

MONTHLY NEWSLETTER

VOL. 1 || ISSUE 10 MAY 2022

(Mid Baishakh - Mid Jestha)



Research and Trading Team



MACHHAPUCHHRE CAPITAL LIMITED



NEPSE HIGHLIGHTS

| Particular | Index | Gain/(Loss) | Capitalization (Mil) | Beta | Turnover (Mil) | PE |
|------------------------------|-----------|-------------|----------------------|------|----------------|--------|
| NEPSE Index | 2,137.92 | -9.26% | 3,343,556.98 | 1.00 | 28,505.39 | 27.76 |
| Banking | 1,488.35 | -5.81% | 1,230,025.45 | 0.61 | 4,641.52 | 18.35 |
| Hotels and Tourism | 2,757.72 | -10.98% | 51,762.04 | 0.91 | 310.02 | |
| Other | 1,572.84 | -12.90% | 303,834.70 | 1.25 | 843.43 | 31.92 |
| HydroPower | 2,454.46 | -8.15% | 352,687.16 | 1.78 | 7,840.71 | 88.99 |
| Development Bank | 3,661.35 | -11.34% | 149,585.82 | 1.55 | 2,260.50 | 19.66 |
| Manufacturing and Processing | 5,170.21 | -6.64% | 135,228.09 | 0.69 | 1,646.01 | 28.77 |
| Microfinance | 4,403.44 | -7.75% | 357,384.32 | 0.95 | 2,851.62 | 27.73 |
| Life Insurance | 10,401.05 | -17.42% | 262,329.87 | 1.00 | 2,360.10 | 131.06 |
| Investment | 69.45 | -9.96% | 235,307.18 | 1.29 | 1,669.44 | 68.78 |
| Non-Life Insurance | 8,997.09 | -15.92% | 196,411.70 | 1.04 | 1,421.55 | 39.76 |
| Finance | 1,546.74 | -11.86% | 56,975.06 | 1.92 | 1,605.28 | 37.64 |
| Trading | 1,832.60 | -14.47% | 12,025.59 | 0.51 | 107.41 | 69.62 |

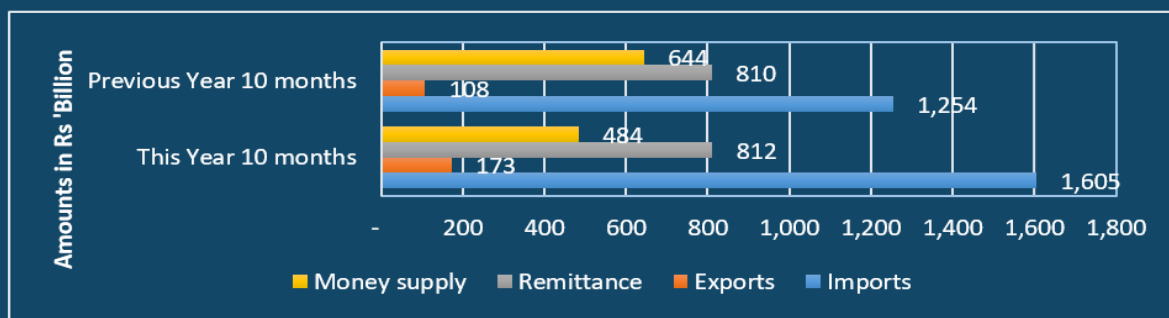
Source: NEPSE Baishakh end 2079 data, PE ratio based on Q2 & Q3 report of FY 2021-22

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

MARKET LIQUIDITY



MACROECONOMY





NEPSE OVERVIEW



With the endless increase in the oil price, the import figure is increasing month by month. This move further hits the liquidity crunch in the Nepalese economy. As there is no positive signal to reduce the oil import size, Nepal government steps on to give public holidays on Sunday. The government attempts to reduce the pressure on the falling foreign reserve and to decrease oil imports. The government also reduces the income Tax on petroleum products to decrease the price to maintain the inflation. Although it's earlier to judge the demand figure, still taking the consideration to a few days, oil demand was the same.

Local level election was the burning another subject on month of May. Each and every political parties were much more focused to the local election rather than the National issues. The investors on Nepalese stock market were assured that the market will catchup the bull rally right after the election. But it became limited to the words on the street. NEPSE decrease by 9.26% on the month of May and closed at 2137.92.

Within the NEPSE, the Banking sub-sector is the sector that losses least within the month of May i.e. this sub-sector index decreased from 1580.20 to 1488.25 i.e. -5.81% loss in the review period. Whereas, the Manufacturing Processing and Microfinance sub index also hit least loss within this period i.e. -6.64% and -7.75% respectively. Furthermore, Life Insurance, Non-Life Insurance and Trading sub index hit the most losses within the review period i.e. 17.42%, 15.92% and 14.47% respectively.

Gentle men's agreement was signed by the commercial banks to stabilize the deposit rate for the month Jestha. Development Banks and Finance companies increase their rates on deposit for the month of Jestha. Group of development banks increases the rate by 0.45% and few of them provide the utmost 12.5% as well. This movement negatively impacts the stock market and helps to further decrease the NEPSE index. The further shifting of stocks to FD could be the reason to increase the panic sell at this level. Furthermore, three insurance companies namely Union life insurance, Gurans life insurance, and Prime life insurance had





signed the historic agreements for merger. But surely the market was not expecting the merger process between the Insurance companies rather going for right share issuance. The agreement between these three companies further created the Panic in the market especially the insurance sector, which made a loss of -4.69% in Non-Life Insurance and -4.98% in Life Insurance on 17th May single day.

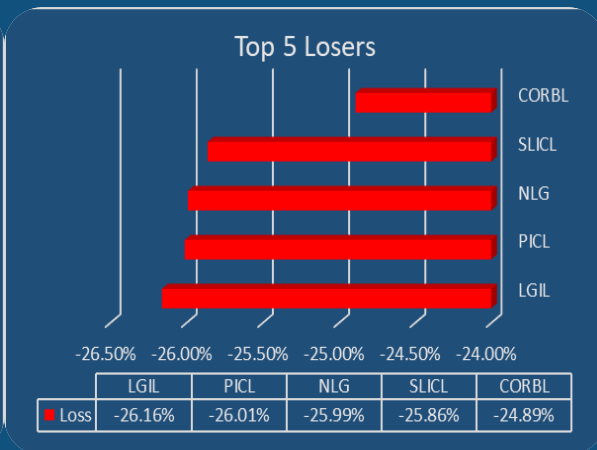
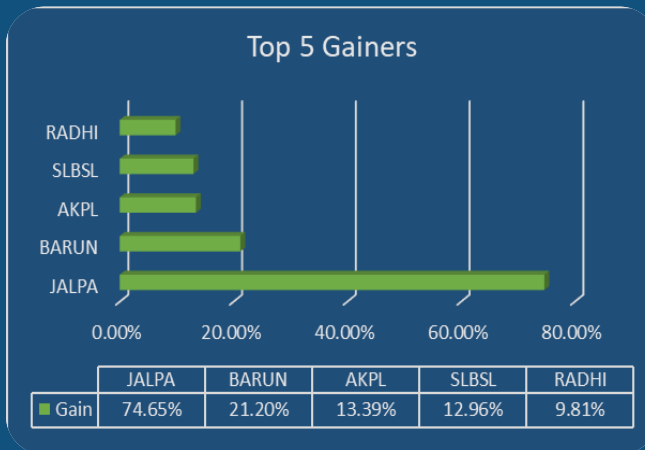
The Budget for fiscal year 2079/80 was the most awaited policy to heal bear trend pain for each investor in Nepalese Stock Market. Old rumors like ending the 4/12 policy were again burning like fire in the stock market. Investor associations were busy meeting high level government authorities to solve the current problem. But, the government is moreover focused to manage the current liquidity problem and increase the National production. As per the budget, various

policies in different sectors could indirectly affect the stock market. But, there were no directly impacting policies that addressed the Capital Market.

Further, we can expect that the funds that were used in local elections will ultimately come to the economy which will somehow help the current problem. Similarly, it is the last quarter of this fiscal year which pressurizes the government to increase the spending of the budget and also to release the old holding funds which can further ease the liquidity. Likewise, the continuous fall of the NEPSE index has pressured the NRB to change some policies in the upcoming monetary policy. Looking at the overall picture, the market index is at bottom level so it could be good zone to accumulate the valued stock.

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

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



| Gain | JALPA | BARUN | AKPL | SLBSL | RADHI |
|------|--------|--------|--------|--------|-------|
| Gain | 74.65% | 21.20% | 13.39% | 12.96% | 9.81% |

| Loss | LGIL | PICL | NLG | SLICL | CORBL |
|------|---------|---------|---------|---------|---------|
| Loss | -26.16% | -26.01% | -25.99% | -25.86% | -24.89% |





| S.N | Symbol | Amount Traded (Million) | Sector |
|-----|--------|-------------------------|------------------------------|
| 1 | AHPC | 922.17 | HydroPower |
| 2 | HDL | 815.33 | Manufacturing and Processing |
| 3 | SHIVM | 769.67 | Manufacturing and Processing |
| 4 | NABIL | 746.86 | Banking |
| 5 | NICA | 684.43 | Banking |

Source: NEPSE Baishakh end 2079 monthly report data

MUTUAL FUND

In the month of May, the sharp fall in all sub-indexes plunged the NAV of Mutual Fund as well. Within this month, NEPSE fell by 9.26% and continues its downtrend. Whereas Mutual Fund seems to be volatile and closed by losing 3.09%. The index hit 14.94 as low point and 15.65 as highest point within the review period. Last month, the sub index lost only 0.32% which was a bit less compared to the current month.

As per the MACD, both the signal line and MACD line had been trading below zero as a result it has been forming a negative histogram. It has not shown any buying signal with the review period. Likewise, trading volume is also below the 20 days' average volume.

As the market price of listed stock has fallen heavily, it has pulled down the NAV of the Mutual Funds. As a result, some Mutual Funds NAVs have fallen below ten. As per the NAV report of Baishakh month, SAEF has the highest NAV i.e. 15.88 and NIBSF2 has the lowest NAV i.e. 9.22. SAEF is only the

Mutual Fund with NAV more than 15 i.e. 15.88.

Currently, all the mutual funds are trading at discount, among them some Mutual Funds are trading at heavy discounted prices. The larger the discount rate, the better the investment opportunity in Mutual Fund. SAEF, NICBF and NMBHF1 are trading at highest discount rates i.e. 20.53%, 20.46% and 16.91% respectively. The first table presented below shows the top 10 stocks held by Mutual Funds till the end of Baishakh 2078; among these top ten stocks, all are from the commercial Banking sector.

Next table presents NAV details along with LTP and discount/premium at the end of May month. Likewise, the last table shows the equity exposure of Mutual Funds. Four Mutual Funds have more than 80% equity exposure. GIMES1, SIGS2, SEF and NIBLFP are the Mutual Funds with highest equity exposure i.e. 90.38%, 86.56%, 85.97% and 81.42% respectively.





| Top 10 Stocks Holdings | |
|------------------------|----------|
| Stocks | Quantity |
| PRVU | 1720118 |
| SANIMA | 1593373 |
| NBL | 1446443 |
| PCBL | 1397924 |
| MBL | 1397774 |
| GBIME | 1378062 |
| NICA | 1131588 |
| SBL | 1088205 |
| ADBL | 876944 |
| CCBL | 873964 |

| Mutuel Funds | NAV | LTP | Discount/ Premium |
|--------------|-------|-------|-------------------|
| SAEF | 15.88 | 12.62 | -20.53% |
| NICBF | 13.10 | 10.42 | -20.46% |
| NMBHF1 | 13.84 | 11.50 | -16.91% |
| NICSF | 10.01 | 8.37 | -16.38% |
| NICGF | 13.95 | 11.67 | -16.34% |
| KEF | 10.67 | 9.00 | -15.65% |
| LUK | 11.47 | 9.70 | -15.43% |
| PSF | 10.18 | 8.62 | -15.32% |
| MMF1 | 9.43 | 8.04 | -14.74% |
| SIGS2 | 12.45 | 10.62 | -14.70% |
| CMF2 | 10.84 | 9.25 | -14.67% |
| SFMF | 13.61 | 11.65 | -14.40% |
| NEF | 11.87 | 10.18 | -14.24% |
| RMF1 | 9.41 | 8.13 | -13.60% |
| NMB 50 | 14.69 | 12.70 | -13.55% |
| SEF | 12.28 | 10.63 | -13.44% |
| SBCF | 9.47 | 8.20 | -13.41% |
| NBF2 | 12.06 | 10.51 | -12.85% |
| LEMF | 11.50 | 10.06 | -12.52% |
| NIBSF2 | 9.22 | 8.28 | -10.20% |
| SLCF | 9.74 | 8.95 | -8.11% |
| CMF1 | 9.90 | 9.19 | -7.17% |
| NBF3 | 9.23 | 8.64 | -6.39% |
| NIBLPF | 11.48 | 10.77 | -6.18% |
| GIMES1 | 11.37 | 10.86 | -4.49% |

| Mutuel Funds | Equity Exposer |
|--------------|----------------|
| GIMES1 | 90.38% |
| SIGS2 | 86.56% |
| SEF | 85.97% |
| NIBLPF | 81.42% |
| NBF2 | 75.94% |
| NEF | 75.41% |
| MMF1 | 72.85% |
| CMF1 | 69.05% |
| CMF2 | 68.33% |
| NIBSF2 | 67.41% |
| SAEF | 66.96% |
| NICGF | 66.93% |
| LEMF | 65.80% |
| NMB 50 | 65.56% |
| NICBF | 58.95% |
| LUK | 58.78% |
| NBF3 | 56.82% |
| SBCF | 56.50% |
| SFMF | 56.05% |
| SLCF | 55.62% |
| NMBHF1 | 49.22% |
| KEF | 44.86% |
| RMF1 | 42.62% |
| PSF | 36.58% |
| NICSF | 18.66% |

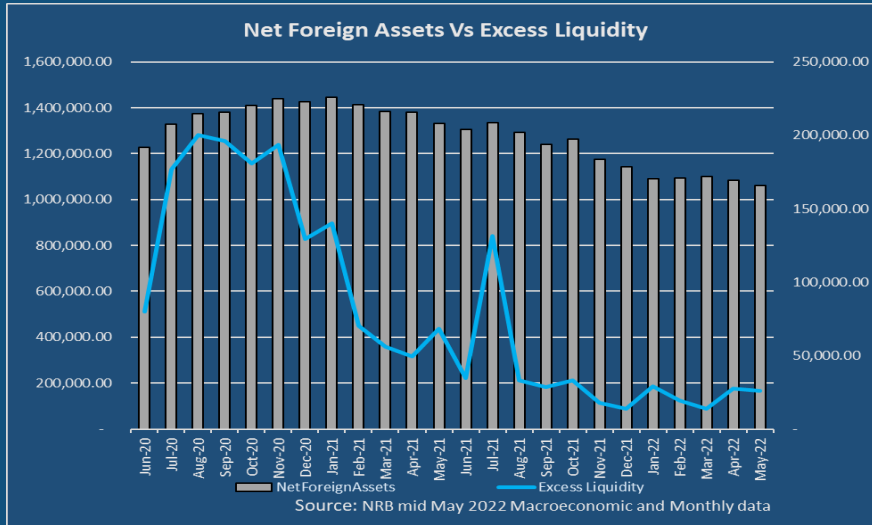
* LTP as on 31/05/2022





MACROECONOMIC ANALYSIS

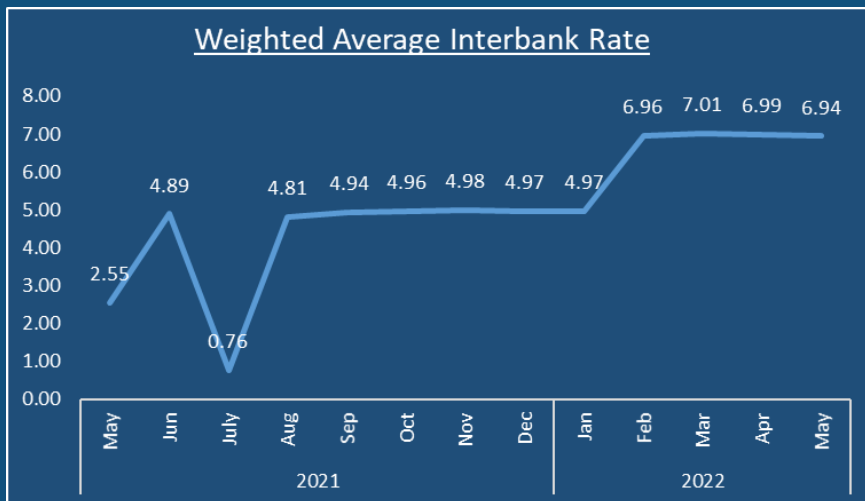
Market Liquidity



The position of Excess liquidity in the market stood at around NPR 25.77 billion (as of mid-May, 2022). In the beginning month of last fiscal year, the Excess liquidity stood at 200.43 billion whereas the position of excess liquidity in the market has highly exhausted in this fiscal year as the liquidity crisis is still pervasive in the market. There was a

31.97% increment in imports till nine months' data on y-o-y comparison, which was 38.64% till eight months' data. According to the latest ten months' data the increment rate of imports further declined to 27.95% (till mid-May, 2022). The remittance has increased in this ten months' data for the first time this year on y-o-y comparison, it has increased by 0.23% and stands at NPR 811.79 billion. On the other hand, exports increased by 59.80% as compared to previous year. The Net Foreign Assets for the period has decreased by 1.87% from the previous month. Similarly, in this

fiscal year, there is deposit and credit growth of just 5.08% and 13.48% respectively till 8th June 2022 which was 21.40% and 26.40% respectively in the last fiscal year. Since, the increased pressure on liquidity is still intact, the interbanking rate is moving close to 7% yet. The overall macroeconomic indicators suggest that the market liquidity hasn't improved



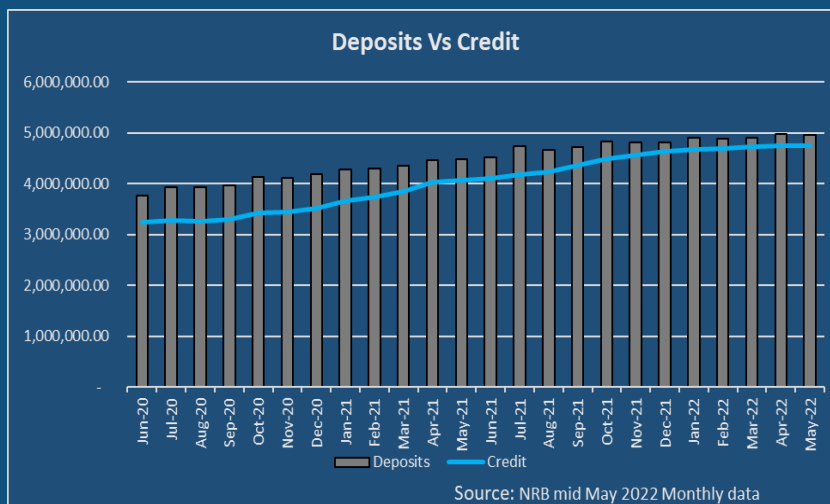
yet and it is still in the declining trend.





Total Deposits and Total Borrowing

The deposits decreased by 0.58% whereas credit grew by 0.05% till mid May 2022 as compared to previous month. The total deposits for the review period remained at 49.51 kharba and the total credit remained at 47.43 kharba. This month, there is not much of a change in credit combined with the downsized deposit that has created further pressure on the liquidity position.



FUNDAMENTAL ANALYSIS

Sector wise PE Ratio

| Sector | Apr-22 | May-22 | Change (%) |
|--------------------|--------|--------|------------|
| Commercial Bank | 18.93 | 18.35 | -3.07% |
| Development Bank | 22.20 | 19.66 | -11.45% |
| Finance | 43.66 | 37.64 | -13.78% |
| Microfinance | 29.21 | 27.73 | -5.08% |
| Life Insurance | 103.35 | 131.06 | 26.81% |
| Non-life Insurance | 51.53 | 39.76 | -22.85% |
| Investment | 79.78 | 67.78 | -15.04% |
| Hydropower | 48.75 | 88.99 | 82.54% |
| Manufacturing | 31.29 | 28.77 | -8.06% |
| Others | 28.28 | 31.92 | 12.89% |
| Nepse | 28.59 | 27.76 | -2.90% |

Source: Compiled datas from quarterly reports

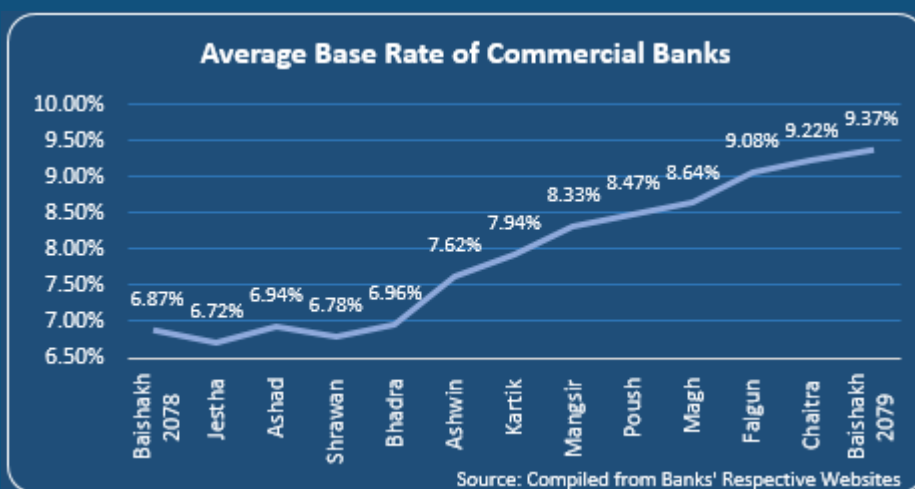
P/E ratio is the most widely used ratio by the investors to ascertain whether the stock is undervalued or overvalued. As a general principle, lower the PE ratio, better the company to invest in. The average PE ratio of all the sectors except Life Insurance, Hydropower and Other sectors





have declined in May compared to April due to the sharp decline in the Npse by 9.26%. The average PE ratio of Life Insurance, Hydropower and Other sectors increased despite declining stock prices because of relatively weaker performance in the third quarter compared to the second quarter. As of May end, the banking sector is trading at the lowest P/E ratio of 18.35 times, which is generally assumed to be relatively safer for investment from the PE perspective. After the banking sector, the development bank and the microfinance sector have the lowest P/E ratio of 19.66 times and 27.73 times respectively. Whereas the life insurance sector is trading at the highest P/E multiple of 131.06 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 Npse. 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 Npse is trading at the P/E ratio of 27.76 times.

Average Base Rate of Commercial Banks



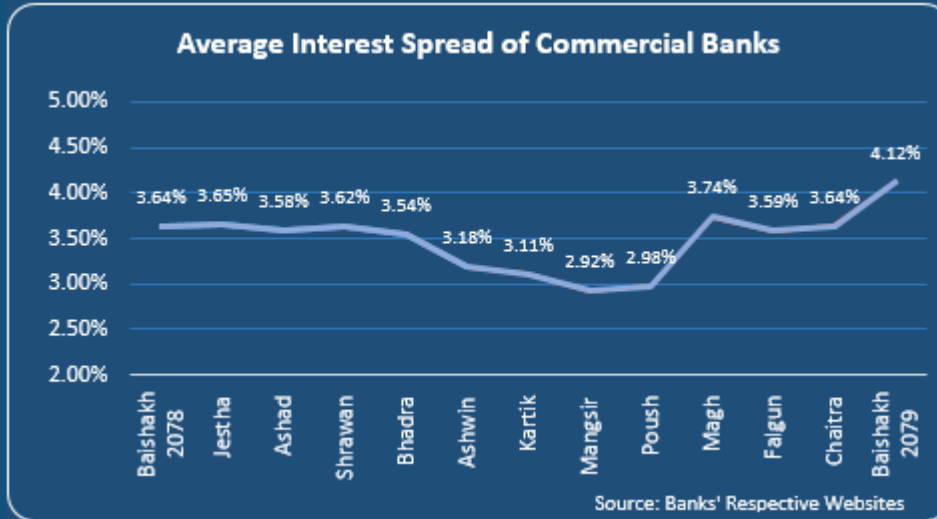
The average base rate of the commercial banks has continued its increasing trend in the month of Baishakh as well. It has increased to 9.37% in Baishakh from 9.22% in Chaitra. The figure was at 6.87% in the last years' corresponding period. Huge rise in base rate within one year is due to

excessive credit disbursement more than deposit collection in the post covid period. In FY 2021/22, there is 13% of loan growth whereas there is deposit growth of only 4.53% in the commercial bank industry till the end of May 2022. Increasing imports and government's inability to spend sufficiently in the capital expenditure have put pressure on liquidity resulting in the rise of interest rate on the deposits. Accordingly, the base rates of BFIs are in the inclining trend in the current time period. Civil Bank has the highest base rate of 10.37% whereas Nepal Bank has the lowest base rate of 7.26% among commercial banks in Baishakh 2079.





Average Interest Spread of Commercial Banks



The average interest spread of the commercial banks has significantly increased to 4.12% in the month of Baishakh compared to 3.64% in Chaitra 2078. Increment of lending interest rate by the commercial banks in the beginning of the fourth quarter has aided in the improvement in the

interest spread of the commercial banks. 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. MEGA & NICA have maintained the highest interest spread of 4.40% whereas NBB has the lowest interest spread of 3.42% in Baishakh.

TECHNICAL ANALYSIS

Current Index: 2137.92, -9.26%

(5-31-2022)

Previous Month Index: 2356.20

(4-28-2022)

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: 2075, -2.59% down

Support 2: 1915, -11.93% down

RESISTANCE

Resistance 1: 2295, 6.75% up

Resistance 2: 2518, 18.29% up



Candlestick: Nifty index was in the correction mode in the month of the May just as the previous month, it has been trading in lower high and lower low with the breakout of 2295 support zone. The market has declined by 9.26% in the month of May, closing at 2137.92 index. The formation of the candlestick suggests that the market is still in the downtrend targeting the immediate support at 2075 index.

Bollinger Band: In the Bollinger band indicator, the Nifty index was trading in the lower band most of the time in this month where both the attempts to cross the middle band were unsuccessful as the market hit lower high and lower low. In comparison to beginning days, there is expansion in the band coming to the end of the month, combined with the declining bearish candle towards lower band, we can expect the further correction in the market with increasing volatility.

Exponential Moving Average (EMA): Following the same downward trend of previous month, the Nifty index is trading below both EMA 5 and EMA 20 line. The index tried to move above EMA 5 and EMA 20 lines and also managed to close above both the EMA lines on 11th May 2022. However, the bearish trend of the market didn't let the index stay above EMA lines and eventually, it closed below both the lines giving continuity to the downward trend.

Volume: In the month of May, the volume has further declined to 26.46 billion from 30.68 billion last months which is a decline of -14.26%. The sharp correction in the market has led to the decline in the volume as well, suggesting that the investors are losing confidence in the market and expecting the market will further decline in the coming month.





Downward Parallel Channel



The NEPSE index has been trading in the downward parallel channel ever since it made the high of 2981.92 index on 18th January 2022. This downward parallel channel will remain valid unless it makes the breakout from this channel and the recent continuation of the trend in the NEPSE index indicates that the market is likely to move in the downward trend forming lower highs and lower lows. The breakout in the upper band of this channel is must to identify the reversal from the current downtrend.

RSI and MACD





RSI: This month, RSI indicator has further declined to 29.83 from previous month's 37.72 and as the index kept moving sharply downward, RSI remained in the sideways position taking support on the oversold zone. The movement of NEPSE index and RSI indicator has formed a divergence that indicates the possible pullback in the coming days.

MACD: In the MACD indicator, there were bearish crossovers for three times and bullish crossovers for two times in the month of May. This shows the indecisive nature of the current market and its inability to make pullback in this continuous fall in the index. As the indicator went for bearish crossover at the end of the month, it has shown that the market is still driven by bearish sentiment.

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