

Morgan Stanley (MS)

\$52.64 (As of 07/16/20)

Price Target (6-12 Months): **\$55.00**

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

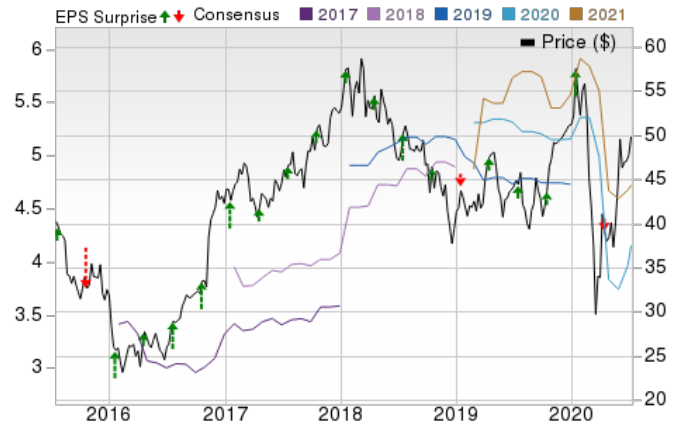
Growth: B

Momentum: A

Summary

Morgan Stanley's shares have outperformed the industry so far this year. Its earnings outpaced the Zacks Consensus Estimate in three of the trailing four quarters. Its second-quarter 2020 results benefited from higher revenues, partly offset by a rise in costs. The company's plan to acquire E*Trade Financial will likely provide support to its Wealth Management segment. Focus on corporate lending operations and strength in Investment Management operations will likely aid the top line. Although the company is aiming to change the revenue mix and focus more on less capital-market driven sources, the financial impact from the same will be seen after some time. Thus, significant dependence on capital markets to generate trading and investment banking revenues makes us apprehensive. Near-zero interest rates and higher costs are other concerns.

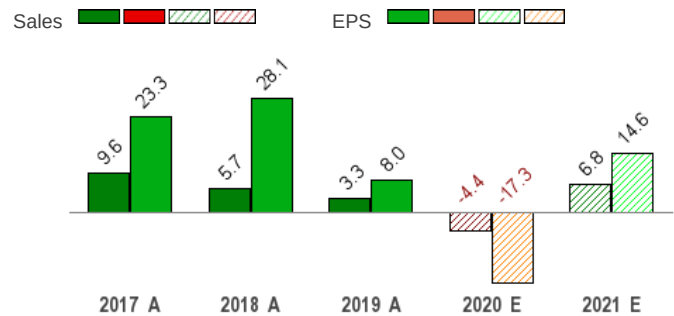
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.57 - \$27.20
20 Day Average Volume (sh)	12,898,667
Market Cap	\$82.9 B
YTD Price Change	3.0%
Beta	1.51
Dividend / Div Yld	\$1.40 / 2.7%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 31% (78 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	74.4%
Last Sales Surprise	24.5%
EPS F1 Est- 4 week change	7.6%
Expected Report Date	10/15/2020
Earnings ESP	0.0%
P/E TTM	9.7
P/E F1	12.8
PEG F1	1.4
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	10,581 E	10,804 E	10,434 E	10,455 E	42,273 E
2020	9,487 A	13,414 A	9,661 E	9,657 E	39,581 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	\$1.23 E	\$1.21 E	\$1.15 E	\$1.10 E	\$4.72 E
2020	\$0.99 A	\$2.04 A	\$1.05 E	\$0.98 E	\$4.12 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 07/16/2020. The reports text is as of 07/17/2020.

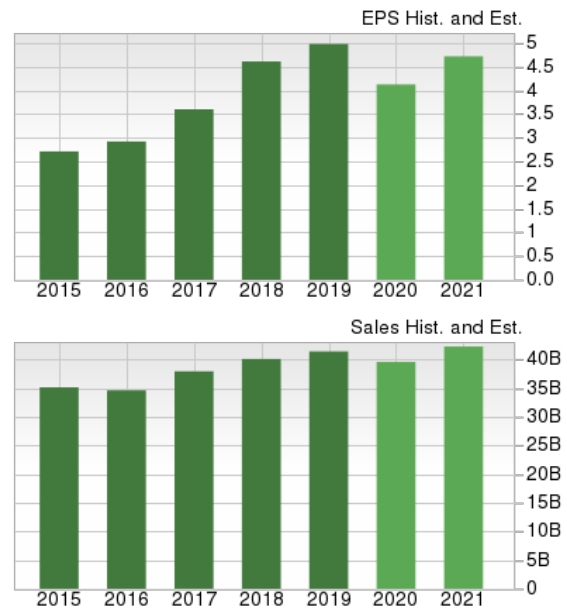
Overview

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 41 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 that are less dependent on capital markets like the Wealth Management and Investment Management. Driven by these efforts, both the segment's aggregate contribution to net revenues jumped from 26% in 2010 to 51% in 2019. Further, WM segment's total client assets witnessed a three-year CAGR of 6.7% (2017-2019), with the uptrend continuing in the first half of 2020. Moreover, the Shareworks deal and the planned acquisition of E*Trade Financial will likely further strengthen the segment's performance. Morgan Stanley is also leveraging its business mix and global client footprint to boost IM segment's performance. IM segment's total assets balance recorded a five-year CAGR of 8% (ended 2019), with the uptrend continuing in the first six months of 2020. Notably, the company's partnership with MUFG will also support profitability.

Morgan Stanley's increased focus on less capital-market dependent operations and decent loan demand will aid revenue growth. Steady capital deployments reflect its strong balance sheet position.

▲ Moreover, Morgan Stanley is focused on strengthening its corporate banking unit, which has been leading to a steady rise in consolidated loans and lending commitments. The same witnessed a three-year CAGR of 9.8% (2017-2019), with the uptrend continuing in the first six months of 2020. These efforts have also resulted in an increase in net interest income (NII), which witnessed a four-year CAGR of 8.3% (2016-2019). The uptrend for NII continued in the first six months of 2020. While near-zero interest rates amid the Federal Reserve's accommodative policy stance is expected to continue to hurt interest income growth to some extent in the near term, Morgan Stanley's top line will likely get support from steady loan growth.

▲ 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 of 2020. Nevertheless, given its solid liquidity position and earnings strength, it is expected to be able to sustain current capital deployments, thereby enhancing shareholder value.

▲ 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, the stock has a Value Score of B. Given the strong fundamentals and positive estimate revisions, the stock has upside potential.

Reasons To Sell:

- ▼ Morgan Stanley's Institutional Securities segment (mainly constituting trading and investment banking ("IB") businesses) depends on the overall performance of the capital markets. Driven by the coronavirus outbreak-induced market volatility along with higher client activities, the trading business recorded impressive growth in the first six months of 2020. Also, overall segment revenues witnessed an increase in the first half of this year. However, the segment's 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. In fact, due to the continued fears about the impact of the virus, M&As have remained muted since the beginning of 2020. Thus, as the coronavirus-induced slowdown is likely to persist in the near term, the segment's future performance remains uncertain as it depends on market developments and client volumes.
- ▼ Despite Morgan Stanley's restructuring and streamlining efforts that resulted in achieving cost savings target of \$1 billion in 2017, expenses have been increasing. Operating expenses recorded a four-year CAGR of 5.3% (till 2019), with the uptrend continuing in the first six months of 2020. Overall costs are expected to remain elevated, given the steadily increasing revenues (leading to higher compensation costs), the company's investments 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 14.28% for the industry and 15.75% for the S&P 500. This reflects that it is less efficient in using shareholders' funds.

Uncertainty about the performance of the capital markets remains a major concern for Morgan Stanley. Persistently increasing expenses are expected to hurt the bottom line to an extent in the near term.

Last Earnings Report

Morgan Stanley Q2 Earnings Beat Estimates on IB, Trading Strength

Morgan Stanley's second-quarter 2020 adjusted earnings of \$2.04 per share hugely surpassed the Zacks Consensus Estimate of \$1.17. Also, the figure improved 66% from the year-ago quarter.

The company's trading business delivered a stellar performance. Fixed income trading revenues soared 168% year over year and equity trading income grew 23%. Thus, overall trading revenues jumped 68% from the year-ago period.

Further, the IB business was impressive, despite weakness in advisory (resulting in a 9% year-over-year decline in corresponding fees). Equity underwriting fees jumped 62%, while fixed income underwriting revenues surged 68% from the prior-year quarter. Therefore, IB fees rose 39% from the year-ago quarter.

Additionally, higher net interest income — driven by a rise in loan balance (up 14%) and lower interest expenses — supported the top line.

However, mounting operating expenses hurt the results to some extent. The company recorded provision for credit losses on loans and lending commitments of \$239 million, up significantly from \$18 million in the prior-year quarter.

Net income applicable to common shareholders during the quarter was \$3.05 billion, which grew 50% from a year ago.

Improved Trading Aids Revenues, Costs Rise

Net revenues were \$13.41 billion, surging 31% from the prior-year quarter. Moreover, the top line beat the Zacks Consensus Estimate of \$10.78 billion.

Net interest income was \$1.6 billion, which jumped 55% from the year-ago quarter. This was largely due to a 78% plunge in interest expenses.

Total non-interest revenues of \$11.81 billion grew 28% year over year.

Total non-interest expenses were \$9.06 billion, up 23% from the prior-year number. The increase was largely due to a 33% increase in compensation and benefits cost.

Solid Segmental Performance

Institutional Securities: Pre-tax income from continuing operations was \$2.99 billion, growing substantially from \$1.46 billion in the prior year quarter. Net revenues were \$7.98 billion, soaring 56% year over year. The rise was mainly driven by higher IB and trading revenues.

Wealth Management: Pre-tax income from continuing operations totaled \$1.14 billion, down 8% from the year-ago figure. Net revenues were \$4.68 billion, increasing 6% year over year, as higher transactional revenues and a slight increase in net interest income were partially offset by lower asset management revenues.

Investment Management: Pre-tax income from continuing operations was \$216 million, rising 9% from the year-ago quarter. Net revenues were \$886 million, up 6% from the prior-year level. The increase was mainly attributed to a rise in asset management fees, partially offset by lower investment revenues.

As of Jun 30, 2020, total assets under management or supervision were \$665 billion, up 34% on a year-over-year basis.

Strong Capital Position

As of Jun 30, 2020, book value per share was \$49.57, up from \$44.13 in the corresponding period of 2019. Tangible book value per share was \$43.68, up from \$38.44 in the comparable year-ago period.

Morgan Stanley's Tier 1 capital ratio was 18.1% compared with 18.3% in the year-ago quarter. Tier 1 common equity ratio was 16.1%, down from 16.3% in the prior year.

Guidance

The company expects integration and acquisition-related expenses to erode margins by 50-100 basis points (bps) in the third quarter of 2020.

Also, NII is anticipated to decline in the remaining half of 2020.

The company expects 2020 core tax rate to be 22-23%.

Quarter Ending 06/2020

Report Date	Jul 16, 2020
Sales Surprise	24.47%
EPS Surprise	74.36%
Quarterly EPS	2.04
Annual EPS (TTM)	5.44

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 Jul 16, Morgan Stanley announced a quarterly cash dividend of 35 cents per share. The dividend will be paid out on Aug 14 to shareholders of record as of Jul 31.

Valuation

Morgan Stanley's shares are up 3% in the year-to-date period and 18.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 8.7% and 18.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 0.5% while the sector is down 13.7%.

The S&P 500 index is up 0.4% in the year-to-date period and 8.4% in the past year.

The stock is currently trading at 11.81X forward 12 months earnings, which compares to 13.04X for the Zacks sub-industry, 16.45X for the Zacks sector and 22.89X 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 \$55 price target reflects 12.33X 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	11.81	13.04	16.45	22.89
	5-Year High	15.94	15.31	16.45	22.89
	5-Year Low	5.21	6.04	11.59	15.25
	5-Year Median	10.23	11.67	14.16	17.52
P/TB TTM	Current	1.19	2.23	3.33	12.74
	5-Year High	1.72	3.33	4	12.78
	5-Year Low	0.69	1.4	2	5.96
	5-Year Median	1.2	2.37	3.48	9.5
P/S F12M	Current	2.02	3.64	6.04	3.58
	5-Year High	2.67	4.53	6.66	3.58
	5-Year Low	1.06	2.74	4.96	2.53
	5-Year Median	1.93	3.55	6.06	3.02

As of 07/16/2020

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Bank of America Corporation (BAC)	Neutral	3
Evercore Inc (EVR)	Neutral	3
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	82.94 B	644.28 M	22.43 B	207.61 B	73.82 B	304.73 B
# of Analysts	7	2	14	9	7	10
Dividend Yield	2.66%	0.30%	1.82%	3.01%	2.33%	3.60%
Value Score	B	-	-	F	F	F
Cash/Price	3.93	0.68	0.07	3.64	5.09	3.97
EV/EBITDA	-1.60	2.68	13.00	-5.13	-4.19	-7.25
PEG Ratio	1.42	1.60	2.97	2.37	5.85	3.55
Price/Book (P/B)	1.05	1.80	3.13	0.86	0.80	1.30
Price/Cash Flow (P/CF)	7.51	8.40	12.13	6.52	7.47	7.12
P/E (F1)	12.74	14.11	21.97	16.57	13.97	17.74
Price/Sales (P/S)	1.58	1.36	2.38	1.95	1.36	2.20
Earnings Yield	7.83%	7.02%	4.35%	6.02%	7.16%	5.64%
Debt/Equity	2.48	0.32	0.75	1.08	2.42	1.35
Cash Flow (\$/share)	7.01	1.94	6.94	3.67	28.72	14.04
Growth Score	B	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	20.05%	17.73%	10.85%	24.42%	7.81%	15.63%
Proj. EPS Growth (F1/F0)	-17.18%	-14.15%	-9.37%	-47.48%	-26.93%	-47.40%
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	1.28	1.30	0.93	1.24	0.88
Debt/Capital	69.08%	26.50%	44.33%	49.62%	70.79%	56.09%
Net Margin	17.78%	9.80%	10.59%	19.09%	13.40%	18.16%
Return on Equity	12.03%	13.24%	15.74%	9.11%	8.71%	10.75%
Sales/Assets	0.06	0.29	0.54	0.04	0.05	0.05
Proj. Sales Growth (F1/F0)	-4.44%	0.00%	-2.44%	-4.71%	-1.47%	-0.01%
Momentum Score	A	-	-	B	A	A
Daily Price Chg	2.51%	-0.16%	-0.06%	-2.72%	-1.03%	0.28%
1 Week Price Chg	4.21%	0.00%	-0.41%	3.13%	4.13%	3.90%
4 Week Price Chg	10.64%	0.00%	1.63%	-4.43%	5.31%	1.08%
12 Week Price Chg	40.49%	16.30%	15.55%	9.42%	22.63%	11.88%
52 Week Price Chg	18.48%	-10.08%	-4.26%	-18.83%	0.07%	-12.79%
20 Day Average Volume	12,898,667	116,968	2,236,294	66,954,444	4,092,612	23,930,804
(F1) EPS Est 1 week change	0.56%	0.00%	0.00%	-0.23%	0.96%	1.53%
(F1) EPS Est 4 week change	7.64%	1.13%	0.01%	0.83%	9.26%	9.92%
(F1) EPS Est 12 week change	9.01%	9.01%	-5.24%	-6.36%	15.11%	10.14%
(Q1) EPS Est Mthly Chg	9.76%	1.26%	0.00%	18.20%	19.30%	34.99%

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	B
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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