Morgan Stanley (MS)

Updated July 16th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$92	**5 Year CAGR Estimate:**	14.2%	**Market Cap:**	$170.3B
Fair Value Price:	$94	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	07/29/2021
% Fair Value:	98%	**5 Year Valuation Multiple Estimate:**	0.3%	**Dividend Payment Date:**	08/13/2021
Dividend Yield:	3.0%	**5 Year Price Target**	$152	**Years Of Dividend Growth:**	8
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	100%

Overview & Current Events

Morgan Stanley is a financial holding company that provides various financial products and services to corporations, governments, financial institutions, and individuals worldwide. The company operates through Institutional Securities, Wealth Management, and Investment Management segments, including offering capital raising and financial advisory services, underwriting of debt, equity, and other securities, as well as advice on mergers and acquisitions. Morgan Stanley is headquartered in New York, New York.

On July 15th, 2021, Morgan Stanley reported its Q2-2021 results for the quarter ending June 30th, 2021. The company achieved another very strong quarter, posting quarterly revenues of $14.8 billion, an 8.3% increase year-over-year. EPS came in at $1.85 or $1.89 on an adjusted basis, 5.6% lower vs. Q2-2020, mainly due to higher compensation expenses. Results were boosted mainly by management's revenues which grew by 27.6%, driven by record inflows to assets amid the stock market's prolonged rally. The company's recent acquisition of E-Trade and the follow-up acquisition of Eaton Vance have proven far more successful than expected, driving incredible operational efficiencies, hence the record profits. As a result, management announced a massive dividend increase, raising its quarterly DPS by 100% to $0.70, and boosted its buyback program by a substantial $12 billion.

To reflect the company's most recent results, we are slightly raising our FY2021 EPS projection from $7.20 to $7.25.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.25	($0.02)	$1.39	$1.64	$2.97	$2.98	$3.14	$4.81	$5.26	$ 6.46	***$7.25***	***$11.68***
DPS	$0.20	$0.20	$0.20	$0.40	$0.60	$0.75	$0.95	$1.15	$1.35	$1.40	***$2.80***	***$4.11***
Shares[1]	1,654	1,885	1,905	1,924	1,909	1,849	1,780	1,708	1,617	1.774	***1,795***	***1,400***

Coming out of the Great Financials Crisis, Morgan Stanley's profitability has been expanding continuously, currently featuring a 5-year EPS CAGR of 19.5%. To adequately reward shareholders, management has been growing the company's DPS rapidly, with the latest 100% increase catching investors and analysts alike by surprise.

Besides E-trade's and Eaton Vance's operational efficiencies achieved, cash flows should also become even more stable going forward. Traditionally, banks like Morgan Stanley make money by the spread of lending rates and underwritings. However, both of these segments are subject to interest rates and the market's activity volume, respectively. The company's recent acquisitions should further transition Morgan Stanley's revenues into a more consistent stream, as both E-Trade and Eaton Vance charge their customers on a recurring basis, benefiting from frictionless management fees. An extra booster to EPS and shareholder value creation has been Morgan Stanley's focus on buybacks, which were once again boosted in Q2. Management exploited the company's inexpensive valuation to repurchase and retire nearly 7.5% of its shares outstanding since 2015, despite increasing its share count by 14% amid the recent acquisitions.

Combining the company's recent robust performance, favorable EPS growth catalysts, including the recent acquisitions, as well as the growing buybacks, we retain our EPS and DPS growth expectations at 10% and 8%, respectively.

[1] Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	13.6	---	18.5	21.1	11.4	11.3	15.9	9.7	8.5	12.0	***12.8***	***13.0***
Avg. Yld.	1.2%	1.1%	0.8%	1.2%	1.8%	2.2%	1.9%	2.5%	3.0%	2.4%	***3.0%***	***2.7%***

Despite its solid profitability growth and aggressive capital returns, Morgan Stanley's valuation has remained quite reasonable throughout the decade. Shares are currently trading at nearly 13 times our expected FY2021 earnings, which is close to our fair target P/E. At this multiple, we believe that Morgan Stanley' growing financials and capital returns are better reflected. Combining our projected EPS growth being greater than DPS's growth with a slight valuation expansion, the stock's yield of around 3.0% is likely to move lower over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

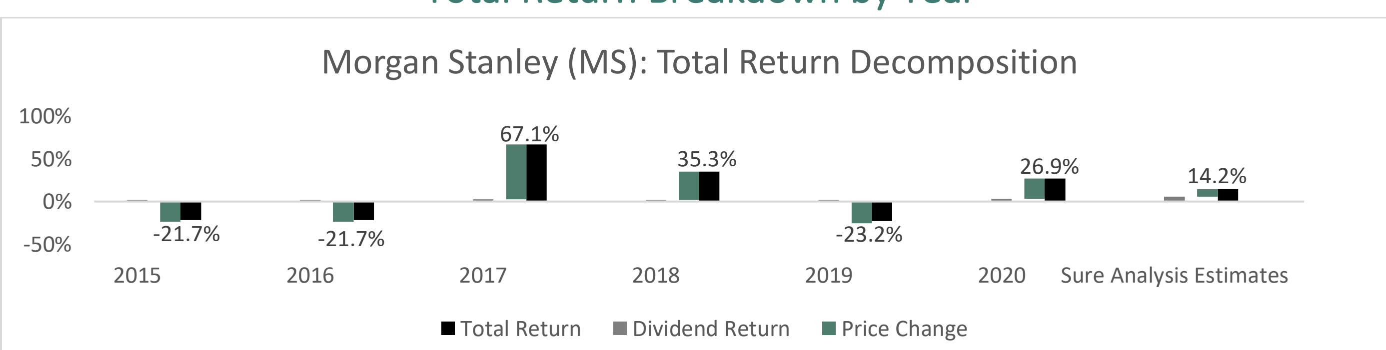
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	16%	---	14%	24%	20%	25%	30%	24%	26%	22%	**39%**	**35%**

Morgan Stanley's current dividend should be extremely safe. With the company doubling it during Q2, management's confidence towards the dividend speaks volumes. The company was previously forced to cut its dividend during the Great Financial Crisis. However, as its revenues have been transitioning continuously to the asset management side, we believe that the bank's performance should be able to come out solid in a potential future recession. With global stimuli increasing demand for assets, Morgan Stanley's resiliency has been proven during the ongoing pandemic by producing excellent financials and executing confident, huge acquisitions. Its competitive advantage lies in its sheer size, currently being the second-biggest wealth management U.S. firm only behind Bank of America. Finally, Morgan Stanley's greatest quality is most likely James Gorman, its CEO, who "single-handedly" transformed the company's operations and culture since he took over in 2010, pivoting the company into a sustainably profitable one, with a proven focus towards creating shareholder value for the long-term. Still, the near-zero interest rate environment and massively competitive industry with consistently declining expense rates (e.g., near-zero fee ETFs) are two risks to keep in mind.

Final Thoughts & Recommendation

Led by a results-driven CEO, Morgan Stanley has successfully transformed into a thriving company in its industry, despite the heavy equity losses during the Great Financial Crisis. Its profitability and capital returns, including dividend growth and share buybacks, have been robust amid its growing operations, further displayed in the more recent Q2 report. Combining our expected growth rates, including E-Trade's and Eaton Vance's operational synergies, and the potential for a slight valuation multiple expansion, we expect shares to deliver double-digit annualized returns of 14.2% in the medium-term.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	29,814	30,594	24,643	30,782	32,469	33,263	32,711	35,852	37,714	38,926	45,270
SG&A Exp.	18,082	18,727	18,128	18,683	20,117	18,464	18,252	19,566	20,339	21,691	23,750
D&A Exp.	1,419	1,404	1,581	1,511	1,161	1,433	1,736	1,753	1,844	2,643	---
Net Profit	4,703	4,110	68	2,932	3,467	6,127	5,979	6,111	8,748	9,042	11,000
Net Margin	15.8%	13.4%	0.3%	9.5%	10.7%	18.4%	18.3%	17.0%	23.2%	23.2%	24.3%
Free Cash Flow	39,413	14,078	23,447	33,693	94	(5,836)	4,107	(6,134)	5,440	38,947	---
Income Tax	743	1,414	(161)	902	(90)	2,200	2,726	4,168	2,350	2,064	3,239

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets ($B)	808	750	781	833	802	787	815	852	854	895	---
Cash & Equiv.	66,795	76,766	77,874	99,086	87,591	54,083	43,381	46,164	51,840	49,659	---
Accounts Rec	54,150	43,421	64,288	57,104	48,961	45,407	46,460	56,187	53,298	55,646	---
Goodwill & Int.	11,406	10,971	10,433	9,881	9,747	9,568	9,298	9,045	8,851	9,250	---
Total Liab ($B)	742	680	716	764	729	711	738	773	772	813	---
Accounts Pay ($B)	3	124	128	157	181	187	191	191	180	198	---
LT Debt ($B)	206	187	172	156	155	156	166	193	190	193	---
Book Value	47,614	60,541	60,601	62,701	64,880	67,662	68,530	68,871	71,726	73,029	---
D/E Ratio	3.60	3.02	2.76	2.36	2.19	2.07	2.18	2.49	2.36	2.36	

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.6%	0.5%	0.0%	0.4%	0.4%	0.8%	0.7%	0.7%	1.0%	1.0%	---
Return on Equity	11.1%	7.6%	0.1%	4.8%	5.4%	9.2%	8.8%	8.9%	12.4%	12.5%	---
ROIC	1.8%	1.6%	0.0%	1.3%	1.5%	2.7%	2.5%	2.4%	3.2%	3.3%	---
Shares Out.	1,361	1,654	1,885	1,905	1,924	1,909	1,849	1,780	1,708	1,617	1,624
Revenue/Share	21.13	18.26	12.84	15.73	16.47	17.03	17.33	19.69	21.70	23.74	27.88
FCF/Share	27.93	8.40	12.22	17.22	0.05	(2.99)	2.18	(3.37)	3.13	23.75	---

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.