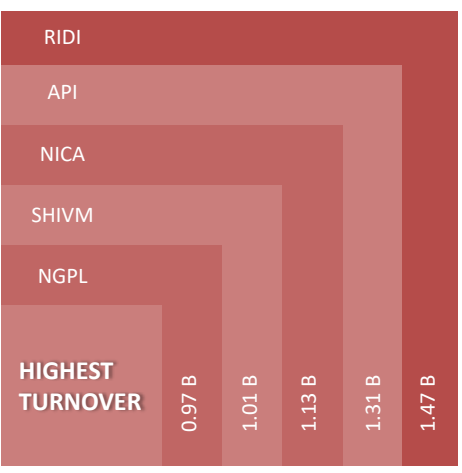
ADLB	148.63%	BNT	-10.19%
HURJA	74.99%	NBLD87	-8.91%
PHCL	72.82%	SBIBD86	-6.54%
KLBS	59.31%	ADBL	-6.10%
PPL	48.74%	ADBLD83	-5.58%



# Sectoral Divergence-Turnover

Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	1.74 B	4.09 B	134.88%
Commercial Banks	0.02 B	0.06 B	216.42%
Life Insurance	0.08 B	0.24 B	209.88%
Finance	0.51 B	1.56 B	206.79%
Corporate Debenture	0.08 B	0.22 B	186.94%
Hotels And Tourism	0.06 B	0.18 B	181.51%
Development Banks	0.11 B	0.30 B	165.95%
Tradings	0.01 B	0.02 B	164.90%
Manufacturing And Processing	0.12 B	0.31 B	147.98%
Microfinance	0.20 B	0.48 B	137.03%
Hydro Power	0.07 B	0.17 B	136.54%
Others	0.27 B	0.61 B	125.72%
Mutual Fund	0.00 B	0.01 B	123.55%
Investment	0.13 B	0.27 B	110.99%
Non Life Insurance	0.00 B	0.00 B	10.80%

## Highest Turnover



## Highest Volume





# NEPSE Outlook

## A. Current Overview



The flagship NEPSE index came at 2,183.21 points on 26<sup>th</sup> January 2023 with a total turnover of NPR 2.86 billion. Compared to previous week's end price and average turnover, the index increased by 4.4 points but the average turnover decreased by 15.41%. The index has been drifting laterally over the previous two weeks, ranging from a low of 2,136.38 to a high of 2,166.35 points.

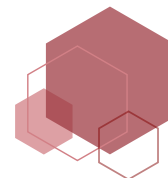
Based on Fibonacci Retracement plotted from recent low point at 1,850 to the recent high point 2,278, the index is resting at 23.6% Fibonacci level i.e., 2,177 points.

The Exponential Moving Average (EMA) is still indicating upward movement due to bullish crossover between 20 days EMA and 50 days EMA.

Due to sideways movement of the market and the fall of daily transaction, the Moving Average Convergence and Divergence (MACD) indicated bearish trend due to bearish crossover between the MACD line and the signal line. Similarly, with the fall of daily transactions, the diminishing histogram has formed leading to new red histogram formation indicating future downward trend. However, the lines are hovering above the baseline, the momentum of the market seems strong.

Relative Strength Index (RSI) is at 69.22 points which is near to the overbought region indicating higher buying pressure in the market.

The positive Directional Movement Index (DMI) is floating above the negative DMI with a significant gap suggesting upward direction due to the index's growth since December



22<sup>nd</sup>, 2022. Similarly, the Average Directional Index (ADX) is at 46.39 points, which is greater than 25, suggesting that the current index is on a strong upward trend.

The flagship NEPSE index's immediate support levels stands at: (S1) 2,135, (S2) 2,034 and (S3) 1,965, whereas the resistance levels hold at: (R1) 2,235, (R2) 2,277 and (R3) 2,385.

## B. Long Term Overview



After a steep incline of 16.92 percent (316 points), the flagship NEPSE index is currently resting at 2,183.21 points from the recent bottom 1,867.21 points (22<sup>nd</sup> December, 2023). Now, the index is consolidating in the similar price range for a week with the support level of 2,138 points.

Nearly after one year's time frame, the index is trading above the 200 days Exponential Moving Average (EMA). The rise of the index has led to the 200 days EMA and 50 days EMA line to close the gap between them. If the index rises even more then the probability for a golden cross over is high.

According to the trend-based Fibonacci Extension drawn from 1,810.48 points (trend initial point) to 1,965.36 points (end of initial trend) and extending the line to 1,849.07 points, the NEPSE index is getting strong support at the 161.8% Trend-Based Fibonacci Extension (i.e. 2,138.57 points) (end of the secondary trend). According to the indicator, the index's resistance level is 2,317 points and its support level is 2,138 points.

The intermediate support levels of NEPSE index stand at: at: (S1) 2,139, (S2) 2,027 and (S3) 1,990, whereas the resistance levels hold at: (R1) 2,228 (R2) 2,317 and (R3) 2,390.





# SCRIP ANALYSIS

## Himalayan Bank Limited (HBL)

### A. Technical Analysis



The stock price of HBL is NPR 308 on 26<sup>th</sup> January 2023. The stock price has been consolidating in a same price range since 2<sup>nd</sup> January 2023.

Due to the rise of the stock from 22<sup>nd</sup> December 2022, a bullish crossover can be observed in 50 days Exponential Moving Average (EMA) and 20 days EMA. However, due to some major correction in the stock and the declination of daily transaction of the stock, 20 days EMA and 50 days EMA lines are converging meaning the gap between the lines are closing in.

The Relative Strength Index (RSI) of the stock is at 48.87, which indicates neutral momentum.

The Moving Average Convergence Divergence (MACD) indicator is indicating negative signals due to the bearish crossover of MACD line and the signal line, and the negative histogram. However, the momentum of the stock is strong as the lines are hovering above the baseline.

The immediate support levels for this stock stand at: (S1) NPR 300, (S2) NPR 283, and (S3) NPR 269, whereas the resistance levels hold at: (R1) NPR 320 (R2) NPR 338, and (R3) NPR 345.



## 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.

Now, Himalayan Bank limited and Civil Bank Limited (CBL) are in the process of acquisition with a swap ratio of 100:80 which means 100 shares of Civil Bank would be converted to 80.28 shares of the Himalayan Bank after the acquisition.

### I. Comparative Quarterly Performance Visualizations

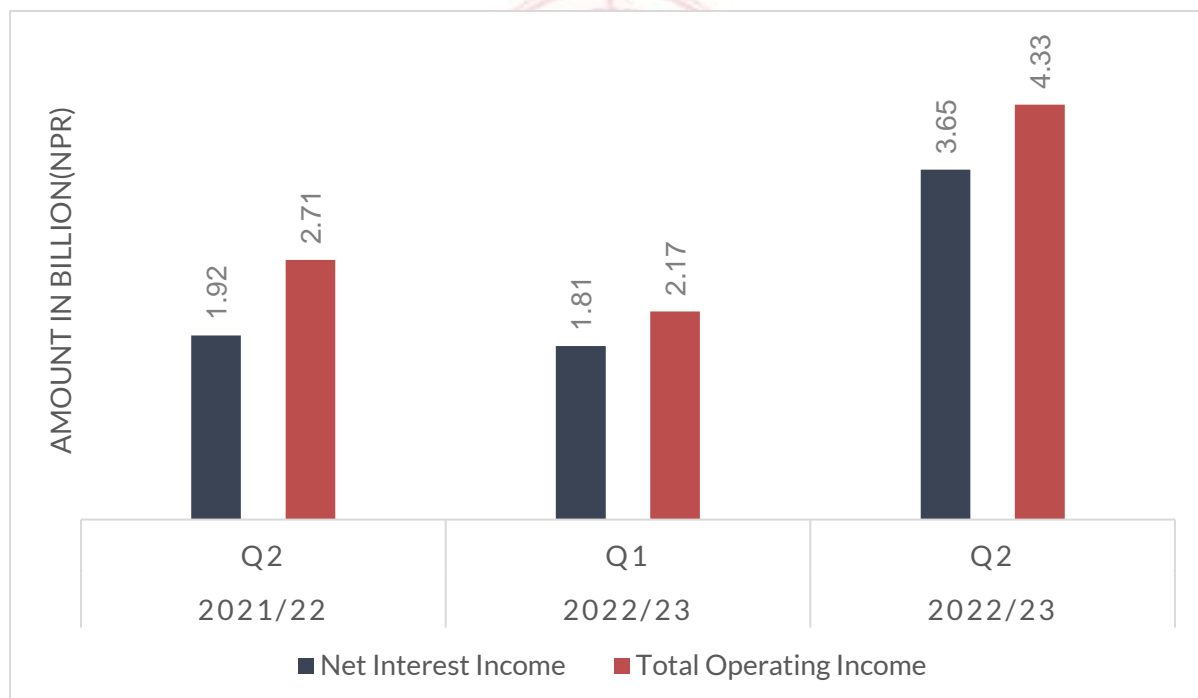


Figure: Quarterly comparison of Net Interest Income and Total Operating Income

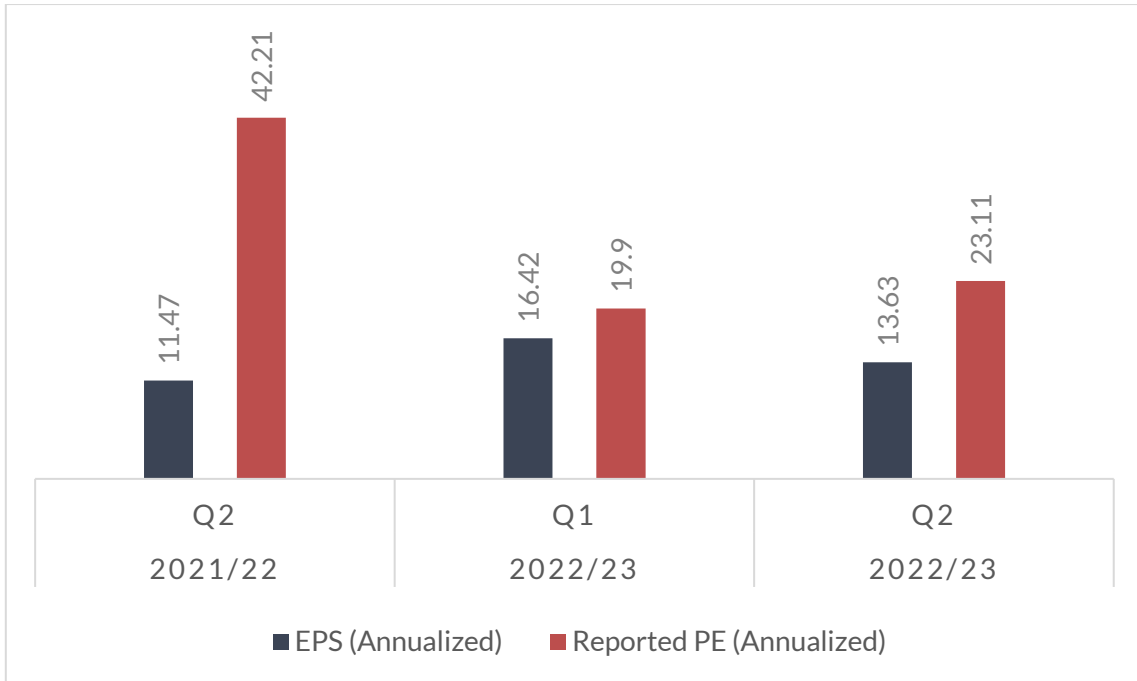
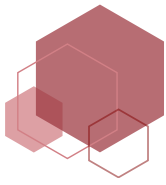


Figure: Quarterly Comparison of EPS and PE

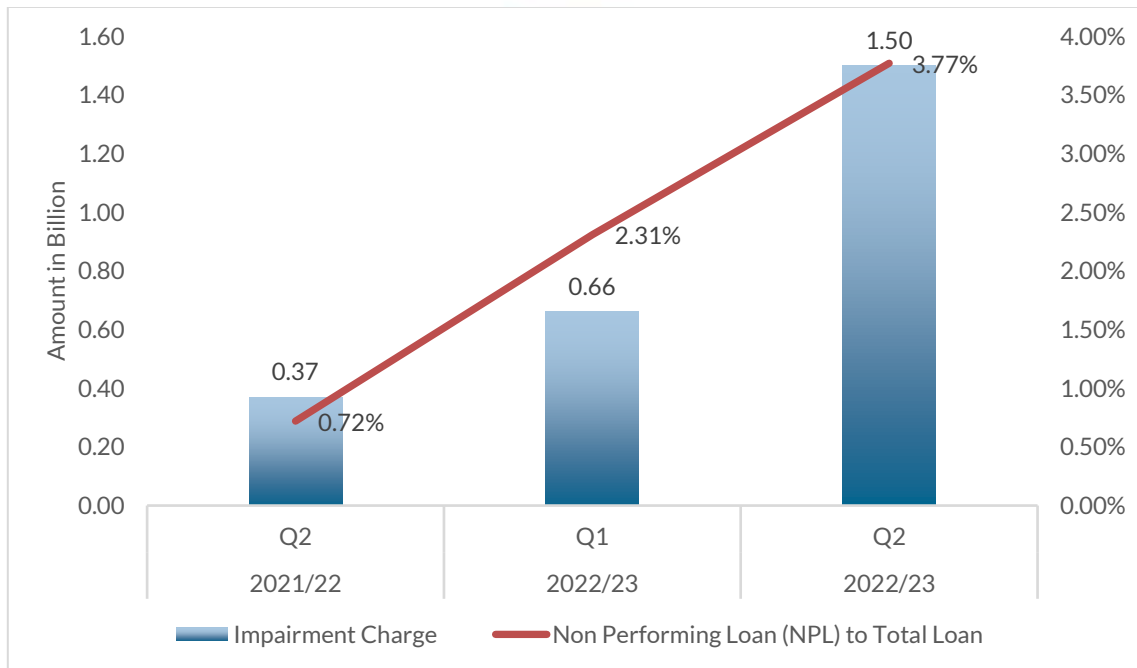


Figure: Quarterly Comparison of Impairment Charges and NPL (%)

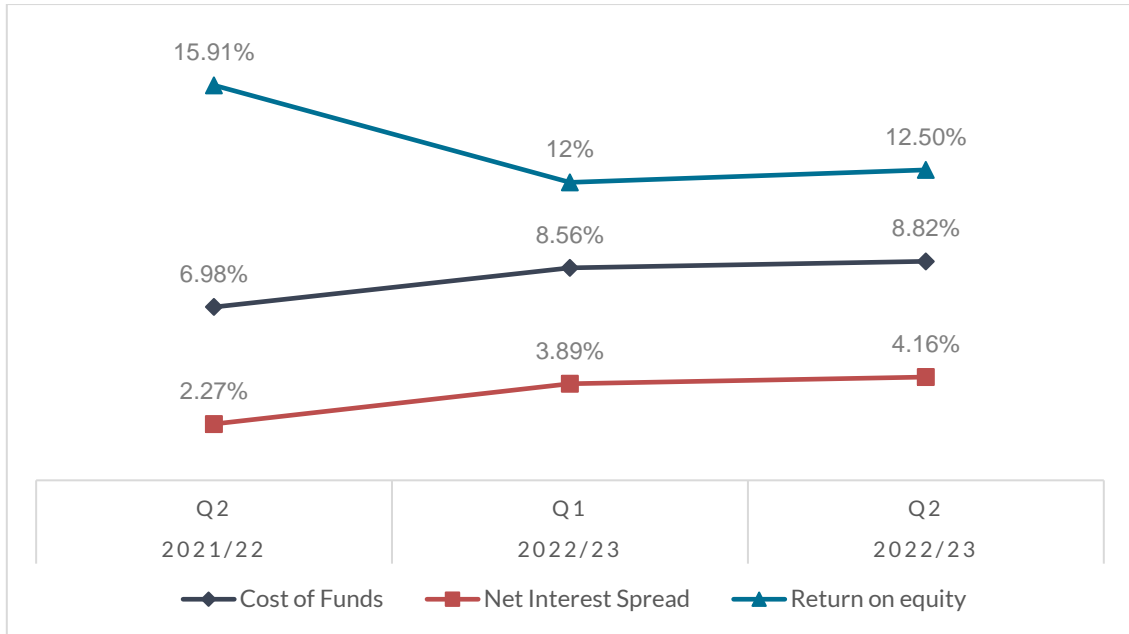
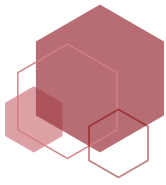


Figure: Quarterly Comparison of Cost of funds, Return on Equity and Net Interest Spread

## 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,

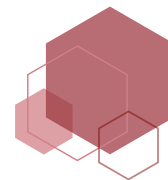
$$R_f \text{ (Last 10 years average 91 days T-Bills)} = 2.08\%$$

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

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

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

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>

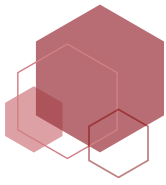
## D. Conclusion

After the valuation from three different methodologies, the final average value of the company is NPR 260. Looking at the Absolute Valuation Method and Relative Valuation Method, the final average value has arrived at 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 overvalued by 15.58% of the final average value.

With the publication of 2nd quarter report for FY 2079/80, the bank's quarterly performance has increased drastically in terms of core operating income generation. In this quarter, the bank has made NPR 3.65 billion worth of net interest income which increased by 102% from the previous quarter and 90% from the corresponding quarter of previous FY 2078/79. Similarly, the impairment charges of the bank have also increased to NPR 1.50 billion i.e., by 127 % from the previous quarter. Hence, in next quarter report, the bank's profit might look lucrative as the probability of write back of impairment charges is high in next quarter. However, along with the rise of impairment charges, the Non-Performing Loans (NPL%) has also increased to 3.77% from 2.31%.

Similarly, the current Earnings per Share (EPS) and Price to Earnings (PE ratio) of the company stands at NPR 13.63 and 23.11 times making it below industry average and above industry average respectively. Now, looking at the other major ratio/indicator, return on Equity (ROE) stands at 12.50%, cost of fund at 8.82% and the net interest spread at 4.16%. Here, due to the rise of net interest spread from 3.89% to 4.16%, the net interest income of the company has inclined.

From the technical analysis of the HBL, the stock is currently resting at NPR 308 after reaching the recent top point on 2nd January 2023. Currently, the stock seems bearish in nature due to the formation of downtrend and indication from RSI, EMA, and MACD.



If the stock breaches down the most immediate support level of NPR 300, then a new support level will be NPR 283, and it can be a good range for purchasing the stocks.

Therefore, considering all fundamental, technical and quarterly comparative analysis of the Himalayan Bank Limited (HBL), the last trading price of the stock is overvalued. However, if the price of the stock is to come in between the range of NPR 260 and NPR 280, then it might be wise for the investors to take some holdings of the stock.

## ISSUE OF THE MONTH

### The Greater Fool Theory

The Greater Fool Theory is a concept in investing that refers to the idea that an investor can make a profit on an investment, even if the investment itself is overvalued or has poor fundamentals, as long as there is a "greater fool" willing to pay an even higher price for it. In other words, the theory suggests that an investor can make money on an investment simply by buying it at a low price and selling it to someone else at a higher price, regardless of the underlying value or potential of the investment.

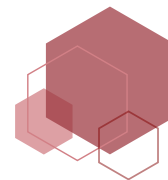
This theory is often associated with speculative markets, such as the stock market or real estate market, where prices can be driven up by market speculation and irrational exuberance. In these markets, investors may be buying into the hype of the market, rather than the value of the asset. This can lead to a price bubble, where the prices of an asset class rise to levels that are not supported by the underlying fundamentals.

#### A. Why is it dangerous?

Critics of the Greater Fool Theory argue that it is a dangerous and unsustainable way to invest. It is based on the assumption that there will always be someone willing to pay a higher price for an investment, regardless of its fundamentals. This can lead to market crashes and financial loss when the market sentiment changes and the "greater fool" doesn't appear.

#### B. How to avoid losses?

To avoid being caught up in the Greater Fool Theory, investors should focus on fundamentals when making investment decisions. They should analyze the financial health, management, and industry trends of a company before investing in its stock. Additionally, it is important to have a well-diversified portfolio and not to put all eggs in one basket. Furthermore, investors should have a clear understanding of the risks involved in any investment and be aware of the market sentiment.



## C. Conclusion

In conclusion, the Greater Fool Theory is a concept in investing that suggests that an investor can make a profit on an investment, even if the investment itself is overvalued or has poor fundamentals, as long as there is a "greater fool" willing to pay an even higher price for it. However, this theory can be dangerous and unsustainable, and investors should focus on fundamentals and have a clear understanding of the risks involved in order to avoid being caught up in it.

### Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
MJSHL	IPO	912,000(O)	2023/01/29 AD 2079/10/15 BS	2023/02/12 AD 2079/10/29 BS	Prabhu Capital
MKHCL	IPO	1,992,000(O)	2023/01/27 AD 2079/10/13 BS	2023/01/31 AD 2079/10/17 BS	Prabhu Capital
MOLUNG	IPO	802,500(O)	2023/01/17 AD 2079/10/03 BS	2023/01/29 AD 2079/10/15 BS	Sunrise Capital
GBLBSP	AUCTION	23,000(P)	2023/01/25 AD 2079/10/11 BS	2023/02/03 AD 2079/10/20 BS	NIC Asia Capital
ALBSLP	AUCTION	774,375(P)	2023/01/24 AD 2079/10/10 BS	2023/02/07 AD 2079/10/24 BS	Prabhu Capital
SWBBL	AUCTION	159,000(P)	2023/01/24 AD 2079/10/10 BS	2023/02/07 AD 2079/10/24 BS	NIBL Ace Capital
SFEF	MUTUAL FUND	120,000,000(O)	2023/01/24 AD 2079/10/10 BS	2023/02/07 AD 2079/10/24 BS	Sunrise Capital

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