

Monday, February 03, 2020 | special comment

## Bank Millennium – Preliminary 2019 Q4 Results

Rating: hold | target price: 5.47 PLN | current price: 5.94 PLN

**MIL PW; MILP.WA | Banks, Poland**

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- Millennium generated **net income** of PLN 27.0m in Q4 2019 according to today's earnings release, representing an 87% fall from the previous quarter and the comparable year-ago period.
- The bottom-line figure **fell short of the average market estimate** (PLN 50.1m) and our PLN 78.0m forecast a substantial miss caused by a PLN 223m actual CHF loan write-off versus the Bank's earlier warning about a PLN 150m charge. After the original write-off the quarterly net income would be PLN 100m.
- Millennium recognized post-merger **integration costs of PLN 52.3m in Q4** (vs. PLN 60m expected), with the 2019 FY costs estimated at PLN 80m w 2020, and the total costs currently expected to come in below PLN 300m.
- Net loans remained stable** in Q4 relative to the previous quarter. Retail loan decreased 0.2% Q/Q, but corporate loans increased 1.7%. Sales of mortgages and leases were up in Q4, while sales of payday loans were down 2%.
- Net interest income** rebounded at a rate of 1% relative to Q3 and 43% year-over-year (an increase owed to the consolidation of EB), landing just 1% below the consensus estimate and matching our forecast. This after a charge against NII related to potential future cost refunds to early loan payers, which, we are guessing is calculated using the effective interest rate method.
- Fee income** expanded by 2% Q/Q and 13% Y/Y, supported by Eurobank contributions, with the quarter-on-quarter growth led mainly by higher loan fees (+12%) while account fees fell 7% and investment fund fees declined 6%.
- Operating expenses** went up by 2% Q/Q and 53% Y/Y due to the Eurobank merger and its subsequent integration, with the related costs increasing to PLN 52.3m in Q4, less than forecast by us, from PLN 44.3m in Q3 and PLN 17.8m in Q2. Other opex also included the PLN 223m reserve for the potential early loan fee refunds.
- Provisioning** decreased by 44% q/q in Q4, and the ending balance turned out 44% lower than forecast by the market and 35% lower than expected by us.
- The **Total Capital Ratio** (incl. net income in the amount of PLN 334m) as of 31 December 2019 was 20.1%, and the **Tier 1 ratio** stood at 16.9%.
- We have a neutral view on Millennium's fourth-quarter performance. If we factor out CHF loan risk, we believe the Bank can fulfill our earnings expectations for 2020. We do think the provisioning and costs reported in 2019 are suspiciously low, and that the effective-interest-rate approach to calculating loan refunds might be a source of additional charges in the year ahead. We currently have a hold recommendation for MIL.**

### Q4 Earnings Conference Details:

Date: 3 February 2020

Time: 2:00 p.m. (CET)

Venue: Warsaw, ul. Stanisława Żaryna 2A

Webcast link: <http://infostrefa.tv/millennium/en>

### Preliminary 2019 Q4 results

(PLN m)	4Q'18	3Q'19	4Q'19	Y/Y	Q/Q
<b>Net interest income</b>	<b>485.7</b>	<b>687.6</b>	<b>692.8</b>	<b>42.7</b>	<b>0.8</b>
Fee income	161.6	178.3	182.6	13.0	2.4
Trading income	65.1	113.9	90.0	38.2	-21.1
Other income	16.1	28.5	17.5	8.5	-38.7
<b>Non-interest income</b>	<b>242.8</b>	<b>320.7</b>	<b>290.1</b>	<b>19.5</b>	<b>-9.6</b>
<b>Total income</b>	<b>728.4</b>	<b>1 008.3</b>	<b>982.9</b>	<b>34.9</b>	<b>-2.5</b>
Operating expenses	319.8	480.1	490.0	53.2	2.1
Other costs	19.7	56.9	254.3	1194.2	347.0
<b>Total costs</b>	<b>339.4</b>	<b>537.0</b>	<b>744.3</b>	<b>119.3</b>	<b>38.6</b>
<b>Operating income</b>	<b>389.0</b>	<b>471.3</b>	<b>238.6</b>	<b>-38.7</b>	<b>-49.4</b>
Provisions	58.4	133.8	70.0	19.7	-47.7
Equity in profits/losses of associates	0.0	0.0	0.0	n.m.	n.m.
<b>Pre-tax income</b>	<b>330.6</b>	<b>337.5</b>	<b>168.6</b>	<b>-49.0</b>	<b>-50.0</b>
Tax	68.1	68.5	72.5	6.5	5.8
<b>Net income</b>	<b>262.5</b>	<b>269.0</b>	<b>96.1</b>	<b>-63.4</b>	<b>-64.3</b>
Bank tax	50.0	68.8	69.1	38.4	0.4
<b>Net income after bank tax</b>	<b>212.5</b>	<b>200.1</b>	<b>27.0</b>	<b>-87.3</b>	<b>-86.5</b>

Source: Millennium, mBank, PAP

**2019 Q4 preliminaries vs. expectations**

(PLN m)	4Q'19	Consensus	differ.	mBank	differ.
Net interest income	692.8	699.8	-1.0%	691.9	0.1%
Fee income	182.6	178.0	2.6%	181.7	0.5%
Operating expenses	-490.0	-501.6	-2.3%	-501.7	-2.3%
Provisioning	-70.0	-123.8	-43.5%	-107.4	-34.9%
Net income	27.0	50.1	-46.2%	78.0	-65.4%

Source: Millennium, mBank, 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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**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
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**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.



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