

Friday, 13 June 2025 | update

Bank Millennium: buy (reiterated)

MIL PW; MIL.WA | Banks, Poland

Shedding Light on Hidden Rate Sensitivity

We named Millennium our top pick among smaller banks in the 2025 Investment Strategy issued last December. Since then, MIL stock has outperformed the WIG-Banks index by 36%. We believe there is still some upside, we raise our target price to PLN 15.20, and keep 'buy' recommendation.

When it comes to our earnings forecasts, we have cut the 2025 and 2026 net profit estimates by 10% and 9%, respectively, to reflect increased CHF provisions (adjustment of former estimates + new auditor effect) – expectations for core earnings have actually received an upward lift.

Millennium's outlook going forward looks good: the bank reports very low sensitivity to interest rate cuts, and the costs related to CHF mortgage disputes are set to decline, which will further boost EPS relative to peers. We also appreciate Millennium's strategy, which is both ambitious in its corporate banking market share targets, and grounded and realistic at the same time.

On the other hand, we note that Millennium is catching up in terms of costs and one should expect double digit opex dynamics in 2025. We also believe that one can't expect Millennium to keep its near zero sensitivity to interest rates in long-term – given its relatively higher share of short term bonds, which are the quickest to reprice after interest rates are cut as well as risk related to refinancing of temporarily fixed rate mortgages. There is also negative differentiator from its peers: Millennium doesn't pay dividend while its peers usually offer 5% dividend yield and more.

After applying a discount to better reflect the lack of dividends in 2025 and 2026, despite ROE as high as 20% expected in 2027, we value Millennium at around 2x 2025E P/BV, declining to 1.5x on 2027 estimates.

Temporarily Fixed – Soon to Be a Problem?

At the end of Q1 2025, Millennium had PLN 14 billion in temporarily fixed-rate mortgages on its balance sheet. We believe that, given the ongoing interest rate cutting cycle, there is significant risk that Millennium's clients will opt to refinance their mortgages once rates fall sufficiently – this would be reflected in the repricing of fixed-rate loans.

Heavy on the Short End

Another reason we believe Millennium's sensitivity to rate cuts may be higher than reported lies in the maturity structure of its bond portfolio. At the end of 2024, 30% of the bonds had maturities of up to one month, and 19% were set to mature within 12 months. Compared to other banks, this portfolio is heavily weighted toward short-term instruments, meaning Millennium benefits when interest rates and yields increase – but is also among the first to be impacted by rate cuts through rapid portfolio repricing.

Positive Delta on Direct and Indirect CHF Exposure Costs

Active court cases related to CHF loan disputes, the inflow of new cases, and the level of CHF loan loss provisions at Millennium have begun to decline in recent quarters. We view this as a turning point in the CHF mortgage saga, likely leading to a reduction in both direct and indirect costs associated with these problematic loans. In 2024, these costs totaled PLN 3.2 billion (compared to PLN 3.5 billion in 2023). In 2025, they are expected to fall to around PLN 2.2 billion, as the pace of new case filings has slowed. Moreover, the bank's management has indicated that legal and settlement costs may have already peaked.

(PLN m)	2023	2024	2025E	2026E	2027E
Net interest income	5,253.5	5,529.9	5,937.7	5,833.3	5,754.8
Non-interest income	1,770.6	986.4	1,090.1	1,129.1	1,240.2
Costs	2,294.6	2,773.0	2,813.7	2,805.1	2,878.7
Operating income	4,729.6	3,743.4	4,214.1	4,157.3	4,116.3
Net profit	575.7	719.2	1,121.9	2,021.4	2,359.0
C/I (%)	32.7	42.6	40.0	40.3	41.2
ROE (%)	9.3	9.8	13.4	20.1	19.9
P/E (x)	29.1	23.3	14.9	8.3	7.1
P/B (x)	2.4	2.2	1.9	1.5	1.3
DPS (PLN)	0.00	0.00	0.00	0.00	0.83
Dividend yield (%)	0.0	0.0	0.0	0.0	6.0

Current Price*	PLN 13.82
Target Price	PLN 15.20
mCap	PLN 16,765m
Free Float	PLN 8,836m
ADTV (3M)	PLN 42.0m

*Price as of June 12, 2025, 5:00 PM

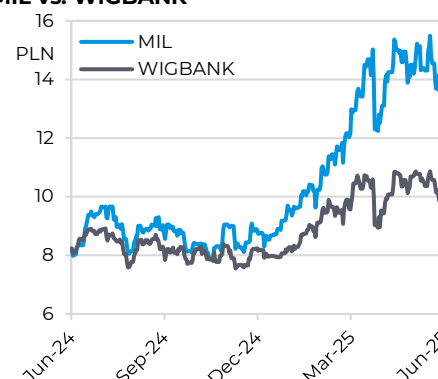
Ownership

BCP S.A.	50.10%
NN OFE	9.29%
Allianz OFE	8.97%
PZU OFE	5.41%
Others	25.00%

About

Bank Millennium is a universal bank with a focus on retail banking. In its recent strategy, Millennium says it wants to pursue a more balanced balance sheet through an expansion into SME banking. The bank has been among the lenders most heavily affected by CHF mortgage disputes. It currently ranks 7th in terms of asset size.

MIL vs. WIGBANK



Company	Target Price		Recommendation	
	new	old	new	old
Bank Millennium	15.20	11.85	buy	buy

Company	Current Price	Target Price	Upside
Bank Millennium	13.82	15.20	+10.0%

Forecast Update	2025E	2026E	2027E
Total Income	+3.1%	+4.4%	-
Pre-Tax Profit	-2.5%	-4.4%	-
Net Profit	-9.9%	-9.4%	-

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List of abbreviations and ratios used by mBank:

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases); **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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BUY – we expect that the rate of return from an investment will be at least 10%

HOLD – we expect that the rate of return from an investment will range from 0% to +10%

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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.

mBank issued the following recommendations for Bank Millennium in the 12 months prior to this publication:

Bank Millennium (Michał Konarski, Mikołaj Lemańczyk)

Rating	buy	buy
Rating date	2024-12-02	2024-08-28
Target price (PLN)	11.85	11.45
Price on rating day	8.44	8.89

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