# Morgan Stanley (MS)

*Updated January 18th, 2023 by Nikolaos Sismanis*

## Key Metrics

| | | | | | |
|---|---|---|---|---|---|
| **Current Price:** | $97 | **5 Year CAGR Estimate:** | 8.1% | **Market Cap:** | $163.3 B |
| **Fair Value Price:** | $84 | **5 Year Growth Estimate:** | 8.0% | **Ex-Dividend Date:** | 01/30/23 |
| **% Fair Value:** | 116% | **5 Year Valuation Multiple Estimate:** | -2.9% | **Dividend Payment Date:** | 02/15/23 |
| **Dividend Yield:** | 3.2% | **5 Year Price Target** | $123 | **Years Of Dividend Growth:** | 9 |
| **Dividend Risk Score:** | D | **Retirement Suitability Score:** | D | **Rating:** | Hold |

## 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 17th, 2023, Morgan Stanley reported its Q4-2022 and full-year results for the period ending December 31st, 2022. While results came in weaker compared to last year, Morgan Stanley's performance was relatively solid, taking into account how muddy the capital markets were during the period. Following the ongoing macroeconomic turmoil, the investment banking segment's revenues declined 48.1% over Q4-2021. Fixed income revenues rose by 15.4%, however, as investors flocked to safer securities. That offset the overall results, leading to total net revenues coming in at $12.7 billion, 12.4% lower compared to the prior-year period. Earnings-per-share came in at $1.26, 37.3% lower versus Q4-2021, following the top line's decline. Accordingly, total earnings-per-share for the year amounted to $6.15.

Management continued to utilize its share repurchase program, buying back $1.7 billion worth of stock during the quarter and $9.9 billion during the year. Morgan Stanley's share count declined 6% year-over-year. Our first estimates point toward earnings-per-share of $7.10 for fiscal 2023.

## Growth on a Per-Share Basis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EPS** | $1.39 | $1.64 | $2.97 | $2.98 | $3.14 | $4.81 | $5.26 | $6.46 | $8.03 | $6.15 | ***$7.10*** | ***$10.43*** |
| **DPS** | $0.20 | $0.40 | $0.60 | $0.75 | $0.95 | $1.15 | $1.35 | $1.40 | $2.10 | $2.95 | ***$3.10*** | ***$4.55*** |
| **Shares[1]** | 1,905 | 1,924 | 1,909 | 1,849 | 1,780 | 1,708 | 1,617 | 1,810 | 1,772 | 1,675 | ***1,675*** | ***1400*** |

Coming out of the Great Financials Crisis, Morgan Stanley's profitability has been expanding continuously, currently featuring a 5-year EPS CAGR of 8.1% despite last year's earnings compression. To adequately reward shareholders, management has been growing the company's dividend rapidly. Particularly, the latest dividend increase was by 100%, catching investors and analysts alike by surprise.

In addition to the operational improvements that Morgan Stanley gained through its acquisitions of E-Trade and Eaton Vance in 2021, the company's cash flow is expected to become more stable in the future. Historically, banks like Morgan Stanley generate revenue through the difference between lending rates and underwriting fees, but these sources of income are affected by interest rates and market activity. The acquisition of E-Trade and Eaton Vance, however, has allowed Morgan Stanley to shift its revenue stream to a more consistent one, as both companies charge their customers on a recurring basis, resulting in steady management fees. An extra booster to EPS and shareholder value creation has been Morgan Stanley's focus on buybacks, as illustrated in its Q4 results. Management has exploited the company's

[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.*

inexpensive valuation at times to repurchase and retire more than 13% of its shares outstanding since 2014, despite increasing its share count by 14% to fund the recent acquisitions.

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 ongoing macroeconomic restlessness.

## Valuation Analysis

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Avg. P/E** | 18.5 | 21.1 | 11.4 | 11.3 | 15.9 | 9.7 | 8.5 | 12 | 11.2 | 13.8 | ***13.7*** | ***11.8*** |
| **Avg. Yld.** | 0.8% | 1.2% | 1.8% | 2.2% | 1.9% | 2.5% | 3.0% | 2.4% | 1.8% | 3.5% | ***3.2%*** | ***3.7%*** |

Morgan Stanley's valuation has hovered at quite reasonable levels throughout the decade. Shares are currently trading at 13.7 times our expected FY2023 earnings, which is above our consistent, fair target P/E. At this multiple, we believe that Morgan Stanley could be modestly overvalued, even if its earnings-per-share rebound in 2023. The 3.2% yield is at the high-end of the stock's historical range, meaningfully contributing to the stock's total capital return profile.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Payout** | 14% | 24% | 20% | 25% | 30% | 24% | 26% | 22% | 26% | 48% | ***44%*** | **44%** |

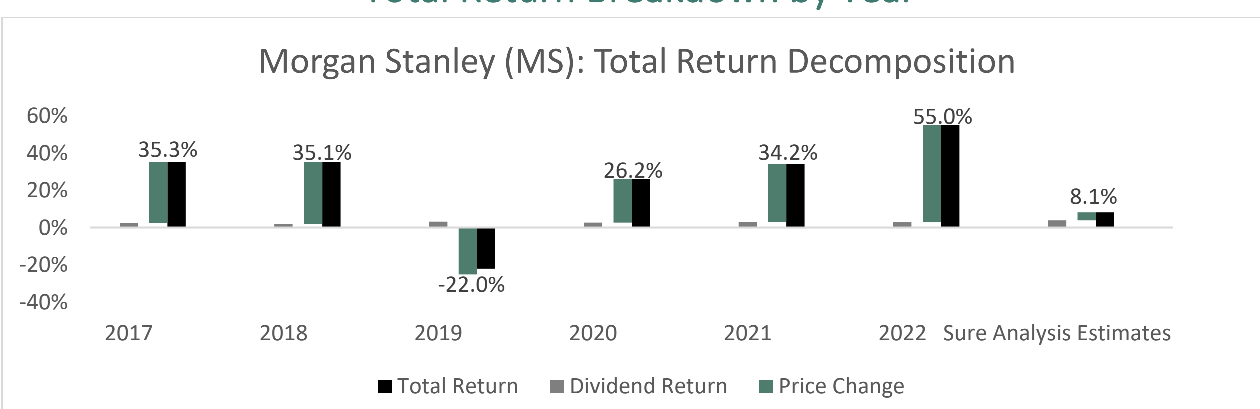
Morgan Stanley's current dividend should be quite safe. The company was previously forced to cut its dividend during the Great Financial Crisis. However, as its revenues have been transitioning continuously to the asset management side, we believe that the bank's performance should be able to come out 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.

Rising interest rates and a massively competitive industry with consistently declining expense rates (e.g., near-zero fee ETFs) are two risks to keep in mind.

## Final Thoughts & Recommendation

Despite the ongoing market headwinds, Morgan Stanley's profitability and capital returns, including dividend growth and share buybacks, have remained at solid levels. We predict annualized returns of 8.1% from Morgan Stanley through 2027, considering projected growth, the 3.2% yield, and potential valuation headwinds. We downgrade MS to a hold.

## Total Return Breakdown by Year

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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.*