

MONTHLY NEWSLETTER

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(Mid-Chaitra-Mid Baishakh)



Research and Trading Team



MACHHAPUCHHRE CAPITAL LIMITED





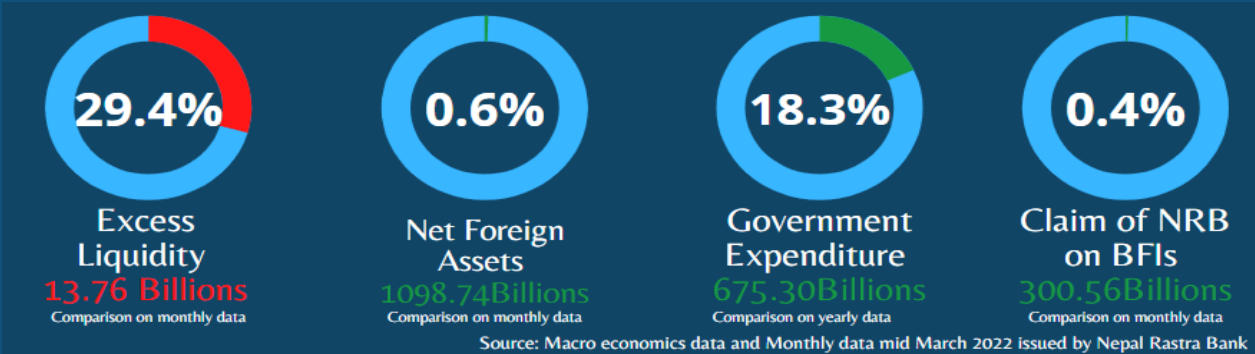
NEPSE HIGHLIGHTS

| Particular | Index | Gain/(Loss) | Capitalization (Mil) | Beta | Turnover (Mil) | PE |
|------------------------------|-----------|-------------|----------------------|------|----------------|--------|
| NEPSE Index | 2,356.17 | -7.39% | 3,426,108.82 | 1.00 | 47,137.53 | 28.59 |
| Banking | 1,580.20 | -3.80% | 1,240,224.97 | 0.58 | 6,755.88 | 18.93 |
| Hotels and Tourism | 3,097.85 | 0.51% | 54,041.58 | 0.73 | 617.46 | |
| Other | 1,805.69 | -12.01% | 311,880.05 | 2.00 | 2,513.57 | 28.28 |
| HydroPower | 2,672.29 | -10.06% | 350,360.15 | 1.21 | 10,348.69 | 48.75 |
| Development Bank | 4,129.53 | -5.83% | 152,859.54 | 1.52 | 3,544.06 | 22.20 |
| Manufacturing and Processing | 5,537.72 | -6.89% | 138,232.18 | 0.91 | 2,391.33 | 31.29 |
| Microfinance | 4,773.45 | -4.35% | 360,374.48 | 0.88 | 3,941.46 | 29.21 |
| Life Insurance | 12,595.36 | -11.78% | 289,987.39 | 1.23 | 6,239.48 | 103.35 |
| Investment | 77.13 | -10.47% | 244,087.22 | 1.12 | 2,818.20 | 79.78 |
| Non-Life Insurance | 10,701.04 | -12.62% | 212,062.53 | 0.87 | 4,580.96 | 51.53 |
| Finance | 1,754.81 | -13.42% | 59,027.10 | 1.52 | 2,198.37 | 43.66 |
| Trading | 2,142.58 | -11.95% | 12,971.63 | 1.06 | 167.47 | 82.95 |

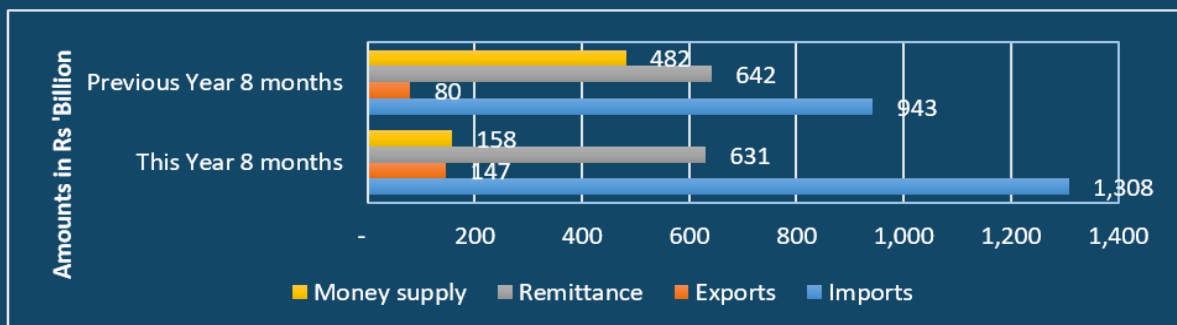
Source: NEPSE Chaitra end 2078 data, PE ratio based on Q2 & Q3 report of FY 2021-22

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

MARKET LIQUIDITY



MACROECONOMY





NEPSE OVERVIEW



With the increasing pressure on the market liquidity due to deteriorating foreign reserves, the adverse effect of the liquidity crunch was also seen in the Nepalese Stock market. After the oil prices rose at an alarming rate in the previous months, the month of April saw international oil prices stabilize around the \$100/barrel for crude oil prices. Although the slowdown in price rise brought some sigh of relief to the Nepalese market, however, y-o-y import sizes have blown out of proportion due to this excessive oil prices growth of the past several months. To put things into perspective, prices per barrel of crude oil stood at around \$60 which is 67% lower than the current oil price levels. Such cost push inflation probes detrimental effects on the market as it places excessive pressure on keeping the nominal interest rates high to ensure positive real rate of return.

As the macroeconomic conditions worsened, many analysts also started comparing Nepalese economy to the dire state of Sri Lankan economy and as a result, fear amongst the Nepalese investors started to increase. Amidst such macroeconomic uncertainty, rumours started floating in the market regarding the dispute between the Finance Minister and the Governor. This rumour turned out to be true as on 8th of April,

the government formed a probe committee to investigate Nepal Rastra Bank Governor Maha Prasad Adhikari on the charge of leaking sensitive information about the government's decisions and not fulfilling his responsibilities effectively. All of these negative events, fueled the relentless decline in the stock market. Overall, in the month of April, the market declined by 7.39% and the NEPSE index closed at 2,356.17.

Within the NEPSE, the Hotel and Tourism sub-sector is the only sector that gained within the month of April i.e. this sub-sector index increased from 3082.14 to 3097.85 i.e. 0.51% gain in the review period. Whereas, the Banking and Microfinance sub index hit the least loss within this period i.e. -3.80% and -4.35% respectively. Furthermore, the Finance and Non-Life Insurance sub index hit the most losses within the review period i.e. 13.42% and 12.62% respectively.

As per the Banker association's monthly meeting, they came up with the agreement to stabilize the deposit rate. Whereas for the lending rate, due to the increasing cost of funds which has led to increasing base rate of the banks, as a result lending rate has increased this month. Likewise, to release pressure in forex reserves, the government



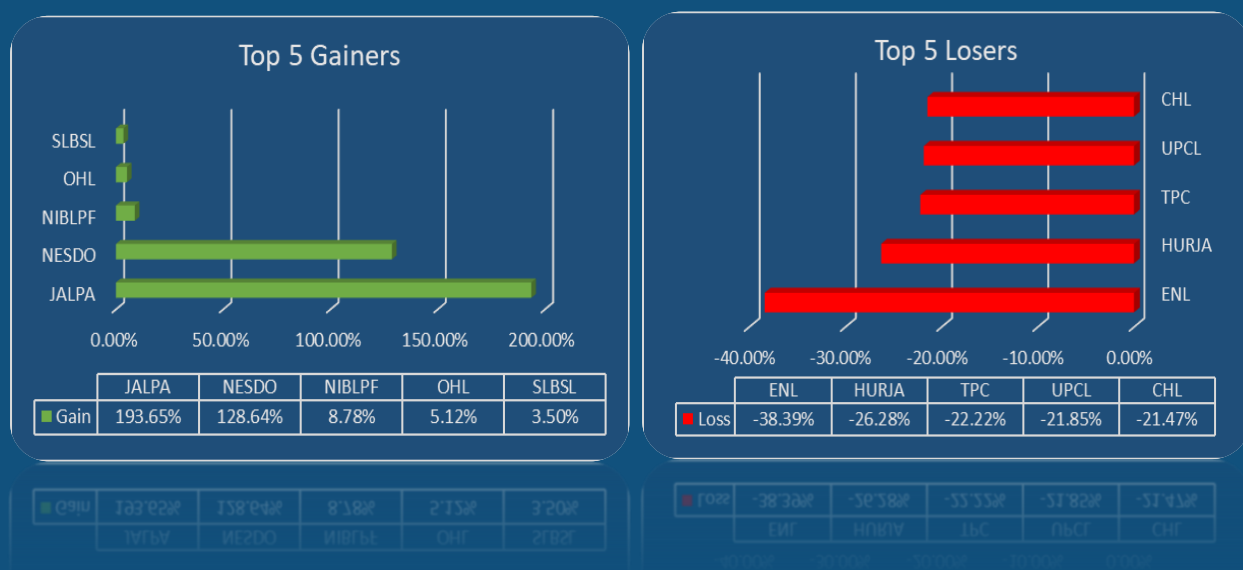


has further issued additional list of items on which LC issuance has been restricted to help further decrease imports of luxurious and non-essential items.

With local elections on the horizon and more than 100,000 candidates across the nation, demand for currency in circulation has risen at a rapid pace which is reflected by some fluctuations in the deposits of banking and financial institutions. However, with restriction on LC, such temporary withdrawals to fund election should ultimately come back to the banking channel. Similarly, as we're headed towards the final

quarter of this fiscal year, the government expenditure will also increase which should further ease the current liquidity problem. SEBON has also taken initiatives to increase the margin lending from existing 50% to 70% on such services provided by the licensed brokers which is still work in progress. With a declining market, the volume has dried up drastically, and the selling pressure has declined and for potential investors and existing investors, this could be a good buying opportunity to accumulate their preferred stocks.

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



(Source: NEPSE price data for the month of April 2022)

| S.N. | Symbol | Amount Traded (Million) | Sector |
|------|--------|-------------------------|------------------------------|
| 1 | NTC | 1,787.11 | Others |
| 2 | NLIC | 1,357.02 | Life Insurance |
| 3 | API | 1,342.19 | Hydropower |
| 4 | JBLB | 1,300.91 | Microfinance |
| 5 | SHVM | 1,180.59 | Manufacturing and Processing |

Source: NEPSE Chaitra end 2078 monthly report data





MUTUAL FUND

Within the month of April, NEPSE continues its downtrend whereas Mutual Fund seems to be volatile within the month. The index hit 14.86 as low point and 15.69 as highest point within the review period. In the month of March, the sub index closed at 15.61 whereas this month, sub index closed at 15.56 witnessing a loss of -0.32% on its index. Within the volatile movement, sub index had observed the bullish crossover on the MACD indicator within the month.

As the market price of listed stock has fall heavily, it has pull down the NAV of the Mutual Funds as well. As per the NAV report of Chaitra, only single Mutual Funds have NAV more than 15 i.e. SAEF with 16.04. Currently, major Mutual Funds are trading at heavy discounted prices. The larger the discount rate, the better the investment opportunity in Mutual Fund. Out of all the Mutual Funds NICBF, SAEF and NICGF are trading at highest discount rates i.e. 18.87%, 18.45% and 17.40% respectively. The first table presented below shows NAV details along with LTP and discount/premium at the end of April month. Moreover, the second table shows the equity exposure of Mutual Funds. Four Mutual Funds have more than

80% equity exposure. GIMES1, SIGS2, SEF and NIBLPF are the Mutual Funds with highest equity exposure i.e. 90.23%, 88.65%, 87.26% and 82.08% respectively. The last table lists the top 10 stocks held by Mutual Funds till the end of Chaitra 2078; among these top ten stocks, 9 are from the commercial Banking sector, and 1 from Life Insurance. NBL, PRVU and SANIMA are the top stocks held by Mutual Funds.

| Top 10 Stocks Holdings | |
|------------------------|----------|
| Stocks | Quantity |
| NBL | 1168912 |
| PRVU | 945631 |
| SANIMA | 934134 |
| GBIME | 895400 |
| NICA | 889362 |
| SBL | 809199 |
| PCBL | 590661 |
| NLICL | 476303 |
| ADBL | 436070 |
| NABIL | 398796 |





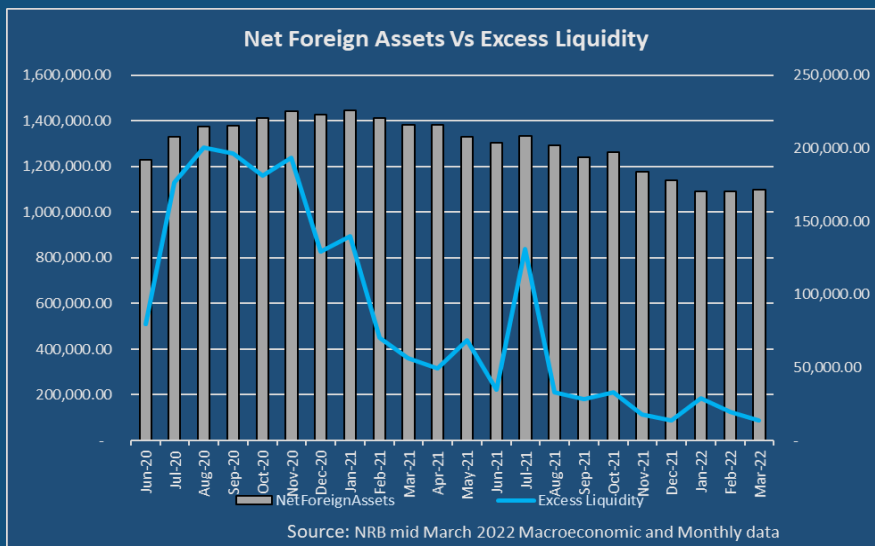
| Mutual Funds | NAV | LTP | Discount/ Premium |
|--------------|-------|-------|-------------------|
| NICBF | 13.25 | 10.75 | -18.87% |
| SAEF | 16.04 | 13.08 | -18.45% |
| NICGF | 14.14 | 11.68 | -17.40% |
| SFMF | 13.75 | 11.53 | -16.15% |
| SIGS2 | 12.70 | 10.65 | -16.14% |
| NBF2 | 12.34 | 10.50 | -14.91% |
| KEF | 10.64 | 9.11 | -14.38% |
| NMB 50 | 14.81 | 12.70 | -14.25% |
| NMBHF1 | 13.89 | 11.96 | -13.89% |
| NICSF | 10.02 | 8.63 | -13.87% |
| LUK | 11.63 | 10.17 | -12.55% |
| SLCF | 9.82 | 8.60 | -12.42% |
| PSF | 10.23 | 9.00 | -12.02% |
| SEF | 12.48 | 10.98 | -12.02% |
| SBCF | 9.51 | 8.50 | -10.62% |
| MMF1 | 9.47 | 8.50 | -10.24% |
| LEMF | 11.72 | 10.61 | -9.47% |
| CMF1 | 10.05 | 9.10 | -9.45% |
| CMF2 | 11.01 | 10.00 | -9.17% |
| NEF | 12.21 | 11.10 | -9.09% |
| RMF1 | 9.42 | 8.69 | -7.75% |
| NIBSF2 | 9.38 | 8.80 | -6.18% |
| NIBLPF | 11.84 | 11.40 | -3.72% |
| GIMES1 | 11.74 | 11.34 | -3.41% |
| NBF3 | 9.38 | 9.20 | -1.92% |

| Mutual Funds | Equity Exposer |
|--------------|----------------|
| GIMES1 | 90.23% |
| SIGS2 | 88.65% |
| SEF | 87.26% |
| NIBLPF | 82.08% |
| NBF2 | 77.22% |
| NEF | 77.04% |
| NICGF | 68.99% |
| CMF1 | 68.55% |
| MMF1 | 67.78% |
| CMF2 | 67.69% |
| NIBSF2 | 67.58% |
| SAEF | 66.51% |
| LEMF | 65.87% |
| NMB 50 | 63.31% |
| NICBF | 61.26% |
| LUK | 59.74% |
| NBF3 | 57.11% |
| SFMF | 56.67% |
| SBCF | 55.99% |
| SLCF | 54.53% |
| NMBHF1 | 48.99% |
| KEF | 44.53% |
| RMF1 | 42.08% |
| PSF | 39.24% |
| NICSF | 19.21% |

* LTP as on 28/04/2022

MACROECONOMIC ANALYSIS

Market Liquidity

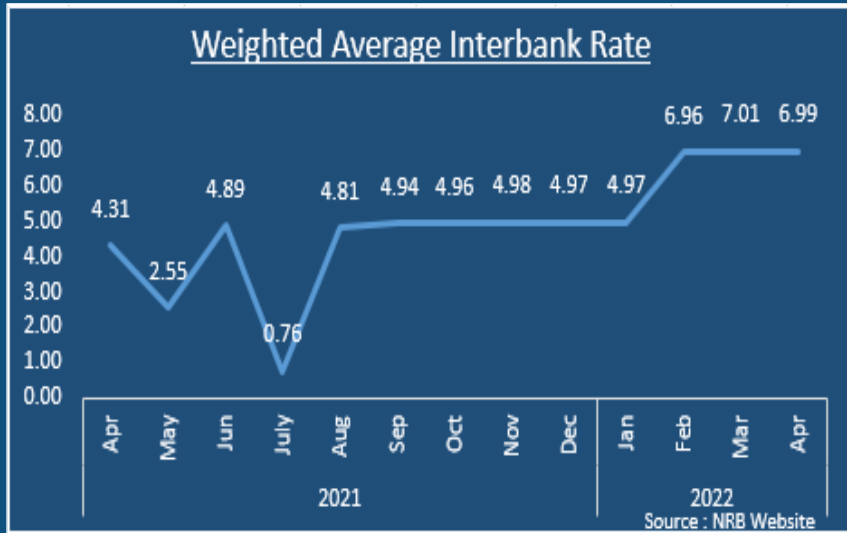


The Excess liquidity in the market stood at around NPR 13.76 billion (as of mid-March, 2022). This month also, the excess liquidity has drastically declined by 29.36% as compared to previous month. The imports increased this month by 38.64% from the previous year same period data. Similarly, the remittance





for the same period has declined by 1.71%. On the other hand, exports increased by 82.90% as compared to previous year. Also, the Net Foreign Assets for the period has increased by 0.56% from the previous month. The improvement in remittance month by month suggests that the decreasing rate of remittance may turn into an increasing rate in the next month if the current trend remains intact. Likewise, the increase in the decreasing rate as seen in the import has continued in this month as well. Consequently, the Net Foreign Assets has increased by 0.56% as compared to

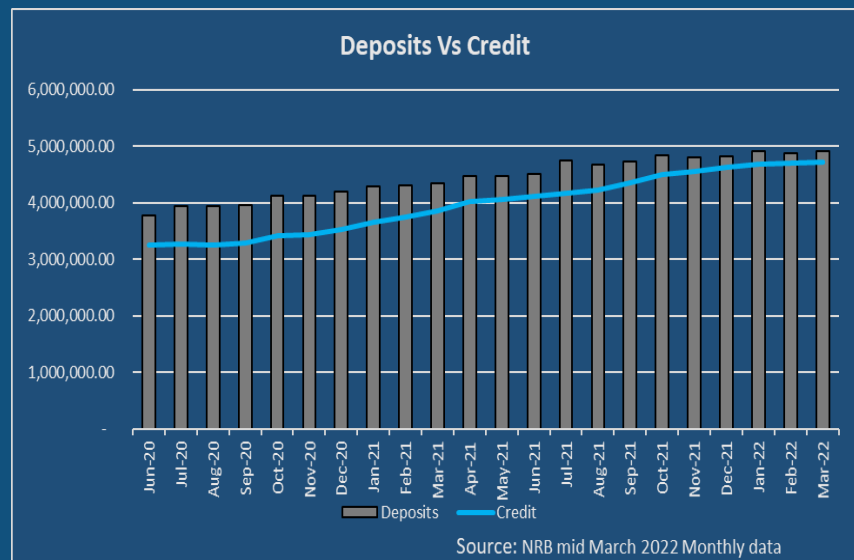


previous month. However, the position of excess liquidity keeps depleting, the minimal increment in the deposit looks inadequate to support the liquidity position in the economy.

In FY 2021/22, as per the data available up to the month of April, the total deposit has increased only by 4.44% whereas compared to the total deposit, the total lending has significantly increased by 13.53% in the banking system. As a result, the CD ratio has increased to 90.74%. The BFIs are required to maintain their respective CD ratios below 90% by the end of Ashad (fiscal year end). The increased pressure on liquidity is reflected in the interbanking system as well with interbanking rate soaring close to 7% in Chaitra as well.

Total Deposits and Total Borrowing

Till mid of March 2022, deposits increased by 0.53% and credit grew by 0.56% as compared to previous month i.e. mid-February 2022. The total deposits for the review period remained at 49.03 kharba and the total credit remained at 47.20 kharba. In this month, both deposit and credit grew by almost the same amount and the growth rate is also minimal. As a result, the position of the

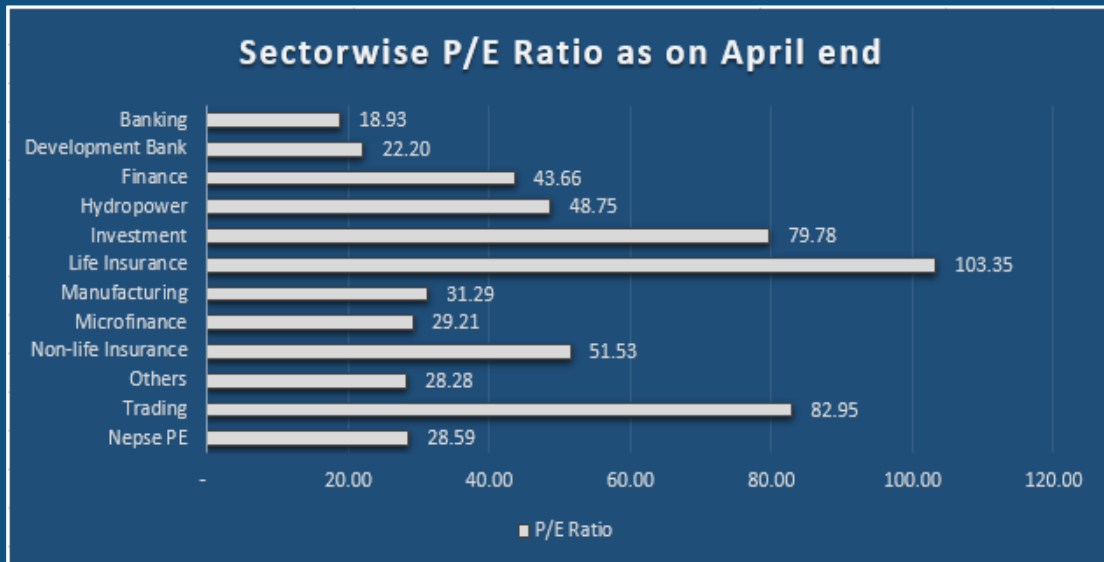




market liquidity hasn't improved yet which is also indicated by the 29.36% decline in the excess liquidity in this month.

FUNDAMENTAL ANALYSIS

Sector wise PE Ratio



P/E ratio is the most widely used ratio by the investors to ascertain whether the stock is undervalued or overvalued. As a rule of thumb, lower the PE ratio, better the company to invest in. As of April end, the banking sector is trading at the lowest P/E ratio of 18.93 times, which is generally assumed to be relatively safer for investment from the PE perspective. After the banking sector, the development bank and the other sector have the lowest P/E ratio of 22.20 times and 28.28 times respectively. Whereas the life insurance sector is trading at the highest P/E multiple of 103.35 times. But the actual earnings of the life insurance sector will be ascertained only after actuarial valuation after the end of fiscal year. Therefore, adjustment in this factor is needed for the correct analysis. Majority of the sectors are trading at the relatively higher P/E multiple in Nepse. But PE ratio can also be misleading if growth factor is not taken into consideration. Higher PE ratio if supported by growth factors can also be beneficial for the investment. Overall Nepse is trading at the P/E ratio of 28.59 times.

Average Base Rate of Commercial Banks

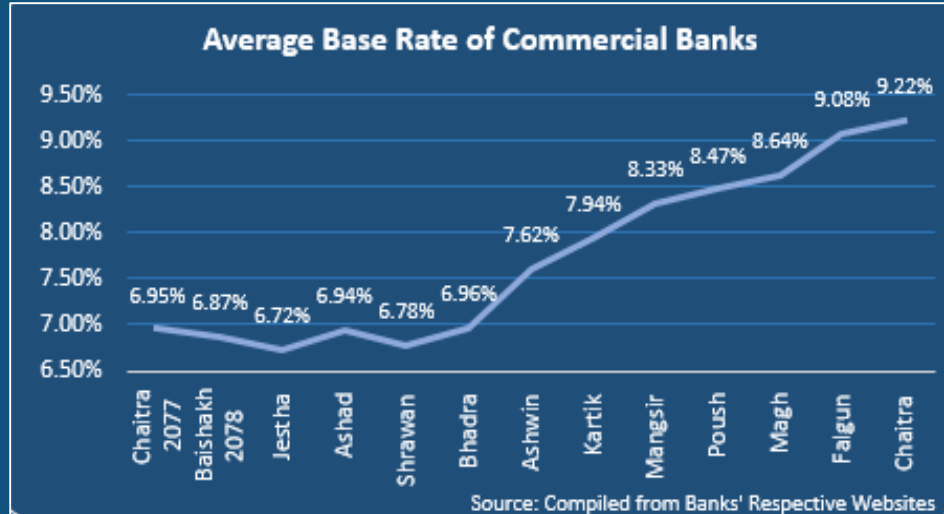
With the end of the second wave of covid outbreak, the economic activities, which had been in the passive mode during lockdown period, have strongly extended resulting in the higher demand of the credit. In FY 2021/22, there is 13.05% of loan growth whereas there is deposit growth of only 4.44% in the commercial bank industry till the end of April. Increasing imports and declining remittances have put pressure on liquidity resulting in the rise of interest rate on the deposits.





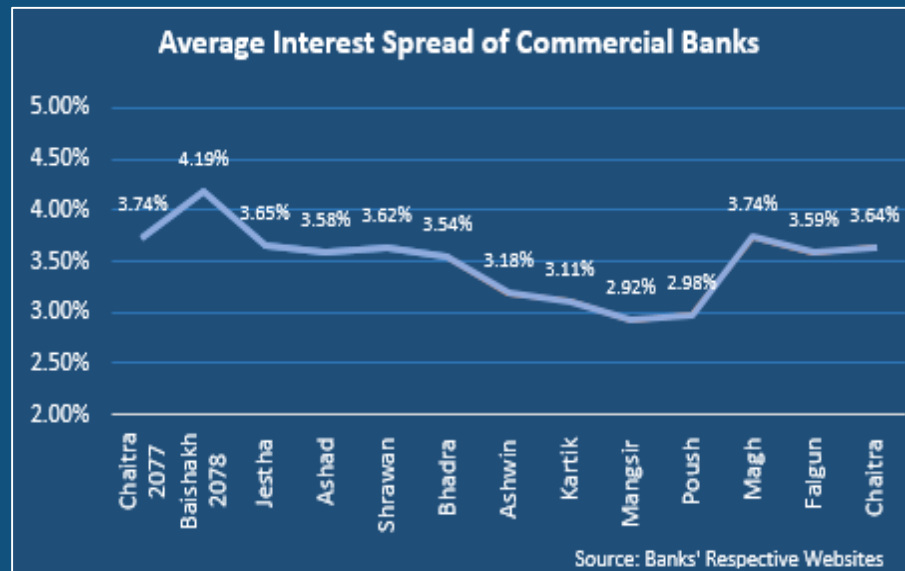
Accordingly, the base rates of BFIs is in the inclining trend in the current time period. The average base rate of the commercial banks has increased to 9.22% in Chaitra compared to 9.08% in Falgun. Civil Bank has the highest base rate of 10.24% whereas Standard

Chartered Bank has the lowest base rate of 7.55% among commercial banks in Chaitra.



Average Interest Spread of Commercial Banks

Interest Spread is the difference between the interest rate a bank pays to depositors and the interest rate it receives from lending to customers. Higher the Interest Spread, higher the profitability of the BFIs and vice versa. NRB has put the cap on the interest spread to 4.4% for commercial banks. The average interest spread of commercial banks




which had been in a declining trend for about one year has shown a reversal coming to the third quarter of this fiscal year. Increment of lending interest rate by the commercial banks in the beginning of the third quarter has aided in the improvement in the interest spread of the commercial banks. The average interest spread, which had dropped below 3% in the last two months of the 2nd quarter, improved in the months of the third quarter. The average interest spread rate of the commercial banks stands at 3.64% in the month of Chaitra 2078. NICA has maintained the highest interest spread of 4.40% whereas SCB has the lowest interest spread of 2.96% in Chaitra.





TECHNICAL ANALYSIS

Current Index: 2356.20,  - 7.39%
(4-28-2022)

Previous Month Index: 2544.30
(3-31-2022)

As per Fibonacci Retracement

(From swing low 1362.21 on 9th Aug 2020 to swing high 3227.11 on 19th Aug 2021)

SUPPORT

Support 1: 2295, -2.59% down
Support 2: 2075, -11.93% down

RESISTANCE

Resistance 1: 2515, 6.75% up
Resistance 2: 2787, 18.29% up



Candlestick: In the month of April, NEPSE index went for sharp correction from the very beginning of the month. The index took support on 21st April 2022, forming a candle with long lower shadow that gave the sentiment of indecisive doji candle. Despite the rebound made by the





market on 24th April 2022, where the index went up by 4.11% on a single day gaining 95.51 index, it couldn't give the swing as expected in the market, closing the market at 2356.20 index with 7.39% decline from previous months closing index.

Bollinger Band: As per the analysis of the previous month, the market has moved towards the lower band with this correction as we expected. The expansion in the lower band took the index further down with more intensity but the one-day rebound has pushed the market up to middle band and once again took resistance on middle band, making it difficult to invite an upward swing for the market.

Exponential Moving Average (EMA): The NEPSE index is trading below both EMA 5 and EMA 20 line, indicating the downward trend in the market. Coming to the end of this month, the index has managed to move and close above the 5 days EMA line for two days but couldn't sustain longer and again went below the 5 days EMA line on the last day.

Volume: In the month of April, the volume has further declined to 30.68 billion from 52.09 billion of last month which is a decline of -41.10%. The sharp correction in the market combined with the massive decline in the volume suggests that the selling volume is contracting as the market hits a lower low.

RSI and MACD



RSI: There is not much change in the RSI indicator this month, decreased slightly from 38.86 of previous month to 37.72 as the RSI indicator mostly remained in the sideways position taking support on the oversold zone. Moreover, we can find a bullish hidden divergence between RSI indicator and NEPSE index that gives the leading indication of the possible upward movement in the market.





MACD: In the MACD indicator, the correction in the market has led the indicator towards bearish sentiment which is the continuation of bearish crossover of previous month. Coming towards the end of the month, MACD line has crossed the Signal line from below (Bullish crossover) that gives the indication of reversal movement in the market driven by bullish sentiment.

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