

Morgan Stanley

# BofA Securities 2024 Financial Services Conference: Takeaways

Maintain Rating: BUY | PO: 100.00 USD | Price: 86.55 USD

## Revving up the growth engine

Head of Wealth Management (WM) Jed Finn outlined mgmt's strategy to achieve 30% pre-tax margins through two key areas of focus – “path to advice” and “scaled & differentiated platform.” While a disproportionate amount of investor attention is spent on near-term margin outlook, we believe the key test for mgmt. over the medium term will be whether it can deliver superior net new asset (NNA) and revenue growth in less conducive macro-backdrops and despite an intensely competitive operating landscape.

## Focus #1 Path to Advice

Underpinned by adding client relationships (18.2mn in 2023 vs. 2.5mn in 2019), growing NNA (\$282bn vs. \$98bn), and migrating clients to fee-based accounts (fee-based flows \$109bn vs. \$65bn). Multiple avenues to capture new clients through same store advisors, net recruiting, new stock plan wins, expanded equity award populations, new retirement wins, non-qualified deferred comp wins, new self-directed investors, and institutional consulting acquisitions. MS continued to win share last year vs. peers with NNA growth 6.7% of assets vs. ~2.2% peer avg. 50% of \$3.1tn WM client assets fee-based in advisor led. Mgmt. sees potential to drive this higher.

## Focus #2 Scaled & Differentiated Platform

Benefit of scale from being one of the largest full-service WM platforms. Investment bankers execute the IPO, client becomes a public equity admin client in the workplace businesses, advisor covers the founders and individual employees, and financial wellness programs to support company employees. Platform has a wide range of capabilities across alternatives, private markets, checking, lending, intellectual capital, tax efficient models, investment management, and capital markets. Mgmt. prioritizing investing in an integrated firm, building out banking & lending, and leveraging AI (exclusive partnership with OpenAI). More room to run with household penetration ~16% of \$147bn WM loans. Integrated data platform allows mgmt. to track advisor success.

## Assistance from macro could turb charge growth

Muted capital markets, elevated client cash, and higher loan paydowns have served as headwinds. Capital markets is a big driver of NNA with conversion from private to public company an important catalyst. 2022-2023 avg. IPO volumes \$14bn vs. \$120bn 2020-2021 avg. Cash on sidelines waiting to be redeployed with 22% of advisor-led assets in cash and cash equivalents vs. 18% through the cycle. High rate backdrop leading to more paydowns and fewer draws which impacts NNA and net interest income (NII).

## Franchise superiority to drive outperformance

While pressured EPS and a premium valuation have served as an overhang on the stock, we see Morgan Stanley as indexed to the right macro themes. This combined with strong execution (mgmt. not distracted), regulatory relief and some macro assistance should reignite EPS growth and drive stock outperformance. Maintain Buy.

26 February 2024

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### Stock Data

Price	86.55 USD
Price Objective	100.00 USD
Date Established	4-Jan-2024
Investment Opinion	B-1-7
52-Week Range	69.42 USD -99.20 USD
Mrkt Val / Shares Out (mn)	153,367 USD / 1,772.0
Free Float	75.8%
Average Daily Value	787.73 USD
BofA Ticker / Exchange	MS / NYS
Bloomberg / Reuters	MS US / MS.N
ROE (2024E)	11.1%
ESGMeter™	High

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Timestamp: 26 February 2024 05:00AM EST

## 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.

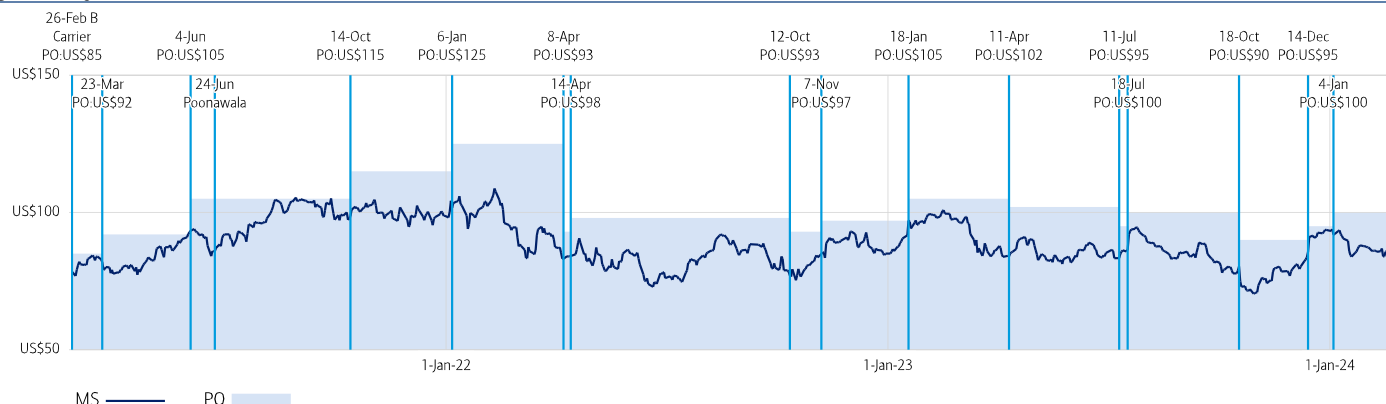
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### Morgan Stanley (MS) Price Chart



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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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