

# The Pulse

Market Growth, Risks and Outlook

Chaitra 2078

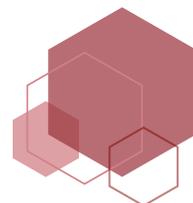
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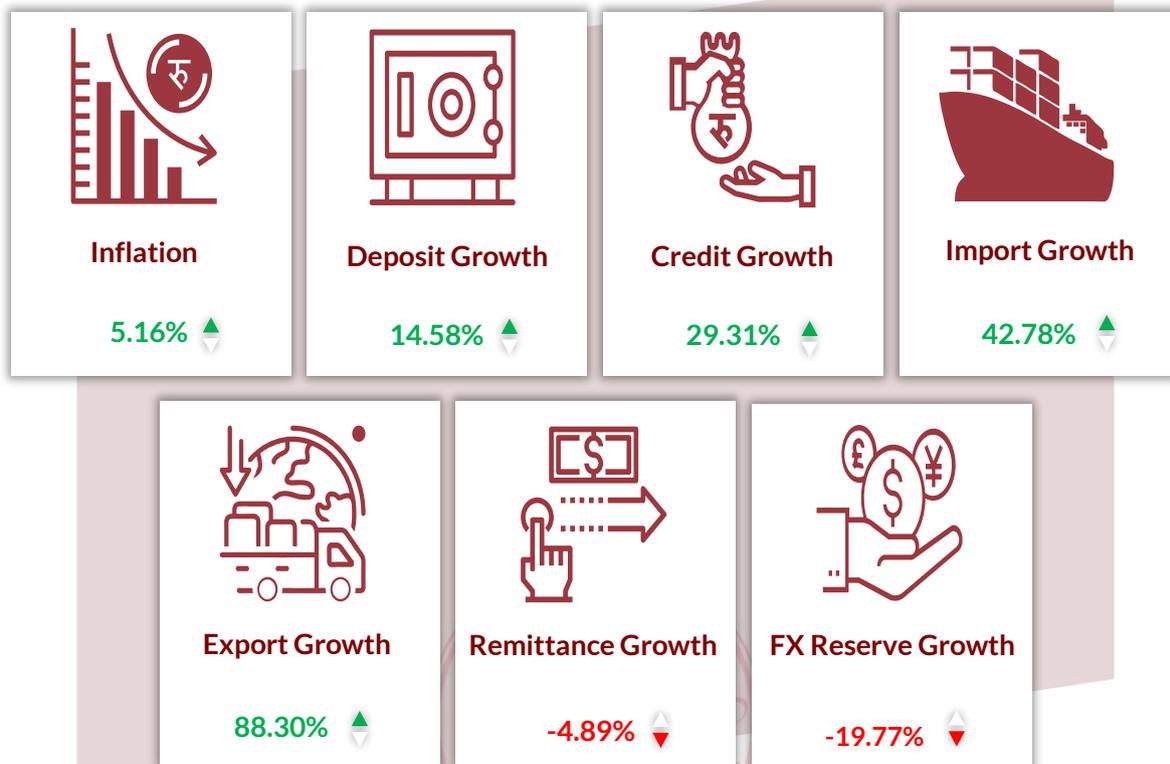


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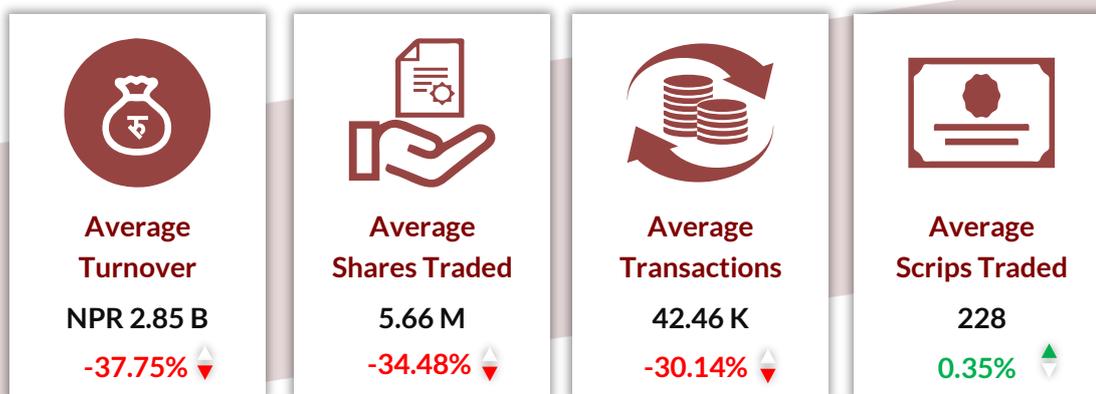


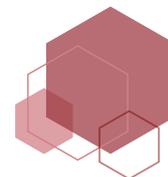
## Macroeconomic Overview



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

## Monthly Trading Statistics





## Liquidity Overview

### A. Major Rates

Description	Value As On					Change	
	Magh-77	Poush -78	Magh-78	5-Chaitra	14-Chaitra	YOY	MOM
Wt.Avg 28 Days TB rate (%)	0.82	4.72	5.64	7.19	7.19	4.82	0.92
Wt.Avg 91 Days TB rate (%)	1.13	5.07	5.60	7.20	7.29	4.47	0.53
Wt.Avg 364 Days TB rate (%)	1.98	4.99	5.29	7.05	7.10	3.31	0.30
Wt. Avg Interbank Rate (%)	0.55	4.76	4.98	6.70	6.99	4.43	0.22
CapEx (In Billion NPR)	63.02	50.80	60.79	79.77	86.04	-2.23	9.99

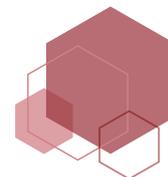
### B. BFI Statistics

Description	Value As On					Change	
	Magh-77	Poush -78	Magh-78	5-Chaitra	14-Chaitra	YOY	MOM
Wt. Avg Deposit Rate (%)	4.86	6.37	6.49	6.49	6.49	1.63	0.12
Wt. Avg Lending Rate (%)	8.89	9.44	10.31	10.31	10.31	1.42	0.87
Base Rate (%)	6.97	8.42	8.53	8.53	8.53	1.56	0.11
CD Ratio (%)	87.47	89.95	90.35	90.54	90.70	2.88	0.40
Fixed Deposits/Total Deposits (%)	48.32	52.52	54.03	54.03	54.03	5.71	1.51
Total Liquid Assets/Total Deposits (%)	25.05	22.67	23.20	23.20	23.20	-1.85	0.53

## 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	Falgun 25	200.00	0.00	18	57	2.61	200.00	7.07	7.23	7.19
91 Days	Chaitra 8	553.00	0.00	17	85	0.00	553.00	7.08	7.39	7.29
182 Days	Chaitra 8	430.00	0.00	15	53	2.35	430.00	7.10	7.35	7.23
364 Days	Chaitra 8	200.00	0.00	18	64	0.00	200.00	7.04	7.14	7.10

\*Figures are in Millions NPR

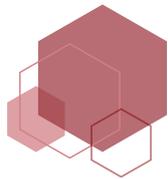


## Sectoral Movement

Index	13-Falgun	14-Chaitra	Change
NEPSE	2,661.44	2,541.84	-4.49%
Hotels & Tourism	2,976.62	3,058.68	2.76%
Life Insurance	14,236.05	14,462.49	1.59%
Non Life Insurance	11,981.25	12,168.84	1.57%
Mutual Fund	15.64	15.54	-0.64%
Microfinance	5,087.71	4,999.77	-1.73%
Commercial Bank	1,705.71	1,650.74	-3.22%
Development Bank	4,559.73	4,370.86	-4.14%
Investment	88.23	84.56	-4.16%
HydroPower	3,281.87	2,969.72	-9.51%
Manufacturing & Processing	6,531.11	5,901.80	-9.64%
Finance Company	2,256.52	2,033.06	-9.90%
Others	2,308.58	2,016.17	-12.67%
Trading	2,796.93	2,407.33	-13.93%

## Major Movers

ENL	60.96%	SPC	-9.14%
RULB	44.02%	MKJC	-8.09%
UMRH	15.12%	NFS	-7.99%
BNT	9.38%	TRH	-7.22%
GLH	8.11%	NTC	-6.57%



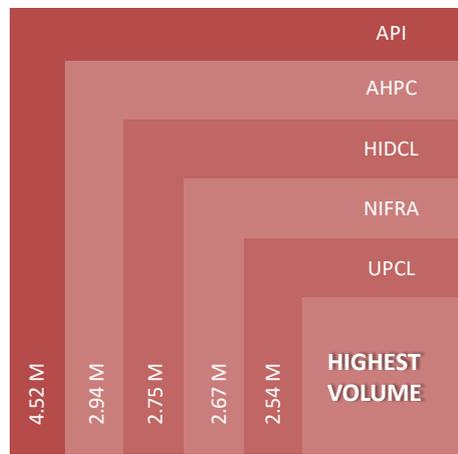
## Sectoral Divergence-Turnover

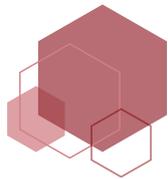
Index	90 Days Avg	Month Avg	Divergence
NEPSE	4.33 B	2.85 B	-34.12%
Hotels And Tourism	26.07 M	27.70 M	6.23%
Life Insurance	320.61 M	333.84 M	4.13%
Manufacturing And Processing	202.59 M	180.69 M	-10.81%
Others	211.53 M	179.11 M	-15.32%
Non Life Insurance	289.36 M	232.38 M	-19.69%
Corporate Debenture	1.43 M	1.14 M	-20.70%
Tradings	15.18 M	10.25 M	-32.49%
Hydro Power	1,268.81 M	819.53 M	-35.41%
Commercial Banks	612.05 M	385.47 M	-37.02%
Investment	254.90 M	159.20 M	-37.55%
Microfinance	379.50 M	221.65 M	-41.59%
Development Banks	413.39 M	212.35 M	-48.63%
Mutual Fund	2.08 M	1.06 M	-49.05%
Finance	330.36 M	147.59 M	-55.32%
Preferred Stock	0.03 M	0.00 M	-100.00%

## Highest Turnover



## Highest Volume





# NEPSE Outlook

## A. Current Overview

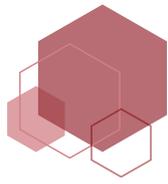


NEPSE index was less volatile last week with a fall of 17.58 points (-0.67%) compared to previous week closing price. In the same way, the average turnover of the week was NPR 2.54 billion which had declined by 16.45% from previous week's average turnover, which was NPR 3.04 billion. NEPSE index closed at 2,613.67 points on 24<sup>th</sup> March, 2022 with the daily turnover of NPR 3.25 billion and it was taking good support at 50% Finbonacci retracement level of 2622.02 points.

After the crossover between 20 days EMA and 50 days EMA, both moving average lines moved parallelly for the week indicating that the market might move to consolidate for the short term.

In the previous week, RSI had showed bullish momentum in the market, but the momentum was lost due to high volume of supply in this week. Now, RSI is maintained at 43.62 points, which indicates that sellers are still outweighing the buyers in the market.

The MACD line is below negative territory indicating weak momentum in the market, but the MACD line has crossed over the signal line which is bullish in nature. In the same way, the value of MACD histogram is still positive but the bullish momentum of the index is fading away.



-DMI line is above the +DMI line indicating bearish direction of the market, and both lines are seen moving in opposite direction forming more gaps between the lines. Likewise, the ADX is still below 25 which indicates weak strength in the current trend.

The immediate support levels of NEPSE index stand at: (S1) 2,575, (S2) 2,515 and (S3) 2,450, whereas the resistance levels hold at: (R1) 2,680, (R2) 2,735 and (R3) 2,780.

## B. Long-Term Outlook

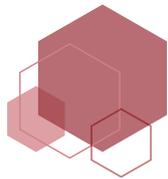


For the last two months, NEPSE index has been moving downward with some small pull ups (in between) in the market. As of 24th March, 2022 NEPSE index stood at 2,613.67 points after taking good support at the 2,576 Level. Since, the tight liquidity situation in BFIs is still prevailing in the market, and with high costs of borrowing, buying pressure has remained low. Thus, the index has been moving downwards with short sideways spells in between.

As shown in the figure above, NEPSE index has reached an intermediate high of 2,981 points on 18th January, 2022 and then started a downward trend with high selling pressure and broke the Trend-Based Fibonacci Extension of 2.618 (2,633.70 points). Now, according to the Trend-Based Fibonacci Extension, the new support level of the index is 2,078.03 points (1.618).

If we observe the 50 days EMA and 200 days EMA crossover, there was a death crossover, but it did not last long. Again, 50 days EMA crossed over 200 days EMA indicating upward trend in the market. However, when observed closely, the gap between the two lines has been decreasing which indicates a diminishing upward trend.

The intermediate support levels of NEPSE index stand at: (S1) 2,575, (S2) 2,500 and (S3) 2,360, whereas the resistance levels hold at: (R1) 2,680, (R2) 2,775 and (R3) 2,900.



# SCRIP ANALYSIS

## Sana Kisan Laghubitta Bittiya Sanstha (SKBBL)

### A. Technical Analysis



The stock price of SKBBL is NPR 1,245 (24th March, 2022). The stock price of the company is seen moving sideways for around one month after the fall from recent highest traded price i.e., NPR 1,521.

The 50 days EMA has already crossed over 20 days EMA from above signaling downward trend.

The RSI of the stock is at 46.06, which indicates the neutral momentum.

The MACD line has crossed over the trigger line indicating upward trend, but both lines are below the baseline which indicates weak sentiment of the investors. If looked at the histogram, it is positive and started to rise for last two weeks which indicates an upward momentum.

-DMI is above +DMI line which means the downfall of the stock. But the gap between the both lines are reducing indicating that the stock price might move sideways for short term. Similarly, the ADX line is at 15.12 which indicates the sign of accumulation or distribution.



The immediate support levels for this stock stands at: (S1) NPR 1,160, (S2) NPR 1,130 and (S3) NPR 1,080, whereas the resistance levels hold at: (R1) NPR 1,294, (R2) NPR 1,320 and (R3) NPR 1,410.

## B. Stock Valuation

The final average valuation of Sana Kisan Laghubitta Bittiya Sanstha (SKBBL) is based on Absolute Approach (viz. Capitalized Earnings, Earnings Valuation and Discounted Cash Flow Method) as well as Relative Approach (viz. P/E Model and P/B Model) has been computed as **NPR 1,073.53**, which has been tabulated below:

Methodology	Valuation Price (NPR)
Capitalized Earnings	907.52
Earning Valuation	856.97
Discounted Cash Flow	791.12
P/E Model	1,473.98
P/B Model	1,338.08
<b>Final Average Valuation</b>	<b>1,073.53</b>

## Assumptions

### I. Perpetual Growth Rates

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

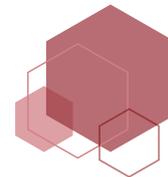
### II. Stable Earnings Growth Rate

- Stable Earnings Growth Rate for calculating capitalization rate = 8.46% (Last six year's average EPS growth rate)

### III. Discounted Rate Using CAPM Model

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

Specifics	Value	Remarks
Weekly Beta (B)	1.14	As on 03/27/2022
Market Return (R <sub>m</sub> )	13%	
Risk Free Rate (R <sub>f</sub> )	9.00%	Citizen Saving Bond, 2083
Cost of Equity (K <sub>e</sub> )	13.56%	



## IV. Industry Average P/E Ratio

- Industry average P/E Ratio = 41.31 and P/B Ratio = 5.45

### C. Recommendation

Using different methodologies, the final average valuation of SKBBL was estimated as NPR 1,073.53. Comparing it with the last trading price of Sana Kisan Laghubitta Bittiya Sanstha (SKBBL), the company's stock price is overvalued by 16% from the final average value. Though overvalued, SKBBL is a preferred stock by the investors due to its consistency in providing dividend to its shareholders and its operating activities growth over the years.

SKBBL is a wholesale microfinance company, alongside three other wholesale microfinance companies that are operating in Nepalese market. So, the industry average of these three companies are taken to compare the performance of SKBBL. Now, the last traded price of SKBBL as on 24th March, 2022 is NPR 1,245. It is trading below the industry average P/E ratio of 41.31 at the P/E of 29.83 with an EPS of NPR 41.40, which means that the company is able to generate more income in this quarter than the whole industry.

Similarly, talking about the company's financial position, it has got the highest paid-up capital, reserves and surplus, market capitalization, ROA and net income in its segment. There is only one aspect where the company is unable to beat the competitors, i.e. Non-performing Loans to Total loans (NPL %) which is 0.60%. If this margin is compared with the total loans growth rate, then the NPL% looks fine for the company. So, from fundamental aspects, SKBBL is performing very well by maintaining its consistency in growth of its business.

Moreover, looking at the history of the company's dividend, the company has provided the somewhat constant dividend over the years i.e., 26% (average), so the company might give similar dividend to its shareholders to maintain consistency. The stock of the company is trading at a premium of 16% compared to its intrinsic value of NPR 1,073.53, thus making it overvalued based on stock valuation. Now, talking from technical perspective, the major indicators like MACD, RSI, EMA and ADX are indicating diminishing downtrend of the company. The company's stock price is closing in to the final valuation price i.e., NPR 1,073.53. If the recent price of the company falls to this range, then it might be a good purchase for the investors for long term.

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## ISSUE OF THE MONTH

### Understanding Divergences for Smarter Investing

Human behavior is shaped by conscious and unconscious decisions which can be swayed by behavioral biases. One such bias is confirmation bias wherein people tend to search for, interpret, favor, and recall information in a way that confirms or supports their prior beliefs or values. This bias becomes more prominent in case of stock market trends, especially when the markets have been moving in the same direction for a sustained period of time. This builds a mindset in people where they assume the markets will keep on moving in the same direction which is not always true. The markets do change their trend and the key to understanding when this change may occur is by understanding when divergences occur and what they mean.

#### A. What is Divergence?

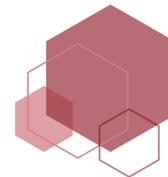
Divergence is when the price of a stock is moving in the opposite direction of a technical indicator or is moving contrary to other data. Divergence informs an investor that the current price trend may be weakening, which in some cases may lead to the price changing direction. The indicator in question may be the MACD, RSI, or Price Volume Indicators.

#### B. What causes divergence?

A Divergence occurs when the underlying factors supporting the directional movement of a trend begin to weaken/start having less of an effect on the trend. However, these changes are not highly pronounced initially but rather start affecting the market environment in a more gradual manner; A divergence is an indicator of the forces support ting a trend starting to weaken which in turn can change the entire trend altogether if the change in forces is substantial enough.

#### C. Divergence and Confirmation

A divergence occurs when the price movement of a stock and the various technical indicators of the stock tell an investor different thing. A confirmation occurs when the price movement of the stock and different technical indicators tell the investor the same thing. A divergence thus is like a warning to investors to be careful about the ongoing market trend whereas a confirmation tells an investor to either enter or exit a position in the market.



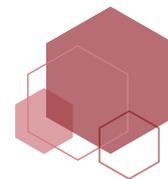
For example, the price of a stock making higher highs shows bullish momentum and so does an increase in overall turnover. However, the increase in turnover can mean two things; the first is that the price of the stock and number of shares traded are both in an increasing trend; the second is that only the price of the stock is increasing but the number of shares traded may be the same or lower. In the second case, a large increase in the price of the stock may mask stagnation/ smaller decrease in the number of shares traded and support increasing turnover. The first case is confirmation of a bullish trend whereas the second case shows a divergence in the trend wherein falling investor participation is hidden due to large increase in stock price.

#### **D. Why Understanding Divergence is Essential?**

The price of any stock is driven by a complex interrelationship between a myriad of factors. This includes both firm specific and macroeconomic factors which combine together to affect overall investor sentiment. However, it is very difficult for a common investor to understand all these factors in play and accurately gauge any changes that may be occurring. The most commonly available information for a common investor regarding a stock are its regular price and volume information which can be used to determine the overall trend in the stock. In this regard, a divergence in price action and volume action can provide an indicator about impending change in the current trend of the stock.

For better informed investors with knowledge of technical indicators, a divergence within the RSI, between RSI and Price or Price and other more advanced indicators can indicate a change in trend. This will help better inform and investor about preparing to enter/ exit the market. However, a divergence is only one of the various technical tools which becomes more effective when used in conjunction with other technical indicators. Even then, it does provide an idea about any impending changes in a market trend.

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



## Key Dates

Scrip	Issue Type	Quantity	Issue From	Issue Till	Issue Manager
SICL	Right	5,275,572 (O)	2022/03/15 AD 2078/12/01 BS	2022/04/04 AD 2078/12/21 BS	NIBL Ace Capital
GFCLPO	Auction	93,489 (P)	2022/03/28 AD 2078/12/14 BS	2022/04/11 AD 2078/12/28 BS	Muktinath Capital
CBBLPO	Auction	606,140 (P)	2022/03/27 AD 2078/12/13 BS	2022/05/01 AD 2079/01/18 BS	BOK Capital Market
RMDCPO	Auction	149,800 (P)	2022/03/27 AD 2078/12/13 BS	2022/05/01 AD 2079/01/18 BS	BOK Capital Market
NABBC	Auction	13,651 (O)	2022/03/24 AD 2078/12/10 BS	2022/03/31 AD 2078/12/17 BS	Global IME capital
NABBCP	Auction	131,998 (P)	2022/03/24 AD 2078/12/10 BS	2022/03/31 AD 2078/12/17 BS	Global IME capital
LGILPO	Auction	122,287 (P)	2022/03/14 AD 2078/11/30 BS	2022/03/28 AD 2078/12/14 BS	Kumari Capital
RMDCPO	Auction	149,800 (P)	2022/02/17 AD 2078/11/05 BS	2022/03/23 AD 2078/12/09 BS	BOK Capital Market
CBBLPO	Auction	606,140 (P)	2022/02/17 AD 2078/11/05 BS	2022/03/23 AD 2078/12/09 BS	BOK Capital Market

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