

The Pulse

Market Growth, Risks and Outlook

Bhadra 2079

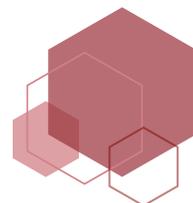
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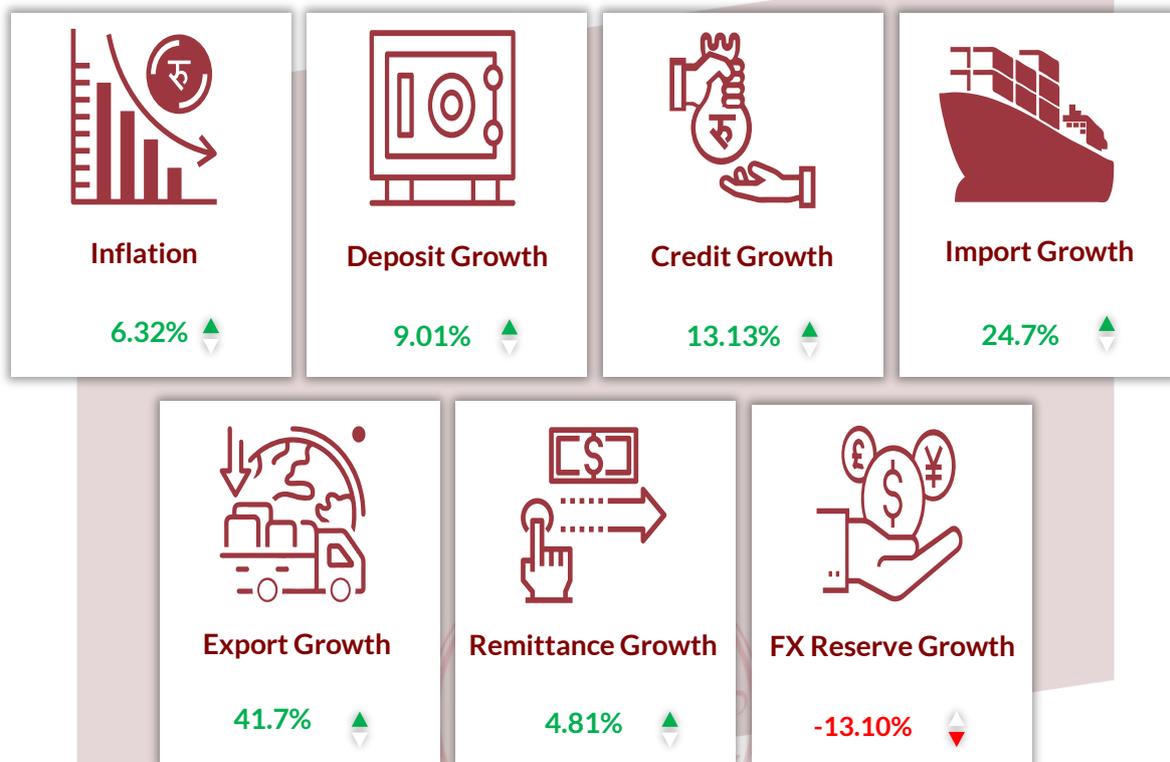


Himalayan Capital

A Wholly Owned Subsidiary of Himalayan Bank Limited



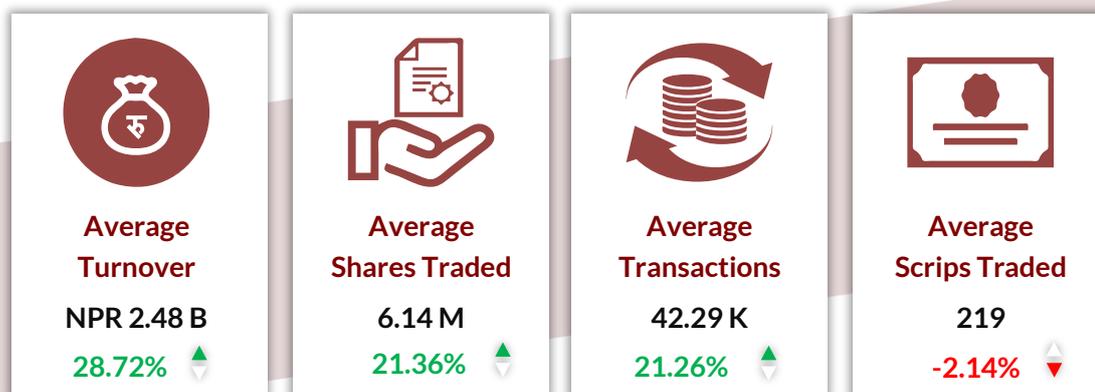
Macroeconomic Overview



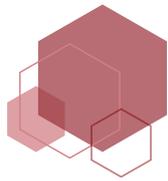
* Growth refers to the change between the annual data of FY 77/78 and the annual data of FY 78/79

*Credit refers to claim on private sector

Monthly Trading Statistics



* For the period (July-29) - (August-28)



Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Baisakh -78	Chaitra-78	Baisakh-79	Bhadra-4	Bhadra-11	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	2.13	7.43	7.67	11.34	8.71	5.54	0.24	-2.63
Wt.Avg 91 Days TB rate (%)	2.26	7.99	8.77	10.48	9.09	6.52	0.78	-1.39
Wt.Avg 364 Days TB rate (%)	4.05	7.81	8.24	9.85	9.02	4.19	0.43	-0.83
Wt. Avg Interbank Rate (%)	2.55	6.99	6.99	8.51	8.50	4.44	0.00	-0.01
CapEx (In Billion NPR)	125.88	103.79	118.27	1.61	0.87	-7.61	14.48	-0.74

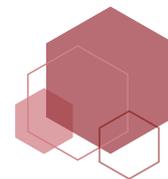
B. BFI Statistics

Description	Value As On					Change		
	Baisakh -78	Chaitra-78	Baisakh-79	Bhadra-4	Bhadra-11	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	4.81	7.11	7.25	7.25	7.25	2.44	0.14	0.00
Wt. Avg Lending Rate (%)	8.53	10.78	11.42	11.42	11.42	2.89	0.64	0.00
Base Rate (%)	6.90	9.17	9.30	9.30	9.30	2.40	0.13	0.00
CD Ratio (%)	89.45	90.06	90.30	88.25	88.36	0.85	0.24	0.11
Fixed Deposits/Total Deposits (%)	49.12	54.48	47.36	47.36	47.36	-1.76	-7.12	0.00
Total Liquid Assets/Total Deposits (%)	23.92	24.43	24.82	24.82	24.82	0.90	0.39	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	Bhadra 7	200.00	0.00	13	52	3.16	200.00	8.00	8.75	8.71
91 Days	Bhadra 7	223.32	0.00	12	51	2.51	223.32	8.84	9.41	9.09
182 Days	Bhadra 7	600.00	0.00	17	62	1.86	600.00	9.00	9.09	9.03
364 Days	Bhadra 7	200.00	0.00	16	62	3.21	200.00	8.70	9.84	9.02

*Figures are in Millions NPR

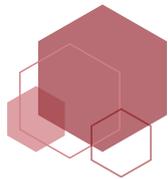


Sectoral Movement

Index	Last Month	This Month	Change
NEPSE	2,140.52	1,989.26	-7.07%
Mutual Fund	14.80	14.52	-1.89%
Commercial Bank	1,392.28	1,338.95	-3.83%
Non Life Insurance	8,291.16	7,955.23	-4.05%
Trading	2,077.83	1,970.78	-5.15%
Life Insurance	9,958.43	9,326.42	-6.35%
Manufacturing & Processing	5,379.59	4,927.07	-8.41%
Microfinance	4,934.80	4,511.11	-8.59%
HydroPower	2,533.47	2,303.56	-9.07%
Investment	70.78	64.32	-9.13%
Others	1,618.83	1,468.33	-9.30%
Hotels & Tourism	2,978.47	2,646.85	-11.13%
Development Bank	4,072.12	3,545.59	-12.93%
Finance Company	1,989.16	1,671.43	-15.97%

Major Movers

BHDC	17.72%	RIDI	-31.37%
ULBSL	12.58%	GUFL	-25.29%
NESDO	11.34%	EDBL	-23.00%
JALPA	8.69%	KRBL	-21.67%
RURU	8.62%	JFL	-21.49%



Sectoral Divergence-Turnover

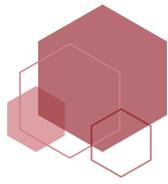
Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	1.92 B	2.48 B	28.72%
Finance	144.44 M	154.27 M	6.80%
Microfinance	216.98 M	220.86 M	1.79%
Manufacturing And Processing	142.72 M	136.90 M	-4.08%
Development Banks	151.54 M	139.93 M	-7.66%
Hydro Power	494.69 M	444.99 M	-10.05%
Mutual Fund	6.06 M	5.23 M	-13.66%
Tradings	10.09 M	8.42 M	-16.59%
Investment	95.18 M	76.02 M	-20.13%
Others	67.20 M	52.18 M	-22.35%
Preferred Stock	0.01 M	0.01 M	-22.50%
Hotels	14.18 M	9.36 M	-34.00%
Commercial Banks	292.02 M	189.13 M	-35.24%
Non Life Insurance	64.51 M	39.38 M	-38.95%
Corporate Debenture	0.89 M	0.52 M	-41.72%
Life Insurance	113.51 M	65.0 M	-42.74%

Highest Turnover



Highest Volume





NEPSE Outlook

A. Current Overview



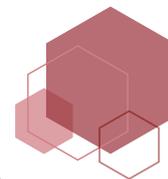
On August 29, 2022, the NEPSE index reached 1,993.02 points with a total turnover of NPR 1.266 billion. The index has dropped 6.8%, or 147.37 points, from its closing price on July 29th of last month. Similar to last month, there was a lot of selling pressure this month due to investors' poor market sentiment.

The index has breached the lower parallel channel, indicating a downward trend for the index, as seen from a parallel channel drawn from a recent lower position, 1,862 (24th June).

The Exponential Moving Average (EMA) of the index still shows the market is in a short-term bearish trend after 50 Days EMA crossed over 20 days EMA.

Indicating weak market momentum, the Moving Average Convergence Divergence (MACD) line is below negative territory. The MACD crossover also indicates a bearish indication with the growing negative histogram.

The Relative Strength Index (RSI) is at 37.62 points indicating that the market still needs to outweigh sellers to raise the market.



The NEPSE index's immediate support levels of NEPSE index stands at: (S₁) 1,910, (S₂) 1,806 and (S₃) 1,770, whereas the resistance levels hold at: (R₁) 2,087, (R₂) 2,134 and (R₃) 2,227.

B. Long-Term Outlook



Since the beginning of August, the NEPSE index has been declining with brief market upswings interspersed; as a result, it has dropped about 10% of its value since then. The NEPSE index is currently taking support at 1,974 points at a position of 1,993.02 points. There is a lot of selling pressure in the market because the liquidity crisis is still present. 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 down.

On April 4, 2022, a death crossover was visible if we look at the crossover of the 50-day and 200-day exponential moving averages. The market has dropped since the observation of death crossover date. The market is therefore still unable to rise despite all the applied indices and economic considerations.

The NEPSE index is receiving strong support at the 23.6% Trend-Based Fibonacci Extension region, according to the trend-based Fibonacci Extension plotted from 1,899 points (trend initial point) to the most recent high point of 2,217 points (end of the initial trend) and extending the line to 1,899 points (end of the secondary trend). The index's resistance level is 2,021 points, while its support level is 1,974 points, according the indicator.

The intermediate support levels of NEPSE index stand at: at: (S₁) 1,899, (S₂) 1,812 and (S₃) 1,717, whereas the resistance levels hold at: (R₁) 2,085 (R₂) 2,217 and (R₃) 2,290.



SCRIP ANALYSIS

Lumbini Bikas Bank Limited (LBBL)

A. Technical Analysis



The stock price of LBBL is NPR 382 (29th August 2022). The stock price of the company is seen moving downwards for the past 7 days from its immediate high point i.e., Rs. 407.10.

The price recently broke through the lower parallel channel, signaling a bearish move on August 28, 2022. On the other hand, the stock price increased by 1.06% on August 29. As a result, it may be concluded that the stock's movement is still uncertain.

The exponential Moving Average (EMA) of 20 days and EMA of 50 days are indicating upward trend after the occurrence of a bullish crossover on 29th July. But due to the fall in the price of the stock, both lines are converging resulting in lower gaps between the lines.

The stock's Relative Strength Index (RSI) of the stock is at 45.27, which indicates neutral momentum.

Although the signal line has crossed over the MACD line, which is bearish in nature with the negative increasing histogram, the Moving Average Convergence Divergence



(MACD) line is above the baseline, indicating strong momentum in the market. The market is in a strong trend right now, according to the Average Directional Index (ADX), which is at 29.63.

The immediate support levels for this stock stand at: (S₁) NPR 363, (S₂) NPR 335 and (S₃) NPR 290, whereas the resistance levels hold at: (R₁) NPR 410, (R₂) NPR 450, and (R₃) NPR 480.

B. Stock Valuation

The final average valuation of Lumbini Bikas Bank Limited (LBBL) has been calculated at NPR 346.79 and is based on both the Relative Approach (i.e., P/E Model and P/B Model) and the Absolute Approach (i.e., Capitalized Earnings, Earnings Valuation, Excess Equity Return (ERM), and Discounted Cash Flow Method) as tabulated below:

Methodology	Valuation Price (NPR)
Capitalized Earnings	139.42
Earning Valuation	331.07
Excess Equity Return Method	143.07
P/B Model	424.42
P/E Model	347.61
Final Average Valuation	277.11

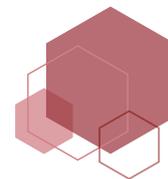
Assumptions

I. Major Variables

- ✓ Deposits Growth rate= 23.75% (Here, 23.75% is the historical average deposit growth rate from the past five years)
- ✓ Credit to Deposit Ratio =88%
- ✓ Perpetual Growth Rate for longer period projection to calculate the terminal value (Last 10 years average economic growth rate) = 4.20%

II. Discounted Rate Using CAPM Model

- $Ke = Rf + (Rm - Rf) * B$



Specifics	Value
Rf(After Tax Risk-Free Rate, Citizens Saving Bond, 2083)	15.22%
Rm (Expected Market Return)	13.63%
B (Beta Monthly)	1.15
Cost of Equity (Ke)	15.22%

III. Industry Average P/E Ratio = 16.90 and P/B Ratio = 2.40

C. Recommendation

As a result of the merging of five banks and financial institutions, including Bhajuratna Finance Ltd., Birgunj Finance Ltd., Himchuli Bikas Bank Ltd., Lumbini Finance and Leasing Co. Ltd., and Vibor Bikas Bank Ltd., Lumbini Bikas Bank Limited (LBBL) was created as a national development bank. The promoter and the general public are each allocated 51:49 of the company's share capital. The equity stake of the bank is traded on the Nepal Stock Exchange (NEPSE), where as of mid-April 2022, it has a market value of NPR 14,451 million.

When compared to its previous quarter financials, the bank's performance in this quarter was exceptional because it was able to increase revenue from its core operating activities and had distributable profit of NPR 47.92 crore after PL appropriation and regulatory adjustments. Similar to this, according to the company's most recent report, it has a larger investment in quoted and unquoted shares than the majority of development banks with healthy profit margins. Therefore, it is reasonable to anticipate that the company's profitability will likely increase in the future quarter as well.

NAs of August 28, 2022, LBBL was last traded for NPR 378. With an EPS of NPR 20.57 and a P/E ratio below the industry average of 16.89, this firm may be able to offer bigger profits in the future since they have the biggest reserve and surplus in the sector. The company's financial condition is similar in that it has above-average reserves and surplus, mid-market capitalization, and above-average ROA and ROE. It also has mid-paid-up capital and mid-market capitalization. Therefore, from a fundamental perspective, LBBL is doing quite well by continuing to build its company steadily.

Moreover, the firm did not pay dividends to its shareholders last year, which led to larger reserves and surplus, according to the history of the company's dividend. However, prior to the previous fiscal year, the bank had distributed dividends through a combination of bonus shares and cash dividends. In terms of paid-up capital, the firm still



has potential for expansion, which raises its CAR and may raise revenue. After taking into account all the qualitative aspects of the bank, if the recent price of the firm falls within the range of the final valuation, it may be a solid acquisition for investors in the long run.

ISSUE OF THE MONTH

Trading through Fibonacci Analysis

Assets Price are primarily driven by human behavior; people make certain financial choices, and those choices can affect markets. This is because market participants are not perfectly rational and self-controlled but rather psychologically influential with somewhat normal and self-controlling tendencies. They have biases and are driven by the same and tend to exhibit herd behavior. This behavior is however not unique but tends to follow a certain pattern. Fibonacci Analysis helps understand some of this behavior and provides levels for trading.

A. What is Fibonacci Sequence ?

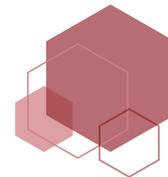
Referred to as "nature's secret code and universal rule", the Fibonacci sequence is one of the most famous formulas in mathematics and is said to govern various things ranging from how seeds grow to the dimensions of the Great Pyramid of Giza.

Each number in the sequence is the sum of the two numbers that precede it. Beginning from 0, and 1, the series goes as: 0, 1, 1, 2, 3, 5, 8, 13, 21, 34, and so on.

B. Fibonacci Analysis for Trading

Financial asset prices follow certain patterns. A pattern that consistently occurs is consolidation between price ranges. Financial assets will often trade in a tight range, consolidating a recent move, and then move to another range and repeat the process.

Even when a market is following a specific trend, prices tend to target specific levels before moving on to the next region. One of the best ways to forecast what these levels will be is through Fibonacci Analysis. In terms of trading, the ratio between different numbers of the Fibonacci sequence will be the key to understanding how assets prices will move and settle. This is because numbers in the series exhibit particular relationships with each other such as:



- Dividing a number in the series by the next number gives a ratio of 0.618
- Dividing a number by the previous number in the series gives a ratio of 1.618
- The Square root of 0.618 is 0.786 and the square root of 1.618 is 1.27
- Dividing a number by the second number after it in the series gives a ratio of 0.382

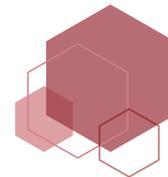
These numbers/ratios form important support and resistance Fibonacci levels for assets prices in upward and downward trends such as 0.382, 0.5, 0.618, 0.786, 1.27, 1.618 and 2.618. Fibonacci Levels can be used to try and predict both retracement and extensions. The most important ratio even along these is 0.618 which is also known as the “**Golden Ratio**”. This level generally provides the strongest resistance or support depending upon the trend of the market.

1. Fibonacci Retracement

Fibonacci retracement levels are horizontal lines that indicate the price levels that are most likely to act as support for the price of any asset when its price falls from a higher point. It can be used to predict when an asset price may rebound or conversely how much the price of an asset can fall thus helping in making both buying and selling decisions.

Each retracement level is associated with a percentage that shows how much of a prior move the price will retrace. The Fibonacci retracement levels are 23.6%, 38.2%, 61.8%, and 78.6%. While not officially a Fibonacci ratio, 50% is also used as this number stems from Dow Theory's assertion that the Averages often retrace half their prior move.

The indicator is useful because it can be drawn between any two significant price points, such as a high and a low. The indicator will then create the levels between those two points.



The above chart is the Fibonacci Retracement plotted from the swing low of NPR 310.19 to the swing high of NPR 450.07, the stock (LBBL) is currently at NPR 385 which is taking support at 50% Fibonacci level i.e., NPR 363.62.

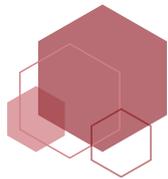
2. Fibonacci Extension

Fibonacci Extension levels are horizontal lines that indicate the price levels that are most likely to act as support and resistance for the price of any asset after it rebounds from a fall after making a high. It can be used to predict how much an assets price might grow and will help set viable profit targets.

To draw a Fibonacci Extension in case of an uptrend we can join the lowest and the highest point of and uptrend and then after a retracement or a correction, the third point will be the low of the retracement if the price rebounds to an uptrend.

For example, suppose a stock moved from Rs 300 to Rs 400 and say after a retracement till 360, the stock moves in the direction of the original trend. So, the first point to draw Fibonacci extension would be 300, the second point will be 400 and the third point will be 360. This will give you probable price levels where the stock may face resistance in the near future.

The most common Fibonacci extension levels are 161.8%, 261.8% and 423.6%. Important resistance levels using Fibonacci extension come at 50%, 61.8%, 78.6% and 100%, When the stock is trading at a lifetime high area where there is no prior resistance, we can draw probable resistance levels using Fibonacci extension.



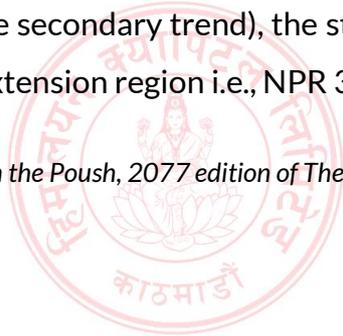
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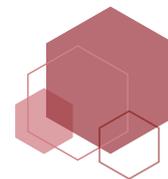


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In the above chart, the trend-based Fibonacci Extension plotted from NPR 311 (*trend initial point*) to the recent high point of NPR 451.87 (*end of the initial trend*) and extending the line to NPR 311 (*end of the secondary trend*), the stock (LBL) is taking support at 50% Trend-Based Fibonacci Extension region i.e., NPR 381.44.

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





Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
SIHL	IPO	850,000(O)	2022/07/22 AD 2079/04/06 BS	2022/08/05 AD 2079/04/20 BS	BOK Capital
RHPL	IPO	6,842,100(O)	2022/06/27 AD 2079/03/13 BS	2022/08/16 AD 2079/04/31 BS	Siddhartha Capital/Global IME Capital
SAYAPATRI	IPO	721,060(O)	2022/07/29 AD 2079/04/13 BS	2022/08/02 AD 2079/04/17 BS	NIBL Ace Capital
NLICP	Auction	596,921(P)	2022/07/21 AD 2079/04/05 BS	2022/08/04 AD 2079/04/19 BS	Global IME Capital
DDBLPO	Auction	5,000(P)	2022/07/22 AD 2079/04/06 BS	2022/08/11 AD 2079/04/26 BS	Sanima Capital
NICAP	Auction	717,950(P)	2022/07/21 AD 2079/04/05 BS	2022/08/04 AD 2079/04/19 BS	Global IME Capital
NCCBPO	Auction	2,633,136(P)	2022/07/13 AD 2079/03/29 BS	2022/07/27 AD 2079/04/11 BS	Sunrise Capital

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