

Monthly Newsletter



Machhapuchchhre Capital Limited

Research and Trading Team
March, 2022
(Mid Falgun - Mid Chaitra)



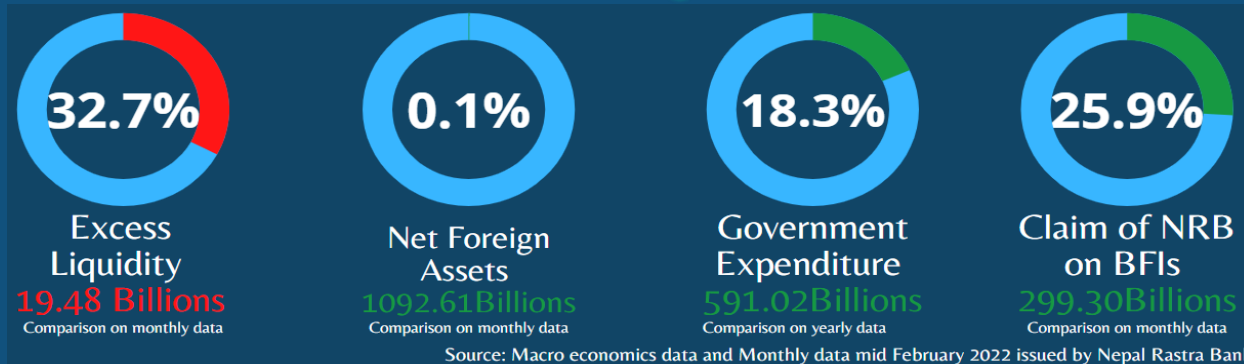
NEPSE HIGHLIGHTS

Particular	Index	Gain/(Loss)	Capitalization (Mil)	Beta	Turnover (Mil)	PE
NEPSE Index	2,544.31	-2.54%	3,782,791.83	1.00	62,926.88	32.50
Banking	1,642.67	-2.13%	1,328,636.53	0.72	7,867.00	20.60
Hotels and Tourism	3,082.14	4.51%	53,569.63	0.95	285.54	
Other	2,052.12	-10.33%	391,208.20	0.92	3,682.16	41.52
HydroPower	2,971.20	-7.54%	400,098.58	1.23	21,911.34	55.17
Development Bank	4,384.97	-1.70%	170,592.07	1.39	3,759.37	25.88
Manufacturing and Processing	5,947.39	-6.05%	155,936.71	1.14	3,900.24	36.40
Microfinance	4,990.70	-0.07%	378,778.29	0.91	5,538.55	31.16
Life Insurance	14,277.96	3.28%	316,539.79	1.38	4,413.01	117.89
Investment	86.15	0.00%	269,270.13	1.28	4,179.94	91.66
Non-Life Insurance	12,246.06	4.85%	231,431.70	1.16	3,239.61	57.12
Finance	2,026.83	-7.87%	71,463.83	1.50	3,540.75	51.29
Trading	2,433.24	-10.12%	15,266.37	1.11	174.57	

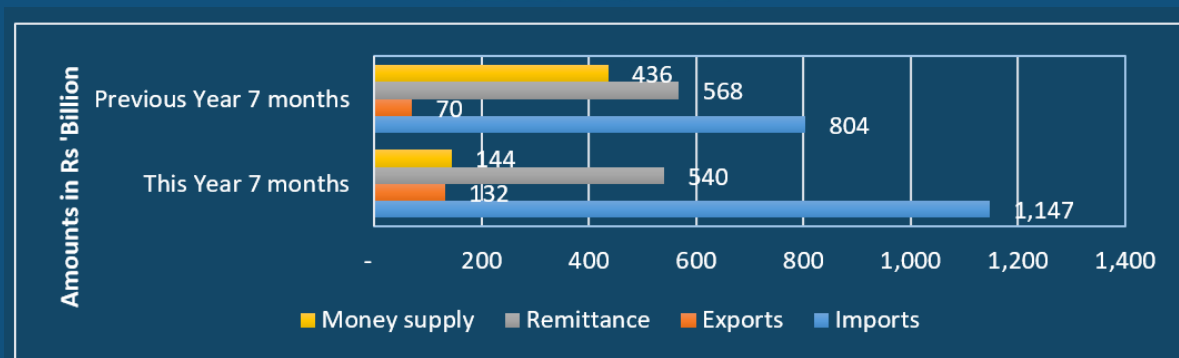
Source: NEPSE Falgun end 2078 data, PE ratio based on Q2 report of FY 2021-22

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

MARKET LIQUIDITY



MACROECONOMY





NEPSE OVERVIEW



With the incessant increase in oil prices due to turbulence caused by the Russia-Ukraine war, increasing imports causing further liquidity to dissipate from the market, the month of February witnessed a major correction of around 9.10%. The first week of March witnessed further increase in oil prices as the prices rose by around 29.75% in the first week alone in the international market. This had also created severe distress in the local market as Nepal Oil Corporation updated the fuel prices twice in the span of two weeks i.e. first update was done on March 4 and later on March 17. On average the fuel prices rose by 6.90% in March alone. This increase in fuel prices coupled with the inelastic nature for the demand of such commodities meant that the quantity demanded didn't decline by much causing the size of imports to increase. To put things into perspective, the five months data showed that the share of oil imports were around 12.62% of total imports whilst the seven months data shows that the share of oil imports has risen to 13.60% of total imports.

Amidst consistent pressure on liquidity and no signs of improvement, the market grew highly pessimistic and most of the investors

followed a wait and watch policy. This was evidenced by the drying up of volume in the market. For most part of the trading days in the month of March, the volume traded below the 20 days average volume. Overall, in the month of March, the market declined by a meager 2.54% which showed that the market followed a sideways pattern for most part of the month. On 10th and 13th March, the rumor of interest rate on deposits staying constant created a positive swing of around 155.93 points (6.21%). However, due to lack of any other positive news that could possibly impact liquidity, the investors took this as an excuse to exit from the market. This was further confirmed when investors choose to exit the market on the backdrop of Beema Samiti announcing that the insurance companies should come up with their respective capital plans to increase their paid up capital. From 14th of March the market declined by around 4.99%.

Within the NEPSE, the Non-Life Insurance was a sub-sector to have the highest positive gain i.e. this sub-sector index increased from 11,679.61 to 12,246.06 i.e. 4.85% gain in the review period. Whereas, the Others sub index hit the most loss within this period i.e. -



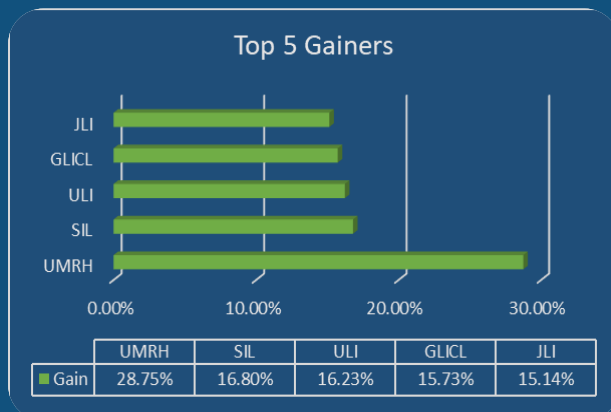
10.33%. Furthermore, the Hotel and Tourism subindex and Life Insurance sub index also gained the positive within the review period i.e. 4.51% and 3.28% respectively.

Within the month of March, the news of foreign currency shortage in Sri Lanka made the Headlines across the globe. With increasing current account deficit incurred in our Nepalese economy, the situation in Nepal became more and more similar to that of Sri Lanka with forex reserves of only 6 month's imports left. Therefore, the investors became highly wary about the situation in Nepal and this caused a major dent on investor's confidence in the Nepalese market. But in the case of Nepalese economy, our forex reserves are highly dependent upon the inflow of remittance which is slowly improving as the number of migrant workers going abroad has increased as the global market has reopened

after the end of covid pandemic. So if the remittance goes on increasing trend and the government is able to control import of luxurious items, the situation may ease in the current liquidity crisis.

Within this month, volume has drastically decreased which means that there is very less selling pressure left in the market, and therefore, for investors, this could be the area to accumulate some good stocks. The market has already declined around 13% from its previous high point (i.e. 2,981.35) so, it may be a good point for reversal. Similarly, increasing the interest did not help in accumulating deposits in the market and therefore, NRB may not encourage banks to further increase the interest rate as its immediate solution to the current problem.

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



S.N.	Symbol	Amount Traded (Million)	Sector
1	NTC	3,038.10	Others
2	API	2,479.55	HydroPower
3	NHPC	2,460.57	HydroPower
4	AHPC	2,325.48	HydroPower
5	JBLB	2,236.57	Microfinance

Source: NEPSE Falgun end 2078 monthly report data





MUTUAL FUND

The sideways movement on NEPSE within the month of March stabilizes the market price of Mutual Funds as well. In the Month of February, index closed at 15.56 whereas this month, Mutual Fund index closed at 15.61 witnessing tiny growth of 0.33% on its index. Meanwhile, the Mutual Fund index continued its sideways movement and it had also observed the bullish crossover on the MACD indicator within the month. As per the NAV report of Falgun, two Mutual Funds have NAV more than 15 i.e. SAEF and NMB50 with 16.88 and 15.61 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, 3 Mutual Funds are still trading at a more than 20% discount rate. Out of all the Mutual Funds, NICBF, SIGS2 and NICGF are trading at highest discount rates i.e. 21.97%, 21 % and 20.67% respectively. The first table presented below shows NAV details along with LTP and discount/premium at the end of March 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. 91.47%, 86.81%, 85.81% and 80.08% respectively. The last table lists the top 10 stocks held by Mutual Funds till the end of Falgun 2078; among these top ten stocks, 9 are from the commercial Banking sector, and 1 from Life Insurance. SANIMA, NBL, PRVU are the top stocks held by Mutual Funds.

Top 10 Stocks Holdings	
Stocks	Quantity
SANIMA	1092793
NBL	1086233
PRVU	926843
NICA	882197
GBIME	664798
SBL	581699
PCBL	543334
NLICL	521101
ADBL	494582
MBL	401482





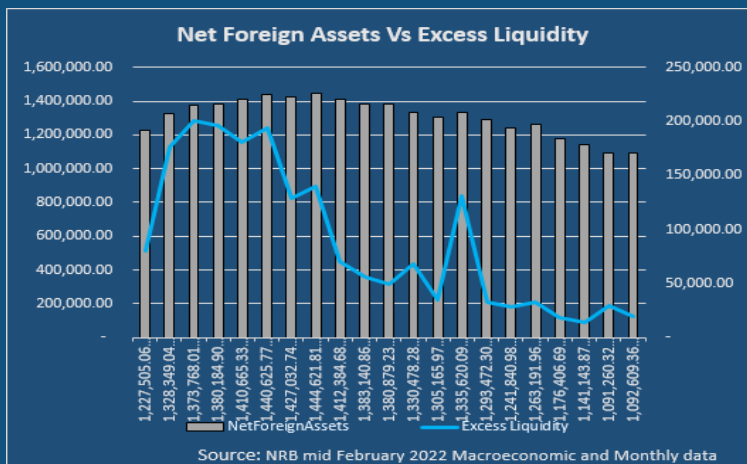
Mutual Funds	NAV	LTP	Discount/ Premium
NICBF	13.93	10.87	-21.97%
SIGS2	13.76	10.87	-21.00%
NICGF	14.95	11.86	-20.67%
SAEF	16.88	13.57	-19.61%
NMB 50	15.61	12.60	-19.28%
SEF	13.46	10.91	-18.95%
SFMF	14.35	11.64	-18.89%
NBF2	13.21	10.81	-18.17%
NMBHF1	14.45	11.86	-17.92%
LEMF	12.35	10.33	-16.36%
NEF	13.00	10.91	-16.08%
LUK	12.11	10.22	-15.61%
KEF	10.77	9.15	-15.04%
NIBLPF	12.44	10.60	-14.79%
PSF	10.45	8.98	-14.07%
SLCF	10.21	8.91	-12.73%
SBCF	9.93	8.70	-12.39%
RMF1	9.73	8.55	-12.13%
NICSF	10.14	8.95	-11.74%
CMF2	11.70	10.35	-11.54%
MMF1	9.97	8.90	-10.73%
NIBSF2	9.81	8.83	-9.99%
GIMES1	12.66	11.45	-9.56%
NBF3	9.90	9.00	-9.09%
CMF1	10.60	9.85	-7.08%

Mutual Funds	Equity Exposer
GIMES1	91.47%
SIGS2	86.81%
SEF	85.81%
NIBLPF	80.08%
NBF2	77.75%
NEF	77.04%
NICGF	71.00%
CMF1	70.68%
CMF2	68.65%
NIBSF2	67.36%
LEMF	67.21%
SAEF	67.16%
NMB 50	66.68%
NICBF	63.59%
MMF1	63.33%
LUK	62.46%
NBF3	57.32%
SFMF	54.61%
SBCF	53.00%
SLCF	51.09%
NMBHF1	50.68%
KEF	45.24%
PSF	42.51%
RMF1	37.11%
NICSF	20.43%

* LTP as on 31/03/2022

MACROECONOMIC ANALYSIS

Market Liquidity



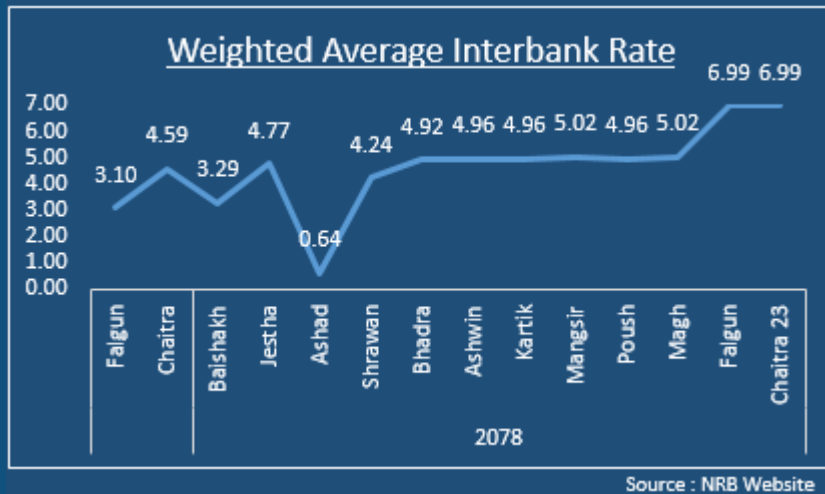
Excess liquidity in the market stood at around NPR 19.48 billion (as of mid February, 2022). Compared to the previous month, the excess liquidity has drastically declined by 32.69%. The imports increased this month by 42.78% from the previous year same period data. Similarly, the remittance for the same period has declined by 4.86%. On the other hand, exports increased by 88.30% as compared to previous year. Also, the Net Foreign Assets for the period

has increased by 0.12% from the previous month. The current trend of remittance decreasing in





the decreasing rate and the import increasing in the decreasing rate has contributed to the improvement in the Net Foreign Assets as the Net Foreign Assets has a meager increment of 0.12% in this month. Since the economy is struggling with the low deposit creation, the excess liquidity couldn't expand as well, depleting the excess liquidity by 32.69% in this month.

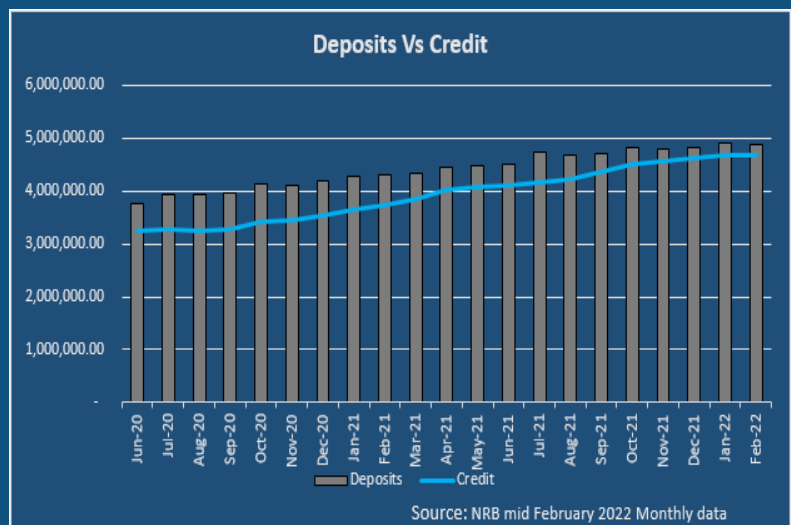


In FY 2078/79, as per the data available up to the month of Falgun, the total lending has increased significantly by 12.48% whereas the total deposit has only increased by 3.48% in the banking system. As a result, the CD ratio has increased to 90.47%. The BFIs are required to maintain their respective 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 as well. On the brighter side, 27 billions has been added in the total deposit whereas only 13 billions has been lent in the month of Falgun.

Total Deposits and Total Borrowing

Till mid of February 2022, deposits decreased by 0.55% and credit grew by 0.29% as compared to previous month i.e. mid January 2021. The total deposits for the review period remained at 48.77 kharba and the total credit remained at 46.94 kharba. In this month, there is not much of a change in the deposit and credit like in the previous month. However, the decline in the deposit size combined with a slight increment in the credit size has created further pressure on the market liquidity as compared to last 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. Given the continuation of the correction of the Npse in Magh, the stock market witnessed further drop down of around 4.76% in Falgun as well. As a result, the average PE ratio of

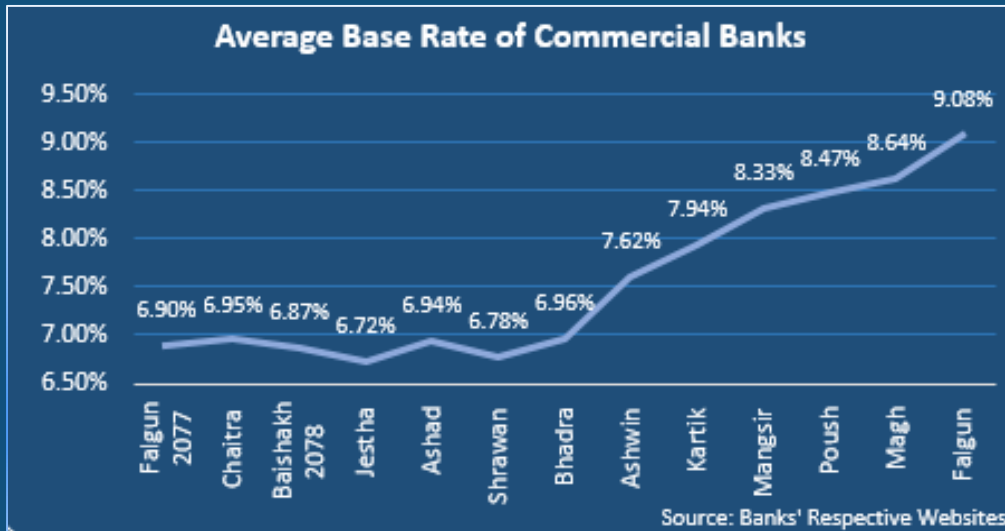
Sector	Magh 2078	Falgun 2078	Change (%)
Commercial Bank	21.37	20.60	-3.61%
Development Bank	27.12	25.88	-4.58%
Finance	55.40	51.29	-7.42%
Microfinance	32.49	31.16	-4.12%
Life Insurance	126.98	117.89	-7.16%
Non-life Insurance	61.73	57.12	-7.47%
Investment	99.82	91.66	-8.18%
Hydropower	55.47	55.17	-0.54%
Manufacturing	41.29	36.40	-11.86%
Others	40.74	41.52	1.91%

Source: Compiled datas from quarterly reports

all the sectors except Other sector have declined in Falgun compared to Magh. The increase of the share price of NTC, having the largest market capitalization in the Npse, with the anticipation of ample dividend has contributed to increase the PE ratio of the sector. The average PE ratio of the manufacturing sector has dropped to 36.40 times from 41.29 times with the highest decline of 11.86%. Heavy correction in the share price of SHIVM is majorly responsible for it. Release of the lock-in period of promoter shares of SHIVM has brought immense supply of the shares in the market creating a huge fall in its share price. Similarly, the Commercial bank sector is trading at the lowest P/E ratio of 20.60 times in Npse 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 117.89 times. But the actual earnings of the life insurance sector will be ascertained only after actuarial valuation after the end of fiscal year. Therefore, this is to be taken into consideration. After commercial banks, the development bank sector and microfinance sector have the lowest P/E ratio of 25.88 times and 31.16 times respectively. Moreover, the Finance, Non-life Insurance, Investment, and Hydropower sector are trading at an average PE ratio of more than 50 times. But PE ratio can also be misleading if we don't take growth factor into consideration. Higher PE ratio supported by growth factors can also be beneficial for the investment.



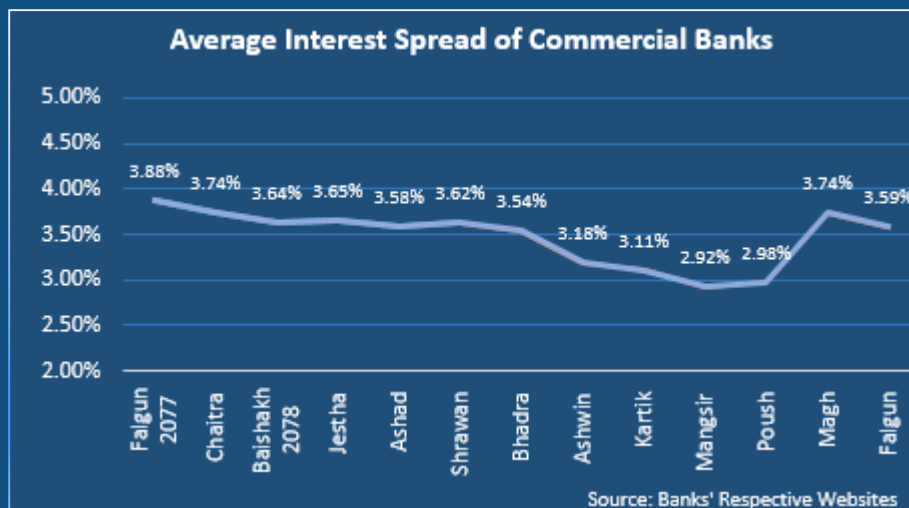
Average Base Rate of Commercial Banks



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 2078/79, there is 12.04% of loan growth whereas there is deposit growth of only 3.12% in the commercial bank industry till the end of Falgun. 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. As BFIs have increased the interest rate on deposits for the month of Falgun as well, the average base rate of the commercial banks has increased to 9.08% in Falgun compared to 8.59% in Magh.

Note: The base rate of NABIL has been excluded in the calculation of the average base rate due to unavailability of the data.

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. Currently, 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 reversal coming to the later couple of months. 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 Magh and Falgun. The average interest spread rate of the commercial banks stands at 3.72% in Magh and 3.59% in the month of Falgun 2078.

(Note: The interest spread of NABIL has been excluded in the calculation of the average due to unavailability of the data.)

TECHNICAL ANALYSIS

Current Index: 2544.30,  - 2.54%
(3-31-2022)

Previous Month Index: 2610.60
(2-28-2022)

As per Fibonacci Retracement

SUPPORT

Support 1: 2535, -0.35% down
Support 2: 2414, -5.12% down

RESISTANCE

Resistance 1: 2620, 3.00% up
Resistance 2: 2705, 6.33% up





Candlestick: NEPSE index was in the correction mode with volatility in the month of March giving continuity of hitting lower high and lower low which led the market down to 2544.30 index with the decline of 2.54% from last month's closing of 2610.60 index. The immediate support of previous month has been broken as the NEPSE index is on downward movement, suggesting the bearish sentiment in the market..

Bollinger Band: In the starting days of the month, NEPSE index was trading in the lower Bollinger band with high volatility in the market but coming towards the end of the month there was contraction in the Bollinger band, indicating the intensity of market volatility has reduced. As the candle stick took resistance on the middle band twice this month, it suggests that the market is likely to move towards the lower band in the coming days.

Exponential Moving Average (EMA): The EMA 5 and EMA 20 line suggests that the market is in the downward trend reflecting the bearish sentiment as the NEPSE index is trading below both EMA 5 and EMA 20 line.

Volume: In the month of March, the volume has declined to 52.09 billion from 82.47 billion last month which is a decline of -36.84%. The downward movement in the market has further contributed to the declining volume, shifting the daily volume below 20 days' Moving Average volume.

RSI and MACD





RSI: The RSI for the month has increased slightly from 34.28 of previous month to 38.86 after hitting the low of 27.47 on 9th March 2022. Taking resistance on neutral zone 49.01 on 13th March 2022, it has again moved back down to 38.86 aiming for the oversold zone.

MACD: The month has started with the continuation of previous month's bearish sentiment, the MACD indicator has made a bullish crossover on 15th March 2022 but it couldn't last longer as the market has witnessed bearish crossover on 29th March 2022. This has ended the month with bearish sentiment in the market as suggested by the MACD indicator.

Disclaimer:

Machhapuchchhre Capital Limited (MCL) is an investment management service provider licensed by Securities Exchange Board of Nepal (SEBON). The aforementioned information is the outcome of the analysis on the current Nepal stock market and macroeconomic condition done by this company with the sole purpose of providing information to the investors and the customers of MCL. All the readers are advised to make investment decisions based on their own study and analysis.

