

# MONTHLY NEWSLETTER

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**Research and Trading Team**





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## NEPSE HIGHLIGHTS

Index	Index	Gain/Loss	Turnover (In Millions)
NEPSE Index	2033.13	-3.05%	64,676.28
Sensitive Index	387.38	-1.72%	22,761.24
Float Index	140.8	-2.88%	62,162.62
Sensitive Float Index	128.27	-0.78%	22,721.19

Particulars	Index	Gain/Loss	Beta	Turnover (In Mills.)
NEPSE Index	2,033.13	-3.05%	1.00	64,676.28
Banking Sub Index	1,274.10	3.18%	1.19	13,774.04
Development Bank Index	3,805.12	-2.31%	1.45	5,540.46
Finance Index	1,726.09	-10.35%	1.30	3,868.16
Hotels And Tourism	5,725.68	-1.24%	1.19	4,193.07
Hydropower Index	2,134.97	-9.81%	0.87	8,691.52
Investment	70.81	-3.08%	0.85	2,599.47
Life Insurance	11,175.11	-6.81%	0.95	6,437.56
Manufacturing And Processing	5,360.50	-4.91%	0.88	4,742.57
Microfinance Index	3,701.90	-8.59%	0.68	4,092.44
Mutual Fund	18.84	24.36%	(0.97)	251.34
Non-Life Insurance	10,843.03	-3.94%	1.01	5,326.65
Others Index	1,499.79	-3.21%	0.69	2,134.17
Trading Index	2895.76	9.77%	1.34	762.51

As of the end of Shrawan 2080, the NEPSE Index stands at 2033.13 with a loss of -3.05% from the previous month with the total turnover amounting to Rs.64.67 billion.

Among the sub-indexes, the Finance Index and Hydropower Index registered the highest loss of 10.35% and 9.81% respectively. Most of the hydropower projects' commercial generation of electricity was disrupted due to flooding in the rainy season which has affected the profit of many hydropower companies listed in NEPSE. This has inflicted an adverse effect on their profitability leading to a decline in their share prices. Similarly, the weaker profitability registered by the majority of the microfinance companies in the fourth quarter with the rise in non-performing loans led to a decline in the microfinance index as well.

The Mutual Fund Index was the index with the highest growth of 24.36% which may have been contributed majorly by the consequent dividend announcement during the month. Similarly, most of the commercial banks reported better performance in terms of profitability compared to the third quarter. Additionally, the average non-performing loans (NPL) of commercial banks also declined to 2.79% from 2.95% in the 3<sup>rd</sup> quarter. Hence, the relatively better performance of the overall commercial banking sector garnered the attention of the investors in this sector as evidenced by the 3.18% growth observed in the index. The Trading Index also falls under one of the only three sub-indexes with positive growth. Regarding beta, the Development Bank, Trading, and Finance Indices exhibit the highest beta in Shrawan.



## MONTHLY NEPSE OVERVIEW



After the NEPSE Index reached the support level at 2,050 on 6<sup>th</sup> July 2023, it started a bullish momentum for the whole of the first week at the beginning of the fiscal year 2080/81. Nepal Bankers' Association (NBA) ended the long-standing interest cartelization of commercial banks allowing the banks to set their interest rates according to their liquidity situation at the end of the previous month. The Monetary Policy 2080/81 was published on the first day of the second week of Shrawan 2080. The anticipation of favorable changes in the monetary policy led to an increase of the NEPSE index by 2.92% and reached a high of 2,228 on the day when the monetary policy was published. However, as the monetary policy did not meet the expectation of the investors on the amendment of provisions to bring flexibility in share margin loans, the index witnessed a downward spiral from the very next day. The investors were highly expectant of the removal of the 12/12 cap and the decrease in Risk Weighted Assets

(RWA) of share margin loans. Conversely, the 12/12 cap was not addressed at all whereas RWA of 100% till the loan amount limit of 20 Lakhs was increased to 50 Lakhs instead. Hence, this created a negative sentiment among the investors in the capital market.

Furthermore, in a scenario where there was no credit expansion within the banking sector during the month, the NEPSE Index encountered a decline of approximately 9% within a two-week timeframe following the unveiling of the monetary policy. It was anticipated that loan flow will increase during Shrawan with declining interest rates for the purpose of business growth which would drive the liquidity in the market. Even with the removal of import restrictions, the import loans remained stagnant due to less demand in the economy. The removal of the provision to count 80% of government funds for calculating the CD ratio also greatly reduced the total deposits by 100 billion. But decrease in deposits affected the



liquidity in the market as reflected in the sudden rising of the interbank rate to 6% from around 1% providing some pressure on the liquidity.

The stagnant credit flow has also raised the concern to the commercial banks and they are making efforts on increasing their loan flow. Among the pioneering banks, NIC Asia Bank Limited having a comfortable CD ratio position has brought a ton of

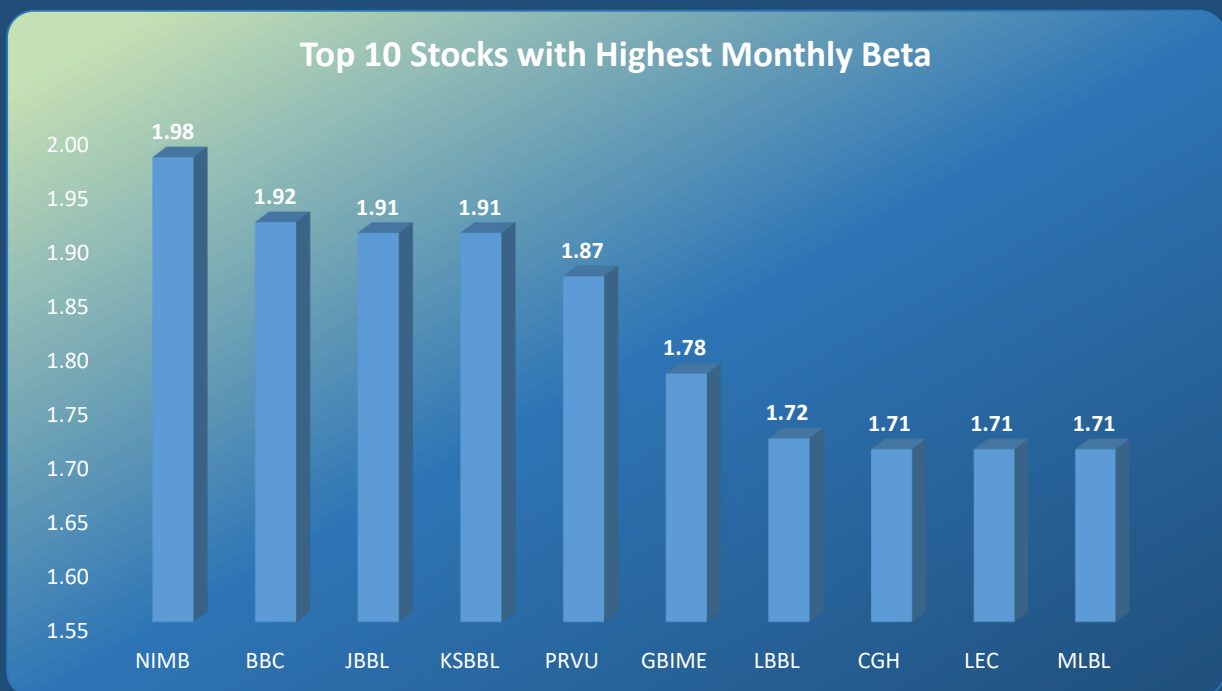
attractive home, SME, and share loan schemes. The share loan scheme offers loans starting from a minimum of Rs. 50 lakhs up to Rs. 12 crores. If the other commercial banks also decide to follow the path of NIC Asia Bank in offering loans against shares, there might be a possibility of liquidity in the stock market, contributing to the rise in the turnover as well as in the index as a wall in the days to come.

## Top 10 Companies with the Highest Market Capitalization

Company	Market Capitalization (In Billions)	Weightage in Total Market
NABIL	160.45	5.41%
NTC	157.14	5.30%
CIT	109.14	3.68%
NICA	90.42	3.05%
NRIC	84.17	2.84%
GBIME	75.66	2.55%
EBL	65.69	2.22%
NIMB	61.40	2.07%
NLIC	57.45	1.94%
SCB	52.99	1.79%

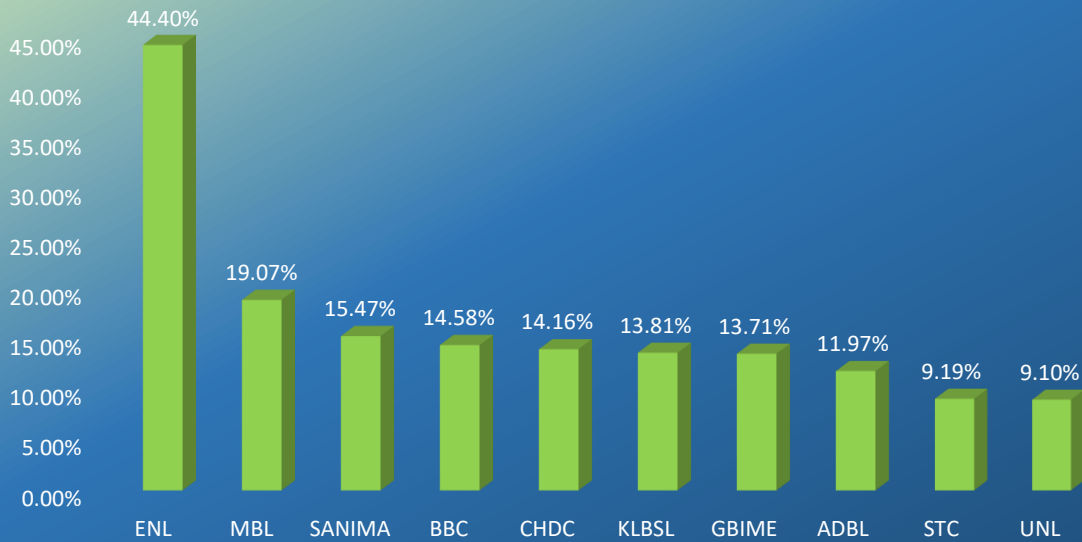
market capitalization of NEPSE.

For the month of Shrawan 2080, NABIL tops the list of the largest companies listed in NEPSE based on market capitalization followed by NTC, CIT, and NICA. The top 10 largest companies based on market capitalization constitute around 30.85% of the total

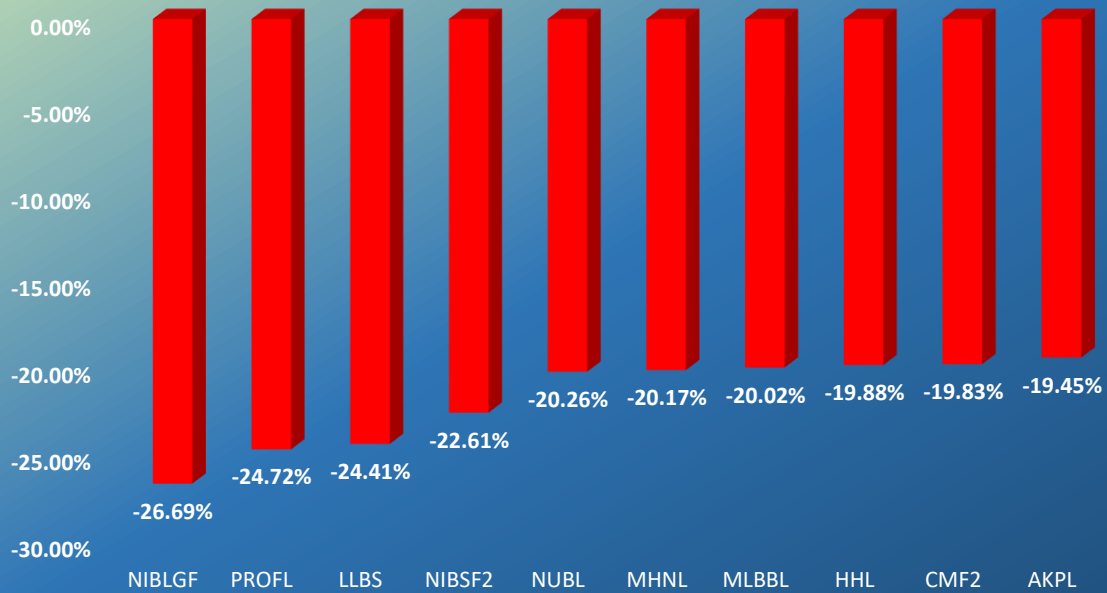




### Top 10 Gainers of the month



### Top 10 Losers of the month





## FUNDAMENTAL ANALYSIS

- **Sector-wise PE Ratio**

Sector	P/E Ratio (16-07-2023)	P/E Ratio (17-08-2023)	Change
Commercial Bank	16.26	15.07	-7.32%
Development Bank	30.82	23.62	-23.35%
Finance	134.98	99.96	-25.95%
Microfinance	61.48	53.50	-12.97%
Life Insurance	93.75	89.90	-4.11%
Non-life Insurance	44.80	43.96	-1.86%
Investment	47.95	54.45	13.54%
Hydropower	772.28	-93.54	
Manufacturing	38.46	36.39	-5.38%
Others	31.98	28.76	-10.05%
Hotel	101.74	79.21	-22.15%
Trading	250.97	189.30	-24.57%
<b>NEPSE PE</b>	<b>32.23</b>	<b>29.99</b>	<b>-6.93%</b>

The P/E ratio is the most widely used ratio by investors to ascertain whether the stock is undervalued or overvalued. As a general principle, the lower the PE ratio, the better the company is to invest in.

The average PE Ratio of almost all the sectors decreased in the month of Shrawan 2080 except for the investment sector. Here, the P/E ratio of the Hydropower sector has been reported to be -93.54. The negative PE was largely caused due to the massive loss of UPPER of about 3.76 Billion in the 4<sup>th</sup> quarter report.

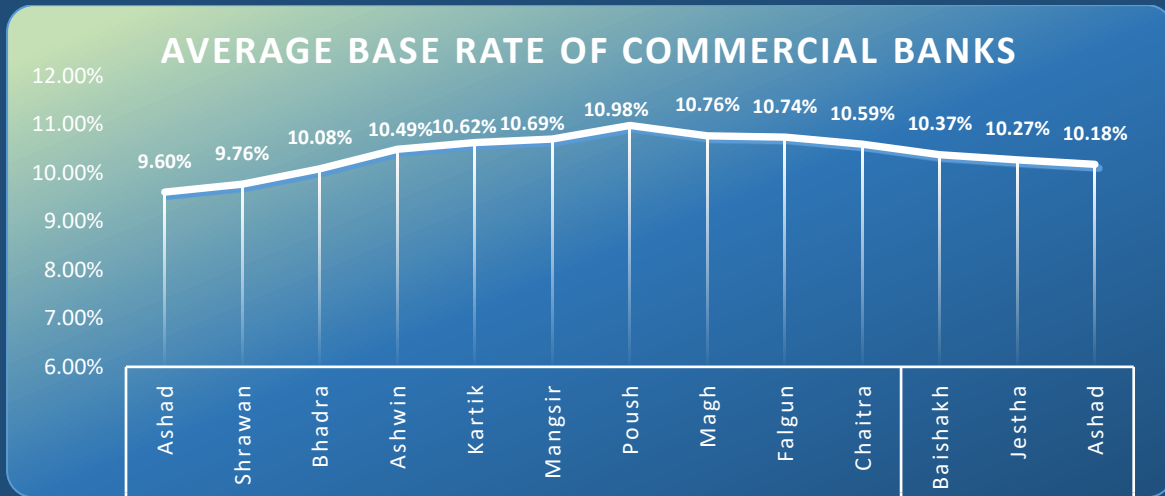
As of Shrawan end, the banking sector is trading at the lowest P/E ratio of 15.07 times, which is generally assumed to be relatively safer for investment from the PE perspective. After the banking sector, the other sectors, and the development bank have the lowest P/E ratio of 28.76 times and 23.62 respectively. The majority of the sectors are trading at a relatively higher P/E multiple in Nepse. But the PE ratio can also be misleading if the growth factor is not taken into consideration. A 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 29.99 times.





- **Average Base Rate of Commercial Banks**

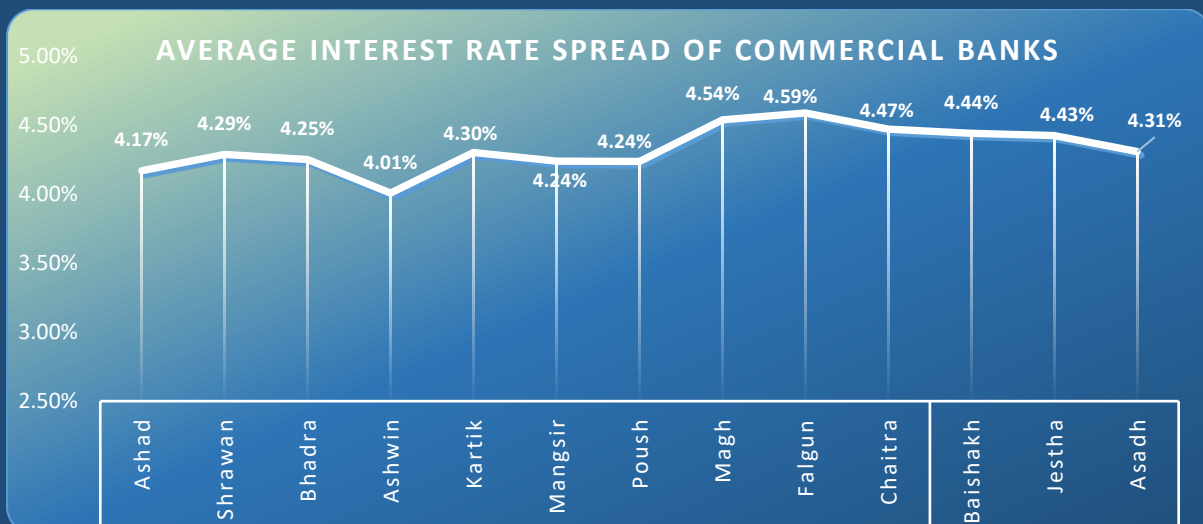
Source: Commercial Banks' Websites



The average base rate has slightly decreased to 10.18% in Ashad 2080. The decrease in the base rate could have been contributed due to the decrease in the cost of funds for the commercial banks as the interest rate on fixed deposits declined to 9.99% from the month of Baishakh which was continued in Jestha and Ashad as well. From the month of Shrawan 2080 however, banks are free to set their interest rates according to NBA's decision to end interest cartelization. Now, the banks will determine the interest rates on deposits depending on their own liquidity position. As per the interest rates published by commercial banks for the month of Bhadra 2080, 12 commercial banks have increased their deposit interest rates, 4 banks have decreased their interest rates and 4 of them have kept it constant following the previous month's interest rate. As most of the banks have increased their deposit interest rate, it is expected that the average base rate will slightly increase in the upcoming month.

- **Average Interest Spread Rate of Commercial Banks**

Source: Commercial Banks' Websites



The interest spread rate as of Ashad 2080 is 4.31%. The requirement to maintain spread rate of 4.00% from the month of Ashad 2080 has been maintained by banks that have not undergone M&A, but not the merged banks as they have a grace period of 1 year from the joint transaction commencement date to maintain the spread rate up to 4%.







## TECHNICAL ANALYSIS



Daily Chart

Current Index (17-08-2023): 2033.13

As per Fibonacci Retracement

**Support 1: 1975.14 (-2.85%)**

**Support 2: 1809.20 (-11.01%)**

**Resistance 1: 2077.66 (2.2%)**

**Resistance 2: 2141.08 (5.31%)**

NEPSE on a daily chart as of 17<sup>th</sup> August 2023 has closed on the 2033.13 index with 2.31 billion daily turnovers whereas on a monthly basis, it faced a decline of -5.18% from the 2144.16 index a month ago on 17<sup>th</sup> July 2023. The market is on range bound by making the index higher high (2244.13) and higher low (2000.23) point with volume below average volume on entire 1-month period suggesting less market participant involvement, dry out in volume, lack of big player entry, no big buzz supportive (charm) for the market has created the bearish sentiment in the market during the period. As the NEPSE index has closed very near to the immediate support of 2033.13 taking the support on the 50% retracement zone on Fibonacci. If it sustains and does not break the support level of 2000 in the coming days, we may further expect a bounce back in the market.



### Candlesticks:

Weekly Chart

The market is in a range bound or in a consolidated phase on an average of 2200 -2000 index level. On 23rd July 2023, the index made a high of 2244.13 points and closed at 2124.32 with a negative 1.73% index formed inverted hammer candlesticks with an early indication of trend reversal(bearish) in the market. As we can see there is a continuous bearish candlesticks formation suggesting that there is a bearish trend in the market for the short term. If the index sustains above the Demand zone, we may expect a bounce back or vice versa i.e., continuity of a bearish trend in the market in the coming days.



### Bollinger Band:

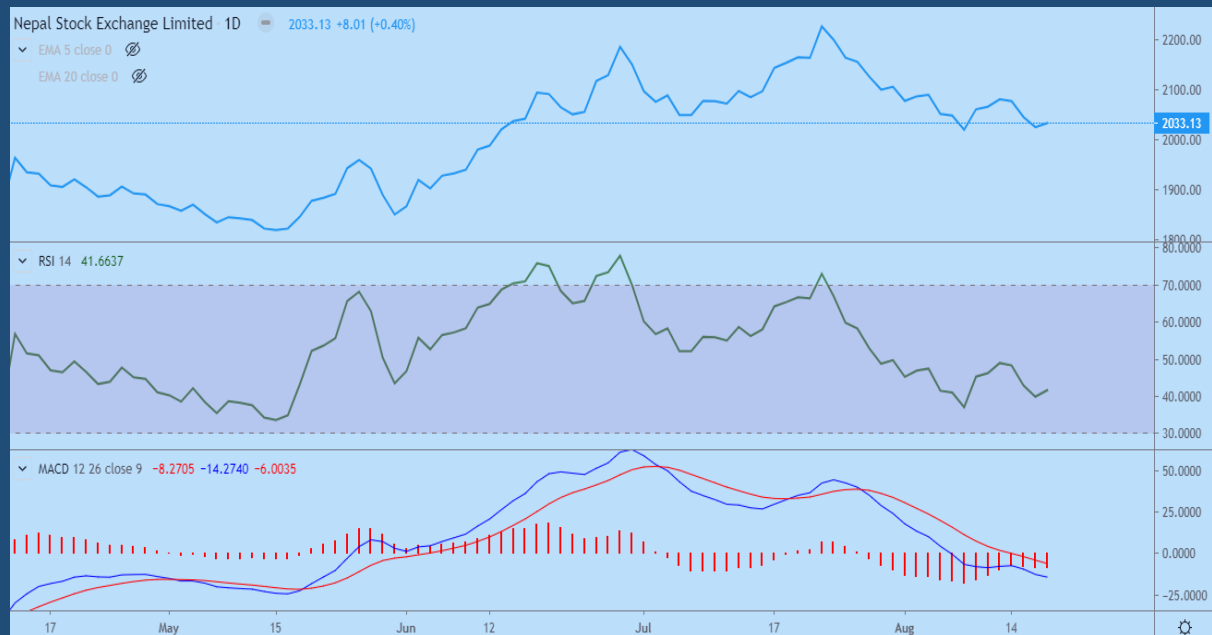
Daily Chart

In the Bollinger band indicator, the NEPSE index has shown higher volatility in 1 month from 17<sup>th</sup> July 2023 to 17<sup>th</sup> August 2023 by making a higher high on the upper band (2244.13) and a higher low on the lower band (2000.24) points. As candlesticks formation are below the middle line on the band and looking for support to the lower band.





## RSI & MACD



### RSI

With the continuous fall in the NEPSE index, the RSI indicator has also declined with the same momentum from the overbought zone (72.95) to the sell zone of 37 levels on 8<sup>th</sup> August 2023. Both the NEPSE line chart and RSI indicator are moving in the same downward direction throughout the month and the rebound of the last week of the review period has moved the RSI indicator up to the 42.26 level, looking at the neutral zone once again.

### MACD

The bearish sentiment was suggested by the MACD indicator this month as the MACD line cut the Signal line from above forming a Dead cross-over as the histogram is below the zero level in the negative zone supporting the bearish sentiment in the market. On the other hand, the reduced gap between the MACD line and the Signal line which is shown by a declining negative histogram indicates the possibility of a bounce back in the market if this momentum continues in the coming days.

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