



Morgan Stanley (MS)

Updated July 18th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$92	5 Year CAGR Estimate:	7.1%	Market Cap:	\$143.3 B
Fair Value Price:	\$72	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	07/28/23
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.8%	Dividend Payment Date:	08/15/23
Dividend Yield:	3.7%	5 Year Price Target	\$106	Years Of Dividend Growth:	10
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 July 18th, Morgan Stanley raised its dividend by 9.7% to a quarterly rate of \$0.85.

On the same day, Morgan Stanley reported its Q2-2023 results for the period ending June 30th, 2023. On the one hand, results came in weaker compared to last year due to the softer capital markets environment during the period.

Specifically, driven by the ongoing macroeconomic turmoil, the investment banking segment's revenues declined 13% over Q2-2022. Fixed income revenues also fell by 31.4% due to declines across most products, with the exception of rates, as a result of lower client activity and lower market volatility compared with elevated levels a year ago.

On the other hand, the company managed to retain solid profitability levels. Earnings-per-share came in at \$1.24. While this implies a 27% decline year-over-year, it is still a decent result given the underlying macroeconomic uncertainties and subdued client activity

Management continued to utilize its share repurchase program, buying back \$1 billion worth of stock during the quarter. Morgan Stanley's share count has declined by nearly 4% year-over-year. We now expect earnings-per-share of \$6.00 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	\$6.00	\$8.82
DPS	\$0.20	\$0.40	\$0.60	\$0.75	\$0.95	\$1.15	\$1.35	\$1.40	\$2.10	\$2.95	\$3.40	\$5.00
Shares¹	1,905	1,924	1,909	1,849	1,780	1,708	1,617	1,810	1,772	1,675	1,651	1400

Coming out of the Great Financials Crisis, Morgan Stanley's profitability has been expanding continuously, featuring a 5-year (2017-2022) EPS CAGR of 14.4% despite last year's earnings compression. To adequately reward shareholders, management has been growing the company's dividend rapidly. Particularly, 2021's dividend increase was by 100%, catching investors and analysts alike by surprise, while 2022's and 2023's dividend increases were by a notable 10.7% and 9.7%, respectively.

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 has become more stable. 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,

¹ Share count is in millions.

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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 declining share count. Management has exploited the company's inexpensive valuation at times to repurchase and retire more than 14% of its shares outstanding since 2014, despite increasing its share count by just over 14% (at the time) to fund the E-Trade and Eaton Vance 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 at 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	15.3	12.0
Avg. Yld.	0.8%	1.2%	1.8%	2.2%	1.9%	2.5%	3.0%	2.4%	1.8%	3.5%	3.7%	4.7%

Morgan Stanley's valuation has hovered at quite reasonable levels throughout the decade. Shares are currently trading at 15.3 times our expected FY2023 earnings, which is above our fair target P/E of 12. At this multiple, we believe that Morgan Stanley could be modestly overvalued, even if its earnings-per-share start rebounding next year. The 3.7% yield is at the high-end of the stock's historical range, which is 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%	57%	57%

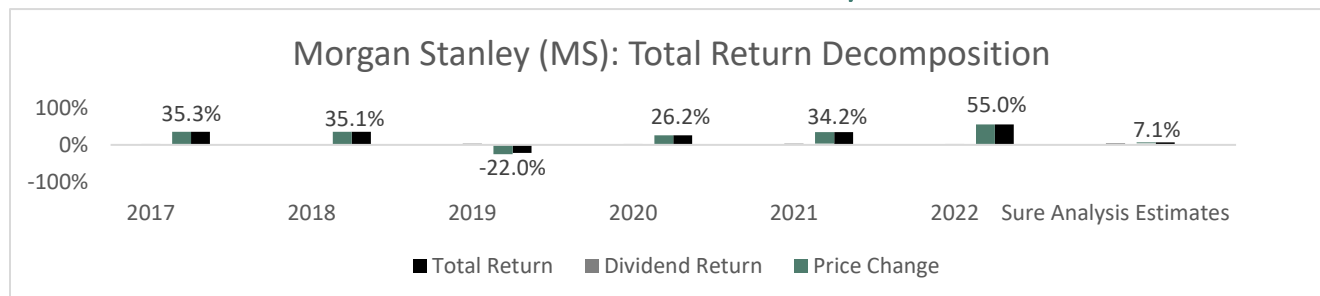
Morgan Stanley's current dividend should be quite safe. The company was previously forced to cut its dividend during the Great Financial Crisis. However, as its revenues have been transitioning continuously to the asset management side, we believe that the bank's performance should be able to come out 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 7.1% from Morgan Stanley through 2028, considering projected growth, the 3.7% yield, and potential valuation headwinds. We rate MS as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	30,782	32,469	33,263	32,711	35,852	37,714	38,926	45,270	56,410	50,210
SG&A Exp.	18,683	20,117	18,464	18,252	19,566	20,339	21,691	23,750	25,170	23,920
D&A Exp.	1,511	1,161	1,433	1,736	1,753	1,844	2,643	---	---	3,998
Net Profit	2,932	3,467	6,127	5,979	6,111	8,748	9,042	11,000	15,030	11,030
Net Margin	9.5%	10.7%	18.4%	18.3%	17.0%	23.2%	23.2%	24.3%	26.6%	22.0
Free Cash Flow	33,693	94	(5,836)	4,107	(6,134)	5,440	38,947	---	31660	(9,475)
Income Tax	902	(90)	2,200	2,726	4,168	2,350	2,064	3,239	45,48	2,910

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets (\$B)	833	802	787	815	852	854	895	---	1,188	1,180
Cash & Equiv.	99,086	87,591	54,083	43,381	46,164	51,840	49,659	---	86,840	92,750
Accounts Rec	57,104	48,961	45,407	46,460	56,187	53,298	55,646	---	96,020	78,540
Goodwill & Int.	9,881	9,747	9,568	9,298	9,045	8,851	9,250	---	25,198	24,270
Total Liab (\$B)	764	729	711	738	773	772	813	---	243	1,079
Accounts Pay (\$B)	157	181	187	191	191	180	198	---	228	216
LT Debt (\$B)	156	155	156	166	193	190	193	---	243	246
Book Value	62,701	64,880	67,662	68,530	68,871	71,726	73,029	---	97,969	91,390
LTD/E Ratio	2.36	2.19	2.07	2.18	2.49	2.36	2.36	---	2.31	2.46

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.0%	0.4%	0.4%	0.8%	0.7%	0.7%	1.0%	1.0%	1.3%	0.9%
Return on Equity	0.1%	4.8%	5.4%	9.2%	8.8%	8.9%	12.4%	12.5%	15.8%	11.7%
ROIC	0.0%	1.3%	1.5%	2.7%	2.5%	2.4%	3.2%	3.3%	4.4%	3.2%
Shares Out.	1,885	1,905	1,924	1,909	1,849	1,780	1,708	1,617	1,814	1,713
Revenue/Share	12.84	15.73	16.47	17.03	17.33	19.69	21.70	23.74	31.10	29.31
FCF/Share	12.22	17.22	0.05	(2.99)	2.18	(3.37)	3.13	23.75	17.45	(5.53)

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

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