Monthly Newsletter

Machhapuchchhre Capital Limited

Research and Trading Team
January, 2022
(Mid Poush - Mid Magh)

Vol. 1, Issue 6

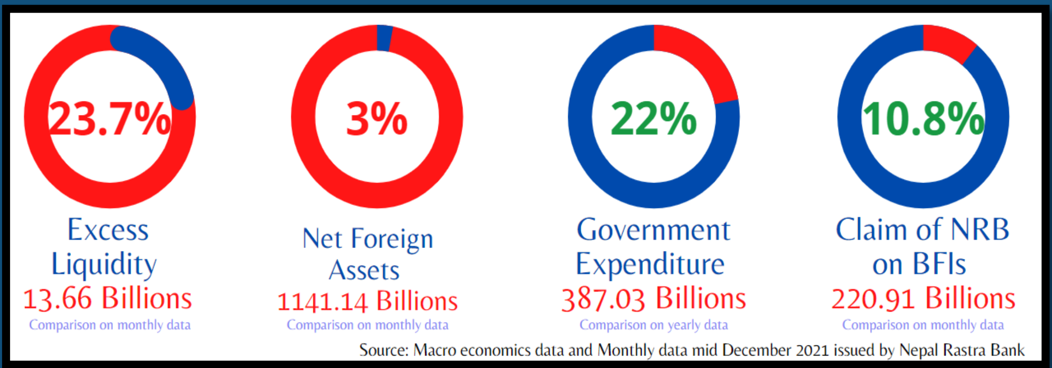
NEPSE HIGHLIGHTS

Particular	Index	Gain/(Loss)	Capitalization (Mil)	Beta	Turnover (Mil)	PE
NEPSE Index	2,872.05	13.77%	4,037,127.22	1.00	90,624.46	31.32
Banking	1,835.80	7.85%	1,414,806.62	0.75	16,417.84	20.87
Hotels and Tourism	3,209.83	6.17%	55,992.36	0.86	480.49	
Other	2,288.34	17.51%	357,437.20	1.09	3,198.48	35.01
HydroPower	3,410.40	23.75%	428,706.50	1.20	21,356.48	26.84
Development Bank	5,058.80	19.73%	189,552.99	1.56	7,632.81	30.96
Manufacturing and Processing	7,394.75	7.89%	176,872.34	0.88	6,730.44	28.72
Microfinance	5,547.83	13.40%	413,311.83	1.02	8,506.28	37.20
Life Insurance	16,435.04	15.65%	355,595.02	1.12	5,976.00	119.40
Investment	97.30	25.17%	292,374.98	1.10	4,135.15	99.52
Non-Life Insurance	13,110.69	12.93%	250,234.53	1.47	6,149.83	68.35
Finance	2,506.13	20.77%	83,682.13	1.02	8,431.01	46.94
Trading	3,077.30	17.08%	18,560.72	1.15	420.56	

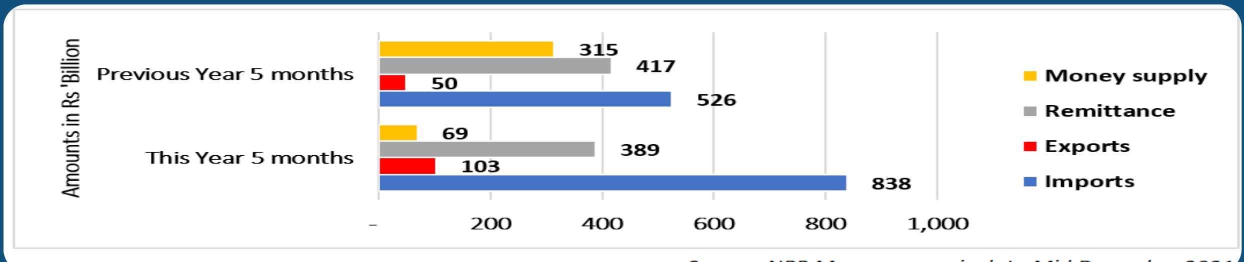
Source: *NEPSE Poush end 2078 data, PE ratio based on Q1 report of FY 2021-22*

- *Hotels sector and Trading sector are excluded in PE due to negative earnings and unavailability of the financial reports.*
- *As per the latest available data, index data till January end 2022 and capitalization, beta and turnover data till mid-January 2022 have been taken for the study.*

MARKET LIQUIDITY



MACROECONOMY



Source: NRB Macroeconomic data Mid December 2021

NEPSE OVERVIEW

After witnessing a decline of 29.97% over a period of around 4 months, NEPSE finally got back on track from the month of Poush. In the first week of Poush, NRB issued a new circular which focused on curbing the highly growing imports of the country. The circular listed 20 categories whereby 100% cash margin is required while importing such goods and in case of motor car and vehicles and motorcycles 50% cash margin is required. Introducing such policies provided a positive impact in the market as investors believed that having such policies will help control imports which in turn could solve the liquidity problem to some extent. Similarly, NRB also issued another circular which allowed BFIs to utilize upto 80% of the funds released by the federal government for the local government in their CD ratio which was previously only upto 50%. Such provision also provided an additional boost in easing the pressure mounting on the CD ratio of BFIs. Following the issuance of these policies, the market reacted with great optimism which was reflected by an astounding growth of around 6.24% in the span of only 2 days.

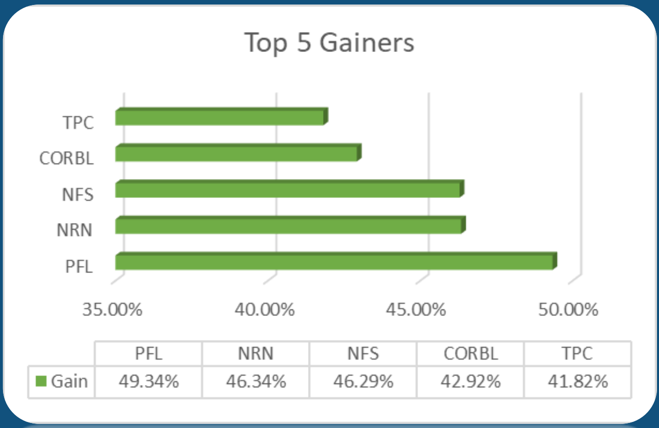
Within the NEPSE, the Investment sub-sector gained the most i.e. the sub-sector index increased from 77.73 to 97.30 i.e. 25.17% gain in the review period. Whereas, the Hotel and Tourism sector hit the least gain within this period i.e. 6.17% and closed at 3209.83. Furthermore, the Hydropower sub-sector also increased by 23.75% and the Finance sub-sector also increased by 20.77%.

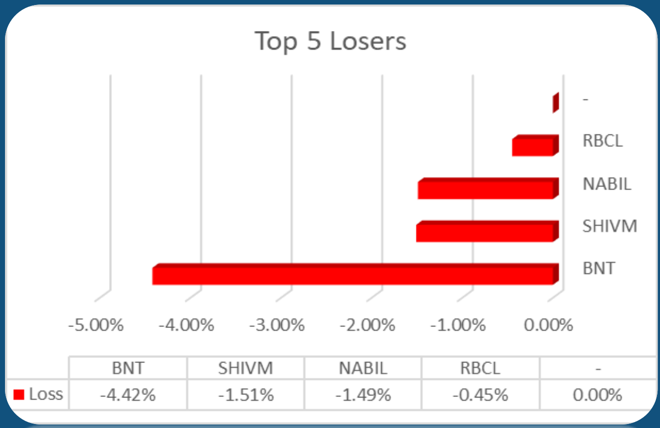
Following a great first week in the month of Poush, the worldwide spread of the Omicron variant of COVID-19 led to the speculation amongst investors that a third lockdown could be looming large in the near future. News of different variations of smart lockdown implemented in India also added further credibility to this speculation. Similarly, on Poush 25, The Covid-19 Crisis Management Coordination Centre (CCMCC), recommended the government on applying restrictions on gatherings of more than 25 people and school closure until Magh 15 which provided investors with an early indication of a potential lockdown in the future. Likewise, trading volume of the market also indicated additional new funds from new players floated in the market as there are possibilities of lockdown and no business transaction in other sectors. During the month of Poush, the deposits of BFIs increased from the previous month closing value of NPR 4,792 billion to NPR 4,903 billion and the CD ratio also came down from 91.24 to 89.64. Market had witnessed the CD ratio below 90 for the first time since the implementation of the CD ratio regime. Therefore, increase in the deposits and decline in the CD ratio encouraged BFIs to make no further changes in the interest rates of deposits in the upcoming month.

After witnessing a rise of 24.01%, the market witnessed a normal correction due to profit booking. Furthermore, the news of potential delay in local level elections created further panic amongst the investors which was witnessed by a sharp decline of -3.42% (-99.86 points) in a single day. Similarly, decline in the daily deposits of BFIs with CD ratio creeping back to above 90 levels further created a selling spree which caused a minor correction of around 5.98%. On Magh 15, another news circulated in the media whereby, the ruling coalition parties agreed to hold local level election within the month of Jestha which caused extreme optimism in the market and therefore led to an increase of 3.80% in a single day.

With a high probability of local level elections being held within the month of Jestha, increase in the government expenditure, potential increase in remittance and also the satisfactory second quarter financials of the different listed companies, have provided ample room for optimism and a possible bullish rally in the near future.

The monthly top 5 gainers, losers and turnover stocks are shown in the figures below:





S. No.	Symbol	Amount Traded (Million)	Sector
1	HDL	4334.38	Manufacturing and Processing
2	NABIL	3188.21	Banking
3	API	2714.65	Hydropower
4	SHIVM	2122.54	Manufacturing and Processing
5	GUFL	2095.97	Finance

Source: NEPSE Poush end 2078 monthly report data

MUTUAL FUND

The impressive spike on NEPSE within the month of Poush also pulled back the market price of Mutual Funds. Within the month of January, Mutual Fund index closed 16.55 as highest closing and 14.87 as lowest closing. The sub-sector witnessed an 8.07% growth on its index and closed at 15.92 on last trading of the month. Meanwhile, the Mutual Fund index started its correction when it reached the overbought point on RSI Indicator. Currently, major Mutual Funds are trading at heavy discounted prices. The larger the discount rate, the better the investment opportunity in Mutual Fund. Likewise, 8 Mutual Funds are still trading at a more than 20% discount rate. Out of all the Mutual Funds, NICBF and NMBHF1 are trading at highest discount rates i.e 22.67% and 22.5% respectively. The first table presented below shows NAV details along with LTP and discount/premium at the end of January month. Moreover, the second table shows the equity exposure of Mutual Funds.

Three Mutual Funds have more than 80% equity exposure.

Mutual Funds	Equity Exposure
GIMES1	94.13%
SIGS2	89.90%
SEF	89.55%
NEF	77.30%
NBF 2	77.14%
NIBLPF	75.19%
NICGF	74.29%
SAEF	71.32%
CMF1	71.19%
CMF2	70.27%
NICBF	67.85%
NMB 50	67.34%
NIBSF2	65.52%
LEMF	65.10%
LUK	59.33%
NBF3	56.81%
SBCF	54.91%
SFMF	54.22%
NMBHF1	53.78%
MMF1	50.37%
SLCF	49.69%
KEF	45.46%
RMF1	41.42%
PSF	41.19%
NICSF	20.86%

GIMES1, SIGS2, SEF are the Mutual Funds with highest equity exposure i.e, 94.13%, 89.90%, 89.55% respectively. The last table lists the top 10 stocks held by Mutual Funds till the end of Poush 2078; among these top ten stocks, 8 are from the commercial Banking sector, 1 each from Life insurance and Development Banking sector. NBL, NICA, PRVU are the top stocks held by Mutual Funds.

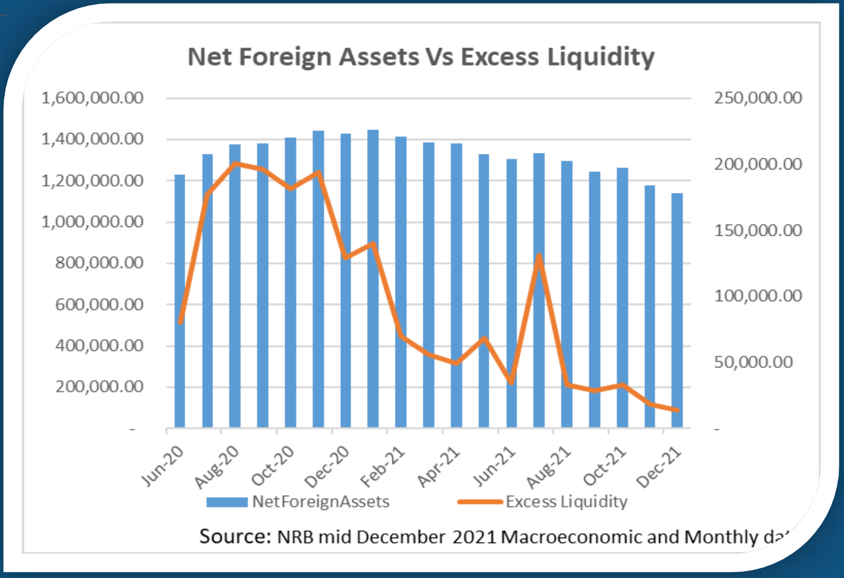
Top 10 Stocks Holdings	
Stocks	Quantity
NBL	1033128
NICA	945982
PRVU	930670
SANIMA	922664
SBL	603190
PCBL	478311
NLICL	451415
ADBL	354232
KSBBL	348026
MBL	321805

Mutual Funds	NAV	LTP	Discount / Premium
NICBF	14.60	11.29	-22.67%
NMBHF1	15.08	11.71	-22.35%
SEF	14.50	11.27	-22.28%
NICGF	15.90	12.40	-22.01%
SAEF	17.93	14.00	-21.92%
SIGS2	14.89	11.66	-21.69%
NMB 50	16.50	12.97	-21.39%
NBF 2	14.09	11.20	-20.51%
NEF	13.82	11.13	-19.46%
LEMF	12.93	10.60	-18.02%
LUK	12.74	10.45	-17.97%
NIBLPF	13.12	10.79	-17.76%
CMF2	12.56	10.42	-17.04%
KEF	11.02	9.25	-16.06%
SFMF	14.55	12.29	-15.53%
SLCF	10.69	9.18	-14.13%
PSF	10.82	9.30	-14.05%
CMF1	11.53	10.00	-13.27%
MMF1	10.38	9.16	-11.75%
GIMES1	13.67	12.20	-10.75%
SBCF	10.39	9.39	-9.62%
NIBSF2	10.25	9.30	-9.27%
NICSF	10.24	9.35	-8.69%
RMF1	10.01	9.20	-8.09%
NBF3	10.28	9.64	-6.23%

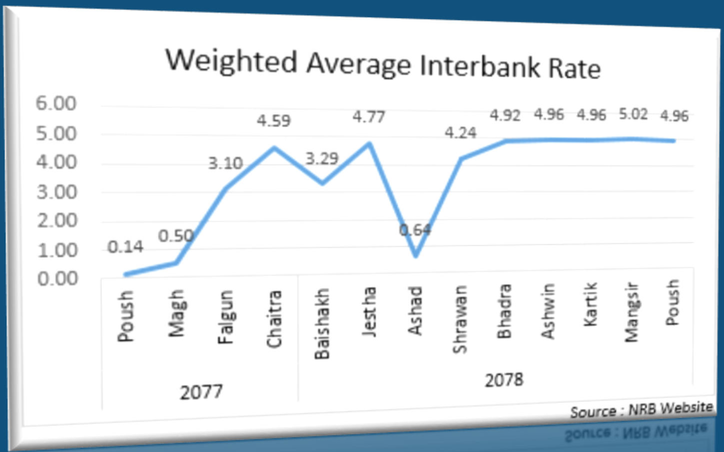
*** LTP as on 31/01/2022**

MACROECONOMIC ANALYSIS

Market Liquidity



Excess liquidity in the market stood at around NPR 13.66 billion (as of mid-December, 2022). Compared to the previous month, the excess liquidity has further declined by 23.74%. The imports increased this month by 59.55% from the previous year same period data. Similarly, the remittance for the same period has declined by 6.77%. On the other hand, exports increased by 105.61% as compared to previous year. Also, the Net Foreign Assets for the period has shrunk by 3.00% from the previous month. On the brighter side, the new circular issued by NRB focusing on curbing the highly growing imports of the country and another circular which allowed BFIs to utilize upto 80% of the funds released by the federal government for the local government in their CD ratio which was previously only upto 50%, has contributed to ease on the accumulated pressure on market liquidity to some extent.

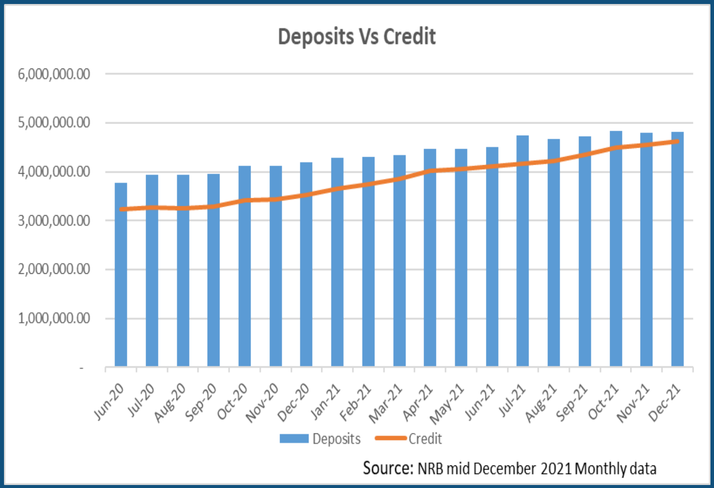


In FY 2078/79, the total lending has significantly increased by 11.76% whereas the total deposit has only increased by 3.53% in the banking system till the month of Poush. As a result, the CD ratio has reached 89.64%. The CD ratio should not be higher than

90% until Ashad end 2079. The increased pressure on liquidity is reflected in the interbanking system as well with interbanking rate remaining stagnant at around 5% for the past five months. Moreover, there has been a significant decline in the loanable fund in the banking industry due to the change of CCD ratio to CD ratio in the monetary policy issued by NRB.

Total Deposits and Total Borrowing

Till mid of December 2021, deposits increased by 0.19% and credit grew by 1.63% as compared to previous month i.e. mid November. The total deposits for the review period remained at 4.81 kharba and the total credit remained at 4.63 kharba. Despite the increment in the deposit size, the pressure on the market liquidity hasn't changed from last month due to the aggressive lending practices in the economy.



FUNDAMENTAL ANALYSIS

With the V-shape recovery of Nepse by 18.35% in the month of Poush, the P/E ratios of all the sectors have increased compared to Mangsir end. Commercial bank sector is trading at the lowest P/E ratio of 20.87 times in Nepse which seems to be relatively reasonable for investment purposes from the PE perspective whereas the life insurance sector is trading at the highest P/E multiple of 119.40 times. But it is to be noted that the actual profit figures of the life insurance sector will be determined only after actuarial valuation after the end of fiscal year. After commercial banks, the hydropower sector has the second lowest P/E ratio of 26.84 times. However, it needs to be taken into consideration that the first quarter of hydropower is the most revenue generating quarter leading to higher annualized EPS and lower PE ratio. Moreover, UPPER having started to earn net profit with commercial generation of the electricity and huge leap of annualized EPS of RHPC to Rs 311.15 in the first quarter report (supported by other income besides power sales) have also contributed mainly for the decline of the PE ratio of hydropower sector which used to be traded at around P/E multiple of more than 100 times in the first quarter. Despite higher PE ratios of SHIVM and HDL, the P/E ratio of the manufacturing sector is also relatively at the lower level of around 28.72 times as a result of higher annualized EPS of BNT, BNL and UNL. The P/E ratio of the

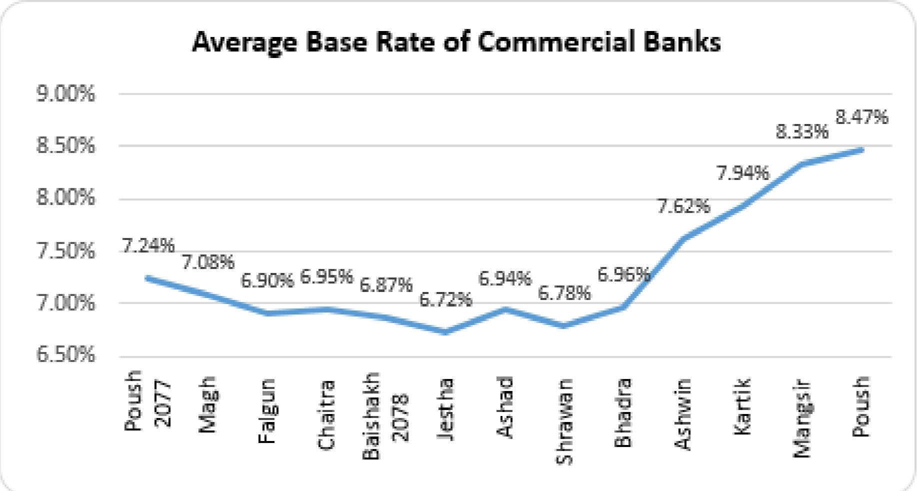
Finance sector has increased to 46.94 times trading at a higher P/E multiple than the Development and Commercial Bank sector.

Sector wise PE ratio

Sector	Mangsir 2078	Poush 2078	Change
Commercial Bank	18.76	20.87	2.11
Development Bank	25.94	30.96	5.02
Finance	38.37	46.94	8.57
Microfinance	30.31	37.20	6.89
Life Insurance	94.36	119.40	25.05
Non-life Insurance	54.72	68.35	13.63
Investment	78.46	99.52	21.06
Hydropower	22.41	26.84	4.44
Manufacturing	22.08	28.72	6.64
Others	30.89	35.01	4.12

Source: Compiled datas from quarterly reports

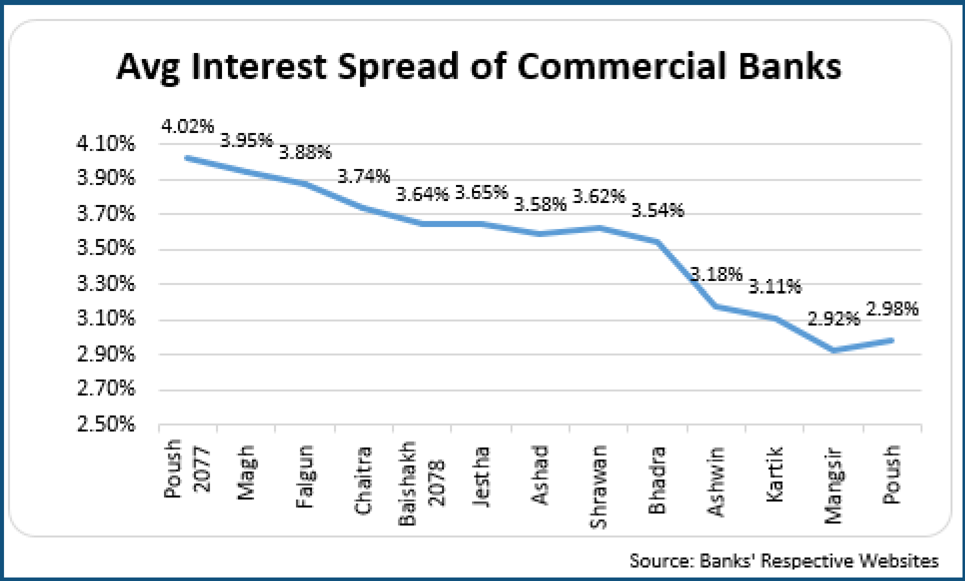
Average Base Rate of Commercial Banks



Source: Banks' Respective Websites

With the increase in the economic activities after the second wave of the Covid outbreak, the demand for the loans in the economy have sharply increased. In FY 2078/79, there is 11.37% of loan growth whereas there is deposit growth of only 2.90% in the commercial bank industry till the end of Poush. Increasing imports and declining remittances have resulted in pressure in the liquidity. Owing to this there has been a rise in the interest rate. The average base rate of the commercial banks has increased to 8.47% in Poush from 8.33% in Mangsir.

Average Interest Spread of Commercial Banks



Interest Spread plays a major role in the profitability of the banks. Currently, NRB has limited the interest spread to 4.4% for commercial banks. The average interest spread of commercial banks is in a declining trend. The average interest spread has declined to 2.98% in the month of Poush 2078 from 4.02% of Poush 2077. Declining interest spread could be the major concern for the banks and shareholders as it would hit their profitability. Increase in the interest rate on the deposits, provision of increment of lending rate only on quarterly basis, limited investment areas for lending, competition and efficiency in the financial sectors could be the contributing factors for continuous decline in the spread rate.

TECHNICAL ANALYSIS

Current Index: 2871.05, ↑ + 13.73%
(1-31-2022)

Previous Month Index: 2524.50
(12-29-2021)

As per Fibonacci Retracement

SUPPORT

Support 1: 2725, -5.09% down
Support 2: 2481, -13.58% down

RESISTANCE

Resistance 1: 2878, 0.24% up
Resistance 2: 3064, 6.72% up

Candlestick: NEPSE index went for upward pull back in the month of January and inclined up to the high of 2981 and closed at 2871 after short correction with the increment of 13.73% from last month's closing of 2524.50 index. Again the index is testing the immediate resistance of 2878, breaking this resistance level would be decisive for the market to maintain the current bullish momentum.

Bollinger Band: This month started with the expansion in the Bollinger band where the index moved upward from middle band to upper band. But coming to the end of the month, NEPSE index went down and took support in the middle band, inviting the contraction in the band. It indicates that the index is looking for trading in the upper band after taking strong support on the middle band.

Exponential Moving Average (EMA): The EMA 5 and EMA 20 line shows that the bullish crossover between these two in the initial days of January has led the market to a bullish run, indicating the reversal in market trend from bearish to bullish. Throughout the month the market has maintained the bullish trend and it has also managed to close above these EMA lines.

Volume: The volume for the month has massively increased to 135.07 billion from 70.56 billion last months which is an increment of 91.43%. This month, the volume has once again started to rise and has been trading above 20 days' Moving Average volume, supporting the upward movement of the index.

RSI and MACD

RSI: Both RSI and NEPSE line charts are moving in the same upward direction this month. The RSI has increased from 49.17 of previous month to 59.20 coming to the end of January. Similarly, the RSI has moved up to 73.28 on 17th January hitting the overbought zone and then dipped down to 51.90 (neutral zone) before it settled at 59.20 with the comeback, indicating that the momentum is again building up in the market for a bounce back.

MACD: The bullish crossover of previous month is further continued in this month as well, creating the bullish sentiment in the market. But the scenario changed on 25th January 2022 as the MACD line crossed the Signal line from above, also known as bearish crossover, which made the shift in the market sentiment from bullish to bearish coming to the end of the month.