

The Pulse

Market Growth, Risks and Outlook

Mangsir 2078

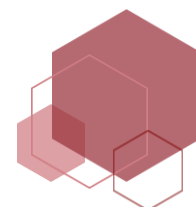
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Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited



Macroeconomic Overview



Inflation

4.24% ▲



Deposit Growth

17.2% ▲



Credit Growth

29.7% ▲



Import Growth

63.7% ▲



Export Growth

109.5% ▲



Remittance Growth

-7.6% ▼



FX Reserve Growth

-10.3% ▼

*Growth refers to the change between the third month of this FY and the third month of Last FY.

Monthly Trading Statistics



Average
Turnover

NPR 5.27 B

27.57% ▲



Average
Shares Traded

9.33 M

10.94% ▲



Average
Transactions

63.71 K

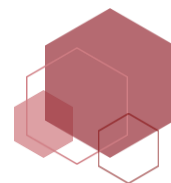
25.23% ▲



Average
Scrips Traded

228

1.80% ▲



Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Ashwin-77	Bhadra-78	Ashwin-78	06-Mangsir	12- Mangsir	YOY	MOM	WOW
Wt.Avg 28 Days TB rate	0.11	0.17	0.17	0.17	0.17	0.06	N/A	N/A
Wt.Avg 91 Days TB rate	0.63	3.98	4.86	4.91	4.96	4.23	0.88	0.05
Wt.Avg 364 Days TB rate	2.00	4.38	4.72	4.95	4.60	2.72	0.34	-0.35
Wt. Avg Interbank Rate	0.19	4.75	4.95	4.96	4.99	4.76	0.20	N/A
Capital Expenditure (In Billion NPR)	5.97	1.28	3.71	21.81	23.16	-2.26	2.43	1.35

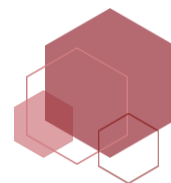
B. BFI Statistics

Description	Value As On					Change	
	Ashwin-77	Bhadra-78	Ashwin-78	06-Mangsir	12- Mangsir	YOY	MOM
Wt. Avg Deposit Rate	5.45	4.92	5.43	4.92	4.92	-0.02	0.51
Wt. Avg Lending Rate	9.83	8.57	8.69	8.57	8.57	-1.14	0.12
Base Rate	7.73	6.89	7.57	6.89	6.89	-0.16	0.68
CD Ratio	83.55%	87.89%	88.79%	90.18%	90.31%	5.24%	0.90%
Fixed Deposits/Total Deposits	47.76%	48.77%	49.30%	48.77%	48.77%	1.54%	0.53%
Total Liquid Assets/Total Deposits	27.39%	23.42%	22.53%	23.42%	23.42%	-4.86%	-0.89%

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	Bhadra 1	500.00	500	N/A	N/A	N/A	N/A	N/A	N/A	N/A
91 Days	Mangsir 6	223.32	N/A	20	78	4.48	223.32	4.74	5.02	4.96
182 Days	Mangsir 6	1247.00	N/A	29	133	2.38	1247.00	4.54	5.09	5.00
364 Days	Mangsir 6	11.00	N/A	14	19	12.45	11.00	4.60	4.60	4.60

*Figures are in Millions NPR

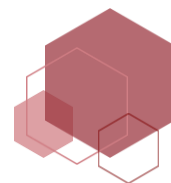


Sectoral Movement

Index	Last Month	This Month	Change
NEPSE	2,837.61	2,651.49	-6.56%
Others	1,937.56	2,088.50	7.79%
Mutual Fund	15.89	15.28	-3.84%
HydroPower	3,188.98	3,005.73	-5.75%
Hotels & Tourism	3,455.23	3,255.60	-5.78%
Commercial Bank	1,890.34	1,778.82	-5.90%
Manufacturing & Processing	6,678.59	6,229.26	-6.73%
Finance Company	2,686.97	2,486.74	-7.45%
Microfinance	5,648.77	5,130.54	-9.17%
Development Bank	5,508.01	4,963.61	-9.88%
Non Life Insurance	13,095.46	11,742.48	-10.33%
Life Insurance	15,912.44	14,158.91	-11.02%
Investment	94.14	83.35	-11.46%
Trading	3,321.84	2,803.56	-15.60%

Major Movers

MLBS	118.95%	GAIN	KSBBBL	-25.67%
TPC	111.46%		HIDCL	-23.27%
SAHAS	52.98%		NGPL	-20.83%
NTC	15.97%		HPPL	-20.74%
ICFC	10.43%		GLH	-20.04%



Sectoral Divergence-Turnover

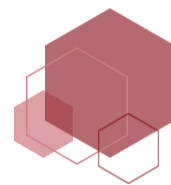
Index	90 Days Average	Monthly Average	Divergence
NEPSE	8.53 B	3.35 B	-60.76%
Preferred Stock	0.03 M	0.07 M	108.42%
Others	177.41 M	225.69 M	27.22%
Development Banks	1.05 B	600.07 M	-43.00%
Hotels	54.72 M	28.82 M	-47.33%
Life Insurance	317.89 M	153.65 M	-51.66%
Investment	340.71 M	144.21 M	-57.67%
Finance	0.84 B	322.80 M	-61.79%
Microfinance	785.85 M	288.63 M	-63.27%
Hydro Power	2.60 B	0.88 B	-66.02%
Tradings	22.12 M	7.39 M	-66.57%
Non Life Insurance	405.82 M	130.73 M	-67.79%
Manufacturing And Processing	227.65 M	68.32 M	-69.99%
Commercial Banks	1.62 B	485.98 M	-70.01%
Corporate Debenture	2.13 M	0.53 M	-74.95%
Mutual Fund	83.43 M	9.26 M	-88.90%

Highest Turnover

MLBL	3.97 B
NTC	3.06 B
NHPC	1.93 B
NABIL	1.70 B
ICFC	1.61 B

Highest Volume

MLBL	5.38 M
NHPC	4.32 M
HIDCL	4.00 M
GIMES1	3.37 M
API	3.20 M



NEPSE Outlook

A. Current Overview

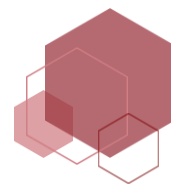


The flagship NEPSE index witnessed a downward trend last month, declining by 189.85 points (i.e. -6.73%) to close at 2,630.01 points at the end of the review period i.e. November 29, 2021. The average turnover for the month of November improved by 27.60% to NPR 5.27 Billion compared to the previous month's average turnover of NPR 4.13 Billion.

As can be seen in the chart above, the NEPSE index is resisting from the trend line and has also witnessed breakdown from the parallel channel pattern indicating weak sentiment in the market right now. Moreover, a bearish pennant pattern could also be observed in the chart above, as the index couldn't take support in the symmetrical triangle formation.

The 20 days EMA that crossed over the 50 days EMA from above is still below it, thus signaling the continuation of downward trend in the short run. Moreover, a death cross has also been observed based on crossover between 50 days and 200 days simple moving average.

The RSI of NEPSE resisted at 60 from the overbought zone and currently it stands at 38 in the oversold zone due to sellers outweighing the buyers.



The MACD line has also crossed over the signal line from above and entered into negative territory giving indication of a downward trend.

The -DMI has crossed over the +DMI and the gap between them seems to be increasing with ADX starting to incline at 16, indicating the downward trend is trying to gain the strength.

The immediate support levels of NEPSE index stands at: (S₁) 2,560, (S₂) 2,500 and (S₃) 2,460, whereas the resistance levels hold at: (R₁) 2,730, (R₂) 2,800 and (R₃) 2,860.

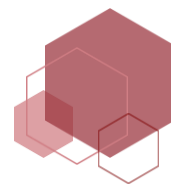
B. Long-Term Outlook



After making the low of 1,102.47 points on 25th November 2019, NEPSE began its upward journey with a confirmation of golden crossover (i.e., crossover between 50 days EMA and 200 days EMA from below) and NEPSE started breaking records after records closing at an all-time high of 3,198.19 points on 18th August 2021, supported by good volume and making an all-time high turnover of NPR 21.65 Billion on 15th August 2021 during this bull run.

As shown in the chart above, NEPSE index has successfully achieved the Trend-Based Fibonacci Extension of 1.61 (2,093.28 points) and 2.61 extension (2,657.78 points) within a very short span of time and after few up and down swings, the index even tested 3.61 Fibonacci extension of 3,222.28 points.

However, after that point the market went into a corrective mode and declined by 21.50% from the recent all-time high closing to take support at 2,510.73 points, amidst various kind of interventions in the recent months from the regulatory bodies, especially the Single Obligor Limit (SOL) of NPR 12 Cr for Margin Lending for an



individual announced through monetary policy for FY 2078/79, as well as due to liquidity position getting tighter and BFIs increasing interest rates to manage their liquidity position.

If we observe the recent price trend, NEPSE index has crossed over both 50 days EMA and 200 days EMA from above indicating the correction is not yet over as the dent has already occurred in investor's sentiment, which might take some more time to recover. However, since the 50 days EMA is still above the 200 days EMA, the upward trend in the long run is still valid with corrections throughout the journey, with the worst-case scenario for the market being: (S1) 2,500, (S2) 2,360 and (S3) 2,100, whereas the best-case scenario being: (R1) 3,000, (R2) 3,200 and (R3) 3,500 in the long-term horizon.

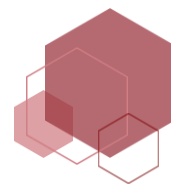
SCRIP ANALYSIS

Nepal Doorsanchar Company Limited (NTC)

A. Technical Analysis



The stock recently made an all-time high of Rs. 1,484 on 25th November 2021 to breach the last all-time high of 1,407.52 dated 7th February 2021. After a sharp fall of 27.21%, the price of the stock took support at Rs. 990 and witnessed a swift rebound of 49.90% when it made the recent high. Since the stock reached overbought zone, the stock is witnessing slight correction/ consolidation due to profit-booking, and it closed at Rs. 1,380 at the end of the review period on 29th November 2021.



20 days EMA crossed over the 50 days EMA from below indicating upward trend in the short run. The RSI of the stock resisted at 78 in the overbought zone and currently it stands at 60 still relatively in the overbought zone. Though the MACD line is still above the trigger line in the positive zone, it is about to crossover from above with histogram also starting to decline indicating the possibility of some price correction.

Though the +DMI is still above the -DMI, they are closing on each other, with slight bend observed in ADX at 35 indicating the stock is trying to stabilize after quick and sharp rise.

The immediate support levels for this stock stands at: (S1) NPR 1,360, (S2) NPR 1,315 and (S3) NPR 1,275, whereas the resistance levels hold at: (R1) NPR 1,400, (R2) NPR 1,450 and (R3) NPR 1,500.

The final average valuation of NTC based on Absolute Approach (viz. Earnings Valuation, Dividend Discount Model and Net Worth per share) as well as Relative Approach (i.e. Market Price Model) has been computed as NPR 689.20, which has been tabulated below:

Method	Valuation Price
Earning Valuation	521.00
Dividend Discount Model	355.46
NWPS (Q1 77/78)	658.81
Discounted Cash Flow	342.48
Market Price Model	1,221.53
Final Average Valuation	689.20

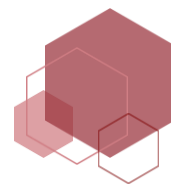
Assumptions

I. Projected Growth Rates

- Perpetual Growth Rate (for longer period projection to calculate terminal value (Last 10 years average economy growth rate)=4.71%

II. Cost of Equity (CAPM Model)

$$K_e = R_f + (R_m - R_f) \cdot B$$



III. 180 Days Average Trading Price

*For Market Price Model, 180 day's average trading price has been considered.

Specifics	Value	Remarks
Monthly Beta (B)	0.71	As on 11/29/2021
Market Return (R _m) (average)	15.94%	
Risk Free Rate (R _f)	9.00%	Citizen Saving Bond, 2083
Cost of Equity (K _e)	13.93%	

B. Recommendation

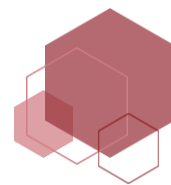
NTC is the only telecommunication sector stock listed in NEPSE, the sector which was comparatively less impacted by COVID-19. It can be considered as a recession-proof defensive stock with a good and consistent dividend history and an average dividend yield of 7.32% in last 8 years (2013 through 2020). But the current price yield at LTP of Rs. 1,380 stands at 3.52% only, considering its historical average dividend rate of 48.63%, which could be expected in this term of dividend announcement as well.

It's first quarterly report of FY 2078/79 stated an increase in revenue from services by 13.19% and in terms of net profitability by 48.91%, mainly due to service expansion and good response from the consumers towards data package services and Fiber Internet Service catered towards competing with other ISP providers in the market. Moreover, Nepal Telecom (NTC) has received approval from Nepal Telecommunications Authority (NTA) for the 5G trial, and its implementation could offer huge growth potential in the near-term future for the company.

The company has huge reserve and surplus of NPR 83.82 billion, which is 5.59 times of its paid-up capital of NPR 15 billion. The stock is trading at Rs. 1,380 at P/E ratio of 22.90 with an EPS of Rs. 60.26 and NWPS of Rs. 658.81.

Thus, the stock could be "good buy" at the support level prices mentioned in the technical analysis part above, during the ongoing correction based on its fundamental strength, good dividend payout and growth prospect after 5G launch, which shall help to defend and balance the investment portfolio in the long run.

Disclaimer: Investment in equity shares has its own risks. The information contained herein is based on analysis and on sources that we consider reliable. This material is for personal information, and we are not responsible for any loss incurred due to it & take no responsibility whatsoever for any financial profits or loss which may arise from the recommendation above.



ISSUE OF THE MONTH

Interest Rate and Capital Market: Effects and Prospects

Among the many lessons learnt from the 2007-2008 Global Financial Crisis, one learning in particular showed us why asset bubbles form. The expansionary policy taken by the US Federal Reserve following the end of the “dot com” boom wherein the federal funds rate (the interest rate at which banks lend to each other) was drastically reduced to combat a moderate recession the country was experiencing meant that interest rates stayed at low levels lowering the cost of borrowing for investors.

This was then aided by a policy of encouraging the buying of homes through subprime mortgage (loans) issued to borrowers with low credit ratings which were bundled together and sold in the secondary market as mortgage-backed securities (MBS) which led to a period of escalation in asset prices ultimately culminating in the 2007-2008 global financial crisis. A sustained period of low interest rates wherein easy credit was available led to a substantial increase in asset prices driven by larger investor participation.

A similar scenario also unfolded in Nepal in the aftermath of the Maoist Movement. Interest rates had remained at all-time low levels for many years following the start of the Maoist Movement, only starting to increase after a period of sustained peace. This period of low interest rates and high liquidity led to a substantial increase in asset prices wherein real estate prices increased significantly and the flagship NEPSE Index had also increased by 400% in a time period of 5 years.

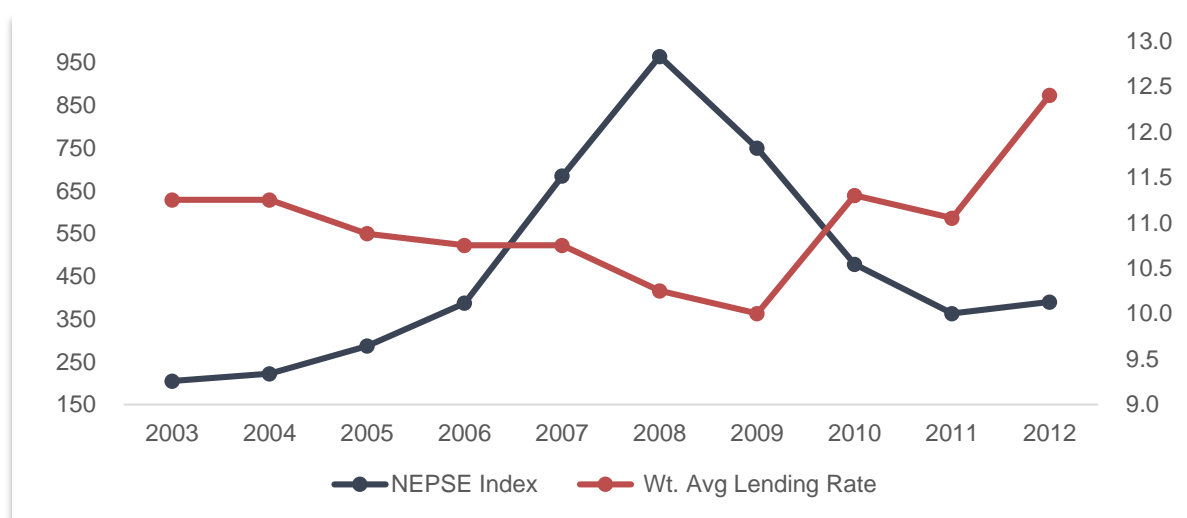
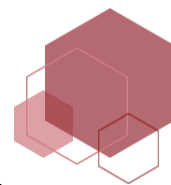


Fig: NEPSE Index and Weighted Average lending Rate of BFIs (FY 2003-2012)



We can see the relationship between decreasing lending rate and the increasing NEPSE Index for the peak and towards the end of Maoist Movement between 2003 AD and 2012 AD from the above figure.

The ability to borrow money at low rates meant that demand for assets such as land and equity kept on rising whereas supply increased slightly or remained the same over this period. This meant that the price of assets was increasing at a rate greater than the interest payable on any debt incurred for acquiring the assets which promoted a self-sustaining cycle of increasing lending and higher assets prices until the market reached its peak after which an increase in interest rates coupled with a decrease in asset prices started a bearish cycle. The bullish market was also supported by money being spent for the first constitutional assembly elections which helped maintain liquidity in the market.

In the bearish phase of the market, the high leverage that had facilitated a bullish run was now creating large liabilities for investors wherein they had to pay increasing interest on their debt whose value had either stagnated or was in a decline. This pressure to service debt which was increasing regularly led to a sell-off of assets which increased supply and with low demand prices began to fall farther sustaining the downward cycle.

However, we can see that following the peak of the bullish cycle, the market had started correcting even while interest rates were moving downwards, this was due to two reasons: the first was that the market may have moved too quickly, and so lucrativeness of stocks was not high even when interest rate was decreasing and secondly, news speculating about the erstwhile Minister of Finance's thoughts on the stock market as being speculative investment also may have played a major role in accelerating the market's downfall.

A similar scenario was observable between FY 2012 and FY 2018 wherein decreasing interest rates played a major role in speeding up the recovery of the stock market after a correction of up to 3 years. This was aided by the policy of regulators to increase paid up capital of BFIs and Insurance Companies driving up the demand in the market as well as introduction of DEMAT Accounts which made trading in shares easier and more efficient as transfer times reduced substantially during this time period as shares could be transferred electronically. The bullish market was also supported by money being spent for the second constitutional assembly elections which helped maintain liquidity in the market. The market then started correcting after FY 2016 just as interest rates began to rise again.

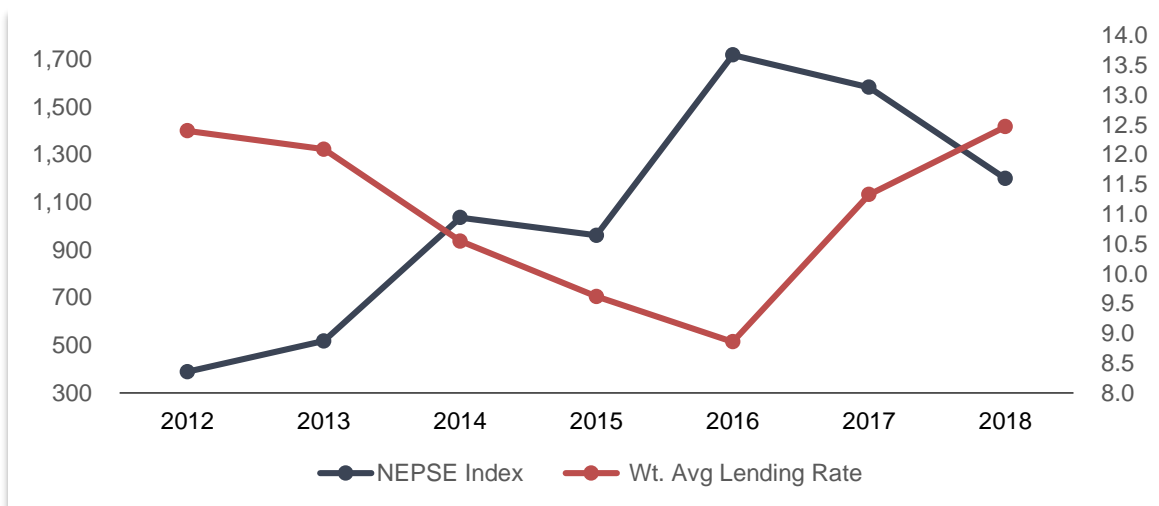
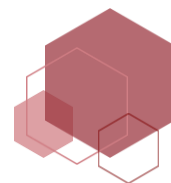


Fig: NEPSE Index and Weighted Average lending Rate of BFIs (FY 2012-2018)

Looking at a more recent timeframe, we can see that between FY 2016 and to September of this FY, the flagship index once again saw an increase from May 2020 as interest rates started coming down due to aftermath of COVID-19 and preventive measures such as lockdowns imposed to stop its spread. A low interest rate regime was supported by excess liquidity in the market due to low to no loan disbursement as all major economic activities were on hold for a substantial period in time. Lockdown related measures also led to an increase in number of online trading users which helped increase the overall demand as operational complexity and time also reduced leading to broader participation and higher turnover as well. This helped the index reach new highs.

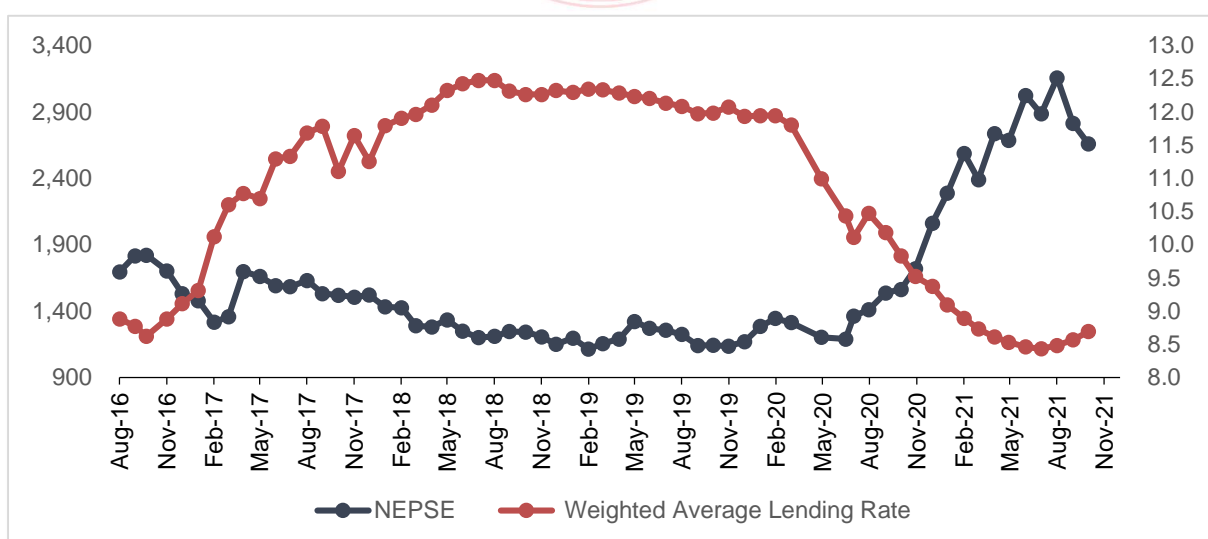
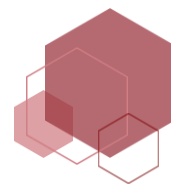


Fig: NEPSE Index and Weighted Average lending Rate of BFIs (Aug-2016 – Sep-2021)

We can see from the above examples that given low interest rates and favorable liquidity the market seems to move up as evidenced by the movement observable in



NEPSE throughout the years, while higher interest rates and consequently low liquidity leads to downward movement in case of the stock market. From what is observable, the effect of change in interest rates on the stock market is due to the following key reasons:

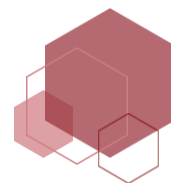
- A. **Change in Ability to Leverage:** A decrease in interest rates mean that people can borrow more money while having same interest obligation, this leads to people borrowing more and using it to buy up assets such as stocks. For e.g.: for a simple loan of NPR 10 Lakhs, the interest payable for an interest rate of 10% per annum would be NPR 10,000, but if the interest rate were to decrease to 8% per annum, the same interest payment of NPR 10,000 could service a debt of NPR 12.5 Lakhs, a 25% increase in debt/investment capacity for a 20% decrease in interest rate.

However, if the interest rates were to jump up to 10% per annum again (20% increase) the interest payable would increase to NPR 12,500 (increase of 25%). Thus, change in interest rates affect individuals' ability to leverage wherein a reduction or increase in interest rates affect an individual's ability to service a debt by a factor more than 1 which is why once a bullish or bearish cycle begins, it seems to persist until the interest rate direction starts to change given that regulatory or environmental factors remain the same.

- B. **Demand and Supply:** Stock market like all other types of markets works on the principle of demand and supply: Pricing of assets is based upon the demand for an asset in the market and its current supply. We can see that low supply and high demand leads to an increase in the price of an assets while high supply and low demand tends to decrease the price of an asset. Lower interest rates help shore up demand in the market as savings do not provide a very high return leading to people investing in other assets such as stocks. This helps increase the price of these assets which creates further demand as people realize that good returns can be made on the stock market and start borrowing as market returns become greater than cost of lending. This helps keeps prices high or pushes them higher.

An inverse occurs in case of higher interest rates where people tend to shift their investment towards bank deposits as rates become higher which leads to cost of borrowing increasing leading to people starting to sell-off their assets as obligations become bigger than the returns, they are getting from investment which further drives higher supply and lowers demand in comparison leading to price staying low or going lower.

Thus, it can be easily seen that interest rates do affect market direction but other factors can help augment or negate the effect of interest rates as well such as regulatory oversight leading to changing in operating conditions of companies which changes industry fundamentals significantly; major events such as election that help pour in new funds, or policies such as introduction of demat accounts or the use of online trading



which helped introduce new investors and or reduced complexities in buying and selling of securities.

Currently, the flagship NEPSE Index seems to be in a corrective mood for the last few months as interest rates have begun to rise again which has been further aggravated by regulatory action through the introduction of a policy to reduce leverage for larger investors by limiting the amount of credit for margin lending. This has created a demand gap in the market which has slowed the market's movement considerably. Nonetheless, with national elections on the horizon and expected government spending in the second half of the fiscal year, we may as yet see the market move upwards again as interest rates may fall once liquidity position becomes better.

Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
SMBPO	Auction	15,850(P)	2021/11/15 AD	2021/11/29 AD	RBB Merchant Banking
			2078/07/29 BS	2078/08/13 BS	
NLBBLP	Auction	1,494(P)	2021/11/02 AD	2021/12/06 AD	NIC Asia Capital
			2078/07/16 BS	2078/08/20 BS	

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