

The Pulse

Market Growth, Risks and Outlook

Poush 2079

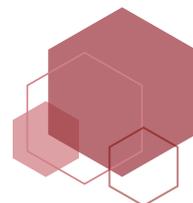
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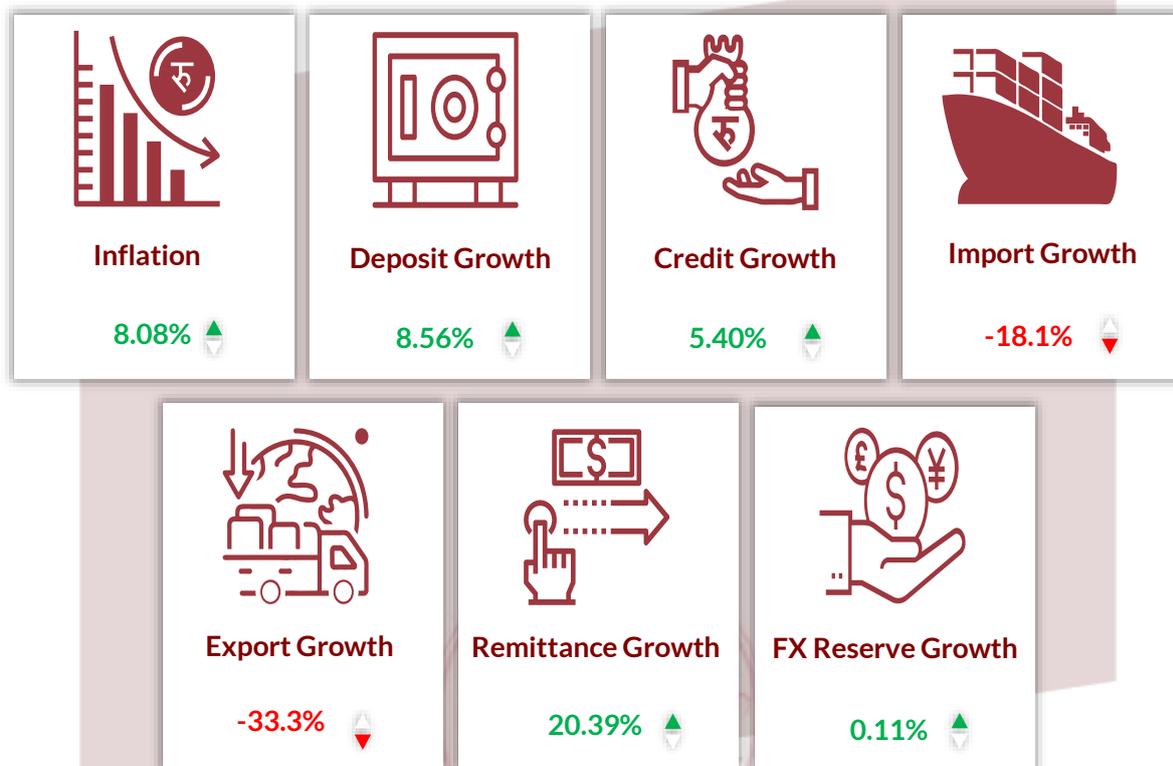


Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited



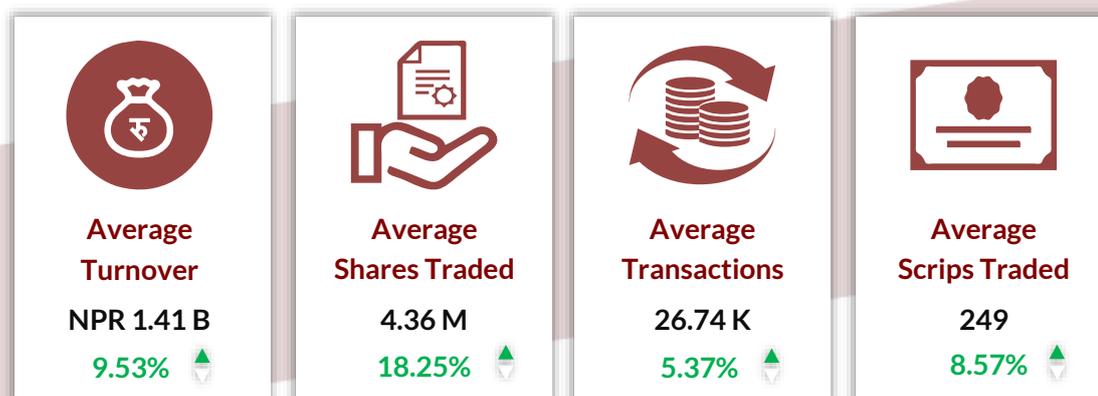
Macroeconomic Overview



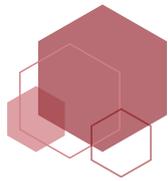
* Growth refers to the change between Four months of FY 78/79 and FY 79/80

* Credit refers to claim on private sector

Monthly Trading Statistics



* For the period (November-30) – (December-28)



Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Ashwin-78	Bhadra-79	Ashwin-79	Poush-8	Poush-15	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	0.17	8.79	9.20	9.25	9.25	9.03	0.41	0.00
Wt.Avg 91 Days TB rate (%)	4.86	9.11	10.14	10.70	11.42	5.28	1.03	0.72
Wt.Avg 364 Days TB rate (%)	4.72	9.03	10.53	11.84	11.95	5.81	1.50	0.11
Wt. Avg Interbank Rate (%)	4.95	8.50	8.50	7.89	8.33	3.55	0.00	0.44
CapEx (In Billion NPR)	14.89	5.86	19.68	38.68	41.69	4.79	13.82	3.01

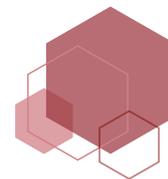
B. BFI Statistics

Description	Value As On					Change		
	Ashwin-78	Bhadra-79	Ashwin-79	Poush-8	Poush-15	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	5.43	7.81	8.16	8.16	8.16	2.73	0.35	0.00
Wt. Avg Lending Rate (%)	8.69	12.06	12.19	12.19	12.19	3.50	0.13	0.00
Base Rate (%)	7.57	10.01	10.34	10.34	10.34	2.77	0.33	0.00
CD Ratio (%)	88.79	87.63	86.90	85.87	86.26	-1.89	-0.73	0.39
Fixed Deposits/Total Deposits (%)	49.30	58.19	58.22	58.22	58.22	8.92	0.03	0.00
Total Liquid Assets/Total Deposits (%)	22.53	25.17	25.02	25.02	25.02	2.49	-0.15	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	Mangsir 27	200.00	0.00	12	36	3.08	200.00	8.52	10.12	9.25
91 Days	Poush 12	650.25	0.00	9	27	0.50	650.25	10.95	12.00	11.42
182 Days	Poush 12	1000.00	500.00	12	32	1.06	500.00	11.85	12.25	11.98
364 Days	Poush 12	200.00	0.00	13	31	2.49	200.00	11.86	12.18	11.95

*Figures are in Millions NPR



Sectoral Movement

Index	Mangsir 14	Poush 14	Change
NEPSE	1,949.85	1,972.15	1.14%
Life Insurance	9,130.27	9,696.16	6.20%
HydroPower	2,029.07	2,149.83	5.95%
Investment	57.35	60.30	5.14%
Non Life Insurance	7,664.51	7,946.23	3.68%
Others	1,459.14	1,511.49	3.59%
Hotels & Tourism	2,711.31	2,797.71	3.19%
Trading	1,879.67	1,902.46	1.21%
Mutual Fund	13.36	13.52	1.20%
Finance Company	1,619.73	1,627.34	0.47%
Development Bank	3,475.28	3,481.86	0.19%
Microfinance	4,395.44	4,372.62	-0.52%
Commercial Bank	1,366.26	1,341.31	-1.83%
Manufacturing & Processing	5,189.89	5,093.23	-1.86%

Major Movers

DLBS	257.41%	NADEP	-36.96%
KLBS	127.32%	AIL	-14.02%
ADLB	48.23%	SHVM	-13.63%
CYCL	42.92%	FOWAD	-12.44%
RHPL	20.88%	GBIME	-10.38%



Sectoral Divergence-Turnover

Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	1.29 B	1.41 B	9.53%
Commercial Banks	0.22 B	0.36 B	65.95%
Hotels And Tourism	0.01 B	0.02 B	58.75%
Others	0.05 B	0.08 B	42.91%
Manufacturing And Processing	0.11 B	0.15 B	41.89%
Life Insurance	0.05 B	0.06 B	21.32%
Corporate Debenture	0.00 B	0.00 B	19.70%
Tradings	0.01 B	0.01 B	17.91%
Microfinance	0.17 B	0.19 B	12.63%
Non Life Insurance	0.04 B	0.05 B	12.23%
Investment	0.05 B	0.05 B	3.84%
Preferred Stock	0.00 B	0.00 B	0.00%
Development Banks	0.10 B	0.10 B	-1.34%
Hydro Power	0.30 B	0.29 B	-2.80%
Mutual Fund	0.00 B	0.00 B	-15.20%
Finance	0.09 B	0.08 B	-16.59%
Promoter Shares	0.08 B	-0.03 B	-129.87%

Highest Turnover



Highest Volume





NEPSE Outlook

A. Current Overview



The flagship NEPSE index closed at 1972.15 points on December 28, 2022, with a daily turnover of NPR 2.153 billion. In comparison to the previous month's (November 29th, 2022) index position, the NEPSE has risen by 0.96%, or 18.8 points, and the average monthly turnover has increased by 8.50%. (i.e., Difference of November Average Turnover & December Average Turnover).

The index had a roller coaster ride this month, with longer downward swings and shorter upward swings. This brief uptick was a result of the formation of a new government and the expectations of more market friendly policies from a new finance minister whose previous record shows high conduciveness for the capital markets. Prior to this event, the index had indicated a negative sentiment as evidenced by declining market participation.

The index's Exponential Moving Average (EMA) shows a bullish trend as a result of the index's sudden rise and investors' participation in the market. As a result, the separation between the 20-day and 50-day moving averages has narrowed, potentially indicating a short-term bullish trend.

The Relative Strength Index (RSI) is at 62.31, indicating that the market is in a neutral state. However, when recent RSI points are compared to previous RSI points, they have increased by more than 6 points, indicating that buyer participation in the market has increased.



The MACD indicator is indicating a bullish signal because the MACD line has crossed over the signal line, forming a positive inclining histogram. Similarly, the MACD line is above the baseline, indicating strong market momentum.

The immediate support levels of the NEPSE index stand at (S1) 1,930, (S2) 1,885, and (S3) 1,850, whereas the resistance levels hold at (R1) 1,990, (R2) 2,020, and (R3) 2,075.

B. Long Term Overview

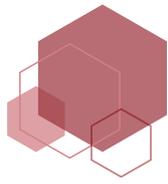


The flagship NEPSE index reached 1,972.15 points on 28th December 2022. On a weekly basis, the index has inclined by 5.62 % i.e. 104.94 points with a weekly average turnover of NPR 2.711 billion. If the recent weekly average turnover is to be compared with the previous month (November) weekly average turnover, it has increased by huge percentage.

As per the trend-based Fibonacci Extension plotted from 1,813 points (trend initial point) to the recent high point of 1,988 points (end of the initial trend) and extending the line to 1,813 points (end of the secondary trend), the NEPSE index is taking good support at 78.6% Trend-Based Fibonacci Extension region. According to the indicator, the index's resistance level is 1,988 points and the support level is 1,950 points.

If we observe the 50 days Exponential Moving Average (EMA) and 200 days EMA, the gap between the two lines is declining because of the rising index. However, it still indicates long term bearish trend due to death cross over between the EMAs line.

The intermediate support levels of the NEPSE index stand at: (S1) 1,855, (S2) 1,805, and (S3) 1,755, whereas the resistance levels hold at (R1) 2,090, (R2) 2,148, and (R3) 2,225.



SCRIP ANALYSIS

Mountain Energy Nepal Limited (MEN)

A. Technical Analysis

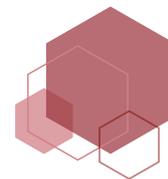


The stock price of MEN is NPR 738.10 on 28th December 2022 with a daily volume of 3,045 units. Just a day before, the scrip's value had increase by 4.96% i.e. 36 points with a daily volume of 16,106 units. So, it can be considered as a minor correction after two-days incline of the stock.

For the past 3 months, the stock has traded within a range of NPR 688 (below) and NPR 800. The stock has not breached either the resistance level or the support level.

Despite of increase in the price of the stock, the Exponential Moving Average (EMA) indicator is indicating a downward signal as 50 days EMA is hovering above 20 days EMA. However, the gap between the lines has declined due to rise in the price which might result in a golden cross-over if the 20 days EMA crosses over the 500 days EMA with inclined daily transaction.

The Relative Strength Index (RSI) of the stock is at 51.90 points, which indicates neutral momentum. Recently, a short classical bullish (RSI) divergence was formed on 22nd December, 2022 which might also be the reason in inclination of the price.



The Moving Average Convergence Divergence (MACD) indicator is indicating positive and strong signals as the MACD line has crossed over the signal line, and MACD line is above the baseline which indicates strong momentum of the stock.

Based on Directional Movement Index (DMI) indicator, it is indicating a positive signal as a positive DMI is above the negative DMI with a bigger margin. However, the Average Directional Index (ADX) is at 23.74 indicating that the current trend of the stock is not strong.

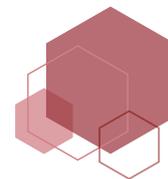
The immediate support levels for this stock stand at: (S1) NPR 710, (S2) NPR 685, and (S3) NPR 640, whereas the resistance levels hold at: (R1) NPR 765 (R2) NPR 778, and (R3) NPR 800.

B. About the Company

Mountain Energy Nepal Limited (MEN) is a public limited company promoted by business persons having experience in the hydropower sector. Aadhi Shakti Bidhyut Bikash Company Limited (ASBL) and Robust Energy Limited (REL) were subsidiaries of MENL and merged into MEN in FY 2019. ASBL was involved in the operation of 5MW run-of-the-river Tadi Khola Hydroelectric Project (TKHEP) and REL was involved in the construction of 42MW Mistri Khola Hydroelectric Project (MKHEP). The projects are constructed under BOOT (Build, own, Operate and Transfer) mechanism.

The details of the projects that are underdevelopment are-

Project Name	Tadi Khola Jalavidyut Aayojana	Mistri Khola Jalavidyut Aayojana
Project Type	Run-of-River	Run-of-River
Location	Nuwakot	Myagdi
Installed Capacity (M.W)	5 MW	42 MW
Annual Net Energy Output (GWh)	32.48 GWh	239 GWh
PPA signed	Chaitra 15, 2061	Magh 20, 2067
General License Valid up to	Mangsir, 05, 2103	Kartik 19, 2103
Price per unit (Dry Season)	Rs. 8.40	Rs. 8.40
Price per unit (Wet Season)	Rs. 4.8	Rs. 4.66
COD/RCOD	Chaitra 14, 2069	Chaitra 18, 2076



I. Board of Directors

Name	Position
Mr. Surid Raj Ghimire	Chairman
Mr. Dol Raj Sharma	Director
Mr. Chandra Prasad Dhakal	Director
Mr. Shyam Sundar Khetan	Director
Mr. Manohar Das Mul	Director

C. Stock Valuation

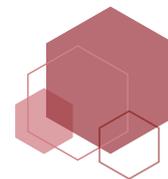
The final average valuation of Mountain Energy Nepal Limited (MEN) is based on the Discounted Future Earnings valuation method, the final valuation of MEN has been computed as NPR 270.52. In this method, company's income statement is projected for 23 years by implementing all the necessary information of the project's power generation capacity on seasonal basis, royalty cost, and building up some assumptions for the other factors like administration expenses, depreciation, interest expenses and so on.

Similarly, the book value of the stock is NPR 165.27. Thus, averaging both determined values, the final average value of the stock has arrived at NPR 217.89.

Method	Intrinsic Value
Book Value Per Share	165.27
Discounted Future Earnings	270.52
Average Valuation	217.89

Assumptions, Major Variables

Key Assumptions & Growth Rate	
Beta	1.46
Market Return (R _m) (CAGR)	13.63%
Inflation Rate	6.73%



Key Assumptions & Growth Rate	
90 Day T-Bills (Last 10 Years)	2.08%
Nominal Risk-Free Rate (after tax)	8.95%
Risk Premium	4.68%
Cost of Equity by CAPM method	15.78%
Cost of Debt	11.00%
WACC	12.45%

D. Conclusion

After the valuation from discounted future earnings method, the final value of the company is derived at NPR 270.52 making the current market price of the stock is overvalued by 173%. The future profits of the project are anticipated here based on 47 MW of power production and earning collection from electricity sales on a seasonal basis, i.e. dry and wet seasons, with an efficiency level of 85 percent. After determining all the relevant components of profit and loss statement, the profits are discounted back to the present value in each year of the operation. As the company should handover the project to Nepal Electricity Authority (NEA) after 23 years from now, so the projections are done for 23 years and the terminal growth rate after 23 years is assumed to be null.

Similarly, from the relative valuation method, the stock's average value has come to NPR 567.27 making the current market price of the stock overvalued by 30%. Here, the hydropower companies with EPS greater than 30 are considered as MEN's peer companies. Hence, the average PE and PBV are determined by considering above assumptions. So, therefore, the relative value of the MEN from PE valuation and PB Valuation arrived at NPR 586.51 and NPR 548.03 respectively.

Looking at history of dividend, the company has recently distributed 10.5263% cash dividend to its shareholders for fiscal year 2078/79 for the first time. Looking from the sectoral overview, MEN stands at top with the highest EPS of NP 56.04 with P/E ratio of 13.17 points. With two hydroelectricity projects and low per megawatt cost, the company has reported increase in its total operating income. Thus, it indicates sound financial risk profile of the company.

Talking from technical aspects, the stock has bounced from significant support zone i.e. NPR 680 -710 primarily due to political change in the economy resulting whole NEPSE index to incline. Observing from indicators like RSI and MACD, the stock might go



upward for short-term as the MACD crossover is indicating upward trend and positive sentiment in the market for the stock. Similarly, the classic bullish divergence can be observed RSI lines.

From a fundamental standpoint, the company's current performance is very promising. Having said that, the stock price may not come near to the determined final average intrinsic value in short period of time. So, for the long-term investors it would be a smart investment if the stock could be purchased in many lots at various above support regions determined from different technical indicators.

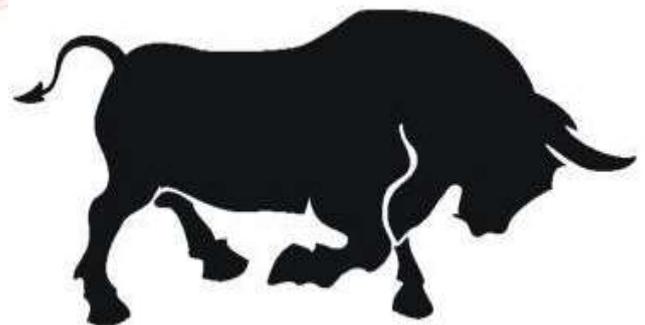
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ISSUE OF THE MONTH

Bull Market

A. What is Bull Market?

A bull market, also known as a bull run, is a long, extended period in the market when stock prices are on the rise. There is no single stat or metric that defines when we are in a bull market, but the most common definition is when stock/asset prices increase at least 20% from their most recent low, with signs that they will continue to grow. This is most commonly applied to stock market Indices (NEPSE Index in case of Nepal) which measures overall position and movement of stocks in Nepal Stock Exchange.



A bull market is the reverse of a bear market, which happens when stock prices are falling. Bulls when excited charge rapidly and are known for running at great speeds while bears tend to hibernate and are associated more with defense and thus are used as symbols for markets/assets with similar moods.



B. What happens in Bull Markets?

As the bull markets are a sign of increasing investor confidence, the actions performed by investors in such markets are also indicative of the same which include:

- ✓ Investors buy more stock: Since stock prices are in an upward trajectory in bull market, investors become convinced they'll keep doing so, so they keep on buying which raises prices even higher, as the supply cannot keep up with demand.
- ✓ Companies go on an expansion spree: Owing to consumer buying, companies tend to make more investments due to the confidence shown by investors, this usually means companies hire more workers and paying existing employees more money.
- ✓ Consumer Spending Increase: As stock prices keep on going up, so do investor earning which tends to drive people to spend more money as they are confident their assets will generate even higher returns.
- ✓ This leads to higher inflation as: More consumer spending increases the money supply which ultimately increase the prices of everything as the value of money decreases.

C. How long do Bull Markets last?

As per standard convention, a bull market is considered over when stocks start a period of steady decline, falling at least 20% from their peak. However, this does not necessarily mean that the market will be declining henceforth. It is just that the bull run of that particular phase of the market is over. This ties into the view of looking at market movements in specific small phases rather than the whole as is the case in trading.

Bull Markets generally tend to end when markets change fundamentally or when the impetus that drove the market forward ends, when prices have risen too high or too fast, or when some other event forces investors to feel pessimistic about the future such as with the past COVID-19 scare that affected both Global and Nepali Markets.

D. Investing in a Bull Market

Investing in bull markets is risky but also offers great rewards, the key to investing in the markets is understand how the markets move and recognize entry and exit points. In this regard, a smart investor would invest as follows:

a. Invest in a Diversified Portfolio

It becomes very tempting to invest in a stock that has grown rapidly and looks like it will keep on doing so for some time. However, sometimes stock tend to get



overpriced and the momentum they carried can evaporate in an instant. An investor who only buys specific stocks is always at risk of loss if a stock reverses its course. Maintaining a diversified portfolio shields an investor from booking huge losses. This also means the investors can get good returns even if certain sectors grow much better than others.

b. Stick to your Strategy

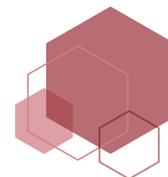
It is during bull-markets that even weak companies look like they will grow substantially. However, these companies stock price growths are driven purely by investor sentiments rather than their own fundamentals. They can easily turn around and follow a downward trajectory similar to how they had moved up. Relying on market news and speculation and investing on companies is not a very sound strategy. While it may result in profits in the short run, they can become traps for investors that may not understand all the dynamics of the market. It is better to stick to own strategy on investing in stocks which are fundamentally well and will not fall down a cliff if things go bad quickly.

c. Know your Levels

The interesting thing about the markets is that the nature and mood of a market can only be truly ascertained after the fact or in hindsight. Even the savviest of investors/traders do not manage to get it right every time. It is therefore very difficult to time the markets. It is much simpler to just set your levels and buy and sell according to those benchmarks and not get caught up in the hype as market grow and fall similarly.

However, one thing is for certain, that despite some falls, the markets always move upwards over an extended period of time. Therefore, establishing defined levels for buying and selling and acting accordingly will always yields good returns in the long run.

**This article was previously published in the Ashwin, 2077 edition of The Pulse.*



Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
SPCL	IPO	58,058(O)	2022/12/21 AD 2079/09/06 BS	2022/01/04 AD 2079/09/20 BS	Muktinath Capital
Asian Hydropower	IPO	340,000(O)	2022/12/13 AD 2079/08/27 BS	2022/01/03 AD 2079/09/19 BS	NMB Capital
MKHCL	IPO	1,000,000(O)	2022/12/09 AD 2079/08/23 BS	2023/01/01 AD 2079/09/17 BS	Prabhu Capital
SUPERMAI	IPO	500,000(O)	2022/12/07 AD 2079/08/21 BS	2023/01/05 AD 2079/09/21 BS	Sanima Capital
MKCL	RIGHT	2,000,000(O)	2022/11/11 AD 2079/07/25 BS	2022/12/30 AD 2079/09/13 BS	Muktinath Krishi Company
PRVUPO	AUCTION	4,000,000(P)	2022/12/14 AD 2079/08/28 BS	2022/12/28 AD 2079/09/14 BS	Prabhu Capital
NUR85/86	DEBENTURE	5,000,000(O)	2022/12/15 AD 2079/08/29 BS	2022/12/29 AD 2079/09/14 BS	NIBL Ace Capital
NIBLGF	MUTUAL FUND	160,000,000(O)	2022/12/22 AD 2079/09/07 AD	2023/01/05 AD 2079/09/21 BS	NIBL Ace Capital

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