Morgan Stanley (MS)

Updated July 15th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$75	**5 Year CAGR Estimate:**	12.5%	**Market Cap:**	$130.9 B
Fair Value Price:	$75	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	07/28/22
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	08/15/22
Dividend Yield:	4.1%	**5 Year Price Target**	$110	**Years Of Dividend Growth:**	9
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Buy

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 14th, 2022, Morgan Stanley reported its Q2-2022 results for the period ending March 31st, 2022. The company's results were rather solid, considering how volatile the markets were during the period. Still, due to the uncertain macroeconomic environment, the investment banking segment's revenues declined 55% over Q2-2021. Fixed income revenues surged by 49%, however, as investors flocked to safer securities. That offset the overall results, leading to total net revenues coming in at $13.1 billion, just 11% lower compared to the prior-year period. On an adjusted basis, EPS came in at $1.44, 24% lower versus Q2-2021 following the top line's decline.

Management continued to utilize its share repurchase program, buying back $2.7 billion worth of stock during the quarter. This compares with $2.9 billion in repurchases during the prior-year period. Morgan Stanley's share count declined 6% year-over-year. We have adjusted our FY-2022 EPS forecast from $7.30 to $6.50 to reflect these results.

Along with its earnings, the company announced a 10.7% increase in the quarterly dividend, now standing at $0.775.

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	***$6.50***	***$9.55***
DPS	$0.20	$0.20	$0.40	$0.60	$0.75	$0.95	$1.15	$1.35	$1.40	$2.10	***$3.10***	***$4.55***
Shares[1]	1,885	1,905	1,924	1,909	1,849	1,780	1,708	1,617	1,810	1,772	***1,723***	***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 15.7%. To adequately reward shareholders, management has been growing the company's dividend rapidly. Particularly, last year's 100% increase caught 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. 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 Q2's results. Management has exploited the company's inexpensive valuation at times to repurchase and retire more than 10% of its shares outstanding since 2014, despite increasing its share count by 14% amid the recent acquisitions.

[1] Share count is in millions.

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Backed by favorable growth catalysts, including the recent acquisitions, as well as the growing buybacks, we have set both our EPS and DPS growth expectations 8%. That said, investors should expect near-term weakness as a result of the current macroeconomic turmoil.

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	***11.5***	***11.5***
Avg. Yld.	1.1%	0.8%	1.2%	1.8%	2.2%	1.9%	2.5%	3.0%	2.4%	1.8%	***4.1%***	***4.1%***

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 11.5 times our expected FY2022 earnings, which is similar to our consistent, fair target P/E. At this multiple, we believe that Morgan Stanley's growth prospects and capital returns are adequately reflected while taking into account the ongoing volatile environment in the equity markets. The 4.1% yield is at the high-end of the stock's historical range, meaningfully boosting its total capital returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

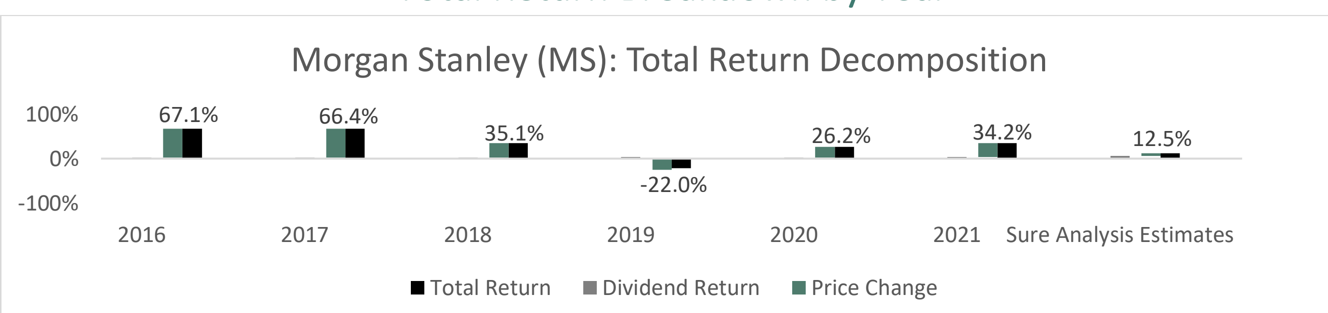
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	14%	24%	20%	25%	30%	24%	26%	22%	26%	***48%***	***48%***

Morgan Stanley's current dividend should be quite 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. Morgan Stanley's resiliency was proven during the pandemic, with the banks 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, rate hikes are expected to persist 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's profitability and capital returns, including dividend growth and share buybacks, have remained at satisfactory levels. Combining our expected growth rates and stable valuation estimates, we forecast Morgan Stanley to deliver annualized returns of 12.5% in the medium-term. The stock earns a buy rating.

Total Return Breakdown by Year



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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.

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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	24,643	30,782	32,469	33,263	32,711	35,852	37,714	38,926	45,270	56410
SG&A Exp.	18,128	18,683	20,117	18,464	18,252	19,566	20,339	21,691	23,750	25170
D&A Exp.	1,581	1,511	1,161	1,433	1,736	1,753	1,844	2,643	---	---
Net Profit	68	2,932	3,467	6,127	5,979	6,111	8,748	9,042	11,000	15030
Net Margin	0.3%	9.5%	10.7%	18.4%	18.3%	17.0%	23.2%	23.2%	24.3%	26.6%
Free Cash Flow	23,447	33,693	94	(5,836)	4,107	(6,134)	5,440	38,947	---	31660
Income Tax	(161)	902	(90)	2,200	2,726	4,168	2,350	2,064	3,239	4548

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets ($B)	781	833	802	787	815	852	854	895	---	1188
Cash & Equiv.	77,874	99,086	87,591	54,083	43,381	46,164	51,840	49,659	---	86,840
Accounts Rec	64,288	57,104	48,961	45,407	46,460	56,187	53,298	55,646	---	96,020
Goodwill & Int.	10,433	9,881	9,747	9,568	9,298	9,045	8,851	9,250	---	25,198
Total Liab ($B)	716	764	729	711	738	773	772	813	---	243
Accounts Pay ($B)	128	157	181	187	191	191	180	198	---	228
LT Debt ($B)	172	156	155	156	166	193	190	193	---	243
Book Value	60,601	62,701	64,880	67,662	68,530	68,871	71,726	73,029	---	97,969
LTD/E Ratio	2.76	2.36	2.19	2.07	2.18	2.49	2.36	2.36	---	2.31

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.5%	0.0%	0.4%	0.4%	0.8%	0.7%	0.7%	1.0%	1.0%	1.3%
Return on Equity	7.6%	0.1%	4.8%	5.4%	9.2%	8.8%	8.9%	12.4%	12.5%	15.8%
ROIC	1.6%	0.0%	1.3%	1.5%	2.7%	2.5%	2.4%	3.2%	3.3%	4.4%
Shares Out.	1,654	1,885	1,905	1,924	1,909	1,849	1,780	1,708	1,617	1,814
Revenue/Share	18.26	12.84	15.73	16.47	17.03	17.33	19.69	21.70	23.74	31.10
FCF/Share	8.40	12.22	17.22	0.05	(2.99)	2.18	(3.37)	3.13	23.75	17.45

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