

Preview Note

9 November 2017

Buy

Recommendation unchanged

Share price: EUR 0.25

closing price as of 08/11/2017

Target price: EUR 0.31

from Target Price: EUR 0.26

Upside/Downside Potential 25.8%

Reuters/Bloomberg

BCP.LS/BCP.PL

Market capitalisation (EURm) 3,724

Current N° of shares (m) 15,114

Free float 55%

Daily avg. no. trad. sh. 12 mth 66,274

Daily avg. trad. vol. 12 mth (m) 14,178.98

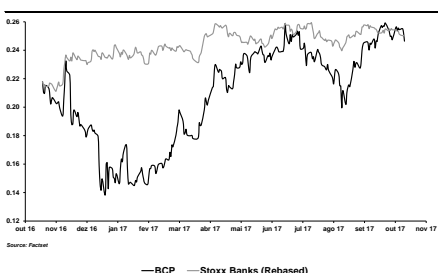
Price high/low 12 months 0.14 / 0.26

Abs Perfs 1/3/12 mths (%) 0.90/3.53/23.33

Key financials (EUR)	12/16	12/17e	12/18e
Total Revenue (m)	2,016	2,091	2,179
Pre-Provision Profit (PPP) (m)	755	936	1,038
Operating profit (OP)	-362	321	594
Earnings Before Tax (m)	-281	388	665
Net Profit (adj.) (m)	24	193	404
Shareholders Equity (m)	4,382	6,051	6,456
Tangible BV (m)	4,306	5,720	5,840
RWA (m)	39,160	39,659	40,032
ROTE	0.6%	3.3%	6.4%
Total Capital Ratio (B3)	13.4%	13.2%	12.8%
Cost/Income	38.7%	45.1%	45.1%
Price/Pre-Prov Prof	3.7	4.0	3.6
P/E (adj.)	nm	19.3	9.2
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	0.40	0.43
TBVPS	0.29	0.40	0.43
DPS	0.00	0.00	0.00

Shareholders

Fosun 25%; Sonangol 15%; EDP Group 2%;

**Analyst(s)**

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3Q17 Preview: Commitment with the reduction of NPEs

The facts: Millennium BCP will publish its 3Q17 results on Monday, 13 November, after the market close. CC will take place on Tuesday, 14 at 15:00 (Local time).

Our analysis: We forecast a consolidated net profit of EUR 47.6m in 3Q17 vs. loss of EUR 53.8m in 3Q16 and a net profit of EUR 39.8mm in 2Q17 (+19.6% QoQ).

The net interest income (NII) should present a slight growth in 3Q17 (+0.3% QoQ) to EUR 347.4m. On a yearly basis, the 13.5% growth in 3Q17 vs. 3Q16 (and +13.1% YoY in 9M17 vs. 9M16) is mainly related to the reduction in the cost of term deposits. Moreover, BCP numbers will also continue to benefit from the reimbursement of the EUR 700m of CoCo bonds to the Portuguese State in 1Q17.

Commissions should decrease 3.3% QoQ to EUR 164m (seasonal effects), with a 2.0% YoY growth vs. 3Q16 and an increase of 2.7% YoY in 9M17 to EUR 494.3m when compared to the EUR 481.1m reported in 9M16. Trading results should be close to EUR 31m vs. EUR 54m in 2Q17, almost in line with 3Q16 (EUR 29.7m).

Costs should increase by 2.6% YoY in 3Q17 to EUR 244.5m with an almost flat evolution of staff costs (EUR 136.6m) and a 4.8% growth in administrative costs to EUR 94.4m. In 9M17 total costs are seen at EUR 694.7m, around 3.8% below the EUR 722.4m reported in 9M16, with a 7.9% YoY decrease in staff costs to EUR 378.1m. Operating profit is seen at EUR 289m in 3Q17 (+0.6% YoY).

Asset quality: 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 likely achieved (or close to that) already in 9M17. In fact, the non-performing exposures (NPEs) in Portugal were down by EUR 700m YtD to EUR 7.8bn in 1H17 vs. EUR 8.5bn by YE16. **Loan impairments** are seen at EUR 155m, with a cost of risk of 120bps in 3Q17 (119bps in 9M17). We also anticipate a reinforcement of "other impairments" with a cost of EUR 53m in 3Q17 (broadly in line with 2Q17).

Concerns removed on capital: By the end of June 2017 the bank reported a CET 1 ratio of 11.3% (fully implemented) and 13% (phased-in) from 11.2% and 13%, respectively in 1Q17 vs. SREP requirement of 8.15% for CET 1 ratio.

Sovereign Rating: On 15 September the ratings agency Standard & Poor's ("S&P") upgraded the Long Term credit rating of the Portuguese Republic to BBB- from BB+, the first "investment grade" classification from S&P since January 2012. The yield on the 10Y bonds of Portugal decreased by around 65bps (to c. 2.4%) in 3Q17 while the yield on the 5Y bond drop by c. 35bps to 0.96%. By the end of 1H17 BCP had EUR 5.1bn of Portuguese sovereign debt in its balance sheet, of which EUR 4.9bn or 97% in the banking book and only EUR 158m in the trading book. This should have a positive, although not material, impact for BCP in 3Q17, namely in its capital position (through fair value reserves - AFS portfolio).

Conclusion & Action: The focus of 3Q17 results should continue related to asset quality, namely the reduction NPEs in a context of a cost of credit risk close to 120bps. In terms of revenues, we do not expect the main variables to present significant deviations when compared to the recurrent trends of the most recent quarters. For more details see our Company Update: "Increasing ROE. Commitment with the reduction of NPEs".

Exhibit 1 – Income statement forecasts

	Quarterly					Accumulated		
	3Q17e	2Q17	Δ QoQ	3Q16	Δ YoY	9M17e	9M16	Δ YoY
Net interest income (narrow sense)	347.4	346.2	0.3%	306.2	13.5%	1,025.9	907.0	13.1%
Dividends from securities	1.2	1.5	-19.5%	1.2	5.0%	2.8	7.0	-59.5%
Net interest income	348.6	347.7	0.3%	307.3	13.4%	1,028.7	913.9	12.6%
Commissions and similar income (net)	164.0	169.5	-3.3%	160.8	2.0%	494.3	481.1	2.7%
Gains and losses in financial operations	30.8	53.5	-42.5%	29.7	3.8%	120.7	212.5	-43.2%
Operating income and charges	(9.9)	(71.4)	-86.2%	(8.3)	19.6%	(96.5)	(96.3)	0.2%
Net operating income from banking	533.5	499.3	6.9%	489.6	9.0%	1,547.2	1,511.3	2.4%
Personnel costs	(136.6)	(104.6)	30.7%	(136.7)	-0.1%	(378.1)	(410.4)	-7.9%
Other administrative expenses	(94.4)	(94.0)	0.5%	(90.1)	4.8%	(277.0)	(274.9)	0.8%
Depreciation of fixed assets	(13.4)	(13.4)	0.5%	(11.5)	16.7%	(39.6)	(37.0)	6.9%
Total Expenses	(244.5)	(211.9)	15.4%	(238.3)	2.6%	(694.7)	(722.4)	-3.8%
Operating profit before provisions	289.0	287.4	0.6%	251.3	15.0%	852.5	788.9	8.1%
Equity-accounted results of subsidiaries	15.7	15.5	1.3%	22.9	-31.6%	50.8	60.6	-16.2%
Loan provisions and impairments (net)	(155.1)	(156.1)	-0.7%	(251.5)	-38.4%	(460.0)	(870.2)	-47.1%
Other impairments and provisions	(53.0)	(56.0)	-5.3%	(44.9)	18.1%	(163.3)	(242.8)	-32.7%
Profits before taxes	96.6	90.8	6.4%	(22.2)	-534.7%	279.9	(263.5)	n.m.
Corporate income tax	(22.9)	(24.3)	-5.8%	(10.1)	127.2%	(66.4)	68.2	n.m.
Discontinued operations	-	1.25	n.m.	-	n.m.	1.3	45.2	-97.2%
Minority shareholders' share of profit	(26.1)	(27.9)	-6.4%	(21.5)	21.2%	(77.3)	(101.0)	-23.5%
Net Profit (reported)	47.6	39.8	19.6%	(53.8)	n.m.	137.5	(251.1)	n.m.

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

Exhibit 2 – Key data and ratios

	3Q17e	2Q17	3Q16	Chg. QoQ	Chg. YoY
Balance Sheet key data:					
Loans to clients (net)	47,946	48,066	48,806	-0.25%	-1.76%
RWA	38,328	38,135	38,287	0.51%	0.11%
Total Assets	73,006	73,024	73,042	-0.02%	-0.05%
Customer Deposits	50,889	50,636	48,937	0.50%	3.99%
Balance Sheet key ratios:					
NPL > 90 days / Loans to clients (gross)	9.61%	9.66%	7.17%		
Coverage of NPL (>90days)	75.1%	72.5%	100.9%		
Credit at risk ratio	15.3%	15.4%	11.4%		
Coverage of credit at risk ratio	47.1%	45.5%	63.3%		
Cost of credit risk (bps)*	119	118	221		
Cost-to-income ratio (Notice 16/2004 BoP)	43.5%	42.9%	46.0%		
Loans (net) to Deposits Ratio	94.2%	94.9%	99.7%		
Core TIER I (Basel III Phasing in)	13.0%	13.0%	12.2%		
Core TIER I (Basel III FL)	11.3%	11.3%	9.6%		

* Accumulated figure. Net of recoveries, as a % of gross loans (cost of risk of 120bps in 3Q17e).

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

BCP : Summary tables

PROFIT & LOSS (EURm)	12/2015	12/2016	12/2017e	12/2018e	12/2019e	12/2020e
Net Interest Income	1,191	1,230	1,375	1,446	1,509	1,570
Commissions	660	644	663	677	694	712
Trading income	539	240	157	154	158	156
Dividends	9.7	7.7	3.6	3.8	4.0	4.2
Other Operating Income	-120	-106	-106	-102	-103	-103
Non-Interest Income	1,089	786	716	733	754	769
Total Income from Banking Business	2,280	2,016	2,091	2,179	2,263	2,339
Revenues from Insurance Business	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenue	2,280	2,016	2,091	2,179	2,263	2,339
Operating Costs	-1,017	-780	-943	-983	-997	-1,012
-of which Personnel Expenses	-574	-357	-513	-543	-552	-563
Other Operating Provisions	-160	-481	-213	-158	-120	-110
Pre-Provision Profit (PPP)	1,103	755	936	1,038	1,146	1,217
Loan Impairment Charge (LIC)	-818	-1,117	-615	-444	-428	-386
Operating profit (OP)	285	-362	321	594	718	831
Associates	23.5	80.5	67.0	70.6	75.6	79.4
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)	308	-281	388	665	794	910
Tax	-37.7	382	-91.9	-158	-188	-216
<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	90.3	45.2	1.3	0.0	0.0	0.0
Minorities	-126	-122	-104	-103	-115	-118
Preference Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit (Reported)	235	23.9	193	404	490	576
Earnings Before Tax (Adj.) (1)	308	-281	388	665	794	910
Net Profit (Adj.)	235	23.9	193	404	490	576

BALANCE SHEET (EURm)	12/2015	12/2016	12/2017e	12/2018e	12/2019e	12/2020e
Due from Banks	3,538	3,079	3,682	5,127	5,421	6,337
Customer Loans	51,970	48,018	48,066	48,791	50,271	51,796
Securities	12,688	12,380	13,729	13,341	13,394	13,507
Interest Earning Assets (IEA)	68,196	63,477	65,476	67,258	69,085	71,641
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	6,688	7,788	7,884	7,948	7,992	8,033
Total Assets	74,885	71,265	73,361	75,206	77,077	79,674
Due to Banks	8,591	9,938	9,382	9,639	9,916	10,267
Customer Deposits	51,539	48,798	51,143	52,174	53,225	54,840
Bonds & Debt Capital	7,137	5,605	4,086	4,082	4,083	4,105
Technical Provisions Insurance (Life and Non-Life)	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities	1,938	1,659	1,647	1,703	1,761	1,822
Shareholders Equity	4,623	4,382	6,051	6,456	6,825	7,253
Minorities Equity	1,057	883	1,050	1,153	1,268	1,387
Total Liabilities	74,885	71,265	73,361	75,206	77,077	79,674
Tangible Book Value (2)	4,345	4,306	5,720	5,840	5,882	5,928

REGULATORY CAPITAL (EURm)	12/2015	12/2016	12/2017e	12/2018e	12/2019e	12/2020e
Risk Weighted Assets	43,271	39,160	39,659	40,032	40,928	42,572
CT1 ratio (B3 fully loaded)	10.2%	9.6%	11.2%	10.9%	12.8%	0.0%
CT1 ratio (B3 phased-in)	13.3%	12.4%	12.1%	11.8%	12.8%	0.0%
Total Capital Ratio (B3)	14.4%	13.4%	13.2%	12.8%	13.8%	0.0%
Leverage Ratio (fully loaded)						
<i>Tangible equity as % of Assets</i>	<i>5.8%</i>	<i>6.0%</i>	<i>7.8%</i>	<i>7.8%</i>	<i>7.6%</i>	<i>7.4%</i>

BCP : Summary tables

GROWTH RATES %	12/2015	12/2016	12/2017e	12/2018e	12/2019e	12/2020e
Revenue Growth	1.0%	-11.6%	3.7%	4.2%	3.8%	3.4%
Operating Cost Growth	-11.5%	-23.3%	20.9%	4.3%	1.4%	1.6%
Interest Income Growth	6.7%	3.3%	11.8%	5.2%	4.3%	4.1%
Non Interest Income Growth	-4.5%	-27.8%	-8.9%	2.3%	2.8%	2.0%
Pre-Provision Profit Growth	22.8%	-31.5%	23.9%	10.9%	10.4%	6.2%
Customer Loan Growth	-3.2%	-7.6%	0.1%	1.5%	3.0%	3.0%
Deposits Growth	3.5%	-5.3%	4.8%	2.0%	2.0%	3.0%
Change in NPLs	3.4%	-0.7%	-2.3%	-3.8%	-0.1%	-0.2%

KEY RATIOS %	12/2015	12/2016	12/2017e	12/2018e	12/2019e	12/2020e
Interest Income/Avg. IEA	1.7%	1.9%	2.1%	2.2%	2.2%	2.2%
Interest Income/Avg. RWA	2.7%	3.0%	3.5%	3.6%	3.7%	3.8%
Total Revenue/Avg. RWA	5.3%	4.9%	5.3%	5.5%	5.6%	5.6%
Cost/Income ratio (4)	44.6%	38.7%	45.1%	45.1%	44.1%	43.3%
LIC/Avg. Customer Loans	1.55%	2.23%	1.28%	0.92%	0.86%	0.76%
LIC/Avg. RWA	1.88%	2.71%	1.56%	1.11%	1.06%	0.93%
Loan Loss Provisions (Balance Sheet)/Loans	6.3%	7.2%	7.4%	7.7%	7.9%	7.9%
NPL Ratio (gross)	7.2%	9.7%	9.5%	9.1%	8.5%	8.0%
NPL Coverage	86.7%	74.4%	77.7%	84.9%	92.0%	98.4%
Loans/Deposits Ratio	100.8%	98.4%	94.0%	93.5%	94.4%	94.4%
ROE	5.3%	0.5%	3.7%	6.5%	7.4%	8.2%
ROTE or ROE (adj.) (5)	5.1%	0.6%	3.3%	6.4%	7.4%	2.2%
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)	12/2015	12/2016	12/2017e	12/2018e	12/2019e	12/2020e
P/Pre-Provision Profit per Share	2.6	3.7	4.0	3.6	3.2	3.1
P/E (reported)	12.3	n.m.	19.3	9.2	7.6	6.5
P/E (adj.)	12.3	n.m.	19.3	9.2	7.6	6.5
P/BV	0.6	0.6	0.6	0.6	0.5	0.5
P/TBV	0.6	0.6	0.6	0.6	0.5	0.5

PER SHARE DATA (EUR)(6)	12/2015	12/2016	12/2017e	12/2018e	12/2019e	12/2020e
Average diluted number of shares	0.0	0.0	0.0	0.0	0.0	0.0
Pre-Provision Profit per Share	0.24	0.05	0.06	0.07	0.08	0.08
EPS (reported)	0.05	0.00	0.01	0.03	0.03	0.04
EPS (adj.)	0.05	0.00	0.01	0.03	0.03	0.04
BVPS	1.01	0.29	0.40	0.43	0.45	0.48
TBVPS (2)	1.01	0.29	0.40	0.43	0.45	0.48
DPS	0.00	0.00	0.00	0.00	0.00	0.00

PRICE & SHARES & MKT CAP (EURm)	12/2015	12/2016	12/2017e	12/2018e	12/2019e	12/2020e
Price** (EUR) (7)	0.6	0.2	0.2	0.2	0.2	0.2
Outstanding number of ordinary shares (m)	4,571	15,114	15,114	15,114	15,114	15,114
Total Market Cap (8)	2,887	2,788	3,724	3,724	3,724	3,724
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 17.8% (Loans) and 17.3% (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
09-nov-17	Buy	0.31	0.25
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

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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The company or companies covered in this report had knowledge of the changes in the fair-value, recommendation included in this report or validated the assumptions used in the report before its publication? No.

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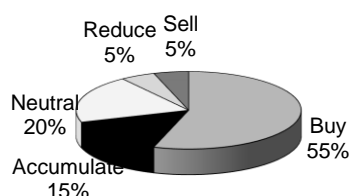
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Caixa Banco de Investimento Ratings Breakdown



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Date and time of production: 9 November 2017: 17:52 CET

First date and time of dissemination: 9 November 2017: 17:57 CET

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