

Thursday, October 25, 2018 | special comment

Bank Millennium – Results as expected

Rating: reduce | target price: PLN 8.40 | current price: PLN 8.74

MIL PW; MILP.WA | Banks, Poland

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- **Net profit** of Bank Millennium stood at PLN 200.2 million, up by 3.9% quarter on quarter and 6.8% year on year.
- **Net profit matched the consensus** and was slightly above our forecast of PLN 195.8 million. Worse-than-expected net commission income and costs were offset by a somewhat better net interest income, the provisions balance and a lower banking tax. Bank Millennium also surprised us with its net trading income, which exceeded our forecast by nearly PLN 10 million.
- **Net loans rose by 1.3% quarter on quarter and 6.3% year on year**, which, in our opinion, is below the market's expectations. The bank reported a slight increase in the mortgage loans volume (+1.0% quarter on quarter) and more dynamic growth in other retail segments (+4.3% quarter on quarter). In Q3 2018, sales of mortgage loans fell by 4% quarter on quarter and sales of cash loans by 1% quarter on quarter. Corporate loans remained stable.
- In Q3 2018, **interest margin** went up by as much as 12 bps quarter on quarter (in relation to average interest-earning assets), hitting 2.54%. This hiked the net interest income by 5.1% quarter on quarter and 5.6% year on year, which was slightly above the consensus. In Q3 2018, interest costs grew at a slower pace of +0.3% quarter on quarter and 5.4% year on year (+1.4% quarter on quarter and 6.5% year on year in Q2 2018).
- **Net commission income** went down by 0.7% quarter on quarter and 1.6% year on year. The most significant decrease in this category occurred in capital market commissions, which dropped by 6.2% quarter on quarter and 12.1% year on year. On the other hand, the bank saw a substantial increase in card commissions (up by 11.2% quarter on quarter) and commissions on insurance product sales (up by 2.8% quarter on quarter).
- **Operating expenses** rose by 4.6% on the quarter before and 8.8% year on year. The quarterly increase in operating expenses was mainly driven by the costs of consulting services (up by 20% quarter on quarter, most likely attributable to the takeover of Eurobank), other overhead costs (up by 100% quarter on quarter) and Bank Guarantee Fund costs (up by 19.5% quarter on quarter). Staff-related expenses went up by 1.5% quarter on quarter and 8% year on year.
- In Q3 2018, the bank saw a 5.0% quarter-on-quarter increase in the **balance of provisions** (which at the same time went down by 17% year on year), but at 44 bps the costs of risk remained virtually unchanged.
- **The Tier 1 and TCR ratios** stood at 20.9% and 22.9% respectively. The bank did not rule out bond issues.
- **We expect a neutral market reaction to the Q3 2018 results. On the positive side, there was a 12 bps increase in the interest margin. What disappoints us is the poor rise in credit volumes throughout the quarter. The faster year-on-year growth in staff-related expenses (up by 8% year on year) is also worrisome. In our opinion, Bank Millennium does not fulfil the KNF's requirements for dividend payment for now, but this may change when the net profit is included in capital or if the stress test buffer is lowered as a result of EBA tests. The results for the nine months of 2018 make up 73% of the market's forecast for the whole year and 75% of ours. In our opinion, the net profit for Q4 may go down compared with Q3, which already happened in the past.**

Earning conference details:

Date: 25 October 2018

Time: 2:00 p.m.

Venue: Stanisława Żaryna 2A, Warszawa

Conference call: +48 22 541 28 28; Pin: 435672

Webcast: <http://infostrefa.tv/millennium/pl>

Q3 2018 results

(PLN m)	Q3'17	Q2'18	Q3'18	Y/Y	Q/Q
Net interest income	438.3	440.5	463.0	5.6	5.1
Fee income	165.5	164.1	162.9	-1.6	-0.7
Trading income	53.0	66.2	64.2	21.3	-2.9
Other	20.9	11.2	9.7	-53.4	-12.7
Non-interest income	239.4	241.4	236.9	-1.1	-1.9
Total income	677.7	682.0	699.9	3.3	2.6
Operating costs	290.5	302.0	316.0	8.8	4.6
Other costs	20.1	16.1	13.1	-34.7	-18.7
Total costs	310.6	318.1	329.1	6.0	3.5
Operating income	367.1	363.8	370.7	1.0	1.9
Provisioning	69.7	55.2	58.0	-16.8	5.0
Equity in profits/losses of associates	0.0	0.0	0.0	n.m.	n.m.
Pre-tax income	297.4	308.6	312.8	5.2	1.3
Tax	63.6	67.5	64.7	1.9	-4.1
Net income	233.9	241.1	248.1	6.1	2.9
Asset tax	46.4	48.5	47.9	3.2	-1.3
Net income after asset tax	187.5	192.7	200.2	6.8	3.9

Source: Millennium, E - estimates by Dom Maklerski mBanku

Q3 2018 actuals vs. expectations

(PLN m)	Q3'18	consensus	differ.	Q3'18E	differ.
Net interest income	463.0	457.2	1.3%	451.0	2.7%
Fee income	162.9	166.4	-2.1%	170.6	-4.5%
Operating costs	-316.0	-306.7	3.0%	-302.3	4.5%
Provisioning	-58.0	-60.9	-4.8%	-54.6	6.1%
Net profit	200.2	199.2	0.5%	195.8	2.2%

Source: Millennium, E - estimates by Dom Maklerski mBanku; Consensus estimates provided by PAP

List of abbreviations and ratios contained in the report.

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/ EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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