Morgan Stanley (MS)

Updated January 20th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$96	**5 Year CAGR Estimate:**	13.5%	**Market Cap:**	$171.7 B
Fair Value Price:	$99	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	01/28/2022
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.6%	**Dividend Payment Date:**	02/15/2021
Dividend Yield:	2.9%	**5 Year Price Target**	$159	**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 January 19th, 2022, Morgan Stanley reported its Q4-2021 results for the period ending December 31st, 2021. The company posted another solid quarter with quarterly revenues of $14.52 billion, 6.48% higher year-over-year. EPS came in at $2.01 or $2.08 on an adjusted basis, 8% higher versus Q4-2020 following the top line's growth. Again, results were driven mainly by investment banking revenues that grew 5.6%, powered by strong fee-based asset management revenues on a record AUM of $1.6 trillion. Asset management revenues, in fact, grew 37% to $5.4 billion. Last year's acquisition of E-Trade and the follow-up acquisition of Eaton Vance were proven far more successful than expected, driving meaningful operational efficiencies and resulting in record revenues for Morgan Stanley. Management continued to utilize its share repurchase program and repurchased $2.8 billion worth of stock during the quarter. Total stock repurchases for the year amounted to $11.46 billion, which also contributed to the company achieving record EPS of $8.03 for the year, 24.3% higher versus FY-2020. We have set our initial FY-2022 EPS forecast at $7.58

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	($0.02)	$1.39	$1.64	$2.97	$2.98	$3.14	$4.81	$5.26	$6.46	$8.03	***$7.58***	***$12.21***
DPS	$0.20	$0.20	$0.40	$0.60	$0.75	$0.95	$1.15	$1.35	$1.40	$2.10	***$2.80***	***$4.11***
Shares[1]	1,885	1,905	1,924	1,909	1,849	1,780	1,708	1,617	1,810	1,772	***1,772***	***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 19.3%. 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 back in July.

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. Last year's 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, as illustrated in Q4's results. Management exploited the company's inexpensive valuation to repurchase and retire around 8% of its shares outstanding since 2015, despite increasing its share count by 14% amid the recent acquisitions.

[1] Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Morgan Stanley (MS)

Updated January 20th, 2022 by Nikolaos Sismanis

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.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	18.5	21.1	11.4	11.3	15.9	9.7	8.5	12.0	11.2	***12.6***	***13.0***
Avg. Yld.	1.1%	0.8%	1.2%	1.8%	2.2%	1.9%	2.5%	3.0%	2.4%	1.8%	***2.9%***	***2.6%***

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 just over 12.5 times our expected FY2022 earnings, which is close to our fair target P/E of 13. At this multiple, we believe that Morgan Stanley' growing financials and capital returns are adequately reflected. The stock's yield of 2.9% is likely to move lower over time as we expect EPS growth to outpace DPS growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

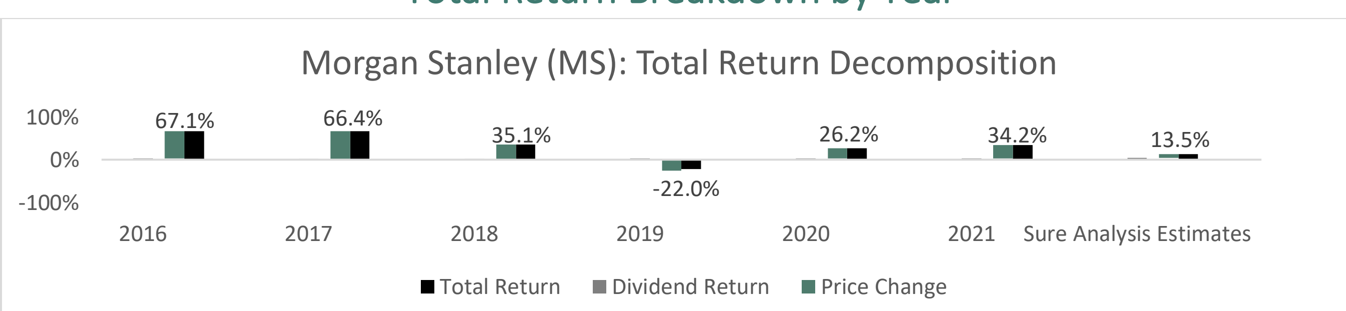
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	14%	24%	20%	25%	30%	24%	26%	22%	26%	***37%***	***34%***

Morgan Stanley's current dividend should be extremely safe. With the company doubling it last quarter, 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. 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. Still, rates hikes are expected through 2022, which can be another positive catalyst for Morgan Stanley's earnings growth going forward.

Final Thoughts & Recommendation

Led by a results-driven CEO, Morgan Stanley profitability and capital returns, including dividend growth and share buybacks, have been robust amid its improvement in operations. Combining our expected growth rates and the potential for a slight valuation multiple expansion, we expect shares to deliver annualized returns of 13.5% in the medium-term. Morgan Stanley continues to earn a buy rating.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

Morgan Stanley (MS)

Updated January 20th, 2022 by Nikolaos Sismanis

Income Statement Metrics

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

Balance Sheet Metrics

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

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	0.5%	0.0%	0.4%	0.4%	0.8%	0.7%	0.7%	1.0%	1.0%	---
Return on Equity	7.6%	0.1%	4.8%	5.4%	9.2%	8.8%	8.9%	12.4%	12.5%	---
ROIC	1.6%	0.0%	1.3%	1.5%	2.7%	2.5%	2.4%	3.2%	3.3%	---
Shares Out.	1,654	1,885	1,905	1,924	1,909	1,849	1,780	1,708	1,617	1,624
Revenue/Share	18.26	12.84	15.73	16.47	17.03	17.33	19.69	21.70	23.74	27.88
FCF/Share	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.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.