

# Monthly Newsletter



## Machhapuchchhre Capital Limited

**Research and Trading Team**  
**February, 2022**  
**(Mid Magh - Mid Falgun)**



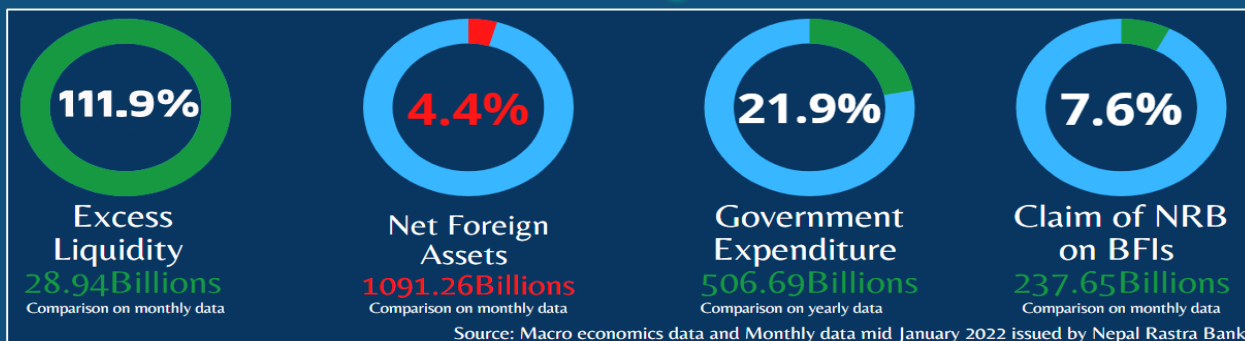
## NEPSE HIGHLIGHTS

Particular	Index	Gain/(Loss)	Capitalization (Mil)	Beta	Turnover (Mil)	PE
NEPSE Index	2,610.58	-9.10%	3,959,648.52	1.00	991,060.38	34.01
Banking	1,678.45	-8.57%	1,368,160.37	0.71	173,655.23	21.51
Hotels and Tourism	2,949.11	-8.12%	54,486.37	0.97	5,796.07	
Other	2,288.48	0.01%	385,284.20	1.06	24,595.12	40.74
HydroPower	3,213.56	-5.77%	428,119.65	1.46	299,655.45	55.47
Development Bank	4,460.85	-11.82%	178,912.36	1.55	112,324.53	27.12
Manufacturing and Processing	6,330.61	-14.39%	176,638.04	0.78	31,161.74	41.29
Microfinance	4,994.30	-9.98%	393,069.28	0.89	93,795.09	32.49
Life Insurance	13,824.66	-15.88%	340,936.24	1.09	46,735.71	126.98
Investment	86.15	-11.46%	291,087.42	1.39	43,939.20	99.82
Non-Life Insurance	11,679.61	-10.92%	248,403.95	0.99	51,816.75	61.73
Finance	2,199.94	-12.22%	77,012.60	1.57	90,370.89	55.40
Trading	2,707.19	-12.03%	17,538.04	1.17	2,898.55	

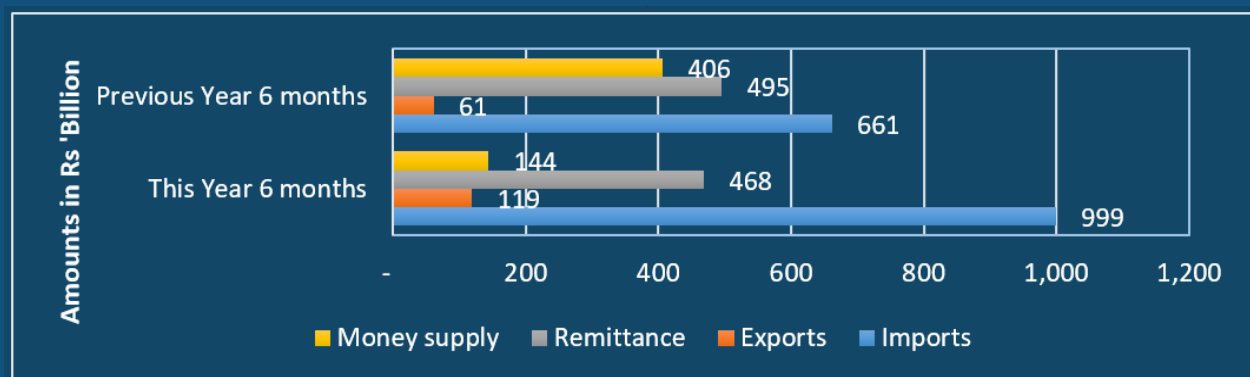
Source: NEPSE Magh end 2078 data, PE ratio based on Q2 report of FY 2021-22

- 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 February end 2022 and capitalization, beta and turnover data till mid-February 2022 have been taken for the study.

## MARKET LIQUIDITY



## MACROECONOMY



Source: NRB Macroeconomic data Mid January 2022



## NEPSE OVERVIEW



After a tumultuous period of around four months, the month of January showed some resurrection with a gain of around 13.15%. However, the month of February witnessed another wave of correction with the market declining by around 9.10% and closing at 2,610.58. The issues associated with market liquidity didn't improve as per the investor's expectations and there were further additional rumors surrounding upward revision of interest rates in the near future. Against the backdrop of increasing pressure on market liquidity which was evident from stagnant deposits and growing lending of BFIs and CD ratio above 90%, in the second week of February, BFIs decided to increase the interest rate on the deposits for the upcoming month of Falgun which was further supported by the central bank to attract more deposits and ease the existing liquidity crisis. This created huge panic in the market as on February 13, 2022, the market witnessed a three-digit slump (100.67 points). On a brighter note, in the month of February, NEPSE also welcomed its new CEO Mr. Krishna Bahadur Karki and SEBON welcomed its new chairperson Mr. Ramesh Kumar Hamal.

Within the NEPSE, the Others sub-index was the only sub-sector to have a positive gain i.e. this sub-sector index increased from 2288.34 to 2288.48 i.e. 0.01% gain in the review period. Whereas, the Life Insurance sub index hit the most loss within this period i.e. -15.88%. Furthermore, the Hydropower sub index and Hotel and Tourism sub index decreased least i.e. -5.77% and -8.12% respectively.

Following the upward revision of interest rates, the market eagerly awaited the NRB's mid-term review of monetary policy. This was reflected by the sideways movement in the third week of February. However, more negative news awaited the market as the monetary policy review focused on changing the risk weightage in the unproductive sector as well as upward revision of the Standing Liquidity Facility (SLF) rate from the prevailing 5% to 7%. On February 24, NRB issued a circular to increase the risk weightage of various types of loans effective from Ashad end, 2079, which included margin nature loans (risk weightage increased from 100% to 150%). As a double coincidence, Russia declared war on Ukraine which further added panic to the already



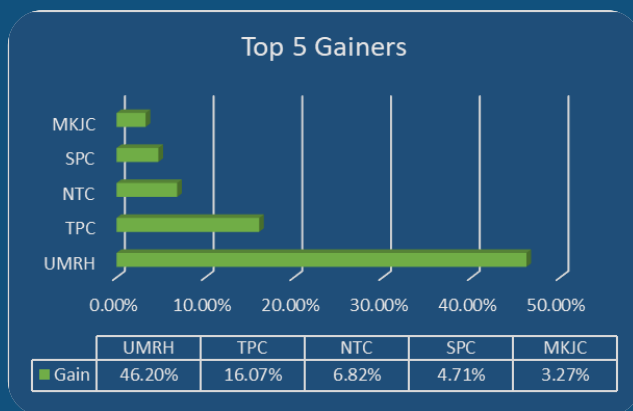
nervous investors in the market. As a result of the war on Ukraine, the pressure on oil prices further increased which caused fear of increasing inflation all over the world. Even prior to the war on Ukraine, due to increasing oil prices, Nepalese economy had already faced three revisions in the price of oil within the month of February. From the previous prices, the price of oil per liter increased from NPR 137.5 to NPR 143.5.

Rising oil prices could have a detrimental effect on the Nepalese economy as this would put an upward pressure on imports both direct and indirect. Furthermore, this could also increase the inflation in the market which could ultimately have an adverse effect on the already increasing interest rates. In addition, February has been one of the crucial months for the Nepalese economy as the deadline for passing the Millennium Challenge Corporation (MCC) was within the end of February. The uncertainty surrounding the decision to either pass or not to pass MCC created heavy speculation amongst the investors of the hydropower and investment sector. The investors' general belief was that MCC could have a positive impact on the hydropower and investment sector. However,

the official news of the parliament ratifying MCC couldn't create a sustainable positive impact in the market in the short term.

As the entire world reluctantly watches the war on Ukraine unfold, the uncertainty has risen exponentially in the current market. This is reflected by the rising prices of gold in the recent past with prices of gold rising by around 6.24% in the month of February alone. Similarly, the ripple effect of the war has also been reflected on the stock exchanges across the globe. On 24th February, New York Stock Exchange (NYSE) witnessed intraday volatility of around 2.80% in a single day whilst SENSEX nose-dived by around 4.72% in a single trading day due to the news of war. Furthermore, the impact of war will also be seen in the prices of oil as the supply side has been severely compromised. The rise in prices of oil will have a severe impact on the liquidity of Nepalese market by directly increasing the size of imports as well as importing inflation in other goods which will put further pressure on the already rising interest rates.

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





S.N.	Symbol	Amount Traded (Million)	Sector
1	AHPC	5,314.67	HydroPower
2	API	4,711.96	HydroPower
3	HIDCL	3,751.63	Investment
4	UPPER	3,596.19	HydroPower
5	NTC	3,459.09	Others

Source: NEPSE Magh end 2078 monthly report data

## MUTUAL FUND

The continuous slump on NEPSE within the month of February also pulled down the market price of Mutual Funds. Within the month of February, Mutual Fund index closed at 15.56 witnessing loss of 2.34% on its index. Meanwhile, the Mutual Fund index continued its correction after it had observed the bearish crossover on the MACD indicator last month. As per the NAV report of Magh, three Mutual Funds have NAV more than 15. SAEF, NMB50, NICGF have higher NAV i.e. 17.49, 16.07, 15.42 respectively. Currently, major Mutual Funds are trading at heavy discounted prices. The larger the discount rate, the better the investment opportunity in Mutual Fund. Likewise, 10 Mutual Funds are still trading at a more than 20% discount rate. Out of all the Mutual Funds, SAEF and NICBF are trading at highest discount rates i.e. 25.04% and 24.32% respectively. The first table presented below shows NAV details along with LTP and discount/premium at the end of February 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 NILBPF are the Mutual Funds with highest equity exposure i.e., 90.22%, 87.90%, 87.46% and 81.03% respectively. The last table lists the top 10 stocks held by

Mutual Funds till the end of Magh 2078; among these top ten stocks, 8 are from the commercial Banking sector, 1 each from Life insurance and Development Banking sector. SANIMA, NICA, PRVU are the top stocks held by Mutual Funds.

Top 10 Stocks Holdings	
Stocks	Quantity
SANIMA	936658
NICA	879474
PRVU	815355
NBL	792874
GBIME	738308
PCBL	473147
SBL	465723
NLICL	464668
MBL	416110
KSBBL	339901



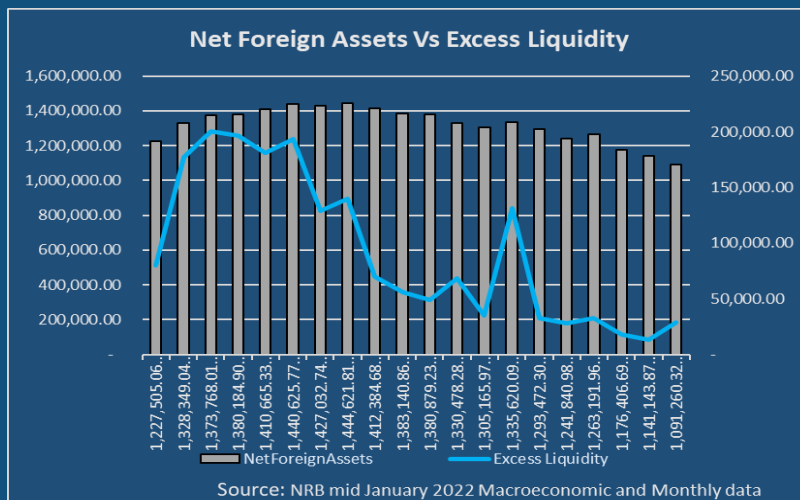
Mutual Funds	NAV	LTP	Discount/ Premium
SAEF	17.49	13.11	-25.04%
NICBF	14.27	10.80	-24.32%
SIGS2	14.26	10.81	-24.19%
NICGF	15.42	11.72	-23.99%
SEF	13.95	10.77	-22.80%
NMB 50	16.07	12.41	-22.78%
NBF2	13.93	10.85	-22.11%
SFMF	14.65	11.52	-21.37%
NMBHF1	14.82	11.78	-20.51%
NEF	13.59	10.86	-20.09%
LUK	12.52	10.22	-18.37%
NIBLPF	12.83	10.60	-17.38%
LEMF	12.80	10.65	-16.80%
KEF	10.92	9.17	-16.03%
CMF2	11.97	10.13	-15.37%
SBCF	10.16	8.60	-15.35%
PSF	10.70	9.07	-15.23%
NICSF	10.24	8.75	-14.55%
SLCF	10.54	9.15	-13.19%
MMF1	10.26	8.91	-13.16%
CMF1	10.94	9.66	-11.70%
GIMES1	13.19	11.66	-11.60%
NIBSF2	10.05	9.15	-8.96%
RMF1	9.88	9.00	-8.91%
NBF3	10.20	9.30	-8.82%

Mutual Funds	Equity Exposer
GIMES1	90.22%
SIGS2	87.90%
SEF	87.46%
NIBLPF	81.03%
NBF2	77.78%
NEF	75.93%
NICGF	72.09%
CMF1	71.59%
CMF2	70.51%
NIBSF2	69.21%
SAEF	67.26%
NMB 50	65.70%
NICBF	64.66%
LEMF	62.15%
LUK	57.51%
NBF3	56.48%
MMF1	54.27%
SFMF	52.40%
SBCF	52.31%
NMBHF1	51.32%
SLCF	47.19%
KEF	45.06%
PSF	44.90%
RMF1	38.03%
NICSF	21.17%

\* LTP as on 28/02/2022

## MACROECONOMIC ANALYSIS

### Market Liquidity

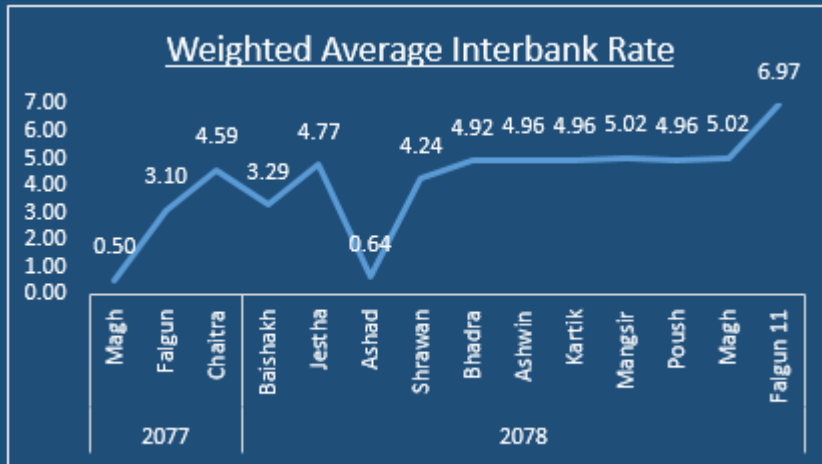


Excess liquidity in the market stood at around NPR 28.94 billion (as of mid-January, 2022). Compared to the previous month, the excess liquidity has impressively increased by 111.94%. The imports increased this month by 51.13% from the previous year same period data. Similarly, the remittance for the same period has declined by 5.42%. On the other hand, exports increased by 95.48% as compared to previous year. Also,

the Net Foreign Assets for the period has shrunk by 4.37% from the previous month. Despite the



decline in the Net Foreign Assets, there is improvement in the position of excess liquidity in this month due to the change in the policies by NRB. The effect of the circular issued by NRB which focused on curbing the highly growing imports of the country and another circular which allowed BFIs to utilize up to 80% of the funds released by the federal government to the local government has helped the economy to release some pressure off the existing liquidity crunch which is witnessed by the massive growth in the excess liquidity during the review period.



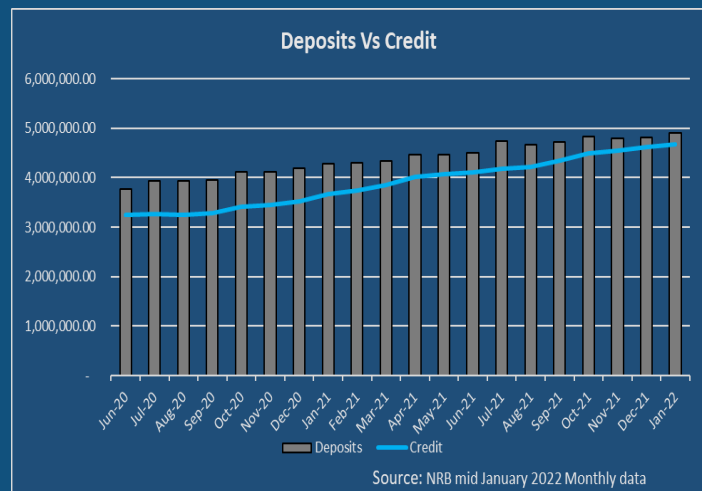
Source : NRB Website

In FY 2078/79, as per the data available up to the month of Magh, the total lending has increased significantly by 12.17% whereas the total deposit has only increased by 2.91% in the banking system till the month of Magh. As a result, the CD ratio has increased to 90.34%. 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 Falgun. Moreover, there has been a significant decline in the loanable fund in the banking industry due to the change in regime from CCD ratio to CD ratio in the monetary policy issued by NRB.

### Total Deposits and Total Borrowing

Till mid of January 2022, deposits increased by 1.90% and credit grew by 1.10% as compared to previous month i.e. mid December 2021. The total deposits for the review period remained at 49.05 kharba and the total credit remained at 46.81 kharba. The increment in the deposit size has contributed to release some pressure on the market liquidity as compared to last month, which was further supported by the decline in the aggressive lending practices of the previous month.



Source: NRB mid January 2022 Monthly data





## FUNDAMENTAL ANALYSIS

### Sector wise PE Ratio

After the V-shape recovery of NEPSE by 18.35% in the month of Poush, the market has faced the correction of 1.97% in Magh. Despite the correction in the market, the P/E ratio of the majority of the sectors have increased whereas the P/E ratios of the three sectors have declined.

Sector	Poush 2078	Magh 2078	Change
Commercial Bank	20.87	21.37	0.50
Development Bank	30.96	27.12	(3.84)
Finance	46.94	55.40	8.46
Microfinance	37.20	32.49	(4.70)
Life Insurance	119.40	126.98	7.57
Non-life Insurance	68.35	61.73	(6.62)
Investment	99.52	99.82	0.30
Hydropower	26.84	55.47	28.62
Manufacturing	28.72	41.29	12.57
Others	35.01	40.74	5.73

Source: Compiled datas from quarterly reports

Improved performance of the development bank, microfinance and non-life insurance sector in profitability in the second quarter compared to the first quarter along with the correction has aided in the decline in their sectoral P/E ratio. Whereas the P/E ratios of the remaining sector have increased with slump in the profitability in the second quarter compared to the first quarter. Commercial bank sector is trading at the lowest P/E ratio of 21.37 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 126.98 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 development bank sector has the second lowest P/E ratio of 27.12 times. The P/E ratio of the Hydropower sector has increased by 106.62% due to significant decline in the profits in the second quarter having seasonality effects.



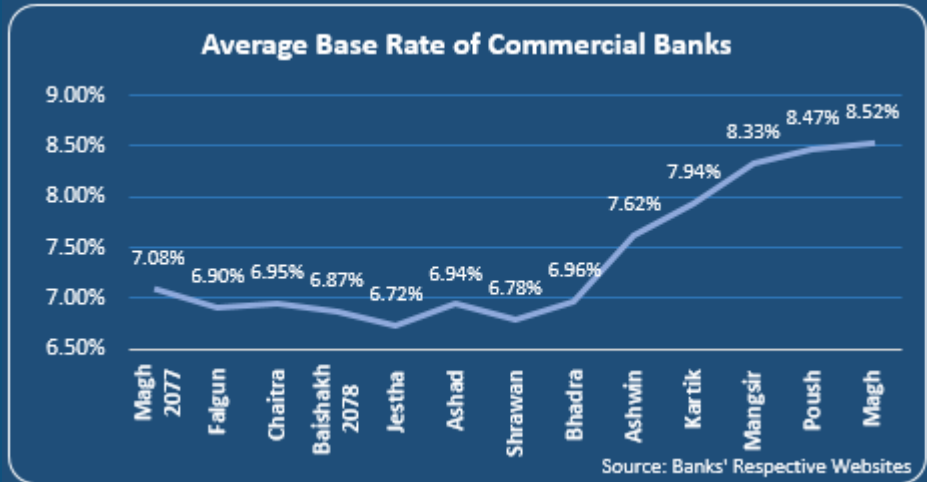




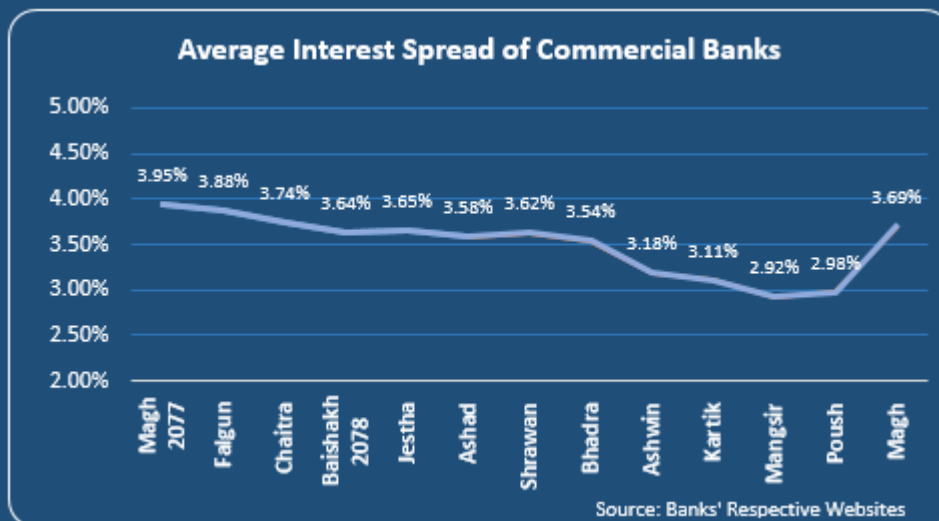
## Average Base Rate of Commercial Banks

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 Magh. Increasing imports and declining remittances have resulted in pressure in the liquidity. The average base rate of the commercial banks has increased to 8.52% in Magh from 8.47% in Poush. As BFIs have increased the interest rate on deposits for the month of Falgun, base rate is further expected to increase in the coming months.



## 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 which had been in a declining trend for about one year has


shown reversal coming to the month of Magh 2078. The average interest spread has increased to 3.69% in the month of Magh 2078 from 2.98% of Poush. Increment of lending interest rate by the commercial banks in Magh has aided in the improvement in the interest spread of the commercial banks.

(Note: CBL, BOKL, GBIME, MBL, NABIL, NICA have not published their rates of Magh)





## TECHNICAL ANALYSIS

Current Index: 2610.60,  - 9.10%  
(2-28-2022)

Previous Month Index: 2871.05  
(1-31-2021)

As per Fibonacci Retracement

### SUPPORT

Support 1: 2481, -4.94% down  
Support 2: 2259, -13.45% down

### RESISTANCE

Resistance 1: 2725, 4.41% up  
Resistance 2: 2882, 10.42% up



**Candlestick:** NEPSE index was in the correction mode in the month of February which led the market down to 2610.60 index with the decline of 9.07% from last month's closing of 2871.05 index. Breaking the previous immediate support of 2725, NEPSE index is further looking for correction in the coming month as well, suggested by the recent bearish candles and the downward momentum in the market.

**Bollinger Band:** Initially, NEPSE index was trading in the middle Bollinger band in the starting day of this month but it couldn't hold on and kept declining down to lower band with the expansion in the Bollinger band, indicating the further correction in the market with more volatility.





**Exponential Moving Average (EMA):** The EMA 5 and EMA 20 line shows that the market went for bearish crossover in the second week of this month. The bearish sentiment in the market is growing further as the gap between EMA 5 and EMA 20 is still increasing.

**Volume:** The volume for the month of February has declined to 82.47 billion from 135.08 billion of last month which is a decline of -38.95%. As the market went for downward movement, the volume was gradually decreasing and the daily volume fell below 20 days' Moving Average volume.

## RSI and MACD



**RSI:** After the upward movement of previous week, both RSI and NEPSE line chart are moving in the downward direction this month. The correction in the market has led the RSI indicator down to 34.28 from 59.20 of previous month, indicating that the market is trading in the oversold zone and looking for the point to make the reversal.

**MACD:** The bearish crossover in the later days of previous month has further continued in this month as well, both MACD line and Signal line closing below zero value indicates that bearish sentiment is gaining strength.

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