

Preview Note

19 July 2017

Buy

Recommendation unchanged

Share price: EUR 0.25

closing price as of 18/07/2017

Target price: EUR 0.26

Target Price unchanged

Upside/Downside Potential 3.6%

Reuters/Bloomberg BCP.LS/BCP.PL

Market capitalisation (EURm) 3,794

Current N° of shares (m) 15,114

Free float 57%

Daily avg. no. trad. sh. 12 mth 49,587

Daily avg. trad. vol. 12 mth (m) 16,380.70

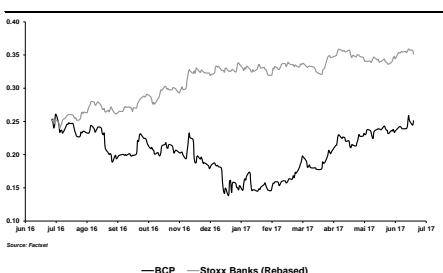
Price high/low 12 months 0.14 / 0.26

Abs Perfs 1/3/12 mths (%) 5.68/40.62/1.20

Key financials (EUR)	12/16	12/17e	12/18e
Total Revenue (m)	2,016	2,062	2,159
Pre-Provision Profit (PPP) (m)	755	947	1,126
Operating profit (OP)	-362	308	680
Earnings Before Tax (m)	-281	388	763
Net Profit (adj.) (m)	24	193	462
Shareholders Equity (m)	4,382	5,924	6,386
Tangible BV (m)	4,306	5,736	5,865
RWA (m)	39,160	40,189	41,056
ROTE	0.6%	3.3%	7.4%
Total Capital Ratio (B3)	13.4%	14.0%	13.6%
Cost/Income	38.7%	47.1%	45.5%
Price/Pre-Prov Prof	3.7	4.0	3.4
P/E (adj.)	nm	19.7	8.2
P/BV	0.6	0.6	0.6
P/TBV	0.6	0.6	0.6
Dividend Yield	0.0%	0.0%	0.0%
Pre-Prov Prof per share	0.05	0.06	0.07
EPS (adj.)	0.00	0.01	0.03
BVPS	0.29	0.39	0.42
TBVPS	0.29	0.39	0.42
DPS	0.00	0.00	0.00

Shareholders

Fosun 24%; Sonangol 15%; EDP Group 2%;

**Analyst(s)**

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2Q17 Preview: No news is good news. On the way to normalization.

The facts: Millennium BCP will publish its 2Q17 results on Thursday, 27 July, after the market close. CC will take place on Friday, 28 July, at 15:00 (Local time).

Our analysis: We forecast a consolidated net profit of EUR 22.6m in 2Q17 vs. a loss of EUR 243.9m in 2Q16 and a net profit of EUR 50.1m in 1Q17 (-54.9% QoQ).

We highlight that our estimates incorporate a cost of around EUR 60m in 2Q17 related to the contribution over the banking sector in Portugal and also to the contribution to the National and the European resolution mechanisms (operating charges) that are usually booked on a yearly basis in each second quarter.

The net interest income (NII) should maintain the positive trend of the last quarters with a 2.9% QoQ growth to EUR 342m (+10.9% YoY) as the cost of term deposits should continue to decrease in Portugal. Moreover, and in a QoQ comparison, the bank will also benefit from the reimbursement of the EUR 700m of CoCo bonds to the Portuguese State (already concluded in February 2017).

Commissions should increase 1.8% QoQ and 4.7% YoY to EUR 163.8m while trading results should be close to EUR 44.9m supported by gains on the portfolio of sovereign debt, namely Portuguese bonds.

Operating costs should increase by only 0.7% YoY to EUR 242.6m with an growth of 1.7% YoY in staff costs to EUR 137.6m and a 0.9% YoY drop in other administrative expenses to EUR 92.2m. In this context, operating profit is seen at EUR 239.7m (-21.8% YoY). The reversal of some cuts in salaries applied when the bank asked for the CoCo bonds will now have an annual impact of EUR 16m from 1 July onwards. In any case, this is expected to be compensated by other savings.

Loan impairments are seen at EUR 156.7m equivalent to a cost of risk of 120bps. We also anticipate a reinforcement of "other impairments" with a total cost of EUR 42.5m in the quarter. We recall that the cost of credit risk stood at 114bps in 1Q17, in a context of a very low level of NPL formation (net new entries in NPL in Portugal were at EUR 21m in 1Q17 vs. EUR 126.8m in 1Q16 and EUR 218.2m in 1Q15).

Asset quality - This is a crucial variable to be monitored in the quarter. BCP should present a progress in this area and the target of reducing its stock of Non-performing exposures (NPEs) by EUR 1bn in 2017 will be reiterated. We highlight that NPEs were down to EUR 9.2bn in 1Q17 (vs. EUR 9.4bn by YE16). The coverage of those NPEs was at 99% (including loan-loss reserves, expected loss gap and other financial collaterals).

Concerns removed on capital - By the end of March 2017 the bank reported a CET 1 ratio of 11.2% (fully implemented) and 13% (phased-in). No main changes expected in the quarter.

Conclusion & Action: We expect the main variables to maintain a sound evolution in 2Q17. This should be visible in the growth of core revenues (NII and commissions) and the reduction of the cost of credit risk and the stock of NPEs. Overall, no news is good news at this stage.

The stock is trading with a P/B 2018e of c. 0.6x vs. an ROE of around 8% for 2018e. The restructuring in Portugal with a gradual normalization of the P&L account should continue in the next quarters with a forecasted pre-provisioning profit above EUR 1bn in 2018. **For details see our Flash Note: "Roadshow with the company in Milan – Feedback" published on 10 July 2017.**

Exhibit 1 – Income statement forecasts

	Quarterly					Accumulated		
	2Q17e	1Q17	Δ QoQ	2Q16	Δ YoY	1H17e	1H16	Δ YoY
Net interest income (narrow sense)	342.0	332.3	2.9%	308.4	10.9%	674.3	600.8	12.2%
Dividends from securities	3.9	.1	n.m.	3.8	5.0%	4.0	5.8	-30.3%
Net interest income	346.0	332.4	4.1%	312.2	10.8%	678.4	606.6	11.8%
Commissions and similar income (net)	163.8	160.8	1.8%	156.4	4.7%	324.6	320.3	1.3%
Gains and losses in financial operations	44.9	36.4	23.6%	154.5	-70.9%	81.3	182.8	-55.5%
Operating income and charges	(72.4)	(15.2)	n.m.	(75.6)	-4.3%	(87.5)	(88.1)	-0.6%
Net operating income from banking	482.3	514.4	-6.2%	547.4	-11.9%	996.7	1,021.7	-2.4%
Personnel costs	(137.6)	(136.9)	0.5%	(135.2)	1.7%	(274.5)	(273.7)	0.3%
Other administrative expenses	(92.2)	(88.7)	4.0%	(93.1)	-0.9%	(180.9)	(184.9)	-2.2%
Depreciation of fixed assets	(12.8)	(12.7)	0.5%	(12.7)	1.1%	(25.5)	(25.5)	0.2%
Total Expenses	(242.6)	(238.3)	1.8%	(241.0)	0.7%	(480.9)	(484.1)	-0.7%
Operating profit before provisions	239.7	276.1	-13.2%	306.5	-21.8%	515.8	537.7	-4.1%
Equity-accounted results of subsidiaries	19.8	19.6	1.0%	23.8	-16.9%	39.5	37.7	4.6%
Loan provisions and impairments (net)	(156.7)	(148.9)	5.3%	(458.0)	-65.8%	(305.6)	(618.7)	-50.6%
Other impairments and provisions	(42.5)	(54.3)	-21.8%	(182.6)	-76.7%	(96.8)	(198.0)	-51.1%
Profits before taxes	60.3	92.5	-34.8%	(310.3)	n.m.	152.8	(241.3)	-163.4%
Corporate income tax	(16.6)	(19.1)	-13.2%	93.3	n.m.	(35.7)	78.3	n.m.
Discontinued operations	-	-	n.m.	16.2	n.m.	-	45.2	n.m.
Minority shareholders' share of profit	(21.1)	(23.3)	-9.4%	(43.1)	-51.1%	(44.4)	(79.5)	-44.1%
Net Profit (reported)	22.6	50.1	-54.9%	(243.9)	n.m.	72.7	(197.3)	n.m.

Source: Millennium BCP and CaixaBI Equity Research. Amounts expressed in EURm.

Exhibit 2 – Key data and ratios

	2Q17e	1Q17	2Q16	Chg. QoQ	Chg. YoY
Balance Sheet key data:					
Loans to clients (net)	48,291	48,534	49,186	-0.50%	-1.82%
RWA	38,498	38,764	38,442	-0.69%	0.15%
Total Assets	72,306	72,077	73,068	0.32%	-1.04%
Customer Deposits	50,388	50,138	48,762	0.50%	3.33%
Balance Sheet key ratios:					
NPL > 90 days / Loans to clients (gross)	9.58%	9.59%	7.54%		
Coverage of NPL (>90days)	76.5%	74.0%	93.9%		
Credit at risk ratio	15.3%	15.3%	12.0%		
Coverage of credit at risk ratio	48.0%	46.4%	58.9%		
Cost of credit risk (bps)*	117	114	234		
Cost-to-income ratio (Notice 16/2004 BoP)	46.4%	44.6%	45.7%		
Loans (net) to Deposits Ratio	95.8%	96.8%	100.9%		
Core TIER I (Basel III Phasing in)	13.0%	13.0%	12.2%		
Core TIER I (Basel III FL)	11.2%	11.2%	9.6%		

* Accumulated figure. Net of recoveries, as a % of gross loans (cost of risk of 120bps in 2Q17e).

Source: Millennium BCP and CaixaBI Equity Research. Amounts expressed in EURm.

BCP : Summary tables

PROFIT & LOSS (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Net Interest Income	848	1,116	1,191	1,230	1,344	1,403
Commissions	663	681	660	644	653	671
Trading income	264	442	539	240	160	174
Dividends	3.7	5.9	9.7	7.7	6.0	6.4
Other Operating Income	-71.9	11.4	-120	-106	-101	-95.3
Non-Interest Income	859	1,140	1,089	786	718	756
Total Income from Banking Business	1,707	2,257	2,280	2,016	2,062	2,159
Revenues from Insurance Business	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenue	1,707	2,257	2,280	2,016	2,062	2,159
Operating Costs	-1,295	-1,150	-1,017	-780	-971	-983
-of which Personnel Expenses	-767	-636	-574	-357	-550	-555
Other Operating Provisions	-466	-209	-160	-481	-144	-49.9
Pre-Provision Profit (PPP)	-54.0	898	1,103	755	947	1,126
Loan Impairment Charge (LIC)	-821	-1,107	-818	-1,117	-638	-446
Operating profit (OP)	-875	-209	285	-362	308	680
Associates	62.3	36.0	23.5	80.5	79.7	82.9
Other Income/Loss(Exceptional)	0.0	0.0	0.0	0.0	0.0	0.0
Results from Financial Investments	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Tax (EBT)	-813	-173	308	-281	388	763
Tax	211	97.7	-37.7	382	-100	-210
<i>Tax rate</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>
Discontinued Operations	-45.0	-40.8	90.3	45.2	0.0	0.0
Minorities	-93.7	-110	-126	-122	-95.0	-91.6
Preference Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit (Reported)	-740	-227	235	23.9	193	462
Earnings Before Tax (Adj.) (1)	-813	-173	308	-281	388	763
Net Profit (Adj.)	-740	-227	235	23.9	193	462

BALANCE SHEET (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Due from Banks	5,234	3,959	3,538	3,079	4,162	5,313
Customer Loans	56,802	53,686	51,970	48,018	48,291	48,775
Securities	13,890	12,360	12,688	12,380	12,429	12,547
Interest Earning Assets (IEA)	75,927	70,005	68,196	63,477	64,882	66,635
Unit Linked Investments	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	6,080	6,356	6,688	7,788	7,929	8,073
Total Assets	82,007	76,361	74,885	71,265	72,811	74,707
Due to Banks	13,493	10,966	8,591	9,938	9,353	9,617
Customer Deposits	48,960	49,817	51,539	48,798	50,893	51,919
Bonds & Debt Capital	14,642	8,688	7,137	5,605	3,973	3,972
Technical Provisions Insurance (Life and Non-Life)	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities	1,637	1,903	1,938	1,659	1,642	1,698
Shareholders Equity	2,583	4,213	4,623	4,382	5,924	6,386
Minorities Equity	693	774	1,057	883	1,025	1,117
Total Liabilities	82,007	76,361	74,885	71,265	72,811	74,707
Tangible Book Value (2)	2,737	3,467	4,345	4,306	5,736	5,865

REGULATORY CAPITAL (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Risk Weighted Assets	43,926	43,515	43,271	39,160	40,189	41,056
CT1 ratio (B3 fully loaded)		7.8%	10.2%	9.6%	12.0%	11.7%
CT1 ratio (B3 phased-in)		11.7%	13.3%	12.4%	13.0%	12.6%
Total Capital Ratio (B3)	13.7%	13.3%	14.4%	13.4%	14.0%	13.6%
Leverage Ratio (fully loaded)						
<i>Tangible equity as % of Assets</i>	<i>3.3%</i>	<i>4.5%</i>	<i>5.8%</i>	<i>6.0%</i>	<i>7.9%</i>	<i>7.9%</i>

BCP : Summary tables

GROWTH RATES %	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Revenue Growth	-16.6%	32.2%	1.0%	-11.6%	2.3%	4.7%
Operating Cost Growth	-2.0%	-11.2%	-11.5%	-23.3%	24.5%	1.2%
Interest Income Growth	-15.0%	31.6%	6.7%	3.3%	9.3%	4.4%
Non Interest Income Growth	-18.0%	32.8%	-4.5%	-27.8%	-8.7%	5.4%
Pre-Provision Profit Growth	n.m.	n.m.	22.8%	-31.5%	25.4%	19.0%
Customer Loan Growth	-9.3%	-5.5%	-3.2%	-7.6%	0.6%	1.0%
Deposits Growth	-0.9%	1.8%	3.5%	-5.3%	4.3%	2.0%
Change in NPLs	19.4%	-3.5%	3.4%	-0.7%	-2.3%	-3.8%

KEY RATIOS %	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Interest Income/Avg. IEA	1.1%	1.5%	1.7%	1.9%	2.1%	2.1%
Interest Income/Avg. RWA	1.7%	2.6%	2.7%	3.0%	3.4%	3.5%
Total Revenue/Avg. RWA	3.5%	5.2%	5.3%	4.9%	5.2%	5.3%
Cost/Income ratio (4)	75.9%	50.9%	44.6%	38.7%	47.1%	45.5%
LIC/Avg. Customer Loans	1.37%	2.00%	1.55%	2.23%	1.33%	0.92%
LIC/Avg. RWA	1.69%	2.53%	1.88%	2.71%	1.61%	1.10%
Loan Loss Provisions (Balance Sheet)/Loans	5.7%	6.1%	6.3%	7.2%	7.8%	8.1%
NPL Ratio (gross)	7.1%	7.3%	7.2%	9.7%	9.5%	9.1%
NPL Coverage	79.9%	83.1%	86.7%	74.4%	82.0%	88.8%
Loans/Deposits Ratio	116.0%	107.8%	100.8%	98.4%	94.9%	93.9%
ROE	-24.9%	-6.7%	5.3%	0.5%	3.7%	7.5%
ROTE or ROE (adj.) (5)	-26.2%	-6.3%	5.1%	0.6%	3.3%	7.4%
Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend Yield (gross)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

VALUATION (x)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
P/Pre-Provision Profit per Share	-455.4	4.0	2.6	3.7	4.0	3.4
P/E (reported)	n.m.	n.m.	12.3	n.m.	19.7	8.2
P/E (adj.)	n.m.	n.m.	12.3	n.m.	19.7	8.2
P/BV	9.5	0.8	0.6	0.6	0.6	0.6
P/TBV	9.5	0.8	0.6	0.6	0.6	0.6

PER SHARE DATA (EUR)(6)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Average diluted number of shares	0.0	0.0	0.0	0.0	0.0	0.0
Pre-Provision Profit per Share	0.00	0.21	0.24	0.05	0.06	0.07
EPS (reported)	-0.04	-0.05	0.05	0.00	0.01	0.03
EPS (adj.)	-0.04	-0.05	0.05	0.00	0.01	0.03
BVPS	0.13	1.00	1.01	0.29	0.39	0.42
TBVPS (2)	0.13	1.00	1.01	0.29	0.39	0.42
DPS	0.00	0.00	0.00	0.00	0.00	0.00

PRICE & SHARES & MKT CAP (EURm)	12/2013	12/2014	12/2015	12/2016	12/2017e	12/2018e
Price** (EUR) (7)	1.2	0.8	0.6	0.2	0.3	0.3
Outstanding number of ordinary shares (m)	19,707	4,196	4,571	15,114	15,114	15,114
Total Market Cap (8)	24,582	3,561	2,887	2,788	3,794	3,794
Assets Under Management (bn)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company, Caixa-Banco de Investimento estimates.

Notes

(1) Earnings Before Tax (adj.) = EBT +/- Exceptional Items

(2) Tangible Book Value = Shareholders Equity less Goodwill

(3) Core Tier1 Ratio (ESN adj.) = Tier1 capital less Tier1 Hybrid capital and less preference capital divided by risk weighted assets

(4) Cost/Income = Operating Costs divided by Banking Revenues

(5) ROTE or ROE (adj.) = Net Profit (adj.) divided by the two-years (according to fiscal year end) average of Shareholders Equity excluding Goodwill

(6) EPS (adj.) diluted= Net Profit (adj.)/Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported/Avg DIL. Ord. (+ Ord. equivalent) Shs.

(7) Price (in local currency): Historical Price for Historical Years and Current Price for current and forecast years

(8) Total Market Cap includes also other categories of shares (preferred and/or savings)

Sector: Banks/Banks

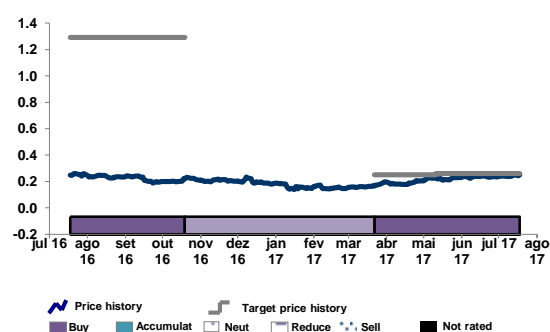
Company Description: Millennium BCP is the largest private financial institution in Portugal (credit and deposits) with an average market share close to 18% (Loans) and 17% (Customers Funds).It operates in all main business areas in Portugal and also runs some international banking activities (Poland, Angola and Mozambique).

Recommendation history for BCP

Date	Recommendation	Target price	Price at change date
11-mai-17	Buy	0.26	0.23
22-mar-17	Buy	0.25	0.17
19-out-16	Rating Suspended		0.22
30-nov-15	Buy	1.29	0.65
20-jan-15	Buy	1.81	0.93
22-jul-14	Buy	1.68	1.34

Source: Factset & ESN, price data adjusted for stock splits.

This chart shows Caixa-Banco de Investimento continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
Current analyst: André Rodrigues (since 26/11/2007)



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This report was initiated after the announcement of the 1Q17 results and was concluded (produced) on the date and time mentioned on the ESN Recommendation System page and was published immediately afterwards.

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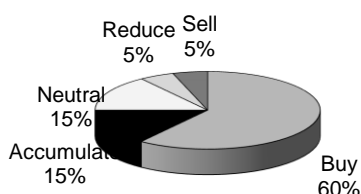
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Caixa Banco de Investimento Ratings Breakdown



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