

MONTHLY NEWSLETTER

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Machhapuchpuchhre Capital
Research and Trading Team





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NEPSE HIGHLIGHTS

Index	Index	Gain/Loss	Turnover (In Millions)
NEPSE Index	1864.62	-5.10%	28,640.12
Sensitive Index	358.83	-5.24%	8,441.08
Float Index	129.43	-5.14%	27,274.55
Sensitive Float Index	117.82	-6.07%	8,409.62

Particulars	Index	Gain/Loss	Beta	Turnover (In Mills.)
NEPSE Index	1,864.62	-5.10%	1.00	28,640.12
Banking Sub Index	1,187.14	-5.68%	0.56	4,986.84
Development Bank Index	3,574.11	-3.61%	1.26	1,625.44
Finance Index	1,642.50	-1.85%	1.61	1,075.87
Hotels And Tourism	4,783.84	-12.33%	1.04	988.53
Hydropower Index	1,969.55	-0.60%	2.11	7,363.63
Investment	64.46	-6.12%	1.01	1,116.51
Life Insurance	9,792.36	-8.46%	1.08	3,898.70
Manufacturing And Processing	4,992.94	-2.86%	0.81	1,692.45
Microfinance Index	3,473.81	-2.32%	0.92	1,934.90
Mutual Fund	18.56	0.22%	0.62	175.76
Non-Life Insurance	9,561.41	-8.40%	0.89	1,803.95
Others Index	1,374.43	-4.33%	0.91	498.22
Trading Index	2,703.26	-9.68%	0.57	289.51

As of the end of Ashwin 2080, the NEPSE Index stands at 1864.62 with a loss of -5.10% from the previous month with the total turnover amounting to Rs.28.64 billion.

Among the sub-indexes, the Hotels and Tourism Index and Life Insurance witnessed the highest loss of 12.33% and 8.46% respectively. The Mutual Fund Index was the only index with a positive growth of 0.22%. Regarding beta, Hydropower, Finance, and Development Bank Indices exhibit the highest beta of 2.11, 1.61, and 1.26 respectively in the month of Ashwin.



MONTHLY NEPSE OVERVIEW



Market sentiment continued to remain pessimistic in the month of Ashwin as well, with the NEPSE Index recording a 5.10% loss, following a 3.36% decline in the previous month. The market which closed with a 2.09% decline on the last day of Bhadra 2080, slightly ventured into a positive direction for a few days in the month of Ashwin 2080 making a monthly high of 2040.28 on 4th Ashwin 2080. However, the index could not sustain long enough as the index soon started a downward trend a week later.

NEPSE Index could not beat the most recent high to form a bullish trend. Instead, the NEPSE index had a bearish movement for most of the month. Despite the hopeful economic outlook presented through the Macroeconomic Report As of Shrawan 2080 published by NRB, the market was unable to head in a positive direction as it seemed the market was more expectant on major reforms other than a positive economic outlook.

As the market did not show any sign of positive momentum for the past few months, some political leaders such as the current finance minister Dr. Prakash Sharan

Mahat, and CPN-UML chairman K.P Oli were adamant on the need to remove the cap on margin loans to uplift the share market and to boost investor confidence. The opinions raised by the political leaders also instilled hope in the investors that there would be some flexible reforms on margin loans.

Amendments in Unified Directives 2079 regarding share margin loans, and loan loss provision on pass loan, was published on 19th Ashwin, 2080. One of the most major concerns regarding margin loans was addressed, the limit of share margin loans was increased from 12 Crore to 15 Crore for individuals and up to 20 Crore for institutions. Other amendments included the introduction of a counter-cyclical buffer, reduction of the loan loss provision for pass loans from 1.3% to 1.25%, revision of Loan to Value (LTV) ratio to a maximum of 50%, interest rate differential of 2% to be maintained on the same type of deposits/loans, revised RWA on hire purchase loans to 125% from 150% for loans above 2.5 Million. Overall, the recent amendments are expected to promote lending in different sectors while ensuring



responsible lending practices and lower interest rates.

The reaction to the recent amendments in Unified Directives 2079 on NEPSE reflected the dissatisfaction of the investors as the index declined by -1.82% the next trading day after NRB published the circular on amendments. The index barely witnessed any positive index gain for another week after that.

In the month of Ashwin 2080, stricter rules for hydropower companies were also enforced by SEBON which would ensure regulated and systematic raising of capital for hydropower companies. The proposed amendment includes the requirement of projects to be completed by at least 65% for the final approval of issuing IPO, the requirement of net worth to be greater than

paid-up capital for right share issuance, and disclosure of Lock In Period (LIP). Such rules and regulations are expected to control and monitor the hydropower companies entering the capital market.

On the last trading day of the month, commercial banks published revised FD interest rates for the month of Kartik 2080. 14 commercial banks decreased their interest rate while 4 of them kept it constant and only 2 of them increased their FD rate. The average FD interest rate has decreased to 9.96% compared to the previous month's 10.249% imparting hope for the investors. That along with the positive economic outlook presented by the Macroeconomic report as of 2 months led to the NEPSE index closing with a gain of 0.71% at 1864.62 on the last trading day of the month.

Top 10 Companies with the Highest Market Capitalization

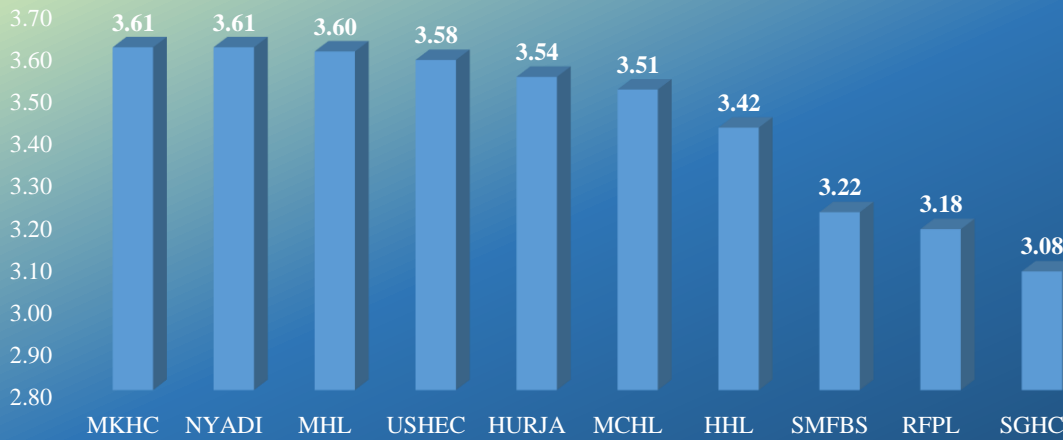
Company	Market Capitalization (in billions)	Weightage in Total Market
NABIL	154.79	5.59%
NTC	149.78	5.41%
CIT	99.10	3.58%
NICA	77.15	2.79%
GBIME	72.26	2.61%
NRIC	72.11	2.60%
NIMB	59.73	2.16%
EBL	54.01	1.95%
NLIC	52.52	1.90%
SCB	48.67	1.76%

For the month of Bhadra 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 31.54% of the total market capitalization of NEPSE.





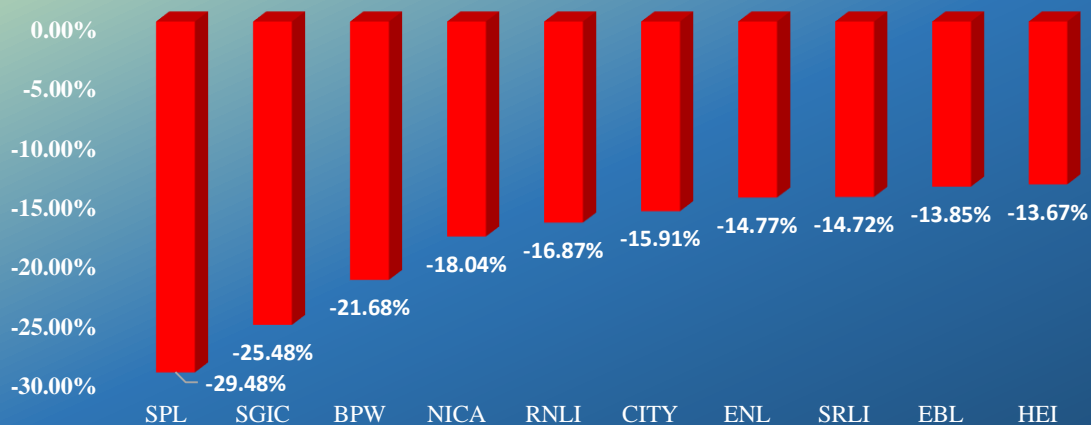
Top 10 Stocks with the Highest Beta



Top 10 Gainers of the month



Top 10 Losers of the month



*excluding the companies listed in Mid-month.



FUNDAMENTAL ANALYSIS

• Sector-wise PE Ratio

Sector	P/E Ratio 9/17/2023	P/E ratio 10/17/2023	Change
Commercial Bank	14.84	13.96	-5.88%
Development Bank	23.02	22.19	-3.61%
Finance	96.67	94.81	-1.93%
Microfinance	51.62	50.37	-2.42%
Life Insurance	86.09	67.67	-21.39%
Non-life Insurance	42.39	39.35	-7.17%
Investment	52.79	49.71	-5.83%
Hydropower	-84.73	-81.57	-3.73%
Manufacturing	35.05	34.48	-1.63%
Others	27.63	26.45	-4.27%
Hotel	76.14	67.85	-10.88%
Trading	197.48	177.76	-9.98%
NEPSE PE	28.94	28.05	-3.09%

The P/E ratio is the most widely used ratio by investors to ascertain whether the stock is undervalued or overvalued and provides insights into the market's expectations regarding a company's future earnings growth. As a general principle, a lower P/E ratio makes a company's stock price more favorable for investment.

With the notable decline in the NEPSE, the average PE Ratio of all the sectors decreased in the month of Ashwin 2080. Here, the P/E ratio of the Hydropower sector has been reported to be -81.57. The negative PE was largely caused due to the massive loss of UPPER of about 3.76 Billion in the 4th quarter report.

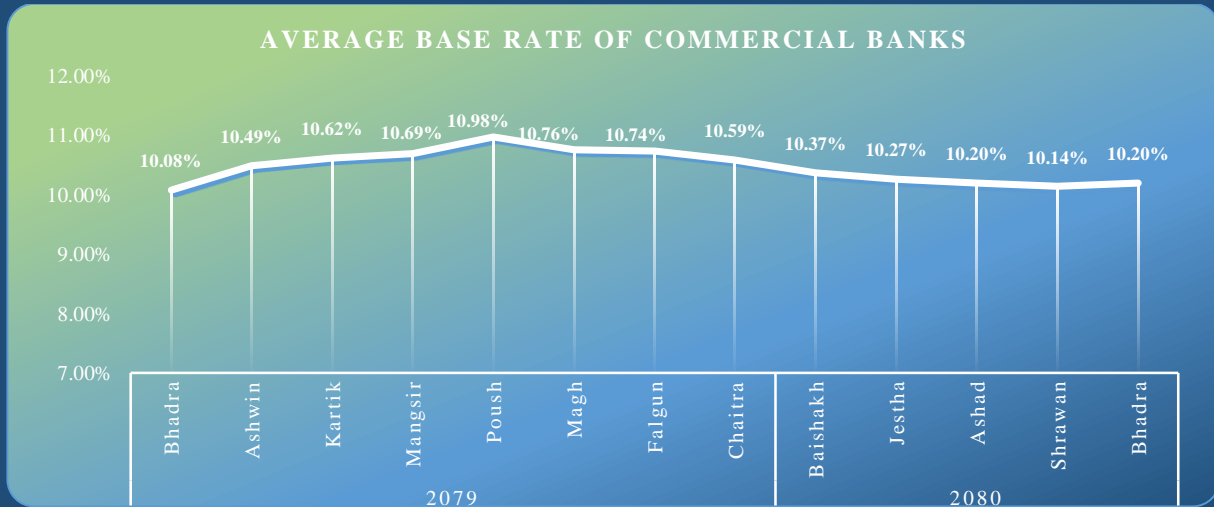
As of Ashwin's end, the banking sector is trading at the lowest P/E ratio of 13.96 times, which is generally assumed to be relatively safer for investment from the PE perspective. After the banking sector, the development bank and the other sector have the lowest P/E ratio of 22.19 times and 26.45 respectively. The majority of the sectors are trading at a relatively higher P/E multiple in NEPSE reflecting the economic downturn's impact on companies' earnings.

However, the PE ratio can also be misleading if the growth factor is not taken into consideration. A higher PE ratio, when supported by strong growth prospects, can be favorable for investments, while a lower PE ratio without growth potential may not be favorable. Currently, NEPSE is trading at a P/E ratio of 28.05 times.



- **Average Base Rate of Commercial Banks**

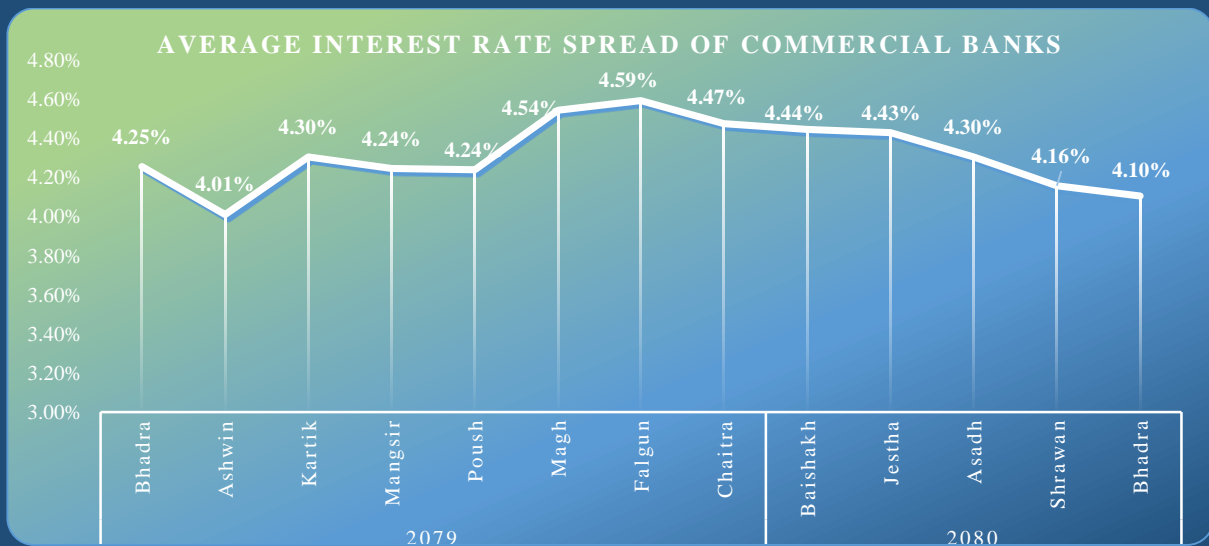
Source: Commercial Banks' Websites



The base rate, which had been consistently declining, albeit by a small margin, following its peak at 10.98% in the month of Poush 2079, appears to have temporarily halted its downward trend with a minor increase in the month of Bhadra 2080 to 10.20%. As per the interest rates published by commercial banks for the month of Kartik 2080, 14 commercial banks have reduced their deposit interest rates, 2 banks have increased their interest rates and 4 of them have kept it constant following the previous month's interest rate. As a result, the average base rate for the upcoming month is anticipated to decrease, which will consequently lead to a reduction in the lending rate. The average interest rate has seen a decrease from 10.24% in the previous month to 9.964% in Kartik.

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

Source: Commercial Banks' Websites



The interest spread rate as of Bhadra 2080 has decreased to 4.10%. The requirement to maintain a spread rate of 4.00 has been maintained by most banks except the merged banks as they have a grace period of 1 year from the joint transaction commencement date to maintain the spread rate. The recent amendment in Unified Directives 2079 has also stated that the maximum interest rate differential between the same type of loans should be 2% which may potentially lower the base rate and interest spread rate in the upcoming months.



TECHNICAL ANALYSIS



Weekly chart

Closing Index (10-17-2023): 1864.62

As per Fibonacci Retracement

Support 1: 1806.16 (-3.13%)

Support 2: 1687.20 (-9.51%)

Resistance 1: 1899.76 (1.89%)

Resistance 2: 1973.24 (5.82%)



Weekly Chart

Candlesticks:

The market is in a range bound or consolidated phase on an average of 2250-1800 index level on a broader aspect with an immediate Support level of 1850. In the month of Ashoj, continuous bearish candlestick formations suggest the short-term structure of the market is indeed weak. Provided the selling volume is less than the average volume indicating temporary oversold conditions (Sellers are less active than Buyers) i.e. possibility of having a pullback situation in the coming days.



Weekly Chart

MA (50) & MA (200):

Analyzing the EMA 50 and EMA 200 on a weekly basis, there has been the formation of a Death Crossover, a lagging indicator, which signals the negative sentiment arising in the market.

RSI

With the continuous fall in the NEPSE index, the RSI indicator has also declined with the same momentum from its Resistance level i.e. 60 points to its Support level i.e. 40 points in the current market trend. If it sustains and closes above the Support level, we may expect a bounce-back shortly in the market.

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, the increasing histogram formation is below the zero level in the negative zone supporting the bearish sentiment in the market for the short-term.

** Given the current volatile market structure, a strategy of buying on dips and selling on upswings is advisable for the short term.*

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