

## Investment Report for Nepali Stock Market (May 2024)

### Summary of Recommendations

Stock (Ticker)	Recommendation	Suggested Entry/Sell Price (NPR)	Time Horizon	Expected Return	Risk Level	Allocation Percentage (Illustrative)
Nabil Bank (NABIL)	BUY	Below 700	Mid-Long	15-20%	Medium	25%
Himalayan Bank (HBL)	BUY	Below 250	Mid-Long	12-18%	Medium	20%
SCB Nepal (SCB)	BUY	Below 320	Mid-Long	10-15%	Low	15%
Global IME Bank (GBIME)	BUY	Below 250	Mid-Long	12-18%	Medium	20%
NLIC (Nepal Life Insurance)	HOLD	N/A	Long	8-12%	Medium	10%
UPPER (Upper Tamakoshi)	HOLD	N/A	Long	5-10%	Medium	5%
MBJCL (Madhya Bhotekoshi)	HOLD	N/A	Long	5-10%	High	0% (Avoid new entry)
UNHPL (Union Hydropower)	HOLD	N/A	Mid	0-5%	Medium	0% (Avoid new entry)
SIC (Shikhar Insurance)	HOLD	N/A	Mid-Long	7-10%	Medium	5%

### Detailed Explanation of Reasoning

The Nepali stock market, particularly the NEPSE index, is currently exhibiting cautious optimism, hovering around 2000-2100 points. Key drivers for this sentiment are improved banking liquidity, anticipation of interest rate cuts from Nepal Rastra Bank (NRB), and the release of Q3 FY 2080/81 earnings. Our strategy focuses on capitalizing on these macro and micro-level indicators by pri-

oritizing fundamentally strong companies, especially within the banking sector, which is showing resilience and potential for sustained growth.

#### **BUY Recommendations:**

##### **1. Nabil Bank Ltd. (NABIL)**

- **Reasoning:** NABIL continues to be a top-tier performer in the banking sector, reflected in its consistently strong Q3 earnings. As a bellwether, its performance is indicative of sector health. The banking sector is poised to benefit significantly from improving liquidity and potential interest rate cuts, which can reduce funding costs and stimulate credit demand. Technically, the banking sub-index is showing strength, and NABIL, being a leader, is likely to lead any upward movement. It consistently offers good dividend potential, attracting long-term investors.
- **Suggested Entry Price:** A dip below NPR 700 would present an attractive entry point, though accumulating at current levels (around NPR 710-730) for a mid-to-long term horizon is also viable given the positive outlook.
- **Time Horizon:** Mid-Long Term (6-18 months)
- **Expected Return:** 15-20% driven by capital appreciation and potential dividends.
- **Risk Level:** Medium – While strong, banking stocks are still subject to market volatility and regulatory changes.

##### **2. Himalayan Bank Ltd. (HBL)**

- **Reasoning:** HBL has demonstrated competitive growth in Q3, maintaining a strong market position. It benefits from the same positive macroeconomic tailwinds affecting the banking sector: improved liquidity and potential interest rate reductions. Its fundamental strength and market standing make it a solid choice for investors looking for exposure to the banking sector without taking on excessive risk.
- **Suggested Entry Price:** Entry below NPR 250 would be ideal. Current levels (around NPR 255-265) are still attractive for accumulation.
- **Time Horizon:** Mid-Long Term (6-18 months)
- **Expected Return:** 12-18% from capital gains and dividends.
- **Risk Level:** Medium – Similar to NABIL, but perhaps with slightly less market-leading momentum.

##### **3. Standard Chartered Bank Nepal Ltd. (SCB)**

- **Reasoning:** SCB is known for its conservative approach, strong corporate governance, and stable, albeit sometimes slower, performance. Its Q3 results indicate continued stability. For investors prioritizing safety and consistent returns over aggressive growth, SCB is an excellent choice. It benefits from the broader positive banking sector outlook and offers consistent dividend prospects, making it a good defensive play within the sector.

- **Suggested Entry Price:** An entry below NPR 320 is recommended. Given its stability, accumulating at current levels (around NPR 325-335) is also reasonable for long-term holders.
  - **Time Horizon:** Mid-Long Term (6-18 months)
  - **Expected Return:** 10-15% mainly from stability and dividends.
  - **Risk Level:** Low – Due to its conservative nature and strong financial standing.
4. **Global IME Bank Ltd. (GBIME)**
- **Reasoning:** As one of Nepal’s largest and most diversified banks, GBIME reported healthy Q3 growth, reinforcing its strong market presence. Its robust portfolio management and extensive network position it well to capitalize on improving sector conditions and potential monetary easing. GBIME’s size and diversification offer a degree of resilience against specific localized risks.
  - **Suggested Entry Price:** Buying opportunities below NPR 250 are considered strong. Current trading range (around NPR 255-265) offers good value for a mid-to-long-term hold.
  - **Time Horizon:** Mid-Long Term (6-18 months)
  - **Expected Return:** 12-18% through capital appreciation and dividends.
  - **Risk Level:** Medium – Large banks have systemic risks, but GBIME’s diversification mitigates some.

#### **HOLD Recommendations:**

1. **Nepal Life Insurance Co. Ltd. (NLIC)**
  - **Reasoning:** NLIC, as the largest life insurer, consistently demonstrates market leadership. While Q3 results show continued performance, the overall insurance sector is grappling with regulatory challenges and increased competition. Existing holders should continue to hold for long-term stability and potential growth as the market matures, but new entries are not recommended at this time due to sector-wide headwinds potentially capping short-term appreciation.
  - **Time Horizon:** Long Term (12+ months)
  - **Expected Return:** 8-12%
  - **Risk Level:** Medium – Subject to regulatory changes and competitive pressures.
2. **Upper Tamakoshi Hydropower Ltd. (UPPER)**
  - **Reasoning:** A significant national project, but its performance remains closely tied to achieving full operational capacity and effective debt management. Q3 results in the hydropower sector were mixed. While there’s long-term potential for a major project of this scale, current efficiency and debt concerns warrant a ‘Hold’ rather than a ‘Buy’. Existing investors should monitor these factors closely.
  - **Time Horizon:** Long Term (12+ months)
  - **Expected Return:** 5-10%
  - **Risk Level:** Medium – Operational risks, debt burden, and reliance

on seasonal factors.

3. **Madhya Bhotekoshi Jalavidyut Company Ltd. (MBJCL)**

- **Reasoning:** This is a relatively new IPO, currently in the construction phase. Its generation potential is high but entirely future-dependent, with no current operational earnings. It carries significant project completion and debt burden risks. It is only suitable for very long-term investors with a high-risk tolerance. For most portfolios, avoiding new entry is advised until the project becomes fully operational and generates consistent revenue.
- **Time Horizon:** Long Term (24+ months)
- **Expected Return:** 5-10% (highly speculative)
- **Risk Level:** High – Purely a development-stage company.

4. **Union Hydropower Company Ltd. (UNHPL)**

- **Reasoning:** UNHPL is an operational hydropower project, but its stability in generation and earnings is crucial. The overall hydropower sector has mixed Q3 results and is subject to seasonal water flows. There is limited significant upside potential in the short term unless there's a dramatic improvement in sector sentiment or specific company performance. Existing holders should monitor for consistent earnings.
- **Time Horizon:** Mid Term (6-12 months)
- **Expected Return:** 0-5%
- **Risk Level:** Medium – Subject to operational and environmental factors.

5. **Shikhar Insurance Co. Ltd. (SIC)**

- **Reasoning:** As a prominent non-life insurer, SIC's financial stability is key. Similar to NLIC, it is navigating regulatory pressures and increasing competition within the insurance sector. While stable, the potential for significant short-term appreciation is limited due to these sector-wide challenges. Existing holders should maintain their position.
- **Time Horizon:** Mid-Long Term (6-18 months)
- **Expected Return:** 7-10%
- **Risk Level:** Medium – Subject to regulatory shifts and claims ratios.

## **Risk Warnings and Market Outlook**

### **General Market Risks:**

- **Political Instability:** Nepal's political landscape can be volatile, potentially impacting investor confidence and economic policy.
- **Regulatory Changes:** Sudden shifts in policies from NRB, the Nepal Insurance Authority, or other government bodies can significantly affect sector profitability.
- **Liquidity Squeeze:** While currently improving, liquidity issues can reappear, leading to higher interest rates and reduced credit growth, negatively impacting bank earnings and overall market sentiment.

- **Global Economic Slowdown:** A slowdown in global economies could impact remittance inflows, which are crucial for Nepal's economy.
- **Natural Disasters:** Nepal is prone to natural disasters, which can disrupt economic activity and impact specific sectors.
- **Information Asymmetry:** The Nepali market may suffer from less transparent and readily available information compared to more developed markets.

#### **Specific Sector Risks:**

- **Banking:** While currently favored, banks are exposed to credit risk (NPLs), interest rate risk, and fierce competition.
- **Hydropower:** High dependency on seasonal water flow, project completion risks, debt burdens, and long gestation periods.
- **Insurance:** Vulnerability to claim ratios, intense competition, and regulatory scrutiny on premium rates and capital requirements.
- **Microfinance:** High NPLs remain a significant concern, coupled with regulatory pressure on interest rates and operational reach. (None recommended for Buy due to this high risk).

#### **Market Outlook:**

The near-term outlook for the Nepali stock market is cautiously optimistic. The expectation of monetary policy easing and improving liquidity provides a positive backdrop, especially for the banking sector. The upcoming federal budget (FY 2081/82) will be a critical event, and any favorable policies for key sectors could provide further impetus.

Technically, NEPSE is attempting to break resistance, and a sustained move above 2100-2150 with strong volume would confirm a more robust bullish trend. Investors should prioritize fundamentally strong companies with good Q3 results and a consistent dividend history. Diversification across strong sectors, primarily commercial banks at this juncture, is recommended to mitigate risks. Continuous monitoring of macroeconomic indicators, regulatory announcements, and company-specific news is essential.