Morgan Stanley (MS)

Updated October 16th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	$121	**5 Year CAGR Estimate:**	6.9%	**Market Cap:**	$195.0 B
Fair Value Price:	$97	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	10/31/24
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.2%	**Dividend Payment Date:**	11/15/24
Dividend Yield:	3.1%	**5 Year Price Target**	$143	**Years Of Dividend Growth:**	11
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 October 16th, 2024, Morgan Stanley released its Q3 results for the period ending September 30th, 2024. Results have been improving, with the capital markets environment seeing positive momentum in recent months. Specifically, due to more favorable market conditions, the Investment Banking segment's revenues rose 56% over Q3-2023. Strong results were also recorded in the Equities division, with net revenues rising 22% compared to a year ago. They demonstrated improving results across business lines driven by increased client activity, particularly in the Americas and Asia. Fixed Income net revenues rose by just 3%. They were essentially unchanged from a year ago as higher results from strong client engagement and volatility were mostly offset by softer revenues in commodities.

Earnings-per-share for the quarter landed at $1.88, up 36% compared to the previous year. This metric was boosted by stock buybacks, with management continuing to execute its share repurchase program. They bought back $0.8 billion worth of stock during the quarter, leading to the company's share count declining by 2% year-over-year. We continue to expect EPS of $6.96 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	***$6.96***	***$10.23***
DPS	$0.40	$0.60	$0.75	$0.95	$1.15	$1.35	$1.40	$2.10	$2.95	$3.25	***$3.70***	***$5.44***
Shares[1]	1,924	1,909	1,849	1,780	1,708	1,617	1,810	1,772	1,675	1,627	***1,588***	***1,400***

Coming out of the Great Financials Crisis, Morgan Stanley's profitability surged. Earnings growth has lagged in 2022 and 2023. This was due a tough macroeconomic landscape that persisted at the time. Interest rates continue to remain high to this date. However, with inflation easing and rates likely to see cuts this year, financial deal making has already risen, driving EPS growth for the company this year.

In general, though, Morgan Stanley earnings continue to benefit from the acquisitions of E-Trade and Eaton Vance that took place back in 2021. 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.

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To generously reward shareholders, Morgan Stanley's board has approved notable dividend increases in recent years. A notable 100% surge took place in 2021 and subsequent hikes of 10.7%, 9.7%, and 8.8% in 2022, 2023, and 2024, 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	***17.3***	***14.0***
Avg. Yld.	1.2%	1.8%	2.2%	1.9%	2.5%	3.0%	2.4%	1.8%	3.5%	3.9%	***3.1%***	***3.8%***

Morgan Stanley's valuation has hovered at quite reasonable levels throughout the decade. Nevertheless, shares are now trading at 17.3 times our expected FY2024 earnings, which we believe overvalues the business. This could translate to a valuation headwind over the medium-term. The 3.1% yield is above-average relative to its historical range. With rates remaining high, though, investors should demand a higher risk premium from MS, even with potential cuts on the way.

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.

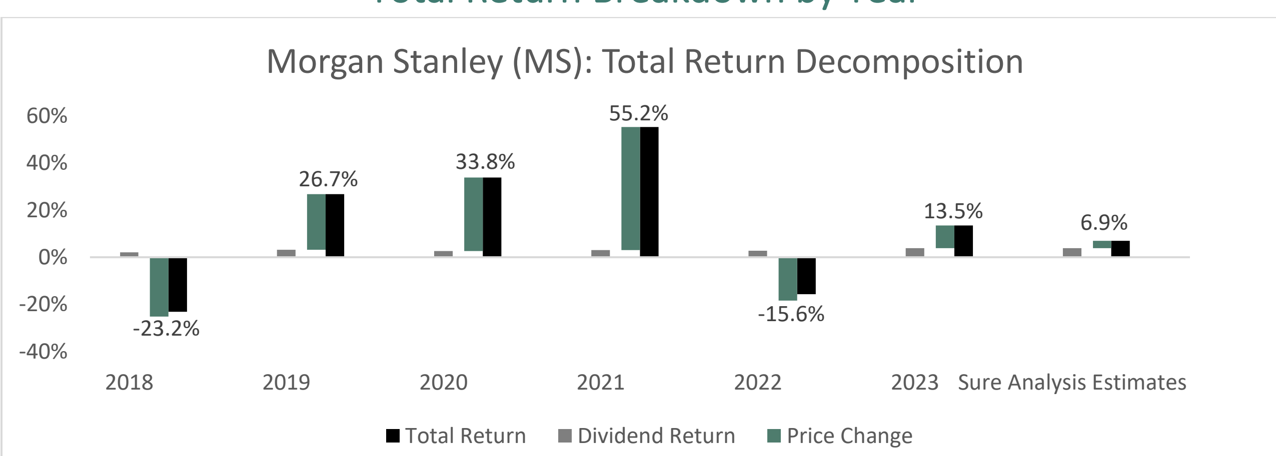
Morgan Stanley's resiliency was proven during the pandemic, with the banks producing excellent financials and executing confident, huge acquisitions. Its competitive advantage lies in its sheer size, currently being the second-biggest wealth management U.S. firm only behind Bank of America.

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

Morgan Stanley's results have built momentum following a gradually more favorable capital markets landscape. We expect annualized returns of 6.9% from the investment banking giant through 2029, stemming from our forecasted growth and the 3.1% yield, offset by the possibility of a valuation headwind. We downgrade MS to a hold.

Total Return Breakdown by Year



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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	32,469	33,263	32,711	35,852	37,714	38,926	45,270	56,410	50,210	50,670
SG&A Exp.	20,117	18,464	18,252	19,566	20,339	21,691	23,750	25,170	23,920	25,100
D&A Exp.	1,161	1,433	1,736	1,753	1,844	2,643	---	---	3,998	4,256
Net Profit	3,467	6,127	5,979	6,111	8,748	9,042	11,000	15,030	11,030	9,087
Net Margin	10.7%	18.4%	18.3%	17.0%	23.2%	23.2%	24.3%	26.6%	22.0%	17.9%
Free Cash Flow	94	(5,836)	4,107	(6,134)	5,440	38,947	---	31660	(9,475)	(36,950)
Income Tax	(90)	2,200	2,726	4,168	2,350	2,064	3,239	45,48	2,910	2,583

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	802	787	815	852	854	895	---	1,188	1,180	1,194
Cash & Equiv.	87,591	54,083	43,381	46,164	51,840	49,659	---	86,840	92,750	58,660
Accounts Rec	48,961	45,407	46,460	56,187	53,298	55,646	---	96,020	78,540	80,100
Goodwill & Int.	9,747	9,568	9,298	9,045	8,851	9,250	---	25,198	24,270	23,760
Total Liab ($B)	729	711	738	773	772	813	---	243	1,079	1,094
Accounts Pay ($B)	181	187	191	191	180	198	---	228	216	208.2
LT Debt ($B)	155	156	166	193	190	193	---	243	246	276.4
Book Value	64,880	67,662	68,530	68,871	71,726	73,029	---	97,969	91,390	90,290
LTD/E Ratio	2.19	2.07	2.18	2.49	2.36	2.36	---	2.31	2.46	2.79

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.4%	0.4%	0.8%	0.7%	0.7%	1.0%	1.0%	1.3%	0.9%	0.8%
Return on Equity	4.8%	5.4%	9.2%	8.8%	8.9%	12.4%	12.5%	15.8%	11.7%	9.0%
ROIC	1.3%	1.5%	2.7%	2.5%	2.4%	3.2%	3.3%	4.4%	3.2%	2.5%
Shares Out.	1,905	1,924	1,909	1,849	1,780	1,708	1,617	1,814	1,713	1,646
Revenue/Share	15.73	16.47	17.03	17.33	19.69	21.70	23.74	31.10	29.31	30.78
FCF/Share	17.22	0.05	(2.99)	2.18	(3.37)	3.13	23.75	17.45	(5.53)	(22.45)

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