

Morgan Stanley (MS)

\$47.49 (As of 07/07/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/12/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: C

Momentum: A

Summary

Morgan Stanley's shares have outperformed the industry over the past year. Its earnings outpaced the Zacks Consensus Estimate in three of the trailing four quarters. The deal to acquire E*Trade Financial is anticipated to further provide support to the Wealth Management segment. Additionally, focus on corporate lending operation and strength in investment management operations will likely support top-line growth in the quarters ahead. Although the company is aiming to change revenue mix to focus on less capital-markets driven sources, the financial impact from the same will likely be seen after some time. Therefore, a significant dependence on capital markets to generate trading and investment banking revenues makes us apprehensive. Furthermore, near-zero interest rates and elevated operating expenses are other major near-term concerns.

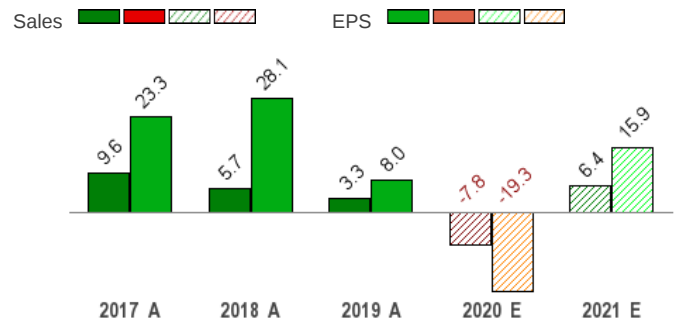
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.57 - \$27.20
20 Day Average Volume (sh)	12,167,809
Market Cap	\$74.8 B
YTD Price Change	-7.1%
Beta	1.51
Dividend / Div Yld	\$1.40 / 2.9%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 13% (32 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-7.5%
Last Sales Surprise	4.5%
EPS F1 Est- 4 week change	5.4%
Expected Report Date	07/16/2020
Earnings ESP	-0.4%
P/E TTM	10.3
P/E F1	11.8
PEG F1	1.3
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	10,077 E	10,438 E	10,043 E	10,038 E	40,596 E
2020	9,487 A	9,969 E	9,298 E	9,415 E	38,168 E
2019	10,286 A	10,244 A	10,032 A	10,857 A	41,419 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.21 E	\$1.19 E	\$1.13 E	\$1.06 E	\$4.66 E
2020	\$0.99 A	\$1.12 E	\$1.00 E	\$0.92 E	\$4.02 E
2019	\$1.33 A	\$1.23 A	\$1.21 A	\$1.20 A	\$4.98 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/07/2020. The reports text is as of 07/08/2020.

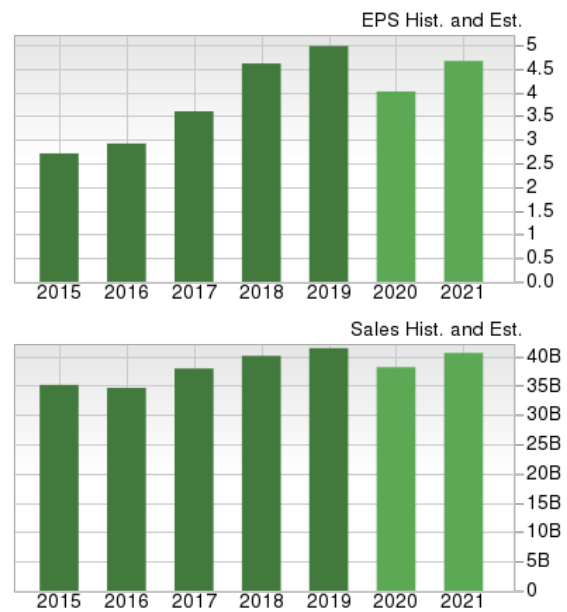
Overview

Founded in 1935 and incorporated under the laws of the State of Delaware in 1981, Morgan Stanley is the leading financial services holding company headquartered in New York. With 60,670 employees, the company serves a diversified group of clients and customers — including corporations, governments, financial institutions and individuals — through more than 1,200 offices across 43 countries.

The company's businesses are divided into three segments:

- The **Institutional Securities** (IS) segment (49% of net revenues in 2019) includes capital raising; financial advisory services that include advices on mergers and acquisitions, restructurings, real estate and project finance; corporate lending; sales, trading, financing and market-making activities in equity and fixed income securities and related products, including foreign exchange and commodities; benchmark indices and risk management analytics; and investment activities.
- The **Wealth Management** (WM) segment (43%) provides brokerage and investment advisory services covering various investment alternatives; financial and wealth planning services; annuity and other insurance products; credit and other lending products; cash management services; retirement services; and trust and fiduciary services and engages in fixed income principal trading.
- The **Investment Management** (IM) segment (8%) provides global asset management products and services in equity, fixed income, alternative investments that include hedge funds and funds of funds, and merchant banking including real estate, private equity and infrastructure, to institutional and retail clients through proprietary and third-party distribution channels. The segment also engages in investment.

In 2019, Morgan Stanley acquired Canada-based Solium Capital Inc. and renamed it as Shareworks.



Reasons To Buy:

- ▲ Morgan Stanley is undertaking several initiatives to restructure operations, with a goal of increasing reliable revenue sources. Thus, the company is focusing on segments — Wealth Management and Investment Management — that are less dependent on capital markets. Driven by these efforts, both the segment's aggregate contribution to net revenues jumped from 26% in 2010 to 51% in 2019. Further, WM's total client assets witnessed a three-year CAGR of 6.7% (2017-2019). Moreover, the planned acquisition of E*Trade Financial and Shareworks deal will likely further strengthen the segment's performance. Also, the company is leveraging its business mix and global client footprint to boost IM's performance, with assets balance recording a five-year CAGR of 8% (ended 2019). The company's partnership with MUFG will also support profitability.
- ▲ Morgan Stanley is focused on strengthening its corporate banking unit, which is leading to steady rise in consolidated loans and lending commitments. The same witnessed a three-year CAGR of 9.8% (2017-2019). These efforts also resulted in an increase in net interest income (NII), which witnessed a four-year CAGR of 8.3% (2016-2019). The uptrend for both consolidated loans and lending commitments, and NII continued in the first quarter of 2020. While the decline in interest rates due to the Federal Reserve's accommodative policy stance will likely hurt interest income to some extent in the near term, the top line is expected to continue to get support from steady loan growth.
- ▲ As of Mar 31, 2020, Morgan Stanley had total debt of \$407.4 billion, and cash and cash equivalents worth \$131.5 billion. Nonetheless, its total debt to total capital of 69.1% at the end of first quarter has declined sequentially and is lower than the industry average of 73.9%. Thus, given the earnings strength, Morgan Stanley has lower credit risk and lesser likelihood of default on interest and/or debt repayments if the economic situation worsens further.
- ▲ We remain encouraged by Morgan Stanley's capital deployment activities. In June 2020, the company cleared the stress test and announced plans to continue maintaining dividend at the current level. Moreover, the company has suspended share repurchases for the third quarter 2020. Given its solid liquidity position and earnings strength, the company will be able to sustain capital deployments and continue enhancing shareholder value going forward.
- ▲ Shares of Morgan Stanley have outperformed the industry so far this year. Also, the company's 2020 earnings estimates have moved marginally upward over the past seven days. Further, the stock seems to be trading at a discount when compared with the broader industry as its current price-to-book and price-earnings (F1) ratios are lower than the respective industry averages. Also, it has a Value Score of B. So, given the strong fundamentals and positive estimate revisions, the stock has upside potential.

Morgan Stanley's focus on less capital-market dependent operations and decent loan demand will support revenue growth. Also, steady capital deployments reflect its strong balance sheet position.

Reasons To Sell:

- ▼ Morgan Stanley's Institutional Securities ("IS") segment (mainly constituting trading and investment banking businesses) depends on the overall performance of the capital markets. Despite recording impressive growth in the trading business in first-quarter 2020, overall segment performance was disappointing. Its top-line performance was dismal in 2019, as the challenging operating environment resulted in volatile client activities, and muted equity/debt issuances and M&As. With coronavirus-induced slowdown likely to persist in the near term, the segment's future performance depends on market developments and client volumes.
- ▼ Despite Morgan Stanley's restructuring and streamlining efforts that resulted in achieving cost saving target of \$1 billion in 2017, expenses have been increasing. Operating expenses recorded a four-year CAGR of 5.3% (till 2019). Though costs remained relatively stable in the first quarter, the same is likely to rise, given steadily increasing revenues (leading to higher compensation costs), investment in franchise and inorganic growth efforts.
- ▼ Also, Morgan Stanley's trailing 12-month return on equity (ROE) undercuts its growth potential. The company's ROE of 10.62% compares unfavorably with ROE of 14.01% for the industry and 15.75% for the S&P 500. This reflects that it is less efficient in using shareholders' funds.

Dependence on capital markets will likely hamper Morgan Stanley's top-line growth going forward. Also, elevated expenses are a key near-term concern and will hurt the bottom line to some extent.

Last Earnings Report

Morgan Stanley Q1 Earnings Miss on Coronavirus Mayhem

Morgan Stanley's first-quarter 2020 adjusted earnings of 99 cents per share missed the Zacks Consensus Estimate of \$1.07. Also, the figure declined 26% from the year-ago quarter. The results were largely impacted by coronavirus-related concerns and economic slowdown.

As expected, Morgan Stanley recorded a 11% year-over-year decline in advisory fees. Equity underwriting fees inched down 1%, while fixed income underwriting revenues grew 10% from the prior-year quarter. Therefore, investment banking fees fell 1% from the year-ago quarter.

As projected, its trading revenues registered growth. Specifically, fixed income trading revenues increased 29% and equity trading income improved 20% from the prior-year period. Overall trading revenues increased 30% from the year-ago period.

Higher net interest income, driven by a rise in loan balance (up 15%) and lower interest expenses, supported the top line to some extent.

Net income applicable to common shareholders during the quarter was \$1.60 billion, decreasing 32% from a year ago.

Lower Advisory Fees Hurt Revenues, Costs Stable

Net revenues were \$9.49 billion, down 8% from the prior-year quarter. However, the top line beat the Zacks Consensus Estimate of \$9.08 billion.

Net interest income was \$1.36 billion, jumping 34% from the year-ago quarter. This was largely due to 34% fall in interest expenses.

Total non-interest revenues of \$8.13 billion declined 12% year over year.

Total non-interest expenses were \$7.34 billion, on par with the prior-year reported number.

Dismal Segmental Performance

Institutional Securities: Pre-tax income from continuing operations was \$950 million, decreasing 40% year over year. Net revenues were \$4.91 billion, down 6% from the prior-year figure. The fall was mainly due to lower investment banking revenues and loss in investment revenues, partially offset by higher trading income.

Wealth Management: Pre-tax income from continuing operations totaled \$1.06 billion, down 11% from the year-ago figure. Net revenues were \$4.04 billion, declining 8% year over year, as fall in transactional revenues and net interest income were partially offset by higher asset management revenues.

Investment Management: Pre-tax income from continuing operations was \$143 million, falling 18% from the year-ago quarter. Net revenues were \$692 million, down 14% from the prior-year level. The decrease was mainly owing to lower investment revenues, partially offset by a rise in asset management fees.

As of Mar 31, 2020, total assets under management or supervision were \$584 billion, up 22% on a year-over-year basis.

Strong Capital Position

As of Mar 31, 2020, book value per share was \$49.09, up from \$42.83 in the corresponding period of 2019. Tangible book value per share was \$43.28, up from \$37.62 in the comparable year-ago period.

Morgan Stanley's Tier 1 capital ratio was 17.4% compared with 19.0% in the year-ago quarter. Tier 1 common equity ratio was 15.3%, down from 16.7% in the prior year.

Share Repurchase Update

During the first quarter, Morgan Stanley repurchased shares worth \$1.3 billion. This was part of the company's 2019 capital plan. Notably, in mid-March, the company suspended the buyback plan amid coronavirus pandemic.

Guidance

Management provided a two-year outlook in January. However, given the uncertainty surrounding the coronavirus pandemic, the company has pointed out that these will likely take much longer to achieve. On first-quarter 2020 earnings conference call, the company's CEO said, "We will have much greater visibility to discuss these objectives towards the end of this year."

The company expects effective tax rate to increase from the first-quarter 2020 level in the subsequent quarters and full-year 2020 tax rate to be approximately 22-23%.

Quarter Ending 03/2020

Report Date	Apr 16, 2020
Sales Surprise	4.49%
EPS Surprise	-7.48%
Quarterly EPS	0.99
Annual EPS (TTM)	4.63

Recent News

Morgan Stanley to Launch a Wealth Management Unit in Canada - May 20, 2020

Morgan Stanley plans to launch a full-service wealth management unit in Canada with an aim to bolster the existing services it provides to the country. The plans are subject to regulatory approval.

The new unit, Morgan Stanley Wealth Management Canada, will be part of Shareworks by Morgan Stanley that administers stock plans for employees and executives at Canadian companies. Also, it has partnered with Canaccord Genuity as its deployment partner for the business.

The move will expand the services Morgan Stanley currently provides in Canada, which include full-service and virtual financial advisors, a discount self-directed investing solution and online investment management.

"Morgan Stanley's leading U.S. wealth management platform has over \$2.4 trillion in assets under management and is supported by more than 15,000 financial advisors. We're excited to expand our wealth management footprint into Canada with a solution that's tailored to the Canadian market," said Laura Adams, head of institutional distribution in Canada and Morgan Stanley Wealth Management Canada.

Morgan Stanley has been providing services in Canada since 1960 and has offices in Toronto, Calgary, Vancouver and Montreal, where it employs more than 1,500 Canadians.

Morgan Stanley to Acquire E*TRADE for \$13 Billion - Feb 20, 2020

Morgan Stanley announced an all-stock deal to acquire Arlington, VA-based E*TRADE Financial for \$13 billion. Post completion, Morgan Stanley will be well positioned as a leader in the Wealth Management industry across all channels and wealth segments, with significant increase in the scale and breadth of its franchise.

E*TRADE's more-than 5.2-million client accounts and \$360 billion of retail client assets will augment Morgan Stanley's current 3-million client relationships and \$2.7 trillion of client assets. Thus, the combined entity will have client assets worth \$3.1 trillion, 8.2 million retail client relationships and accounts, and 4.6 million stock-plan participants.

Morgan Stanley will be able to serve clients with superior products and services catering the advisor-driven model, combined with E*TRADE's direct-to-consumer and digital processes. Moreover, the deal is in sync with the company's aim for transition toward "a more balance-sheet light business mix", with strong and diversified revenue sources.

"E*TRADE represents an extraordinary growth opportunity for our Wealth Management business and a leap forward in our Wealth Management strategy. The combination adds an iconic brand in the direct-to-consumer channel to our leading advisor-driven model, while also creating a premier Workplace Wealth provider for corporations and their employees. E*TRADE's products, innovation in technology, and established brand will help position Morgan Stanley as a top player across all three channels: Financial Advisory, Self-Directed, and Workplace," said James Gorman, chairman and CEO of Morgan Stanley.

The deal still awaits certain regulatory approvals and customary approvals by shareholders of E*TRADE. The transaction is anticipated to close in the final quarter of 2020.

Besides, Moody's has placed Morgan Stanley's ratings under review for upgrade.

Terms of the Deal

Per terms of the deal, each shareholder of E*TRADE will get stock equivalent to 1.0432 of Morgan Stanley shares for every E*TRADE share held. This represents per share value of \$58.74 based on the closing price of Morgan Stanley common stock as on Feb 19, 2020.

Strategically, the combined entity will enhance through advanced technologies, innovative products and create a competitive edge with financial stability. Remarkably, on completion of the acquisition, online brokerage and digital banking services will enhance clients' experience.

Mike Pizzi, CEO of E*TRADE, will join Morgan Stanley, looking after the E*TRADE business within Morgan Stanley and head the ongoing integration process. Moreover, one of E*TRADE's independent directors is likely to join Morgan Stanley's board.

Financial Benefits

Catering huge funding benefits to Morgan Stanley, the deal comes with around \$56 billion of low-cost deposits. The acquisition move follows the investment bank's efforts to focus on balance-sheet light and more lasting sources of revenues. Notably, post integration, the combined wealth and investment management businesses are likely to contribute about 57% of the bank's pre-tax profits, excluding potential synergies, above the 26% recorded in 2010.

Post combination, significant cost savings worth \$400 million is expected with optimization of technology infrastructure and shared corporate services, along with funding synergies of \$150 million from E*TRADE's around \$56 billion of deposits. In addition, \$7.3 trillion of combined current customer assets is likely to generate significant revenue opportunities.

Per Morgan Stanley, the acquisition is likely to be accretive once fully phased-in estimated cost and funding synergies are realized. Furthermore, the company's common equity tier 1 ratio is estimated to improve by more than 30 basis points (bps) on closure and augment return on tangible common equity by more than 100 bps, with fully phased-in cost and funding synergies. Apart from this, Wealth Management's pre-tax profit margin is expected to be up more than 30%.

Dividend Update

On Apr 16, Morgan Stanley announced a quarterly cash dividend of 35 cents per share. The dividend was paid out on May 15 to shareholders on record as of Apr 30.

Valuation

Morgan Stanley's shares are down 7.1% in the year-to-date period but up 8.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 14.2% and 19.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 4.7% and 15%, respectively.

The S&P 500 index is down 1.1% in the year-to-date period but up 7.2% in the past year.

The stock is currently trading at 10.96X forward 12 months earnings, which compares to 12.36X for the Zacks sub-industry, 16.03X for the Zacks sector and 22.48X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.94X and as low as 5.21X, with a 5-year median of 10.23X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$51 price target reflects 11.75X forward earnings.

The table below shows summary valuation data for MS

Valuation Multiples - MS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.95	12.36	16.03	22.48
	5-Year High	15.94	15.3	16.2	22.48
	5-Year Low	5.21	6.05	12	15.15
	5-Year Median	10.23	11.55	13.97	17.42
P/TB TTM	Current	1.07	2.07	2.6	11.26
	5-Year High	1.72	3.33	3.96	11.57
	5-Year Low	0.69	1.6	2.44	5.97
	5-Year Median	1.21	2.38	3.51	9.11
P/S F12M	Current	1.91	3.48	6.57	3.5
	5-Year High	2.67	4.53	6.62	3.5
	5-Year Low	1.06	2.8	5.39	2.54
	5-Year Median	1.93	3.53	6.06	3.01

As of 07/07/2020

Industry Analysis Zacks Industry Rank: Top 13% (32 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Bank of America Corporation (BAC)	Neutral	3
Evercore Inc (EVR)	Neutral	2
The Goldman Sachs Group, Inc. (GS)	Neutral	3
JPMorgan ChaseCo. (JPM)	Neutral	3
KeyCorp (KEY)	Neutral	3
Lazard Ltd (LAZ)	Neutral	3
MoelisCompany (MC)	Neutral	4
The PNC Financial Services Group, Inc (PNC)	Neutral	3

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	MS	X Industry	S&P 500	BAC	GS	JPM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	F	F	F
Market Cap	74.83 B	585.03 M	21.64 B	199.63 B	68.56 B	281.30 B
# of Analysts	7	2	14	9	7	9
Dividend Yield	2.95%	0.28%	1.92%	3.13%	2.51%	3.90%
Value Score	B	-	-	F	F	F
Cash/Price	4.10	0.69	0.07	3.75	5.30	4.13
EV/EBITDA	-2.18	2.75	12.68	-5.38	-4.42	-7.83
PEG Ratio	1.31	1.63	2.88	2.34	5.55	3.58
Price/Book (P/B)	0.95	1.80	3.01	0.83	0.84	1.22
Price/Cash Flow (P/CF)	6.78	8.05	11.66	6.27	6.94	6.58
P/E (F1)	11.81	13.93	21.31	16.37	13.26	17.90
Price/Sales (P/S)	1.44	1.30	2.30	1.79	1.30	2.02
Earnings Yield	8.46%	7.08%	4.43%	6.13%	7.54%	5.59%
Debt/Equity	2.48	0.32	0.76	1.06	2.78	1.29
Cash Flow (\$/share)	7.01	1.94	6.94	3.67	28.72	14.04
Growth Score	C	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	20.05%	17.73%	10.90%	24.42%	7.81%	15.63%
Proj. EPS Growth (F1/F0)	-19.31%	-19.31%	-9.72%	-48.89%	-28.53%	-51.89%
Curr. Cash Flow Growth	9.18%	-0.49%	5.51%	3.02%	-13.72%	9.35%
Hist. Cash Flow Growth (3-5 yrs)	13.46%	13.09%	8.55%	27.50%	0.72%	10.67%
Current Ratio	0.80	1.27	1.30	0.92	0.79	0.89
Debt/Capital	69.08%	26.50%	44.46%	49.21%	70.94%	54.97%
Net Margin	16.01%	9.80%	10.62%	21.64%	14.04%	21.61%
Return on Equity	10.62%	14.01%	15.75%	10.64%	9.26%	12.52%
Sales/Assets	0.06	0.29	0.55	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-7.85%	-1.63%	-2.57%	-4.61%	-3.66%	-3.83%
Momentum Score	A	-	-	C	A	A
Daily Price Chg	-2.72%	-0.34%	-1.54%	-2.75%	-3.86%	-2.82%
1 Week Price Chg	1.57%	1.52%	3.66%	0.60%	4.34%	0.08%
4 Week Price Chg	-5.77%	-5.66%	-6.66%	-18.46%	-8.59%	-16.48%
12 Week Price Chg	19.14%	4.81%	7.04%	-3.03%	11.85%	-3.33%
52 Week Price Chg	8.47%	-12.78%	-6.88%	-21.60%	-4.05%	-18.55%
20 Day Average Volume	12,167,809	134,085	2,385,506	72,414,640	3,268,385	22,685,240
(F1) EPS Est 1 week change	0.79%	0.00%	0.00%	-0.16%	5.08%	1.31%
(F1) EPS Est 4 week change	5.40%	0.00%	0.00%	-4.96%	8.88%	0.54%
(F1) EPS Est 12 week change	5.47%	0.00%	-8.21%	-37.90%	8.90%	-37.88%
(Q1) EPS Est Mthly Chg	4.53%	0.00%	0.00%	-1.32%	15.41%	7.29%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	C
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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