

Morgan Stanley

2024 Year Ahead: Great expectations

Reiterate Rating: BUY | PO: 100.00 USD | Price: 91.91 USD

Instilling confidence in franchise profitability key

Significant year for Morgan Stanley (MS) given the transition to new CEO Ted Pick effective Jan 1. The Street will be looking for signs of any tactical/strategic/talent related changes (we don't expect any material changes near-term). Most importantly, investors will need confidence that mgmt's strategic goals – 20%+ ROTCE; 30%+ wealth management (WM) pre-tax margin – remain attainable despite rising regulatory burden and interest rate related headwinds. Reiterate Buy on attractive risk-reward.

Business model resilience put to test

While the Street has rewarded mgmt's strategy by assigning a premium multiple to the stock, investors would likely need continued evidence that mgmt. can deliver on its goal of \$1trn growth in client assets every three years. This in an intensely competitive landscape for WM assets. We view the MS business model as relatively nascent and one that needs to prove its resilience through multiple economic/market backdrops...but, so far so good.

Executing on global ambitions

Outgoing CEO (and current Executive Chairman) James Gorman has recently noted mgmt's desire to grow the WM business outside the US, both organically and via M&A. We expect to see some action on this front as MS goes head-to-head with the likes of UBS, Julius Baer, and HSBC to tap into the rapidly growing WM wallet, especially in Asia (Middle East, India, Japan). We see the potential for E*Trade to go global (integration completed during 3Q23), tapping into younger clients.

Rate backdrop to cut multiple ways

In the near term, search for higher rates is likely to weigh on WM net interest income (NII). We forecast 10% QoQ drop for 4Q23; -20% YoY for FY24. NII outlook to be driven by the combination of interest rates and customer preference. Positively, expectations for rate-cuts could cause clients to move into higher fee products as they try to lock-in higher rates. We revise our 4Q23e EPS to \$1.10 from \$1.14 (excludes \$0.17 in merger charges and FDIC assessment). Raise FY24e EPS to \$6.25 from \$6.10, and PO to \$100 (from \$95), based on 2024e EPS/2024e TBV multiples of 19.5x/1.8x (vs 18.6x/1.8x previously to reflect potential bounce in investment banking and improving revenue mix).

Valuation a stumbling block

Continued on page 3...

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	8.21	6.35	5.43	6.25	7.30
GAAP EPS	8.03	6.30	5.29	6.25	7.30
EPS Change (YoY)	25.2%	-22.6%	-14.6%	15.1%	16.8%
Consensus EPS (Bloomberg)			5.57	6.62	7.54
DPS	2.10	2.95	3.25	3.50	3.80
Valuation (Dec)					
P/E	11.2x	14.5x	16.9x	14.7x	12.6x
GAAP P/E	11.4x	14.6x	17.4x	14.7x	12.6x
Dividend Yield	2.3%	3.2%	3.5%	3.8%	4.1%

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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04 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	95.00	100.00
2023E Rev (m)	53,626.3	53,698.9
2024E Rev (m)	54,131.4	54,558.8
2025E Rev (m)	57,442.8	58,602.1
2023E EPS	5.46	5.43
2024E EPS	6.10	6.25
2025E EPS	7.20	7.30

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Stock Data

Price	91.91 USD
Price Objective	100.00 USD
Date Established	4-Jan-2024
Investment Opinion	B-1-7
52-Week Range	69.42 USD - 100.99 USD
Mrkt Val / Shares Out (mn)	162,865 USD / 1,772.0
Free Float	75.8%
Average Daily Value	701.23 USD
BofA Ticker / Exchange	MS / NYS
Bloomberg / Reuters	MS US / MS.N
ROE (2023E)	9.9%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Morgan Stanley

Income Statement Data (Dec)

(US\$Millions)	2021A	2022A	2023E	2024E	2025E
Net Revenues	59,755	53,668	53,699	54,559	58,602
Compensation & Benefits	(24,618)	(23,032)	(24,246)	(24,015)	(25,649)
% of Net Revenue	41.2	42.9	45.2	44.0	43.8
Non-Compensation Expenses	(15,356)	(15,787)	(18,067)	(17,908)	(19,061)
Net Income to Ordinary Shareholders	14,655	11,190	7,841	8,742	9,629

Balance Sheet Data (Dec)

(US\$Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	1,188,140	1,180,231	1,170,806	1,179,727	1,184,872
Net Assets	NA	NA	NA	NA	NA
Tangible Shareholders' Equity	72,499	67,123	66,087	65,952	66,759
BVPS (Stated Equity)	55.28	54.56	55.15	56.91	59.45
% growth	8.1	-1.3	1.1	3.2	4.5

Trading (Dec)

(US\$Millions)	2021A	2022A	2023E	2024E	2025E
Trading Revenue	19,561	19,158	18,604	18,217	19,098
% growth	1.5	-2.1	-2.9	-2.1	4.8
ROA (Net Trad Rev/Ave Bal Sht Asts)	1.96%	1.91%	1.85%	1.77%	1.86%
Value-at-Risk	NA	NA	NA	NA	NA
VaR as a % of Total Equity	NA	NA	NA	NA	NA

Investment Banking (Dec)

(US\$Millions)	2021A	2022A	2023E	2024E	2025E
Financial Advisory Revenues	3,487	2,946	2,040	2,451	2,782
Equity Underwriting Revenues	4,437	851	925	1,213	1,455
Debt Underwriting Revenues	2,348	1,438	1,431	1,506	1,732
Total Investment Banking Revenue	10,994	5,599	4,669	5,170	5,970
% growth	43.3	-49.1	-16.6	10.7	15.5

Performance Metrics (Dec)

(US\$Millions)	2021A	2022A	2023E	2024E	2025E
Operating Margin	33.1%	27.7%	21.2%	23.2%	23.7%
Pre-Tax Profit Margin	33.1%	27.7%	21.2%	23.2%	23.7%
Net Profit Margin	24.9%	20.3%	16.6%	18.3%	19.1%
Comp Expense/Revenue	41.2%	42.9%	45.2%	44.0%	43.8%
Non-Comp Expense / Revenue	25.7%	29.4%	33.6%	32.8%	32.5%
Net Revenue Growth	22.6%	-10.2%	0.1%	1.6%	7.4%
Operating Expense Growth	18.3%	-2.9%	9.0%	-0.9%	6.6%
Operating Income / Average Assets	6.0%	5.3%	5.3%	5.3%	5.7%
Trading-Related Revenue / Net Revenue	32.7%	35.7%	34.6%	33.4%	32.6%

Company Sector

Securities Broker/Dealer

Company Description

Morgan Stanley (MS) is a global investment bank with leading positions in investment banking (M&A and equity underwriting), equity trading, and wealth management, which contributes nearly 50% of firmwide revenues. The firm also has an asset management business, which adds to the lower-risk business profile the firm has pursued since the financial crisis.

Investment Rationale

We view MS as attractive given potential upside in wealth management, retail engagement, and margins, upside in equities and M&A. We also expect further progress on efficiency ratio, and from capital return, though it will be gradual. While the regulatory environment remains challenging for the industry, we view the risk/reward as attractive with improving returns and upside to the stock.

Stock Data

Average Daily Volume 7,629,487

Quarterly Earnings Estimates

	2022	2023
Q1	2.06A	1.70A
Q2	1.44A	1.24E
Q3	1.53A	1.38E
Q4	1.31A	1.10E

Regulatory clarity on Basel III should serve as a positive

We anticipate meaningful changes to the Basel III Endgame proposal that should materially reduce the ~40% increase in risk weighted assets that mgmt estimates based on the proposed rules and before accounting for any mitigating actions. This should ease some of the concerns tied to profitability targets while improving visibility on capital return. We forecast share buybacks of \$5bn/year for FY24/25.

Valuation a stumbling block

At 15x 2024 P/E and 2.2x YE24e TBV/share stock valuation appears to be a stumbling block for investors to add exposure. While we consider Morgan Stanley's scale and strong execution as positive differentiators, the stock will need continued optimism on the outlook for a pick-up in investment banking activity and confidence that mgmt. is able to flex levers to defend profitability if revenue growth remains elusive, in order to outperform.

Relevant research

[Morgan Stanley: Patience tested 18 October 2023](#)

[Morgan Stanley: CEO meeting takeaways: Built to succeed 14 August 2023](#)

[US Banks and Brokers: Expert call takeaways: de-coding Fed's proposal on capital changes 01 August 2023](#)

Price objective basis & risk

Morgan Stanley (MS)

Our \$100 PO is based on 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 19.5x/1.8x multiples respectively, above the bank's 5 year pre pandemic median of 11.7x/1.3x given an improved (stickier) revenue mix driven by its wealth and asset management segments.

Risks to the upside is stronger wealth/asset management trends and capital markets activity and higher rates. Risks to the downside are a weak economy/capital markets, increased macro issues, tougher regulation, and litigation.

Analyst Certification

I, Ebrahim H. Poonawala, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TS LX	TS LX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
NEUTRAL				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman

North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Ebrahim H. Poonawala
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala

UNDERPERFORM

	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLA	GHLA US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Ebrahim H. Poonawala

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales
EV / EBITDA

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

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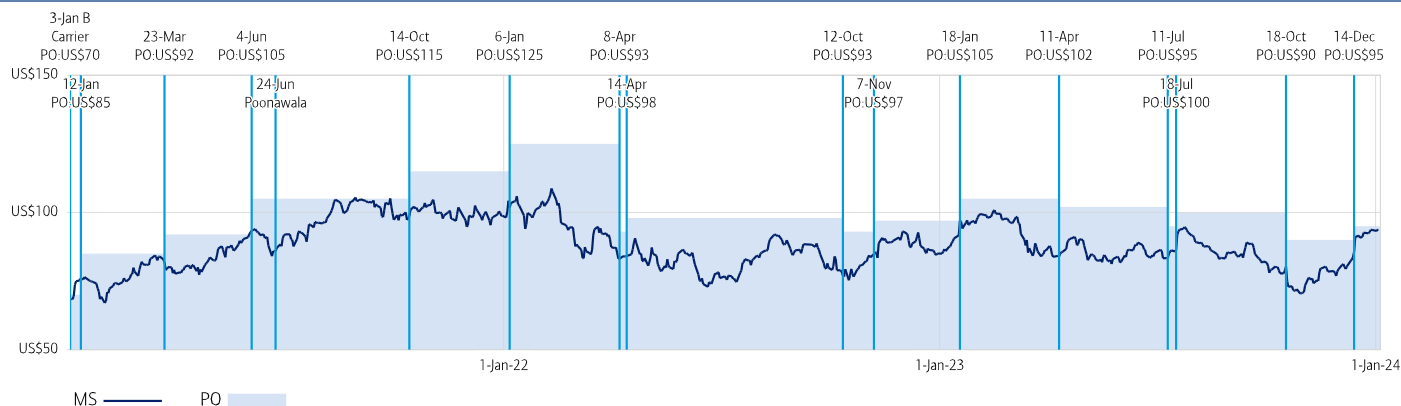
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Disclosures

Important Disclosures

Morgan Stanley (MS) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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