Morgan Stanley (MS)

Updated January 17th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$85	**5 Year CAGR Estimate:**	11.4%	**Market Cap:**	$138.9 B
Fair Value Price:	$84	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	01/30/24
% Fair Value:	101%	**5 Year Valuation Multiple Estimate:**	-0.2%	**Dividend Payment Date:**	02/15/24
Dividend Yield:	4.0%	**5 Year Price Target**	$123	**Years Of Dividend Growth:**	10
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 January 16th, 2024, Morgan Stanley reported its Q4 and full-year results for the period ending December 31st, 2023. Results stabilized compared to last year, with the capital markets environment improving lately. Specifically, driven by the more favorable market conditions, the investment banking segment's revenues rose 7% over Q4-2022. Fixed Income net revenues were essentially unchanged compared to a year ago, reflecting higher revenues in commodities driven by improved market conditions and increased client activity partially offset by lower results in credit products. Overall net revenues came in at $12.9 billion, up 1.15% compared to the prior-year period.

Earnings-per-share for the quarter landed at $0.85, resulting in full-year EPS coming in at $5.18. This indicates a decline compared to last year's $6.15 due to tougher industry conditions, mainly in the first half of the year, Morgan Stanley's performance appears to be on the rebound.

Management continued to utilize its share repurchase program, buying back $1.3 billion worth of stock during the quarter and $5.3 billion worth of stock during the year. The company's share count declined by 3% year-over-year.

We now expect earnings-per-share of $6.45 for fiscal 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.64	$2.97	$2.98	$3.14	$4.81	$5.26	$6.46	$8.03	$6.15	$5.18	***$6.45***	***$9.48***
DPS	$0.40	$0.60	$0.75	$0.95	$1.15	$1.35	$1.40	$2.10	$2.95	$3.25	***$3.40***	***$5.00***
Shares[1]	1,924	1,909	1,849	1,780	1,708	1,617	1,810	1,772	1,675	1,627	***1,627***	***1,400***

Coming out of the Great Financials Crisis, Morgan Stanley's profitability surged. Earnings growth has lagged lately, with its 5-year (2018-2023) EPS CAGR standing of 4.2%. This is due a tough macroeconomic landscape that persisted in 2022 and 2023. With inflation easing and rates likely to see cuts this year, Morgan Stanley is likely to see rising client activity in its investment banking division, which could drive earnings growth.

In recent years, Morgan Stanley's earnings have benefited from the efficiencies gained through its 2021 acquisitions of E-Trade and Eaton Vance. The company's cash flow is now more stable, thanks to a shift in its revenue stream. Instead of relying on interest rates and market activity, the acquisitions allowed Morgan Stanley to generate steady management fees from E-Trade and Eaton Vance's recurring customer charges. Additionally, the focus on buybacks has contributed to the boost in EPS and shareholder value creation, with the company retiring about 15% of its shares since 2014, despite a 14% increase in share count to fund the 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.

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To generously reward shareholders, Morgan Stanley's board has approved notable dividend increases in recent years. A notable 100% surge in 2021 and subsequent growth of 10.7% and 9.7% in 2022 and 2023, along with strong buybacks, showcases their intent for maintaining robust shareholder returns.

Backed by favorable growth catalysts, including ongoing buybacks and improving conditions in the capital markets, we have set both our EPS and DPS growth expectations at 8%.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.1	11.4	11.3	15.9	9.7	8.5	12	11.2	13.8	16.2	***13.1***	***13.0***
Avg. Yld.	1.2%	1.8%	2.2%	1.9%	2.5%	3.0%	2.4%	1.8%	3.5%	3.9%	***4.0%***	***4.1%***

Morgan Stanley's valuation has hovered at quite reasonable levels throughout the decade. Shares are currently trading at 13.1 times our expected FY2024 earnings, which we believe is fair multiple. The 4.0% yield is at the high-end of the stock's historical range and is meaningfully contributing to the stock's total capital return profile.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	24%	20%	25%	30%	24%	26%	22%	26%	48%	63%	**53%**	**53%**

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.

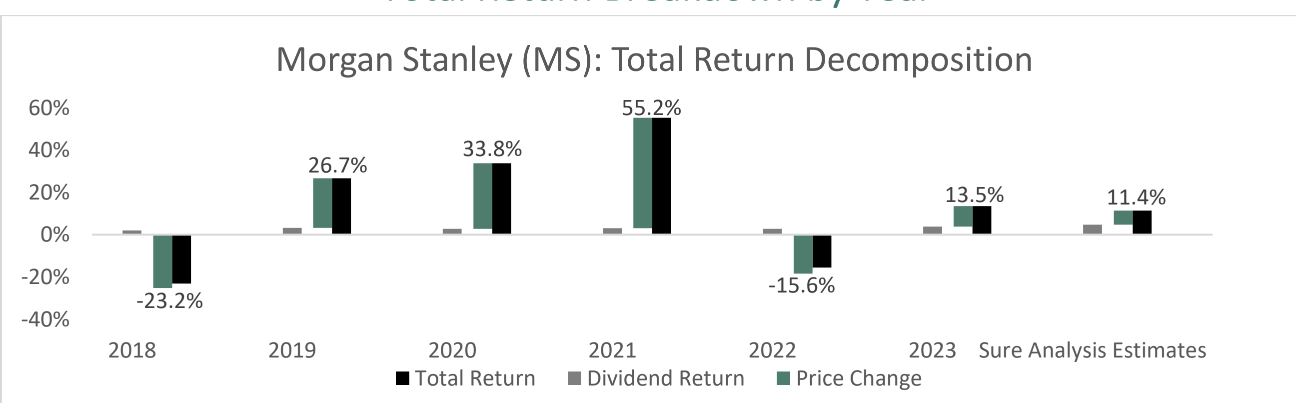
Morgan Stanley's resiliency was proven during the pandemic, with the banks producing excellent financials and executing confident, huge acquisitions. Its competitive advantage lies in its sheer size, currently being the second-biggest wealth management U.S. firm only behind Bank of America.

Interest rates remaining elevated and the fact that Morgan Stanley operates in 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 recent market headwinds, Morgan Stanley's profitability and capital returns, including dividend growth and share buybacks, have remained at solid levels. We expect annualized returns of 11.4% from the investment banking giant through 2029, stemming from our projected growth, the 4.0% yield, and relatively stable valuation assumptions. We rate MS as a buy.

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.