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## Millennium – Forecast of 2020 Q3 Results

Rating: buy | target price: PLN 3.72 | current price: PLN 2.67

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- At an estimated PLN 76.3m, the 2020 third-quarter **net income** of Millennium is expected to show a 62% decrease from the same period a year earlier, but relative to the previous quarter there is likely to be a 42% rebound.
- One-time charges in Q3 will have included **provisions** for CHF loan losses (PLN 110m) and for COVID-19 risks (PLN 20m).
- Net interest income** is expected to be 10.9% lower than the year before at PLN 612.6m, but relative to Q3 2019 it will probably decline by 2.4%, implying a reduction of 6bp in net interest margin to 2.39%.
- We expect stable **fee income** compared to Q2 on more transactions on the one hand and lower loan originations on the other.
- Costs are expected to be again reduced by 14.8% Y/Y.
- At PLN 271.7m, risk reserves will be flat at the level reported the quarter before, and they will be 103% higher than in Q3 2019. This after PLN 110m additional provisions for CHF court cases, and PLN 20m set aside for losses on loans no longer protected by COVID-19 moratoria. Otherwise, the quality of Millennium's loan portfolio is not likely to have deteriorated much vis-a-vis comparable periods.
- NIM is expected to have reached bottom in Q3 under pressure from all the 2020 interest rate cuts. We see more room for improvement in NII going forward. Millennium is working to accelerate synergies and keep reducing costs. We assume the same size of third-quarter CHF loan loss provisioning as in Q2 and we assume these charges are here to stay for the foreseeable future. Any COVID-19 provisioning is a precaution at this is point rather than a reflection of an actual rise in bad debts.**

### 2020 Q3 estimates vs. prior periods

(PLN m)	3Q'19	2Q'20	3Q'20	Y/Y	Q/Q
<b>Net interest income</b>	<b>687.6</b>	<b>627.5</b>	<b>612.6</b>	<b>-10.9</b>	<b>-2.4</b>
Fee income	178.3	179.0	177.7	-0.3	-0.7
Trading income	113.9	92.5	76.8	-32.6	-17.0
Other income	28.5	52.1	47.6	67.4	-8.5
<b>Non-interest income</b>	<b>320.7</b>	<b>323.6</b>	<b>302.1</b>	<b>-5.8</b>	<b>-6.6</b>
<b>Total income</b>	<b>1,008.3</b>	<b>951.1</b>	<b>914.7</b>	<b>-9.3</b>	<b>-3.8</b>
Operating expenses	480.1	405.1	409.2	-14.8	1.0
Other costs	56.9	97.0	52.0	-8.6	-46.4
<b>Total costs</b>	<b>537.0</b>	<b>502.1</b>	<b>461.2</b>	<b>-14.1</b>	<b>-8.2</b>
<b>Operating income</b>	<b>471.3</b>	<b>448.9</b>	<b>453.5</b>	<b>-3.8</b>	<b>1.0</b>
Provisions	133.8	272.3	271.7	103.1	-0.2
Equity in profits/losses of associates	0.0	0.0	0.0	n.m.	n.m.
<b>Pre-tax income</b>	<b>337.5</b>	<b>176.6</b>	<b>181.8</b>	<b>-46.1</b>	<b>3.0</b>
Tax	68.5	54.5	36.4	-46.9	-33.3
<b>Net income</b>	<b>269.0</b>	<b>122.0</b>	<b>145.4</b>	<b>-45.9</b>	<b>19.2</b>
Bank tax	68.8	68.4	69.1	0.4	1.0
<b>Net income after bank tax</b>	<b>200.1</b>	<b>53.6</b>	<b>76.3</b>	<b>-61.9</b>	<b>42.5</b>

Source: Bank Millennium, E - estimates by mBank

**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

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**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market

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