

THE ANALYST



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Newsletter Series “The Analyst”

I am delighted to share with you the launch of “The Analyst” a newsletter series by NMB Capital. Committed to its name, The Analyst will keep you updated on the vibrancy of local financial market. It shall be a realistic presentation of the major movers and shakers of the capital market by way of tracking the movements of economic indicators, effects on money market and the parallel it draws on the events coinciding with the economy.

The Analyst will roll out on a quarterly basis in the beginning, which we intend to publish and circulate every month in a near future. NMB Capital shall invite the memberships for The Analyst and it shall be available to the exclusive esteemed members who are passionate on the economic events and enjoy capital markets. At times we may invite you for small coffee sessions to share the thoughts.

Please make us fortunate by providing us with your inputs, comments, criticism and feedback for us to continuously improve the paper.

We pledge the value of our business relationship with you. Thank you for your continued support.

For more information, please email us at info@nmbcl.com.np.

Shreejesh Ghimire

Chief Executive Officer

MARKET UPDATE

- The NEPSE Index rebounded in the month of Baishakh after 3 turbulent months. The benchmark index gained 60.62 points to close at 1,338.17, an increment of 4.75% from last month's close of 1,277.55.
- Except for the Trading sub-index, all other sub-indices registered gains during the month. Microfinance sub-index registered the highest gain of 16.41% followed by Insurance sub-index with a gain of 12.67%.
- The average daily turnover for the month was NPR 632,495,316; an increase of 60.87% from the previous month. During the previous month the average daily turnover stood at NPR 393,174,400.
- During the month, shares with market value of NPR 12,779,185,440 were traded on NEPSE which amounts to 2.41% of the total market capitalization of floated shares.
- Market capitalization of NEPSE increased this month by 4.84% and currently stands at NPR 1,570,274.28 Million.
- Third quarter financial statements of most listed companies were published during the month.
- Net profit of commercial banks has increased by 13.10% as compared to 32.37% last year.
- Similarly, non-life insurance companies registered a growth of 35.6% in their net profit while life insurance companies witnessed a growth of 24.57%.
- Net profit of microfinance companies fell by 5.99% compared to previous year. The average cost of funds for the microfinance companies rose to 9.78% from 7.41%, a year ago. The rise in cost of funds in BFIs, a major source of fund for microfinances, has significantly contributed to the fall in the earnings of microfinance companies.
- On the macroeconomic front, NRB's report on Current Macroeconomic & Financial Situation for the first nine months of the current fiscal year shows that current account deficit has swollen to NPR 171.64 billion from NPR 10.34 billion a year ago. The report shows that balance of payment (BOP) has also registered a deficit of NPR 14.60 billion whereas BOP was at a surplus of NPR 50.60 billion a year ago. Due to this deficit, the gross foreign exchange reserve has declined by 1.4% in mid-April 2018 from mid-July 2017.
- The first ever capital market expo was organized by SEBON at Bhrikutimandap Exhibition Hall for two days on 9-10 May. All major stakeholders of the capital market namely – Investors, Merchant Bankers, Stock Brokers, Credit Rating Agencies, BFIs and software vendors actively participated at the exhibition. The event also marked the silver jubilee anniversary of SEBON's establishment.
- On 16th May, NRB issued 5-year, 9% Citizen Saving Bond-2080 worth NPR 2 Billion.

Sub-Index	2074 Chaitra	2075 Baishakh	Change
Banking	1,134.04	1,147.92	1.22%
Dev. Banks	1,492.18	1,544.19	3.49%
Finance	648.6	652.13	0.54%
Microfinance	1,477.84	1,720.34	16.41%
Insurance	6,161.08	6,941.80	12.67%
Hydro Power	1,511.87	1,650.96	9.20%
Hotels	1,859.99	1,965.92	5.70%
Trading	209.36	195.00	-6.86%
Manu. & Pro.	2,264.28	2,313.80	2.19%
Others	713.69	749.85	5.07%

*(Review Period: 14th April – 14th May, 2018.)

NMBCL UPDATES

- Allotment of Right Shares of **Kamana Sewa Bikas Bank Ltd.** Allotment Date: April 17.
- IPO allotment of **Nepal Seva Laghubitta Bittiya Sanstha Ltd.** Issue Open Date: April 25-29. Allotment Date: May 6.
- Auction for the Unsubscribed Right Shares of **Neco Insurance Co. Ltd.** Issue Open Date: May 2-9 Allotment Date: May 15.
- Auction for the Unsubscribed Right Shares of **Kamana Sewa Bikas Bank Ltd.** Issue Open Date: May 7-15. Allotment Date: May 24.

INTEREST RATES

The average inter bank rate for the month of Baishakh increased to 4.88% from 4.11% during the previous month. Nepal Rastra Bank (NRB) has been implementing interest rate corridor from the monetary policy of 2016/17 with the objective to stabilize fluctuations in short term interest rates. In the present interest corridor system, standing lending facility rate acts as a ceiling of the corridor while two-week deposit auction rate acts as the floor. Both rates are fixed by the central bank. The repo rate is set as the central bank’s policy rate and it’s currently fixed at 5%. If the inter bank rate in the money market goes beyond 5%, NRB injects liquidity to bring the interest rate down; while if the inter bank rate goes below 3%, NRB mops up liquidity from the system. As depicted in Figure 1 below, the inter bank rose above the upper threshold of 5% during the month. In response, NRB issued repo worth NPR 30 billion during the month.

NRB also issues treasury bills of varying maturity each week to help Government of Nepal manage its treasury. At the end of the month, the discount rate on the treasury bills maturing in 28 days, 91 days, 182 days and 365 days stood at 4.5898%, 4.9792%, 5.2613% and 5.3191% respectively (See: Figure 2).

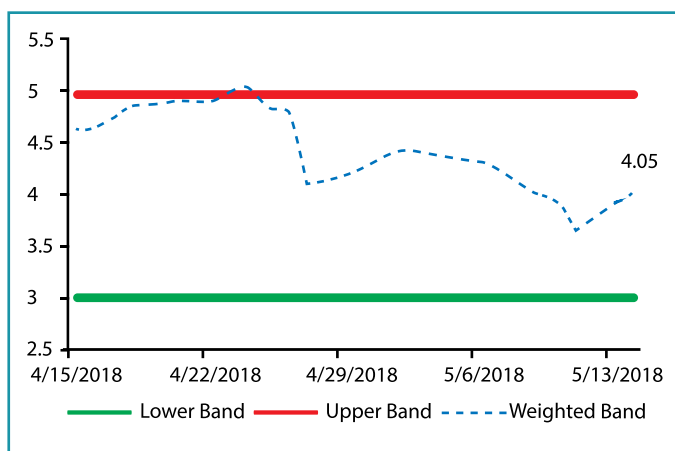


Figure 1: Weighted average interbank rate

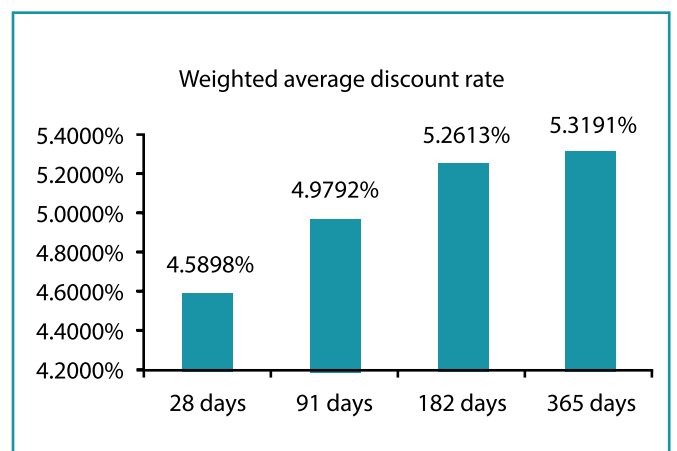


Figure 2: Weighted average discount rate

Figure 3 below shows average interest rates offered by commercial banks on fixed deposits of different tenure ranging from 3 months to 10 years. The average rates offered for fixed deposit of 3 months was 9.61% while the rate was 11% for tenure of 10 years. On an average, commercial banks were offering 10.5% interest on fixed deposit of 1 year tenure.

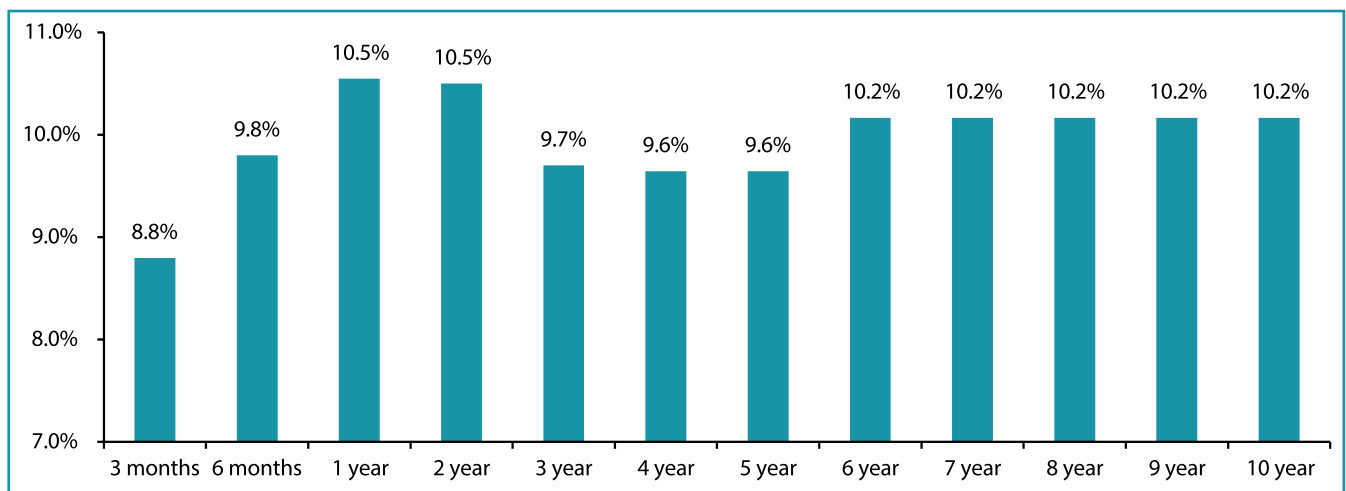


Figure 3: Average interest rates offered by commercial banks in fixed deposits of different tenure

NEPSE – TECHNICAL ANALYSIS



Figure 4: Daily chart of NEPSE

The benchmark index gained 60.62 points during the first month of the year to close at 1,338.17. The rise in index which began from second half of last month continued until the first half of the month as the index peaked at 1,461.21. During the month, the index formed an inverted head and shoulder pattern with neckline at 1,300 levels. The index broke the neckline and completed its break out target of 1,460. This rise in index also coincided with the 50% retracement of the fall from 1,709 to 1,168 (See: Figure 4).

From its peak the index has declined by 122 points to close at 1,338.17. RSI which rose, to 76.25 - at overbought level during the intra-month high - later declined to 50.32, which is a neutral zone for the indicator. MACD turned bearish as the month came to an end (See: Figure 5).

The high of the recent rally is also a lower high as compared to high of April last year. Thus, this formation of consecutive lower highs and lower lows as shown in Figure 4 signifies that the index is currently on a downward trend in medium to longer term. The lower channel line as depicted in the figure has acted as a significant support and resistance level in recent times. The channel line also acted as a resistance for the recent rally.



Figure 5: Daily chart of NEPSE

Moving averages have been divided over the market sentiment as the recent crossover of 20 day moving average and 8 day moving average suggest bearish sentiment. However both moving averages are hovering above the longer term 60 day moving average which suggests otherwise (See: Figure 5). Transaction volume has also declined during the month as indicated on the bottom part of Figure 4, this indicates faltering investor confidence.

DEVELOPMENT AND GROWTH OF CAPITAL MARKET IN NEPAL

Nepal Stock Exchange, the only secondary market operator in Nepal, has recently completed 25 years of its journey. If we look at the history of capital market, it began with the establishment of Amsterdam Stock Exchange back in 17th century. Asia's first stock exchange, BSE (Bombay Stock Exchange), has completed 140 years of journey. The market capitalization of BSE is nearly 95 times more than that of NEPSE. This shows Nepalese capital market is still at its developing stage.

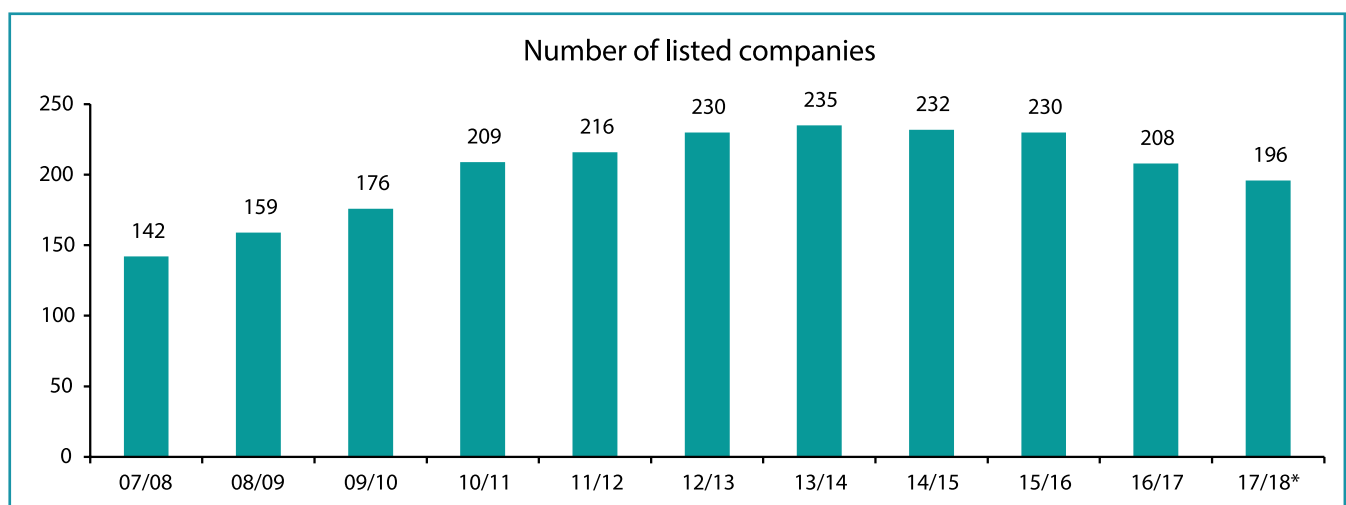
The practice of securities trading in Nepal began with the issuance of shares by Biratnagar Jute Mills in 1936 and Nepal Bank Ltd in 1937. The further development was embarked with the introduction of Company Act, 1964 and issuance of Government Bond in 1964. The establishment of Securities Exchange Center (SEC) in 1976 can be considered as a landmark event in the development of stock market in Nepal. The basic objective of SEC at that time was to facilitate and promote the growth of capital market. SEC was later converted into Nepal Stock Exchange in 1993, operating under Securities Exchange Act, 1983. It provided a platform for free marketability and liquidity to government and corporate securities by facilitating transactions in trading floor through member and market intermediaries. To regulate the securities market, Securities Board of Nepal (SEBON) was established on June 7, 1993, under Securities Exchange Act 1984, which has currently been operating under Securities Related Act 2007.

NEPSE opened its trading floor on 13th January, 1994. The share trading mechanism adopted during that time was "Open-Out-Cry" System. The brokers had to shout prices and offers in the trading floor using floor hand signals. On 24th August, 2007, the trading on exchange shifted from Open-Out-Cry to semi-automated trading system. The screen based trading system resulted in significant rise in the number of transactions and turnover volume. The next step towards automation took place with the electronic transfer of dematerialized securities for settlement of transactions in 2014. With faster trade cycles and easier settlement process the daily transaction numbers increased dramatically since the introduction of the Central Depository System (CDS). The next step in the development of the capital market will be the implementation of a fully automated trading system. It will empower and enable investors to execute and monitor orders themselves in their desktop, laptops and mobile phones rather than being dependent on stockbrokers.

The securities market in Nepal has witnessed significant ups and downs which are summarized through the following:

1. Number of Listed Companies

The eligibility for trading on the NEPSE floor is limited to listed companies. Figure 6 shows increasing trend in the number of listed companies until 2013/14. The total number of companies listed in NEPSE decreased to 196 in mid-April 2018 mainly due to merger and acquisitions of BFIs.



*Figure 6: Number of Listed companies in NEPSE over the years
Based on 9 month's data

2. Market Capitalization to GDP

Market Capitalization to GDP firstly aggregates value of all listed equities on a collective level and compares that to country's total output (GDP). It assumes that stock market size is positively correlated with the ability to mobilize capital and diversify risk. Figure 7 shows market capitalization ratio to nominal GDP has gradually increased over the period up to 2013/14 which later soared in 2015/16. Closely scrutinizing the value suggests that this ratio has been behaving in a cyclic manner over that last 10 years.

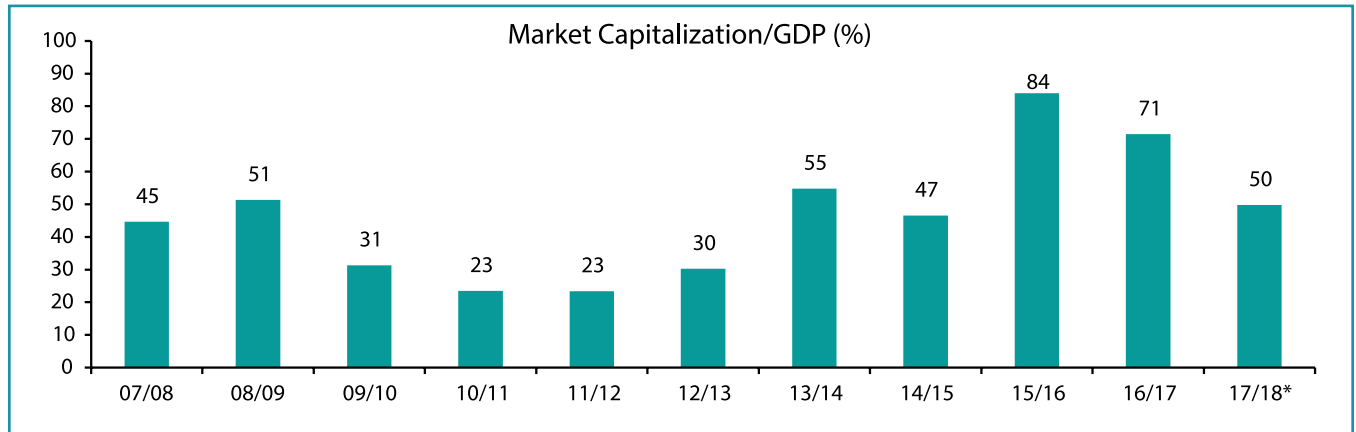


Figure 7: Market Capitalization to GDP over the years
*Based on 9 month's data

3. Annual Turnover

The trend for the amount of annual turnover has been fluctuating over previous periods but overall this indicator has been on the rise. This indicator is directly impacted by every form of technological advancement in the trading infrastructure at NEPSE, as evident with the adoption of the semi-automated trading system and later with the implementation of compulsory dematerialization of securities for trading. Figure 8 shows that FY 2016/17 recorded the highest annual turnover of NPR 204,787 billion. Only twice in the review period, the annual turnover had declined; once in FY 2010/11 and then in FY 2014/15.

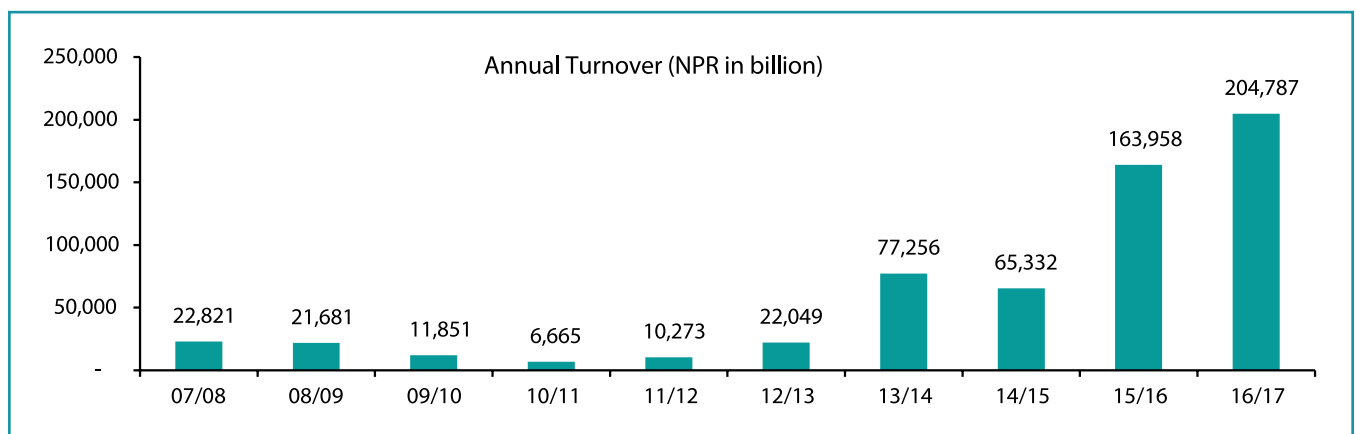


Figure 8: Annual turnover in NEPSE over the years

Plans of technological improvement, granting brokerage license to Commercial Banks and adoption of a fully-automated trading system shall certainly help improve the existing infrastructural framework of the capital market. This will help increase the size and reach of capital market as more people from different parts of the country will get connected. SEBON has also taken an initiation to integrate Non Resident Nepalese to make investment in stock market. Besides this, the online trading system is in the phase of implementation replacing the need to execute trade via stockbrokers. The digital practices in trading securities will enhance investors' access to market depth, information flow and ability to execute transactions. Hence, we can expect major disruptions in the capital market of Nepal in the foreseeable future.

CHART OF THE MONTH

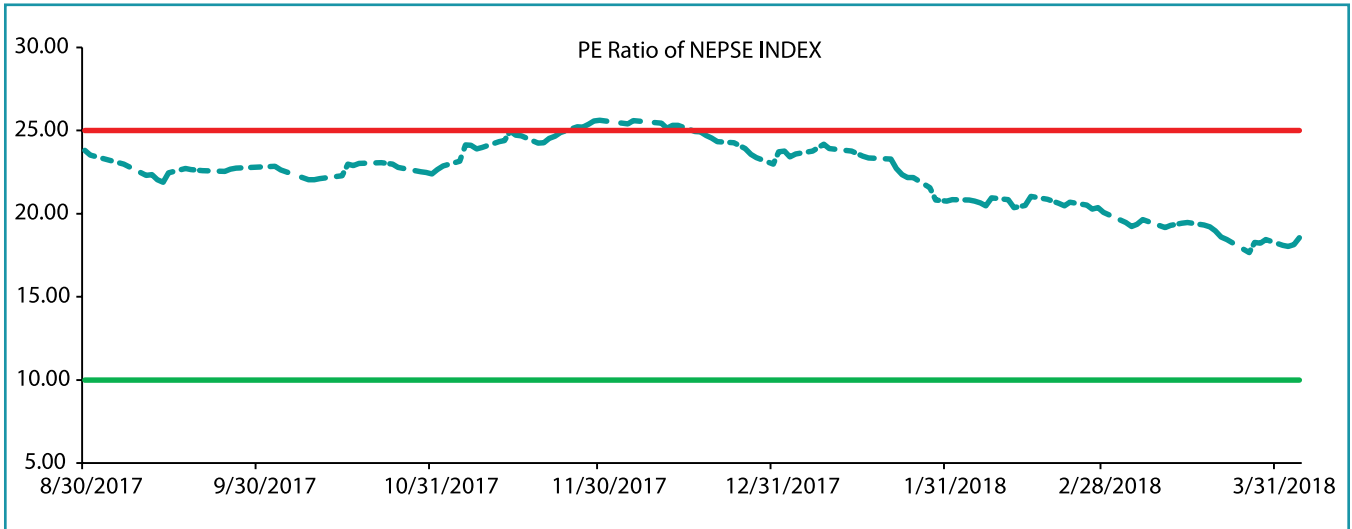


Figure 9: PE ratio of NEPSE Index since August 2017

Price to earnings (PE) is the ratio for valuing a company which measures its current share price relative to its per-share earnings. The price-earnings ratio is also sometimes known as the price multiple or the earnings multiple. PE ratio indicates in what multiple of the earnings the market participants are paying for a particular company. The same principle if applied to the overall Index gives us the Price Earnings Multiple of the NEPSE Index.

At the end of the Baishakh 2075, NEPSE was trading at PE of **21.79X** as indicated in Figure 11. The above figure shows that NEPSE traded at PE above **25X** during November 2017 after which the PE of the NEPSE Index has been on a gradual decline.

NMB CAPITAL LIMITED

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NMB Capital Ltd. Provides clients with specialized and customized portfolio management services with range of specialized investment strategies which help to capitalize the opportunities presented in the market.

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- Portfolio Management- Administration, Performance Evaluation and Analytics
- Strategy Review and Modification



Nagpokhari, Kathmandu
 Phone: 977-1-4437963
 Email: pms@nmbcl.com.np

NMB Capital Limited			
RTS List			
S. No	Symbol	Company	Sector
1	BHBL	Bhargav Bikash Bank Limited	Development Banks
2	BPCL	Butwal Power Company Limited	Hydropower
3	CFCL	Central Finance Limited	Finance
4	CBBL	Chhimek Laghubitta Bittiya Sanstha Limited	Microfinance
5	EIC	Everest Insurance Company Limited	Non-Life Insurance
6	GLICL	Guras Life Insurance Company Limited	Life Insurance
7	HGI	Himalayan General Insurance Company Limited	Non-Life Insurance
8	KMCDB	Kalika Microcredit Development Bank Limited	Microfinance
9	KSBBL	Kamana Sewa Bikas Bank Limited	Development Banks
10	NHDL	Nepal Hydro Developer Limited	Hydropower
11	NBBL	Nagbeli Laghubitta Bikash Bank Limited	Microfinance
12	NNLB	Naya Nepal Laghubitta Bikas Bank Limited	Microfinance
13	NMB	NMB Bank Limited	Commercial Bank
14	NMBHF1	NMB Hybrid Fund L- 1	Mutual Fund
15	NMBMF	NMB Microfinance Bittiya Sanstha Limited	Microfinance
16	NMBSF1	NMB Sulav Investment Fund-1	Mutual Fund
17	PICL	Prudential Insurance Company Limited	Non-Life Insurance
18	SKDBL	Saptakoshi Development Bank Limited	Development Banks
19	SIL	Siddhartha Insurance Limited	Non-Life Insurance
20	SLBBL	Swarojgar Laghubitta Bittiya Sanstha Limited	Microfinance

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CONTACT US



Nagpokhari-1, Naxal Kathmandu, Nepal
 Call Us: +977-1-4437995
 Fax: +977-1-4437960
 E-mail: info@nmbcl.com.np
 Website: www.nmbcl.com.np

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