

# MONTHLY NEWSLETTER

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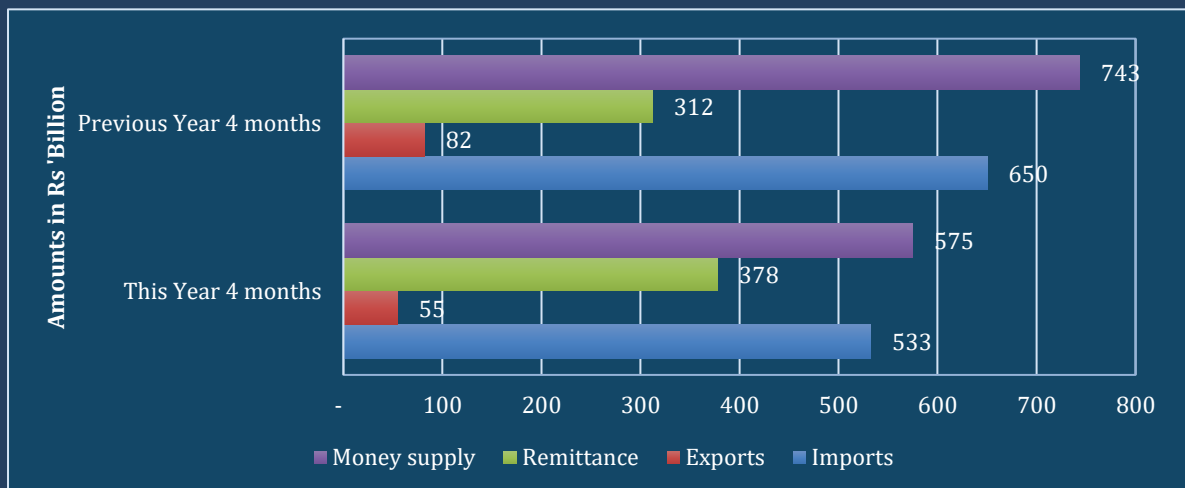
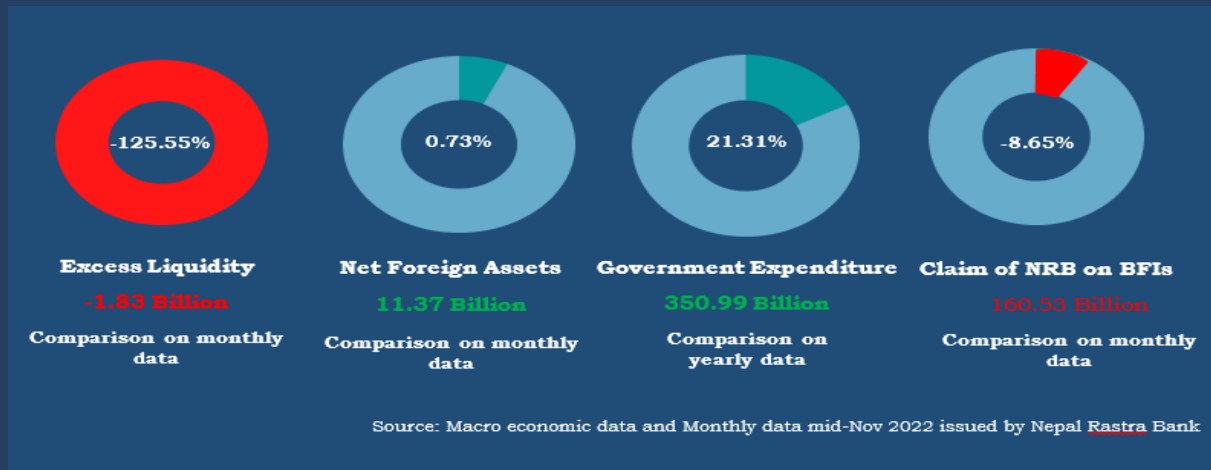
Machhapuchpuchhre Capital Limited

Research and Trading Team

## NEPSE HIGHLIGHTS

Particular	Index	Gain/(Loss)	Capitalization (Mil)	Beta	Turnover (Mil)
NEPSE Index	1,882.61	-9.26%	2,721,112.21	1.00	22,677.41
Banking	1,285.38	-5.81%	991,669.42	0.83	4,758.69
Hotels and Tourism	2,709.53	-10.98%	46,909.61	0.74	180.40
Other	1,475.72	-12.90%	245,791.70	1.66	733.16
HydroPower	1,990.52	-8.15%	299,715.02	1.13	4,796.59
Development Bank	3,343.57	-11.34%	122,590.03	1.55	1,455.96
Manufacturing and Proce	4,937.07	-6.64%	119,768.50	1.38	3,061.27
Microfinance	4,305.45	-7.75%	322,783.63	1.11	2,900.71
Life Insurance	9,064.75	-17.42%	199,867.44	0.88	886.23
Investment	55.62	-9.96%	170,096.00	0.70	644.33
Non-Life Insurance	7,463.12	-15.92%	142,367.56	0.61	567.93
Finance	1,526.65	-11.86%	48,894.07	1.36	1,063.41
Trading	1,831.26	-14.47%	10,659.23	0.83	109.88

## MARKET LIQUIDITY





## MONTHLY NEPSE OVERVIEW



The month of December for the Nepse has been a complete roller coaster ride for the investors and traders. Nepse, which opened at the index of 1949 at the start of the month, continued its downward trend and reached the bottom index of 1855 on 18th December 2022 on a closing basis. But coming to the end of the month, Nepse has risen to the level of 2029 indicating the initial signal for trend reversal. Overall, the market gained 4.08% in the December month.

Several events within the month played a vital role in the significant volatility of the index. As opposed to the expectation of the investors, BFIs did not reduce the interest rate on deposit for the month of Poush despite some improvement in the deposit collection, CD ratio and interbank rate. Similarly, the Government of Nepal decided to lift the import ban of luxury items from Dec 16, 2022, which would put pressure on the gradually improving balance of payment position of the nation in the upcoming months. Moreover, NRB has reduced the limit of the interest spread of the BFIs in the first quarterly review of monetary policy by 40 basis points basically to reduce the lending rate in the economy. With the new provision,

Commercial Banks must bring down the interest spread to 4.2% and Development and Finance Companies must bring it down to 4.8% from Chaitra 2079. Furthermore, Commercial banks must bring it down to 4% and Development Banks and Finance must bring it down to 4.6% from Ashad 2080. This would certainly reduce the interest revenue of the BFIs in the upcoming quarters. Owing to these reasons, the atmosphere of the Nepse in the initial period appeared to be gloomy which led to sharp decline of the Nepse by around 5%.

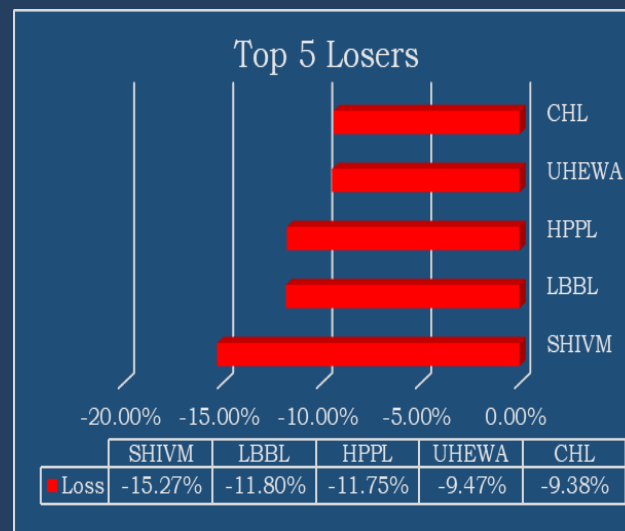
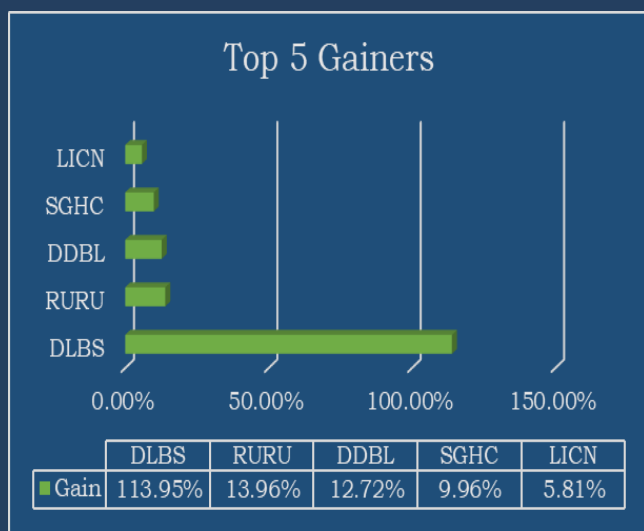
However, with the appointment of Mr. Bishnu Prasad Paudel from CPN (UML) as Finance Minister, Nepse has made the turnaround towards the north. He is perceived to be the stock market friendly minister as the last two all-time high of Nepse had been achieved during his tenure as Finance Minister. Moreover, it is expected that there will be better coordination between the Governor and the finance minister to bring reforms in the economy, being both affiliated with the same political party. This has boosted the positive sentiment in the investor which has been reflected in the magnificent rise in the Nepse by around 9% in the last week of the month itself. On top of that, with the



extension of the time by Government of Nepal up to Mid-July 2023 to include 80% of the local government fund as Deposit by BFIs (which was previously 50%), and with the issue of Rs 50 billion repo by NRB to

The following charts presents the Top 5 Gainers and Top 5 losers for the month of December 2022.

BFIs to mitigate possible liquidity crisis due to Poush end tax collection, market is paving its way to upward journey with above average volume.



Top 10 Securities by Market Capitalization as on Mid Dec 2022			
S.N.	Symbol	Market Cap. (Rs. In Million)	Weightage in Total Market Cap. of Nepse
1	NABIL	183,576.59	6.75%
2	NTC	162,594.00	5.98%
3	NRIC	83,181.00	3.06%
4	CIT	78,426.70	2.88%
5	NICA	77,710.12	2.86%
6	HDL	57,626.28	2.12%
7	GBIME	50,367.28	1.85%
8	NLIC	49,141.10	1.81%
9	EBL	45,807.45	1.68%
10	NMB	42,316.89	1.56%

NABIL tops the list of the largest companies listed in Nepse based on market capitalization followed by NTC and NRIC. CIT joins the club as a representative of Investment Sector in the fourth position. From the manufacturing sector, HDL secures the 6<sup>th</sup> position whereas NLIC secures the eighth position from the life insurance sector. The top 10 largest companies based on market capitalization constitutes around 30% of the total market capitalization of Nepse.



## MUTUAL FUND

A mutual fund is a professionally managed investment scheme, usually run by an asset management company that brings together a group of people and invests their money in stocks, bonds and other securities. Currently, there are 30 closed ended mutual funds listed in Npse and 6 open ended mutual funds. The total fund size of the mutual fund industry stands around Rs 35 billion till date.

The mutual fund index stood at 13.72 at the end of December 2022 and closed by gaining 1.41%. As of December, the index hit 13.09 as the low point and 13.72 as the highest point. In the previous month, the sub index closed by losing 0.96% but this month the sub index closed with a positive gain. Currently, most of the mutual funds NAVs have fallen below Rs 10 per unit. As of the NAV report of December, SAEF has the highest NAV of Rs 12.16 per unit while MMF1 has the lowest NAV of Rs 7.91 per unit. SAEF is the only mutual fund having NAV more than Rs 12 per unit. Currently, all the mutual funds are trading at a discount where some of the mutual funds are trading at heavy discounted prices. Generally, the higher the discount rates, the better is the investment opportunity in the mutual funds. The mutual funds including NICSF, NICFC and CMF2 are trading at the highest discount rates i.e., 21.50%, 20.61% and 20.02% respectively whereas GIMES1 is trading at the lowest discount of 3.95% with maturity date nearing i.e., on 24<sup>th</sup> March 2023.

The first table shows the top 10 stocks held by closed ended Mutual Funds till the end of December 2022. The mutual funds hold

Top 10 Stock Holdings		
Stocks	Quantity	Sum of Amount
NICA	933,271.00	598,963,601.70
CBBL	508,834.00	546,834,701.60
NABIL	539,189.00	433,507,956.00
NLICL	796,008.00	388,939,979.57
NBL	1,348,496.00	373,533,392.00
NIL	509,975.00	347,450,944.60
SANIMA	1,467,986.00	315,805,465.16
PRVU	1,548,423.00	312,626,603.70
SKBBL	297,781.00	311,468,938.00
NUBL	335,942.00	299,441,102.60

five commercial banks in the top 10 holdings in terms of amount. The highest holding of mutual funds is in the stock of NIC Asia Bank, followed by Chhimek Laghubitta Bikas Bank and Nabil Bank. The mutual funds hold highest value of NLICL from the life insurance sector and highest value of NIL from the non-life insurance sector.

The second table below represents the NAV details along with the LTP and discount/premium at the end of the month of December. Likewise, the third table shows the equity exposures of the Mutual Funds. Three mutual funds have the highest equity exposure of more than 80%. MMF1, NIBLPF, and SIGS2 have the highest equity exposures of 85.07%, 81.69% and 80.50% respectively whereas NICFC, NICSF, and NSIF2 have the lowest equity exposure of 20.24%, 15.04% and 11.37% respectively being recently issued funds.



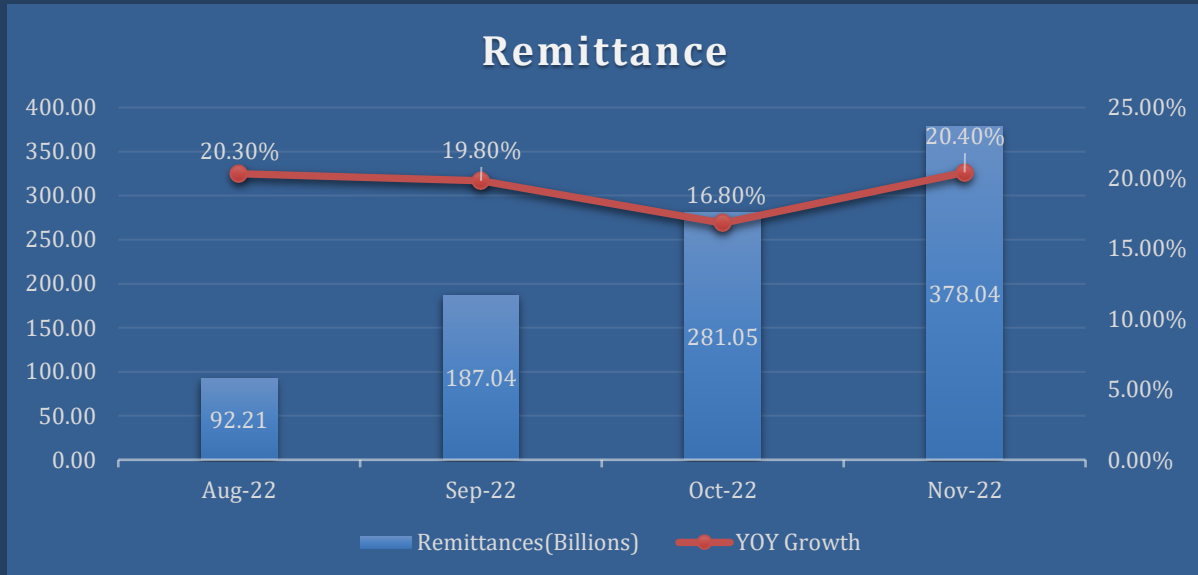
Mutual Fund	NAV per unit	LTP as on 2022/12/29	Discount/Premium	Mutual Fund	Equity Exposure
NICSF	10.00	7.85	-21.50%	MMF1	85.07%
NICFC	10.09	8.01	-20.61%	NIBLPF	81.69%
CMF2	9.69	7.75	-20.02%	SIGS2	80.50%
NICBF	10.69	8.58	-19.74%	SEF	79.13%
NICGF	11.20	9.00	-19.64%	GIMES1	78.97%
KEF	10.25	8.24	-19.61%	NBF2	75.15%
KDBY	10.15	8.16	-19.61%	SAEF	73.15%
GIBF1	9.88	7.98	-19.23%	NMB50	65.31%
LUK	9.71	7.90	-18.64%	NEF	65.27%
NIBSF2	8.44	6.91	-18.13%	NIBSF2	63.69%
PSF	9.84	8.06	-18.09%	NICGF	63.32%
SAEF	12.16	9.98	-17.93%	SBCF	61.81%
SFMF	11.39	9.35	-17.91%	CMF2	61.36%
NBF2	9.43	7.81	-17.18%	SFMF	60.60%
SBCF	8.78	7.29	-16.97%	LEMF	59.89%
CMF1	8.93	7.51	-15.90%	CMF1	58.72%
SLCF	8.90	7.50	-15.73%	NBF3	57.85%
NMB50	10.68	9.01	-15.64%	SLCF	55.99%
LEMF	9.42	7.98	-15.29%	NICBF	53.41%
RMF1	8.92	7.68	-13.90%	KEF	51.51%
NEF	9.51	8.20	-13.77%	LUK	51.30%
SIGS2	9.53	8.25	-13.43%	RMF1	41.91%
NIBLPF	9.81	8.50	-13.35%	NMBHF1	37.26%
NMBHF1	10.64	9.48	-10.90%	PSF	37.18%
MMF1	7.91	7.11	-10.11%	KDBY	29.96%
NBF3	8.22	7.60	-7.54%	GIBF1	27.62%
SEF	9.47	8.79	-7.18%	NICFC	20.24%
GIMES1	9.11	8.75	-3.95%	NICSF	15.04%
				NSIF2	11.37%



## MACROECONOMIC ANALYSIS

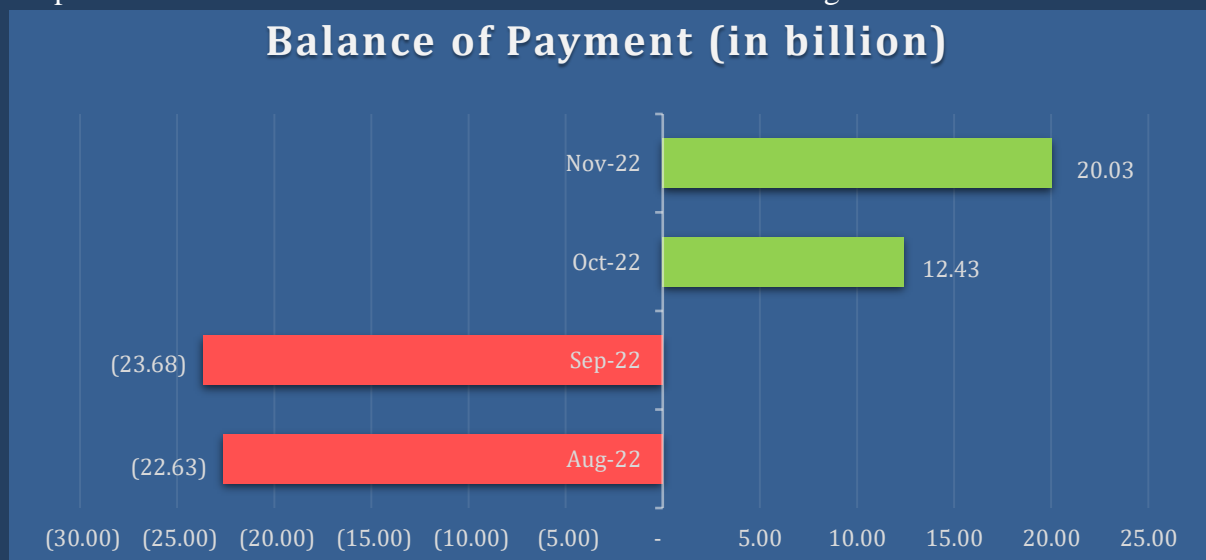
### • Remittance

According to the Macroeconomic Report as on Mid-November 2022, the remittance has increased by 20.4% compared to the same period of the previous year. Overall, the trend of remittance shows gradual growth over the four months which we can expect it to further continue in the upcoming months with the increasing number of migrant workers in the recent months.



### • Balance of Payment (BOP)

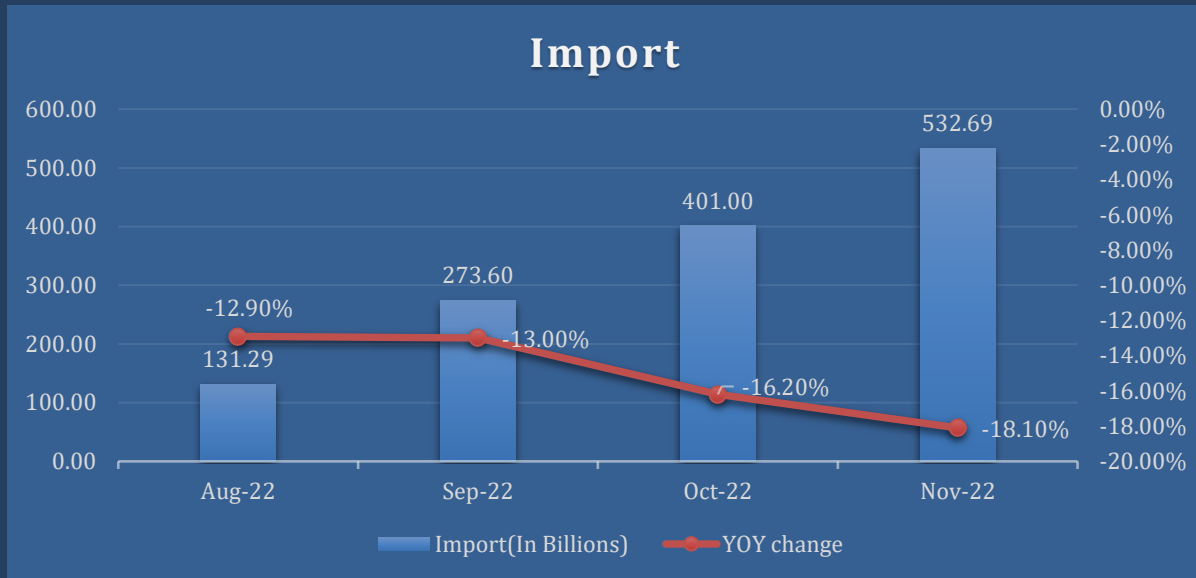
As of Mid-November, the BOP figure is in the surplus of 20.03 billion. The BOP figure as of Mid-August 2022 and Mid-September 2022 were in a deficit figure of 22.63 billion and 23.68 billion respectively. However, as of Mid-October, the BOP showed improvement with the BOP Surplus of 12.43 billion which further continued in an increasing trend as of Mid-November.





### • Import

The import for the current fiscal year has been in a decreasing trend due to the import restrictions placed as a measure to preserve foreign reserves. The import figure decreased by 18.10% in Mid-November 2022 on Y-o-Y basis. However, as on 6th December, the import ban has been lifted by the Government which can increase the import figure in the upcoming months.



### • Export

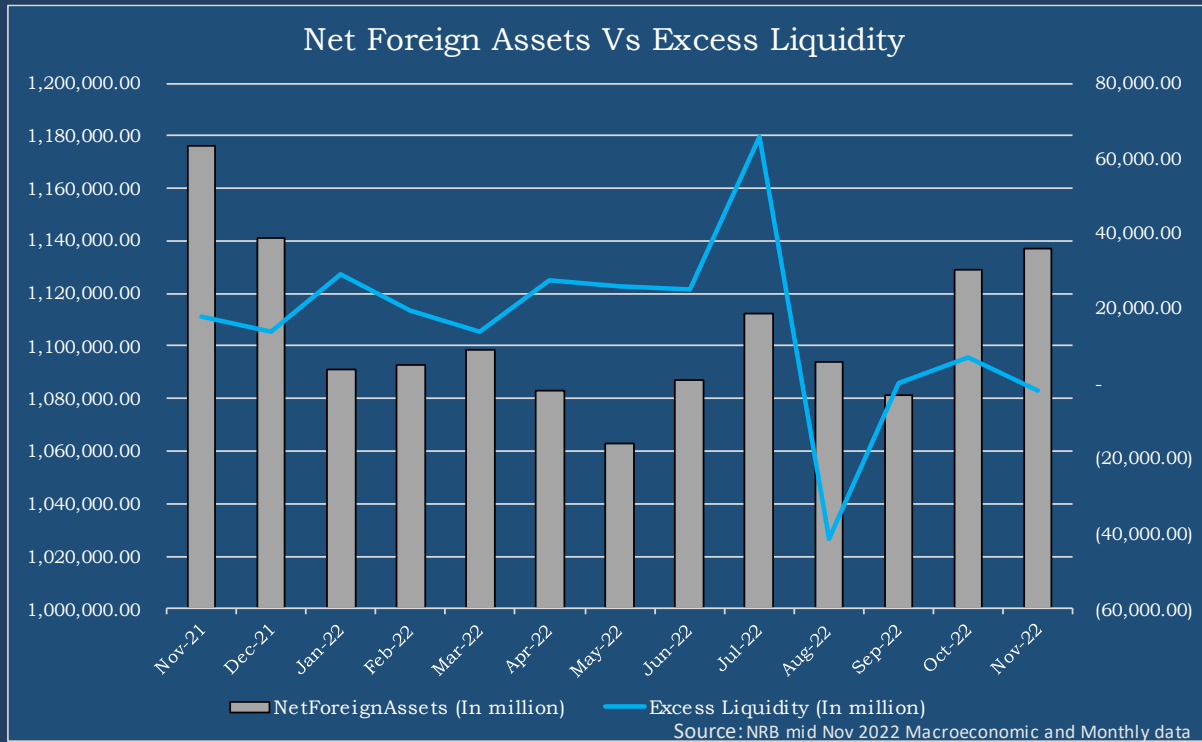
The export figure has decreased by 33.3% on Y-o-Y basis in Mid-November 2022. With both import and exports decreasing, the major reason in BOP Surplus may be attributed to the increase in the inflow of remittance.



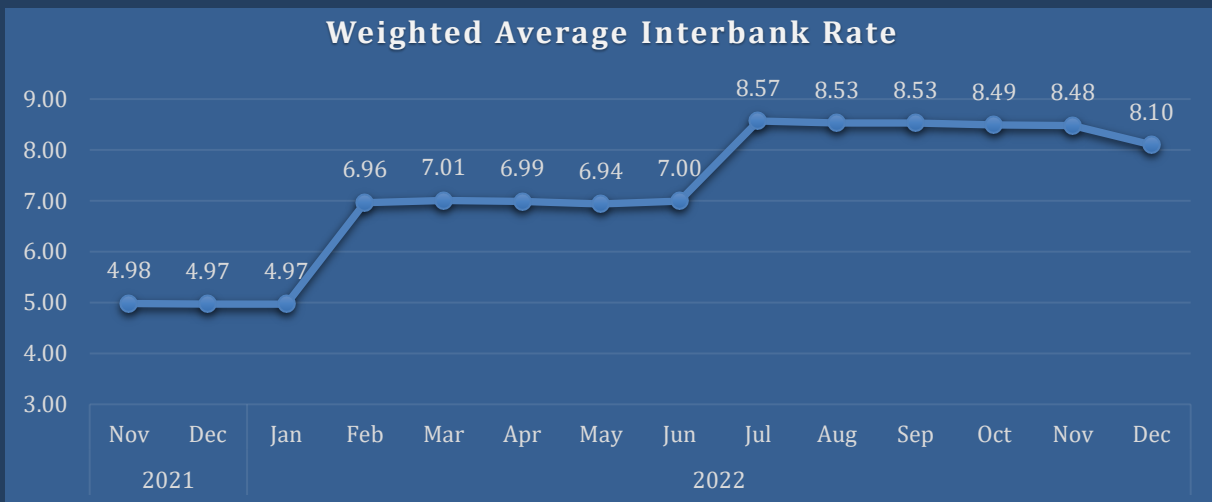




## ● Market Liquidity

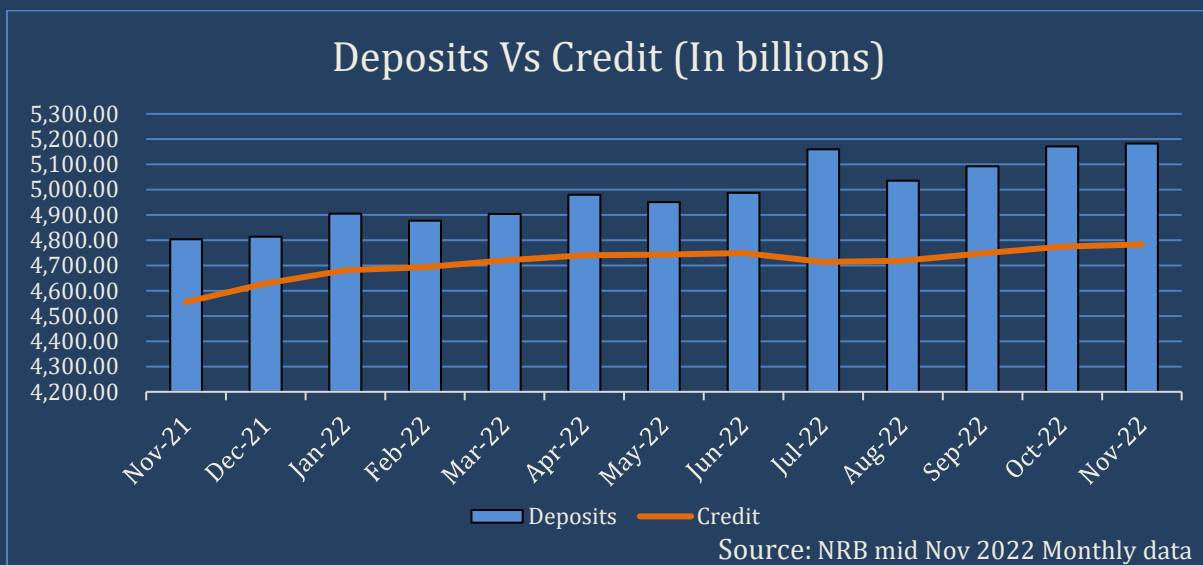


The position of excess liquidity stood at around 1.83 billion in deficit figure (As of Mid-November 2022). The excess liquidity stood at around 200.43 billion as of Mid-August 2020. The position of excess liquidity currently indicates that liquidity has been extremely exhausted as the result of the persisting credit crisis in the Nepalese economy which arose as a result of excessive lending during the post-COVID period and the rising import figure. However, in comparison to the excess liquidity figure of Mid-September 2022 which stood at 41.27 billion in deficit, the liquidity situation in the current month has improved significantly. This may be attributed to the import restrictions placed and the discouragement of loans flowing into unproductive sectors. The import figure has decreased by 18.08% (As of Mid-November 2022) on a Y-o-Y basis. The import restrictions placed late April have been lifted as of 6th December, hence we can expect the import to increase in the upcoming months which may directly affect the liquidity position of the economy. Remittance has increased by 21.01% (As of Mid-November 2022) on a Y-o-Y basis. Export however has decreased by 33.30% as of Mid-November 2022 on a Y-o-Y basis. The net foreign assets of the country have increased by 0.73% in the current month from that of previous month. The deposit and credit have increased by 2.91% and 1.37% in the fiscal year 2022/23 as of Mid-November, 2022.



With the persisting credit crunch, the interbank rate is as high as 8.48% as of Mid-November 2022, but with deposits increasing in a higher proportion than loans, the interbank rate also shows a slight decrease from the previous month's rate of 8.49%. Overall, the upcoming liquidity status is dependent on the import figure, remittance growth, deposit, and loan growth in the upcoming months.

#### • Total Deposits and Lending



The total deposits and lending increased by 0.21% and 0.18% respectively as of Mid-November 2022 compared to that of the previous month. The total deposits stand at 5122 billion and the total credit stands at 4783 billion as of Mid-November 2022. In the current month, deposits have increased in higher percentage than credit which indicates a slight decrease in loan demand in the present time.



## FUNDAMENTAL ANALYSIS

### • Sector Wise P/E Ratio

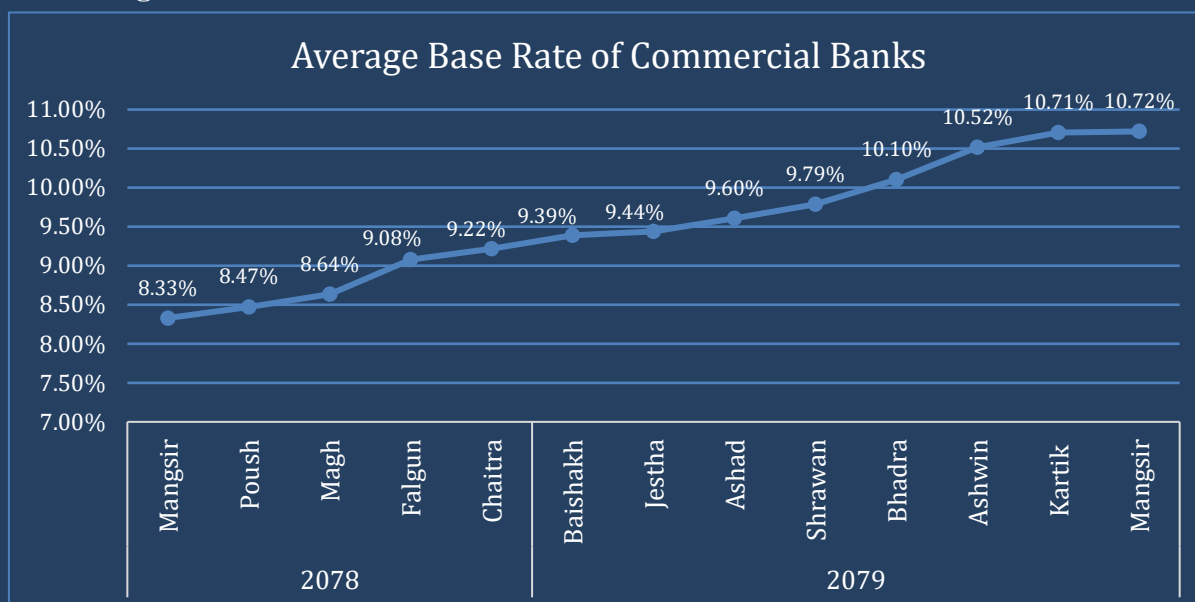
Sector	Nov-22	Dec-22	Change %
Commercial Bank	15.50	15.58	0.56%
Development Bank	27.98	32.81	17.24%
Finance	77.28	81.63	5.63%
Microfinance	49.36	53.00	7.36%
Life Insurance	39.95	46.13	15.47%
Non-life Insurance	40.56	43.74	7.84%
Investment	44.23	47.60	7.62%
Hydropower	29.29	33.17	13.25%
Manufacturing	26.16	26.15	-0.04%
Others	80.48	26.55	-67.02%
Hotel	70.88	75.12	5.99%
Trading	244.26	396.07	62.15%
<b>Nepse</b>	<b>24.71</b>	<b>24.82</b>	<b>0.44%</b>

P/E ratio is the most widely used ratio by the investors to ascertain whether the stock is undervalued or overvalued. As a general principle, lower the PE ratio, better the company to invest in. The average PE Ratio of all the sectors has increased in the month of December except that of Manufacturing and Others Sector.

As of December end, the banking sector is trading at the lowest P/E ratio of 15.58 times, which is generally assumed to be relatively safer for investment from the PE perspective. After the banking sector, the manufacturing and the other sectors have the lowest P/E ratio of 26.15 times and 26.55 times respectively. Whereas the trading sector is trading at the highest P/E multiple of 396.07 times. 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 24.82 times.



### ● Average Base Rate of Commercial Banks

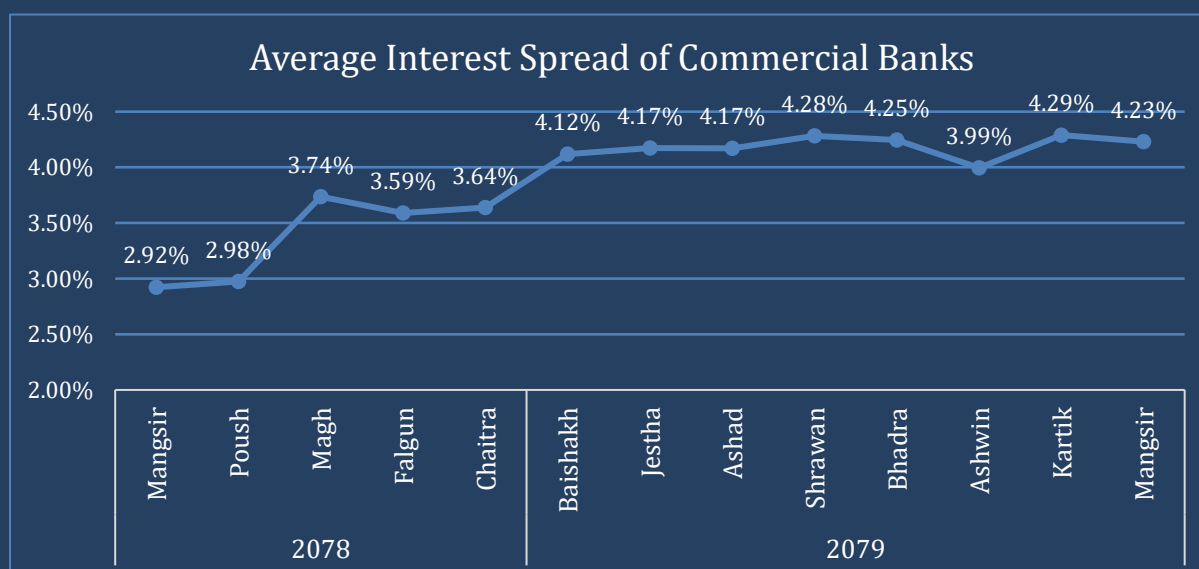


Source: Banks' respective websites

\*Note: The average base rate does not include the undisclosed base rate of some banks.

The average base rate of the commercial banks is in the increasing trend as of Mangsir 2079. It has nominally increased to 10.72% in Mangsir 2079 from 10.71% in Kartik 2079. The base rate was 8.33% as compared to the same period of previous year. To discourage excessive lending and control the inflation, NRB has increased the bank rates which ultimately led to increase in the interest rate on saving accounts in the banking industry causing the base rate to rise. The situation of credit crunch arised due to the excessive credit disbursement in the unproductive sectors as compared to the deposit collection in the post covid-period. Among the banks who have published the monthly base rate, SRBL has the highest base rate of 11.49% whereas SCB has the lowest base rate of 9.30%.

### ● Average Interest Spread of Commercial Banks



\*Note: The average spread does not include the undisclosed interest rate spread of NABIL, NCCB and MEGA.



The average interest rate spread of the commercial banks has slightly decreased to 4.23% in the month of Mangsir 2079 as compared to 4.29% in the month of Kartik 2079. As per the amended guideline of NRB, the interest spread rate for the commercial banks cannot exceed 4.2% from the month of Chaitra 2079. Likewise, from the month of Asadh 2079, spread rate should not exceed 4.0% for the commercial banks. The amended guideline for the spread rate will affect the profitability of the commercial banks in the upcoming period as lower spread rate generally implies lower profitability for the commercial banks. Among the banks who have published the monthly spread rate of Mangsir, BOKL, NICA and SBI have maintained the highest spread rate of 4.39% whereas CCBL and PRVU have the lowest spread rate of 3.99%.

## MCL KNOWLEDGE CENTRE

### Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio is the minimum capital requirement of the bank. It is the ratio of a bank's capital in relation to its risk-weighted assets. It is primarily for the protection of the depositors and for the promotion of public confidence in the banking system. It is decided by the central banks and bank regulators to prevent banks from issuing excess leverage and becoming insolvent in the process.

The formula for calculating CAR is as follows:

$$\text{CAR} = \frac{(\text{Tier I Capital} + \text{Tier II Capital})}{\text{Risk Weighted Assets}}$$

Where,

**Tier-1 Capital** also known as Core Capital consists of Paid up Capital, Retained Earnings, Share Premium, Statutory General Reserves, and Capital Redemption Reserves etc. It can absorb a reasonable amount of loss without forcing the bank to cease its operation.

**Tier-2 Capital** or Supplementary Capital consists of General Loan Loss Provision, Exchange Equalization Reserve, Sub-ordinated term debt, Investment Adjustment Reserves and other reserves. This capital is used to absorb losses in the event of a company liquidating.

Risk-Weighted Assets (RWA) refers to the bank's assets or off-balance-sheet exposures, weighted according to risk. The more risk a bank is taking; the more capital is needed to protect depositors. For example, riskier assets, such as unsecured loans, carry a higher risk of default and are, therefore, assigned a higher risk weight than assets such as cash and Treasury Bills.

### **CAR Provision under Capital Adequacy Framework 2015.**

As per the Capital Adequacy Framework 2015, banks should maintain a minimum total capital (MTC) of 8.5% of total risk weighted assets (RWAs). If the MTC is less than 8.5% for commercial banks in any month, according to the regulation of the central bank, they are



restricted from distributing dividends. For example, recently NICA is not allowed to distribute dividends for the fiscal year 2077/78 and 2078/79 as their MTC were lower than the minimum requirement.

S.N.	Regulatory Capital	As % of RWAs
1	Minimum Tier 1 Capital Ratio	6.00%
2	Minimum Capital Conservation Buffer	2.50%
3	Minimum Total Tier 1 Capital Ratio	8.50%
4	Tier 2 Capital	2.50%
5	Minimum Total Capital Adequacy Ratio	11.00%

Common Equity Tier 1 (CET1) capital must be at least 4.5% of risk-weighted assets (RWAs) i.e., for credit risk + market risk + operational risk on an ongoing basis.

Tier 1 capital must be at least 6% of RWAs on an ongoing basis. Thus, within the minimum Tier 1 capital, Additional Tier 1 capital can be admitted maximum at 1.5% of RWAs.

Total Capital (Tier 1 Capital plus Tier 2 Capital) must be at least 8.5% of RWAs on an ongoing basis. In addition to the minimum Common Equity Tier 1 capital of 4.5% of RWAs, banks are also required to maintain a capital conservation buffer (CCB) of 2.5% of RWAs in the form of Common Equity Tier 1 capital.

The status of Capital Adequacy Ratio of the commercial banks as of the 1<sup>st</sup> quarter of FY 2079/80 is as follows:

Minimum Requirement	8.50%	11%
Bank (As of 1st qtr 2079/80)	Core Capital to RWA	Total Capital Fund to RWA
ADBL	14.65%	16.03%
BOKL	12.21%	14.02%
CCBL	10.04%	13.18%
CZBIL	10.18%	12.39%
CBL	11.77%	16.00%
EBL	11.21%	13.53%
GBIME	10.26%	12.78%
HBL	10.16%	12.67%
KBL	9.56%	13.70%
LBL	9.44%	12.77%
MBL	8.71%	13.19%
MEGA	13.13%	11.26%
NABIL	10.69%	13.11%
NBL	12.43%	15.43%
NIB	11.93%	15.44%
SBI	10.28%	13.09%
NICA	8.95%	13.05%
NMB	10.91%	13.61%
PRVU	8.66%	12.67%
PCBL	12.00%	13.11%
SANIMA	9.03%	13.03%
SBL	9.13%	12.51%
SCB	14.11%	15.57%
SRBL	9.18%	12.60%



## TECHNICAL ANALYSIS



**Current Index (01-12-2023): 2149.39**

**As per Fibonacci Retracement**

**Support 1 : 2085 (-3%)**

**Support 2 : 1810 (-15.79%)**

**Resistance 1 : 2255 (4.91%)**

**Resistance 2 : 2390 (11.19 %)**

**Candlestick:** As per weekly analysis of NEPSE recent candlestick closes with Gravestone Doji formation which suggests that market has come to the position of indecision scenario with initial signal for the trend reversal. With the formation of two bullish candles last two weeks and gravestone doji formation in the recent week, some profit booking might be expected in the coming week as well.



**Moving Average:** Analyzing the EMA 5 and EMA 20 on weekly basis, there has been formation of Golden Crossover, a lagging indicator, which signals the positive sentiment arising in the market.

**Relative Strength Index:** RSI has reached very close to the level of 60 crossing the level of neutral zone with ease. But the upward direction of RSI line has slightly tilted towards sideways signaling some profit booking in the Nepse.

**MACD:** MACD line has crossed signal line from below forming bullish crossover and the gap between signal line and MACD line is gradually increasing indicating bullish sentiment in the market on the weekly basis.

**Conclusion:** After achieving around 15% of gain within three weeks on closing basis, NEPSE is currently in the profit booking zone as indicated by the gravestone doji candlestick. Whereas other indicators like exponential moving averages, MACD are still signaling bullish scenario based on the weekly chart.





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