

# The Pulse

Market Growth, Risks and Outlook

Ashwin 2080

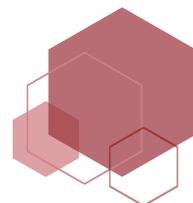
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**Himalayan Capital**

A Wholly Owned Subsidiary of Himalayan Bank Limited



## Global Markets Overview

€	1.06 \$ (-2.32%)	S&P 500	4,288.30 (-4.87%)
£	1.22 \$ (-3.67%)	BSE SENSEX	65,797.39 (0.63%)
₹	83.09* (0.47%)	NIKKEI 225	31,845.61 (0.43%)
¥	149.37* (2.51%)	FTSE 100	7,632.92 (1.89%)
A\$	0.64 \$ (-0.55%)	DAX	15,386.58 (-3.73%)
C\$	0.74 \$ (-0.31%)	CAC 40	7,147.47 (-2.64%)
		HANG SENG	17,822.58 (-3.04%)
		SSE COMPOSITE	3,111.25 (-0.70%)

\*Values Per 1 \$

	<b>Gold(\$)</b> Per Oz. 1,848.10 (-4.90%)		<b>Bitcoin(\$)</b> 26,971 (3.56%)
	<b>Brent Crude(\$)</b> Per Barrell 92.07 (4.82%)		<b>Ethereum(\$)</b> 1,670.27 (1.59%)

#All Changes are in MoM basis.



## Currency Market Trends

Throughout the month of September, the US dollar maintained a strong position against a basket of currencies, which included the EUR, GBP, JPY, and INR, primarily due to the Federal Reserve's hawkish stance on interest rate hikes. Notably, the Nepalese currency, pegged at 1.6 with the Indian Rupee, depreciated by approximately 0.53% against the US dollar during this period. To illustrate, on September 1st, 2023, the USD/NPR exchange rate stood at 132.55, but by September 25th, 2023, it had depreciated by 0.53% to 133.25. Similarly, the EUR and GBP also experienced depreciation against the US dollar, with declines of 1.26% and 2.84%, respectively.

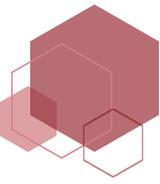
Despite credit rating agency Fitch downgrading the US government's rating from AAA to AA+, the US dollar remained robust against this basket of currencies. This resilience was attributed to strong economic data. During the last Federal Reserve meeting held on September 19-20, 2023, the Fed chose to maintain the federal funds rate at a range of 5.25% to 5.50%. The Fed's hawkish tone during the meeting hinted at the possibility of another rate hike by the end of the 2023/24 fiscal year.

Furthermore, the European Central Bank (ECB) raised its benchmark interest rate by a quarter of a percentage point to 4.50% in the past week. Meanwhile, the Bank of England (BOE) opted to keep its benchmark interest rate steady at 5.25%, as the United Kingdom's high inflation rate showed signs of easing.

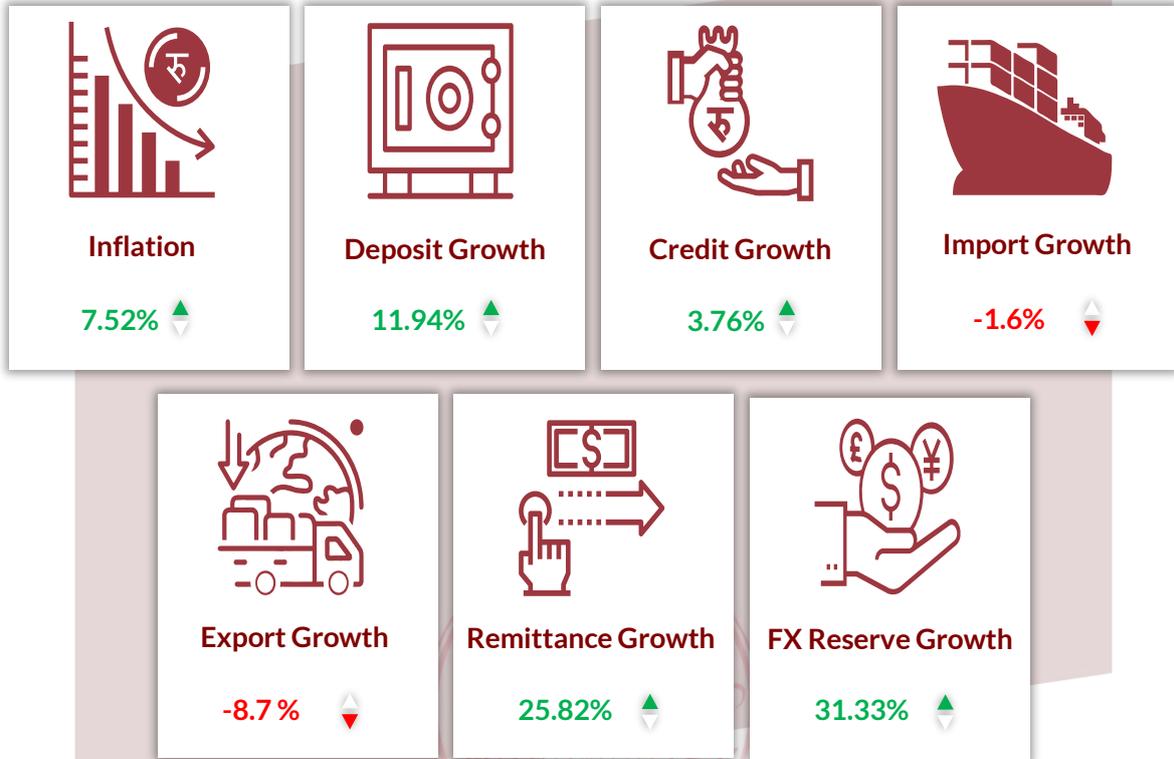
Looking ahead, higher interest rates and increased volatility are expected to continue bolstering the US dollar against the basket of other currencies in the coming months. Additionally, factors such as escalating geopolitical tensions and potential actions by oil-producing nations like OPEC and Russia, including supply cuts, may further support the US dollar's strength.

In the context of the local currency, the Nepalese Rupee is likely to face further depreciation against the US dollar. This depreciation is influenced by Nepal's peg to the Indian Rupee and the economic performance of India. Several factors contribute to this scenario, including the narrow interest rate differential between the United States and India, as well as rising oil prices, which could lead to increased outflows of foreign currency from India. Ultimately, these dynamics will impact the value of the Nepalese Rupee\*

**\*This Analysis comes from the Treasury Desk at Himalayan Bank Limited.**



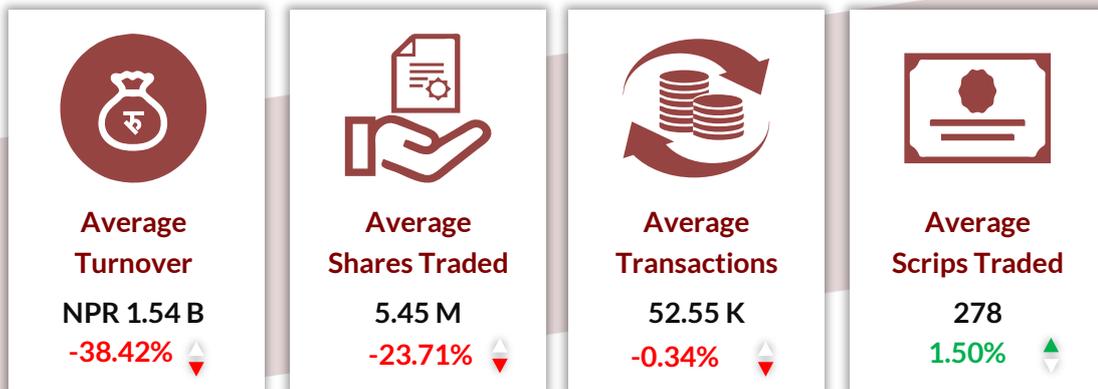
## Macroeconomic Overview



\* Growth refers to the change between one month of FY 79/80 and FY 80/81.

\* Credit refers to claim on private sector.

## Monthly Trading Statistics



\* For the period (August-30, 2023) - (September-27, 2023)



## Liquidity Overview

### A. Major Rates

Description	Value As On					Change		
	Shrawan-79	Ashad-80	Shrawan-80	Ashwin-5	Ashwin-12	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	9.00	4.39	4.16	6.12	3.44	-4.84	-0.23	-2.68
Wt.Avg 91 Days TB rate (%)	9.50	6.35	5.92	5.47	5.35	-3.58	-0.43	-0.12
Wt.Avg 364 Days TB rate (%)	9.85	8.55	6.37	6.22	6.22	-3.48	-2.18	0.00
Wt. Avg Interbank Rate (%)	9.00	2.98	5.91	2.76	2.55	-3.09	2.93	-0.21
CapEx (In Billion NPR)	1.48	233.70	0.82	8.97	10.51	-0.66	-232.87	1.54

### B. Money Market Indicators

Particulars	1-Sep-23	25-Sep-23	Change(%)	Month High	Month Low
SLF Rate	7.00%	7.00%	0.00%	7.00%	7.00%
Market Excess Liquidity (NPR in Billion)	-1.38	16.08	-1265.22%	47.06	-21.51

### C. BFI Statistics

Description	Value As On					Change		
	Shrawan-79	Ashad-80	Shrawan-80	Ashwin-5	Ashwin-12	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	7.64	7.86	8.00	8.00	8.00	0.36	0.14	0.00
Wt. Avg Lending Rate (%)	11.94	12.30	12.24	12.24	12.24	0.30	-0.06	0.00
Base Rate (%)	9.72	10.03	10.11	10.11	10.11	0.39	0.08	0.00
CD Ratio (%)	88.06	81.63	83.57	82.41	82.47	-4.49	1.94	0.06
Fixed Deposits/Total Deposits (%)	58.14	58.21	60.89	60.89	60.89	2.75	2.68	0.00
Total Liquid Assets/Total Deposits (%)	25.16	27.10	25.68	25.68	25.68	0.52	-1.42	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 19	500.00	0.00	21	67	3.00	500.00	5.50	6.23	6.12
91 Days	Ashwin 2	953.00	0.00	21	91	3.00	953.00	4.48	5.84	5.47
182 Days	Ashwin 2	430.00	0.00	13	58	3.24	430.00	5.25	6.25	6.04
364 Days	Ashwin 2	300.00	0.00	14	48	3.35	300.00	5.93	6.43	6.22

\*Figures are in Millions NPR



## Sectoral Movement

Index	Bhadra 13	Ashwin 10	Change
NEPSE	1,990.59	2,004.30	0.69%
Hydropower	2,037.71	2,190.00	7.47%
Finance Company	1,687.87	1,760.52	4.30%
Development Bank	3,735.75	3,818.77	2.22%
Microfinance	3,619.08	3,691.99	2.01%
Manufacturing & Processing	5,166.31	5,254.77	1.71%
Trading	2,907.35	2,947.24	1.37%
Mutual Fund	18.87	18.93	0.32%
Others	1,457.20	1,452.97	-0.29%
Commercial Bank	1,262.80	1,252.78	-0.79%
Non Life Insurance	10,618.49	10,512.23	-1.00%
Life Insurance	10,900.26	10,758.32	-1.30%
Investment	70.07	69.12	-1.36%
Hotels & Tourism	5,612.67	5,393.13	-3.91%

## Major Movers

TSHL	74.07%	LEC	-26.18%
MCHL	66.29%	RMF2	-25.61%
AHL	44.27%	CITY	-14.68%
MHL	37.93%	MBL	-10.53%
MHCL	37.39%	MFLD85	-10.29%



# Sectoral Divergence-Turnover

Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	2.50 B	1.54 B	-38.42%
Tradings	0.02 B	0.03 B	19.21%
Commercial Banks	0.39 B	0.37 B	-4.58%
Life Insurance	0.26 B	0.22 B	-14.62%
Hydro Power	0.47 B	0.40 B	-15.20%
Microfinance	0.17 B	0.11 B	-34.09%
Development Banks	0.15 B	0.09 B	-40.66%
Manufacturing And Processing	0.21 B	0.12 B	-43.46%
Investment	0.11 B	0.06 B	-47.56%
Others	0.08 B	0.04 B	-50.26%
Hotels And Tourism	0.17 B	0.08 B	-53.15%
Finance	0.14 B	0.06 B	-55.18%
Non Life Insurance	0.24 B	0.11 B	-55.31%

## Highest Turnover



## Highest Volume





# NEPSE Outlook

## A. Current Overview



On September 27, 2023, the flagship NEPSE index concluded the day at 2,004.30 points, accompanied by a monthly average turnover of NPR 1.50 billion. In comparison to the previous month's index movement, the index has risen while the monthly average turnover has decreased.

Currently, the Relative Strength Index (RSI) stands at 49.81 points, placing it within the neutral zone.

The Moving Average Convergence and Divergence (MACD) indicator is indicating an uptrend due to a bullish crossover between the MACD line and the signal line. Additionally, the indicator lines are situated below the baseline, reflecting a negative sentiment in the market.

Looking forward, the NEPSE index has immediate support levels at (S1) 1,930, (S2) 1,900, and (S3) 1,850, while the immediate resistance levels are at (R1) 2,045, (R2) 2,085, and (R3) 2,120. These support and resistance levels can offer valuable guidance to investors when making trading decisions.



## B. Long Term Overview



Taking a Long-Term Perspective into account, it is evident that following a significant drop of over 40%, the local stock market appears to have stabilized in the vicinity of the previous resistance zone, ranging between 1800 and 1900 levels. Remarkably, this zone had previously served as a substantial support area during the prior market cycle. Given this historical pattern of market fluctuations, the 1800 level may be considered the current cycle's potential bottom, with the possibility of ascending to levels as high as 3800-4000 over the long term. This projection is based on Fibonacci extensions and pitchfork bands.

Furthermore, apart from these aforementioned levels, the NEPSE index currently maintains immediate support levels at (S1) 1,930, (S2) 1,900, and (S3) 1,850. Conversely, the immediate resistance levels are identified as (R1) 2,045, (R2) 2,085, and (R3) 2,120. These support and resistance levels serve as valuable reference points for investors when making trading decisions.



# SCRIP ANALYSIS

## Shine Resunga Development Bank Limited

### A. Technical Analysis



On September 27, 2023, the stock price of SHINE closed at NPR 386.00, marking a substantial increase of 71.44% from its lowest point observed on June 24, 2022.

The Relative Strength Index (RSI) for this stock currently stands at 51.98 points, indicating that it resides within the neutral region.

In terms of the Moving Average Convergence Divergence (MACD) indicator, it is delivering a bullish signal thanks to a crossover where the MACD line surpasses the signal line. Furthermore, the indicator lines are positioned above the baseline, signifying a positive sentiment prevailing in the market.

The immediate support levels stand at NPR 370.00 (S1), NPR 300.00 (S2), and NPR 225.00 (S3). On the other hand, the resistance levels hold at NPR 415.00 (R1), NPR 445.00 (R2), and NPR 520.00 (R3). These support and resistance levels are essential reference points for investors when making trading decisions.



## B. About the Company

SHINE, a national-level development bank, underwent a name change following its merger with Resunga Bikas Bank. This dynamic company is experiencing robust year-on-year growth in its operating income and has effectively managed to maintain a healthy portfolio of non-performing assets.

Shine Resunga Development Bank Ltd. received the prestigious "Best Managed Development Bank 2022" award on December 12, 2022. This recognition was conferred upon them during a grand ceremony as part of the 7<sup>th</sup> Newbiz Business Conclave & Awards, organized by New Business Age Pvt. Ltd.

### I. Comparative Quarterly Performance Visualizations

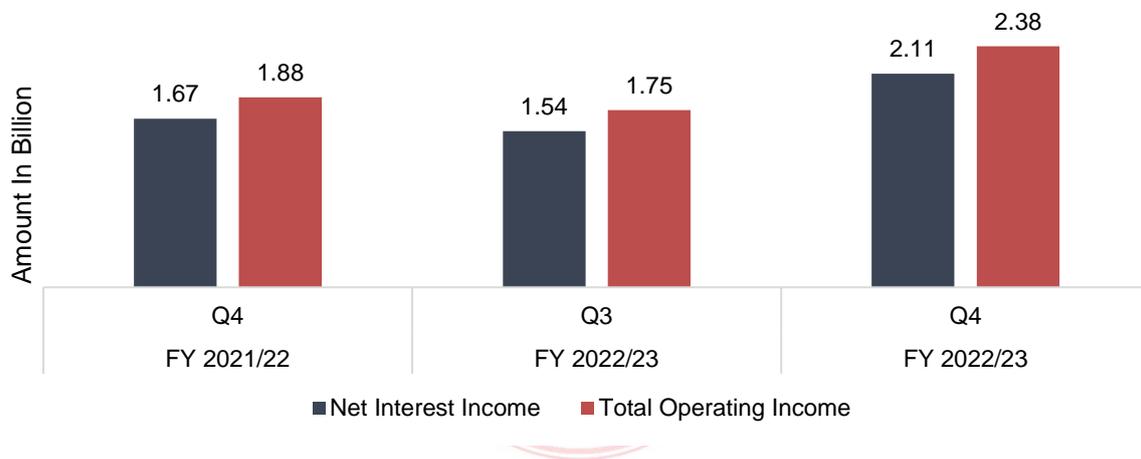


Figure 1: Quarterly comparison of Net Interest Income and Total Operating Income

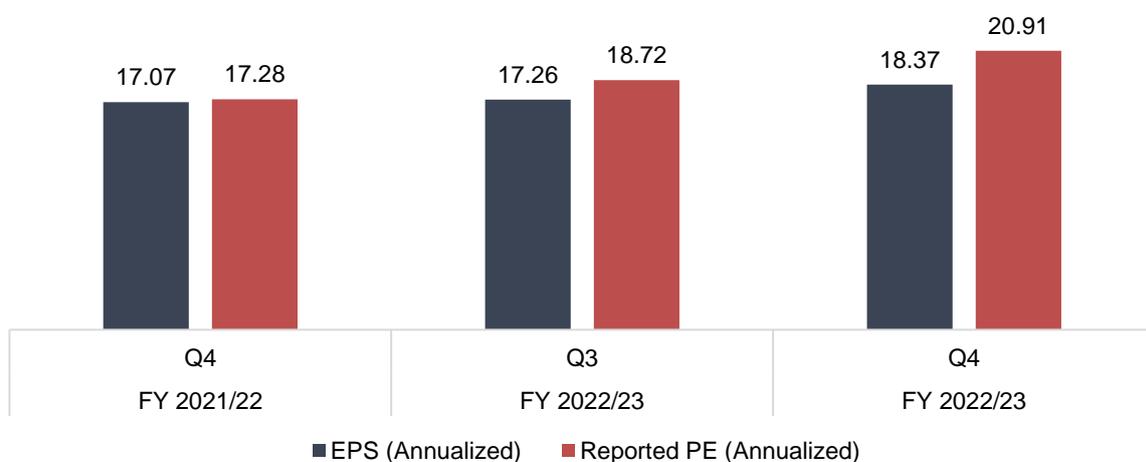


Figure 2: Quarterly Comparison of EPS and PE

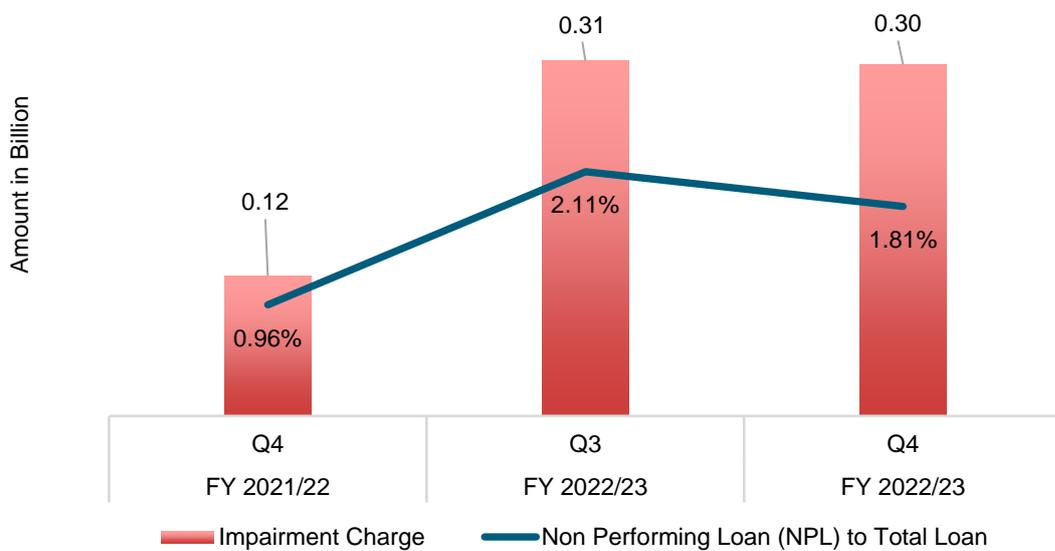
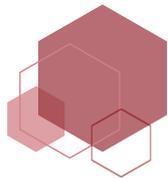


Figure 3: Quarterly Comparison of Impairment Charges and NPL (%)

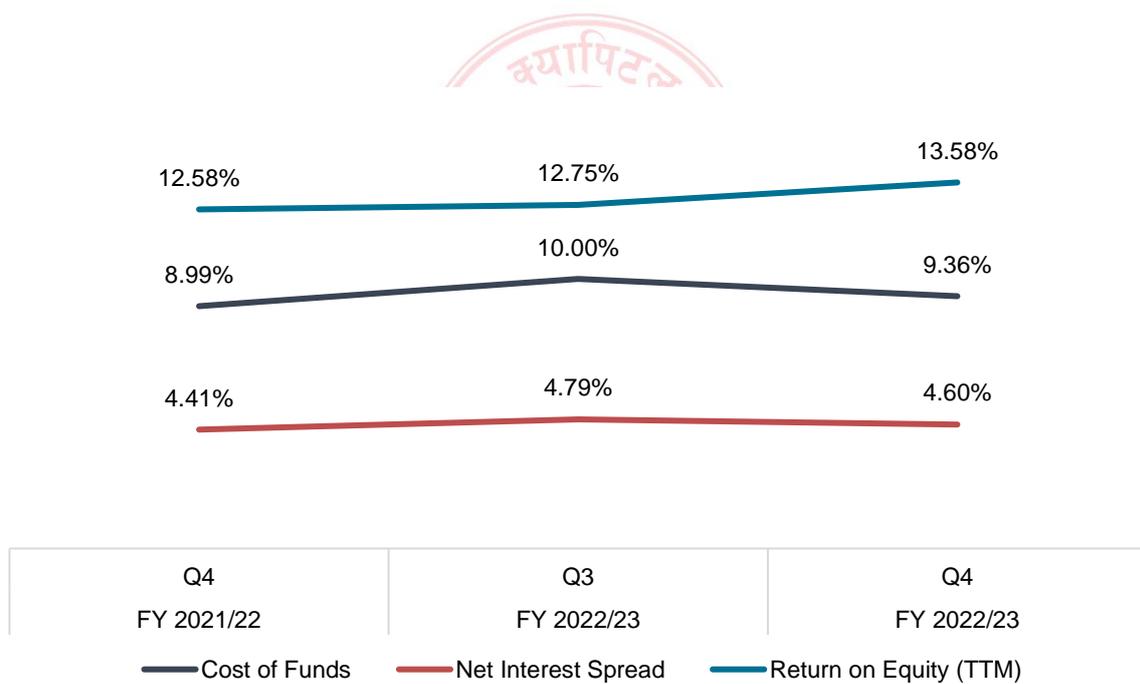
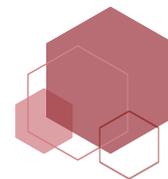


Figure 4: Quarterly Comparison of Cost of funds, Return on Equity and Net Interest Spreads

## II. Key Variables used for Valuation and Assumptions:

1. Perpetual Growth Rate for longer period projection to calculate terminal value (Last 10 years average economy growth rate) =4.20%
2. Discount rate using CAPM Model:



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

Specifics	Value
Monthly Beta (B)	0.96
Market Return (R <sub>m</sub> )	13.38%
Risk Free Rate (R <sub>f</sub> )	9.63%
Cost of Equity (K <sub>e</sub> )	13.23%

### C. Stock Valuation

The final average valuation of SHINE 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 346.79, which has been tabulated below:

Method	Valuation Price (NPR)
Capitalized Earnings	318.16
Earning Valuation	277.89
Discounted Cash Flow	418.88
P/E Model	358.04
P/B Model	413.01
<b>Final Average Valuation</b>	<b>346.79</b>

### D. Conclusion

Following the valuation process, the company's ultimate average value has been determined as NPR 346.79. When this final average value is juxtaposed with the trading price on September 27, 2023, which stands at NPR 386.00, it becomes evident that the company's stock price is overvalued by 11.31% in relation to the final average value.

Subsequent to the release of the 4th quarter report of the fiscal year 2079/80, the bank's quarterly performance has exhibited notable improvement, particularly in terms of core operating income generation. During this quarter, the bank achieved a commendable NPR 2.11 billion in net interest income, marking an impressive growth of 26.69% compared to the preceding fiscal year's quarter. However, it is important to note that the bank's impairment charges also escalated to NPR 0.30 billion. Consequently, in the forthcoming quarter's report, the bank's profitability may appear enticing, given the likelihood of a substantial write-back of impairment charges.



Nonetheless, alongside the increase in impairment charges, the Non-Performing Loans (NPL %) have also surged, rising from 0.96% to 1.81%.

Likewise, the current Earnings per Share (EPS) and Price to Earnings (PE ratio) for the company stand at NPR 18.37 and 21.01 times, respectively. When examining other key financial metrics, the return on Equity (ROE) is recorded at 13.58%, the cost of funds stands at 9.36%, and the net interest spread is at 4.60%.

Conducting a technical analysis of SHINE, we observe that the stock is currently trading at NPR 386.00, as per the closing price on September 27, 2023. The stock currently exhibits a bullish trend, as indicated by the MACD line crossing above the signal line. Similarly, the indicator lines remain positioned above the baseline, signifying a positive market sentiment.

In light of a comprehensive evaluation that encompasses fundamental, technical, and quarterly comparative analysis of Shine Resunga Development Bank Ltd. (SHINE), it is reasonable to conclude that the last trading price of the stock is indeed overvalued.





## ISSUE OF THE MONTH

### Book Building

Book building is a method for setting the price of a Stock for its public offering. In this the pricing of a Stock for an IPO is set after receiving bids from Institutional Investors on how much they would be willing to pay for the stock. It helps determine the exact price investors are willing to pay for a stock.

#### A. How is it different from current system of IPO pricing?

In the current system of IPO pricing, a unit of stock in a company is generally priced at 100 per unit. This is called a fixed price regime and currently stocks are priced this way in Nepal. In Book Building, the price of a unit of stock can vary above or below this price and will depend on how much investors are willing to pay for it.

#### B. How does it Work?

In this method, during the period for which the IPO is open, bids are collected from qualified institutional investors at various prices, which are above or equal to the floor price. The offer price is determined after the bid closing date. After the bidding process is complete, the cut-off price is arrived at based on the demand for securities. This will be the price at which the stock will be offered in an IPO.

#### C. How does Book Building help the Stock Market?

Book Building gives companies greater control over the price they can get for their stocks in a public offering as the price will be set as per the demand in the market. This would help bring more real sector companies from trading and manufacturing who are currently underrepresented in the stock market. This would help grow the market's scope.

#### D. How Does it affect the common Investor?

This does not change the IPO process for the common investor very much, the process for applying will be the same. The price of the issue however will not be fixed at 100 and will be reflective of market demand for that stock.

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



## Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
SONAPUR	IPO	9,732,544(O)	2023/10/01 AD	2023/10/04 AD	NIMB Ace Capital
			2080/06/14 BS	2080/06/17 BS	
VLUCL	IPO	1,912,500(O)	2023/09/05 AD	2023/10/04 AD	Muktinath Capital
			2080/05/19 BS	2080/06/17 BS	
UPPER	RIGHT	105,900,000(O)	2023/09/04 AD	2023/10/09 AD	Citizen Investment Trust/ Sunrise Capital Limited
			2080/05/18 BS	2080/06/22 BS	
NRIC	AUCTION	1,000,000(P)	2023/09/25 AD	2023/10/01 AD	NIC Asia Capital
			2080/06/08 BS	2080/06/14 BS	
SMBPO	AUCTION	13,891(P)	2023/09/25 AD	2023/10/09 AD	RBB Merchant Banking
			2080/06/08 BS	2080/06/22 BS	
USLBP	AUCTION	4,960(P)	2023/09/22 AD	2023/10/01 AD	NIBL Ace Capital
			2080/06/05 BS	2080/06/14 BS	
NRIC	AUCTION	1,979,424(P)	2023/09/19 AD	2023/10/27 AD	NIMB Ace Capital
			2080/06/02 BS	2080/07/10 BS	

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**Himalayan Capital Limited**  
**Karmachari Sanchaya Kosh Bhawan,**  
**Thamel, Kathmandu**  
**Contact: 01-5358345, 5363147**  
**[www.himalayancapital.com](http://www.himalayancapital.com)**  
**[info@himalayancapital.com](mailto:info@himalayancapital.com)**