

Nepali Stocks Short-Term Portfolio Strategy Report - May 8, 2024

This report provides precise short-term portfolio actions for selected Nepali stocks, based on the current market environment, sector-specific performance, and technical signals as of May 8, 2024. The focus is on maximizing returns while managing risk within a disciplined framework.

Summary of Recommendations

Ticker	Action	Suggested Entry/Sell Price	Time Horizon	Expected Return	Risk Level	Allocation Percentage
NABIL	Hold	N/A (Current Market Price)	Short-Term	Moderate	Medium	10-15%
GBIME	Hold	N/A (Current Market Price)	Short-Term	Moderate	Medium	5-10%
NIMB	Hold	N/A (Current Market Price)	Short-Term	Moderate	Medium	5-10%
API	Buy	Below NPR 350	Short-Term	10-15%	Medium	15-20%
AKPL	Buy	Below NPR 200	Short-Term	10-15%	Medium	10-15%
SABSL	Sell	Current Market Price	Immediate	-10% to -15%	High	0%
SAML	Sell	Current Market Price	Immediate	-10% to -15%	High	0%
NLIC	Hold	N/A (Current Market Price)	Short-Term	Moderate	Medium	5-10%
SIC	Hold	N/A (Current Market Price)	Short-Term	Moderate	Medium	5-10%

(Allocation percentages are indicative and should be adjusted based on total portfolio value and individual risk tolerance.)

Detailed Explanation of Reasoning

Banking Sector (B)

- **Overall Outlook:** The banking sector faces persistent headwinds from NRB's tight monetary policy, leading to elevated interest rates and pressure on Net Interest Margins (NIMs). While Q3 reports are out, sustained profitability across the board is challenging.
- **NABIL (Nabil Bank Ltd.):**
 - **Action:** Hold
 - **Reasoning:** NABIL is a bellwether bank with reported “stronger-than-average” Q3 performance. This suggests better management of NPLs and sustained interest income compared to peers. However, the sector's overall headwinds (high interest rates, NIM pressure) cap its short-term explosive growth potential. It is a stable performer, but waiting for definitive full-year dividend announcements (likely later in the year) is prudent before making aggressive short-term buys. Existing investors should hold, new entries should await better buying opportunities or clear dividend signals.
 - **Risk Level:** Medium – lower than average banking risk due to strong fundamentals, but still subject to macro pressures.
- **GBIME (Global IME Bank Ltd.):**
 - **Action:** Hold
 - **Reasoning:** As another large bank, GBIME's performance often reflects general sector sentiment. While its Q3 results are part of the overall picture, without specific “stronger-average” indicators, it's prudent to hold. Similar to NABIL, it faces general banking sector challenges.
 - **Risk Level:** Medium – standard banking sector risk.
- **NIMB (Nepal Investment Mega Bank Ltd.):**
 - **Action:** Hold

- **Reasoning:** Post-merger, NIMB is under scrutiny to demonstrate synergy benefits and sustained profitability. Q3 results are key to validating these expectations. Until clear evidence of robust performance and integration benefits emerges, it remains a ‘Hold’.
- **Risk Level:** Medium – merger integration can introduce temporary volatility, but underlying assets are strong.

Hydropower Sector (H)

- **Overall Outlook:** This sector is entering its peak revenue season (monsoon, starting late May/June), which typically leads to increased generation and improved financial performance in subsequent quarters. Investors often position themselves ahead of this period.
- **API (Api Power Company Ltd.):**
 - **Action:** Buy
 - **Suggested Entry Price:** Below NPR 350
 - **Time Horizon:** Short-Term (3-6 weeks)
 - **Expected Return:** 10-15%
 - **Reasoning:** API is well-positioned to benefit from the pre-monsoon buying sentiment. Increased water levels during the monsoon will directly boost its generation capacity and revenue. Additionally, project development news can provide further catalysts. Buying on minor dips (below NPR 350) offers a good entry point.
 - **Risk Level:** Medium – subject to weather patterns and regulatory changes, but current sentiment is positive.
- **AKPL (Arun Kabeli Power Ltd.):**
 - **Action:** Buy
 - **Suggested Entry Price:** Below NPR 200
 - **Time Horizon:** Short-Term (3-6 weeks)
 - **Expected Return:** 10-15%
 - **Reasoning:** AKPL mirrors API in benefiting from the seasonal tailwinds for the hydropower sector. Pre-monsoon positioning is a strong short-term catalyst. Entry below NPR 200 capitalizes on this anticipated positive sentiment.
 - **Risk Level:** Medium – similar risks to API.

Microfinance Sector (M)

- **Overall Outlook:** This sector continues to struggle under severe regulatory scrutiny, particularly concerning high Non-Performing Loans (NPLs). Q3 reports have shown elevated NPLs for many institutions, leading to sustained selling pressure.
- **SABSL (Samudayik Laghubitta Bittiya Sanstha Ltd.):**
 - **Action:** Sell
 - **Suggested Sell Target:** Current Market Price
 - **Time Horizon:** Immediate
 - **Expected Return:** -10% to -15% (Loss mitigation)
 - **Reasoning:** SABSL is specifically identified as being “under watch regarding NPL and merger activities.” This highlights significant operational and financial challenges. The sector-wide negative sentiment due to high NPLs and regulatory pressure makes this a high-risk sell candidate to mitigate further losses.
 - **Risk Level:** High – substantial downside risk due to fundamental issues.
- **SAML (Sana Kisan Laghubitta Bittiya Sanstha Ltd.):**
 - **Action:** Sell
 - **Suggested Sell Target:** Current Market Price
 - **Time Horizon:** Immediate
 - **Expected Return:** -10% to -15% (Loss mitigation)
 - **Reasoning:** As part of the highly distressed microfinance sector, SAML faces the same severe NPL challenges and regulatory scrutiny that are eroding profitability and dividend capacity across the board. Selling is advised to avoid further potential capital erosion.
 - **Risk Level:** High – high exposure to sector-wide distress.

Insurance Sector (I)

- **Overall Outlook:** The insurance sector is undergoing a period of consolidation and capital increment driven

by the Nepal Insurance Authority (NIA). Merger announcements and Q3 earnings (premium growth, claim ratios) are key drivers.

- **NLIC (Nepal Life Insurance Co. Ltd.):**

- **Action: Hold**

- **Reasoning:** NLIC is a large player in the life insurance sector. While the sector is active with consolidation, specific Q3 performance (premium growth, controlled claims) is needed to warrant an aggressive 'Buy'. Existing holdings should be maintained while monitoring further developments and full-year prospects.

- **Risk Level:** Medium – subject to competitive pressures and regulatory changes, but generally stable.

- **SIC (Shikhar Insurance Co. Ltd.):**

- **Action: Hold**

- **Reasoning:** SIC operates in the non-life insurance segment, which is also part of the consolidation drive. Similar to NLIC, a 'Hold' strategy is appropriate until stronger Q3 results or clear, positive merger-related news (e.g., favorable swap ratio) provide a definitive catalyst for short-term price appreciation.

- **Risk Level:** Medium – similar risks to NLIC.

Risk Warnings and Market Outlook

Risk Warnings:

- **Liquidity Concerns:** The NEPSE index's inconsistent volume and range-bound movement suggest that liquidity can dry up quickly, impacting entry/exit prices, especially for less traded stocks.
- **Monetary Policy Impact:** NRB's tight monetary policy directly affects borrowing costs for businesses, potentially suppressing corporate earnings across various sectors, especially highly leveraged ones.
- **Sector-Specific Risks:**
 - **Banking:** Interest rate sensitivity, NPL risk, and competition for deposits.
 - **Hydropower:** Dependence on weather patterns (monsoon), regulatory changes in PPA, and project execution risks.
 - **Microfinance:** High regulatory scrutiny, severe NPL issues, and ongoing consolidation leading to price volatility.
 - **Insurance:** Competition, claim ratios, and impact of ongoing mergers/capital increment plans.
- **Information Asymmetry:** Retail investors may have delayed access to crucial institutional activity or block deal information, which can influence short-term price movements.
- **Global Market Volatility:** While Nepali market is somewhat insulated, global economic shocks or shifts in investor sentiment could have indirect effects.

Market Outlook (Short-Term: Next 2-4 Weeks):

- **NEPSE Index:** Expect continued moderate volatility and range-bound movement (support around 1980-2000, resistance around 2080-2100). A clear breakout with high volume is needed to confirm a strong trend. The neutral RSI suggests a lack of broad market momentum, emphasizing individual stock selection over index bets.
- **Sectoral Rotation:** We anticipate some short-term rotation into sectors with immediate catalysts, such as hydropower ahead of the monsoon. The microfinance sector is expected to remain under pressure. Banking and Insurance might see selective interest based on strong Q3 reports and dividend expectations.
- **Catalyst-Driven Trades:** Focus on companies with specific positive news (e.g., project completion, strong Q3 earnings, high dividend potential, favorable merger updates) for short-term opportunities. Conversely, negative news (e.g., rising NPLs, regulatory penalties, poor earnings) should prompt immediate exits.
- **Caution Advised:** Given the overall macroeconomic environment and technical signals, a cautious approach is recommended. Investors should prioritize capital preservation and take profits at resistance levels. New investments should be made selectively, focusing on strong fundamentals and clear catalysts.

Disclaimer: Investment in the stock market involves risk, including the potential loss of principal. This report is for informational purposes only and does not constitute financial advice. Investors should conduct their own thorough due diligence, consider their personal financial situation, and consult with a qualified financial advisor before making any investment decisions. Target prices and expected returns are estimates and are not guaranteed.