

Morgan Stanley is a diversified global financial securities firm. Its businesses include institutional securities sales and trading, investment banking, retail securities brokerage, and institutional asset management. Mitsubishi UFJ Financial Group, one of the largest banks in the world, owns about 23% of Morgan Stanley, and the two companies continue to expand their partnership.

## Analyst's Notes

Analysis by Stephen Biggar, April 11, 2025

**ARGUS RATING:** **BUY**

- Lowering target as tariff/trade policy adds to earnings uncertainty
- On April 11, Morgan Stanley reported 1Q25 EPS of \$2.60, up from \$2.02 in the prior-year quarter and well above the \$2.21 consensus. Net revenues rose 17%.
- Investment banking revenues were up 8%, with gains across fixed-income underwriting and advisory. However, we now believe a more durable rebound in this segment will take more time as changes to global trade policy play out.
- Net new assets came to \$93.8 billion in the quarter, similar to the prior year amount, which we believe is impressive given market turmoil.
- MS trades at about 12-times our 2025 EPS estimate. We are lowering our 12-month target price to \$129 (from \$145), which assumes a multiple of about 15-times our EPS forecast for 2025, to reflect a more uncertain environment for global trade policy and related delay in investment banking revenue realization.

## INVESTMENT THESIS

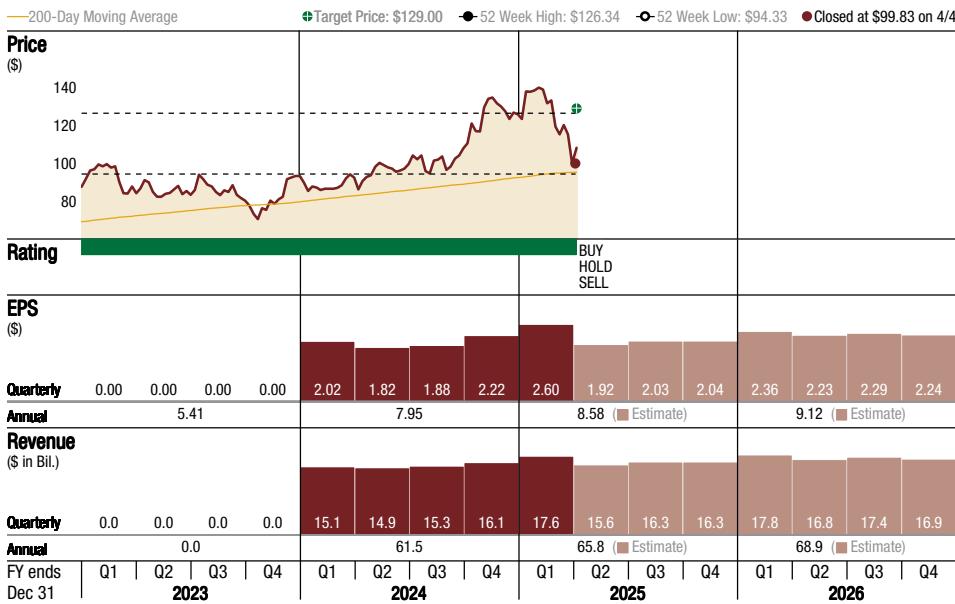
We are reiterating our BUY rating on Morgan Stanley (NYSE: MS) following 1Q earnings, which benefited from higher investment banking and trading revenues, though we now expect a more durable resurgence in investment banking to take more time as changes to global trade policy play out. In the meantime, trading revenues remain at high levels and have offered some counterbalance.

We have a positive view of MS based on expected improvements in ROE and pretax margin. In our view, MS has made significant progress in lowering its risk profile, strengthening its capital buffers, and reducing earnings volatility. In particular, the Wealth Management segment, which has a more stable revenue and profit profile, now accounts for over 50% of revenue, and risk-weighted assets continue to decline. Results in this segment have also been helped by the company's focus on high and ultra-high net-worth clients, which are seeing the fastest growth.

In March 2021, Morgan Stanley acquired Eaton Vance, a provider of investment strategies and wealth management solutions with some \$500 billion in assets under

## Market Data

Pricing reflects previous trading week's closing price.



## Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 74% Buy, 26% Hold, 0% Sell.

## Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

### Market Overview

Price	\$108.12
Target Price	\$129.00
52 Week Price Range	\$85.01 to \$142.03
Shares Outstanding	1.61 Billion
Dividend	\$3.70

### Sector Overview

Sector	Financial
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	14.70%

### Financial Strength

Financial Strength Rating	HIGH
Debt/Capital Ratio	82.5%
Return on Equity	13.8%
Net Margin	13.0%
Payout Ratio	0.44
Current Ratio	--
Revenue	\$110.15 Billion
After-Tax Income	\$14.29 Billion

### Valuation

Current FY P/E	12.60
Prior FY P/E	13.60
Price/Sales	1.58
Price/Book	1.83
Book Value/Share	\$58.98
Market Capitalization	\$173.91 Billion

### Forecasted Growth

1 Year EPS Growth Forecast	7.92%
5 Year EPS Growth Forecast	13.00%
1 Year Dividend Growth Forecast	6.76%

### Risk

Beta	1.29
Institutional Ownership	84.13%

**Analyst's Notes** ...Continued

management, for about \$7 billion in cash and stock. We liked this transaction for several reasons. Eaton Vance adds a less volatile and more annuity-like revenue stream, and integration/execution risk was low.

In October 2020, the company acquired ETrade Financial Corp. in a \$13 billion stock transaction. The acquisition increased the percentage of pretax profits coming from Morgan Stanley's Wealth Management business. We view this positively, as we expect the valuation of MS shares to continue to benefit from the stability of the Wealth Management business, in contrast to the more volatile income streams from fixed-income trading and investment banking.

The company has outlined five drivers of growth. These are to gain market share, to expand the client base and deepen relationships, realize acquisition synergies, demonstrate operating leverage, and return excess capital. Management remains transparent with its near- and long-term financial targets, which we believe are achievable. Capital returns received a boost in June 2024 following the CCAR cycle, with the quarterly dividend rising 9% to \$0.925 per share.

Long-term financial targets include a Wealth Management pretax margin of 30%+ (24.9% in 2023), a firm-wide efficiency ratio of less than 70% (77% in 2023), and a return on tangible common equity of 20% (12.8% in 2023).

MS trades at 12.4-times our 2025 EPS estimate. We are lowering our 12-month target price to \$129 (from \$145), which assumes a multiple of about 15-times our EPS forecast for 2025, to

reflect a more uncertain environment for global trade policy and related delay in investment banking revenue realization.

**RECENT DEVELOPMENTS**

Over the past year, MS shares have risen 16%, versus a 2% increase for the broad market.

On April 11, Morgan Stanley reported 1Q25 EPS of \$2.60, up from \$2.02 in the prior-year quarter and well above the \$2.21 consensus.

Net revenues rose 17%, to \$17.7 billion, aided by higher investment banking, wealth management, and trading revenues.

The company had \$93.8 billion of net new assets in 1Q within wealth management, versus \$94.9 billion in the year earlier quarter, while long-term net inflows were \$5.4 billion within investment management, versus \$7.6 billion a year earlier.

**EARNINGS & GROWTH ANALYSIS**

The company's major segments include Institutional Securities, Wealth Management, and Investment Management. We summarize 1Q results by business segment below.

In Institutional Securities, revenue rose 28% to \$8.9 billion, reflecting 8% higher investment banking revenues (with growth in equity/fixed-income underwriting), 45% higher equity revenues, and 5% higher fixed income revenues. Expenses were up 20%, and segment pretax income surged to \$3.3 billion from \$2.4 billion a year earlier. We now expect a more durable rebound in investment banking activity to be stalled by uncertainty regarding global trade

**Growth & Valuation Analysis**
**GROWTH ANALYSIS**

(\$ in Millions, except per share data)

	2020	2021	2022	2023	2024
Revenue	45,828	56,414	50,210	50,667	57,621
COGS	—	—	—	—	—
Gross Profit	—	—	—	—	—
SG&A	21,137	25,271	23,958	25,103	27,143
R&D	—	—	—	—	—
Operating Income	—	—	—	—	—
Interest Expense	-6,313	-8,045	-9,327	-8,230	-8,611
Pretax Income	14,418	19,668	14,089	11,813	17,596
Income Taxes	3,239	4,548	2,910	2,583	4,067
Tax Rate (%)	22	23	21	22	23
Net Income	10,996	15,034	11,029	9,087	13,390
Diluted Shares Outstanding	1,624	1,814	1,713	1,646	1,611
EPS	6.46	8.03	6.15	5.18	7.95
Dividend	1.40	2.10	2.95	3.25	3.55
<b>GROWTH RATES (%)</b>					
Revenue	17.4	23.1	-11.0	0.9	13.7
Operating Income	—	—	—	—	—
Net Income	21.6	36.7	-26.6	-17.6	47.4
EPS	24.5	24.3	-23.4	-15.8	53.5
Dividend	7.7	50.0	40.5	10.2	9.2
Sustainable Growth Rate	9.3	12.4	7.4	4.4	5.4
<b>VALUATION ANALYSIS</b>					
Price: High	\$68.97	\$105.95	\$109.73	\$100.99	\$136.24
Price: Low	\$27.20	\$66.85	\$72.05	\$69.42	\$83.09
Price/Sales: High-Low	2.4 - 1.0	3.4 - 2.1	3.7 - 2.5	3.3 - 2.3	3.8 - 2.3
P/E: High-Low	10.7 - 4.2	13.2 - 8.3	17.8 - 11.7	19.5 - 13.4	17.1 - 10.5
Price/Cash Flow: High-Low	4,724.0 - 1,863.0	23.4 - 14.8	24.0 - 15.8	—	—

**Financial & Risk Analysis**
**FINANCIAL STRENGTH**

Cash (\$ in Millions)	92,747	58,661	75,743
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Working Capital (\$ in Millions)	—	—	—
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Current Ratio	—	—	—
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LT Debt/Equity Ratio (%)	263.8	296.2	304.7
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Total Debt/Equity Ratio (%)	269.4	306.1	327.6
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**RATIOS (%)**

Gross Profit Margin	—	—	—
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Operating Margin	—	—	—
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Net Margin	21.0	16.8	22.2
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Return On Assets	0.9	0.7	1.1
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Return On Equity	11.1	9.4	13.8
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**RISK ANALYSIS**

Cash Cycle (days)	—	—	—
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Cash Flow/Cap Ex	-2.1	-9.8	0.4
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Oper. Income/Int. Exp. (ratio)	—	—	—
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Payout Ratio	22.3	41.7	56.7
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## Analyst's Notes ...Continued

policy and associated volatile markets, but in the meantime trading revenues have provided a counterbalance.

Wealth Management revenues were up 7% to \$7.3 billion, as higher revenues from greater asset levels outweighed flat net interest income. Expenses rose 5%, and segment pretax income was \$2.01 billion, for an adjusted pretax profit margin of 26.6%. Fee-based client assets totaled \$2.3 trillion as of March 31, up 11% from the prior year. The company added net new assets of \$93.8 billion in the segment during the quarter, which we view as admirable given the downdraft in global markets.

Investment Management revenues were up 16% to \$1.6 billion. Expenses were up 13%, while segment pretax income increased to \$323 million from \$241 million.

We believe that Morgan Stanley has managed well through an extended downturn in underwriting and is poised to participate strongly when an upturn occurs. On the 1Q earnings call, management noted that the backlog of activity has remained about the same, although deal activity remains on hold pending a more stable global market environment and some resolution of recent tariff turmoil.

The Wealth Management segment has generally maintained a strong pretax margin above 25% and added stability to earnings. Margin improvement drivers are expected to include greater lending penetration and cost discipline. In 2024, the Wealth Management pretax margin was 27.2%, up from 24.9% in 2023. The company has long-term aspirations of 30%+ for the pretax

margin. Longer-term financial goals also include a firm-wide efficiency ratio of less than 70% and a return on tangible common equity of 20%.

The acquisitions of ETrade and Eaton Vance (as of March 2021) have increased the percentage of revenue coming from wealth management and investment management and provided greater revenue stability.

On a strong start to the year, aided by surging trading revenues, we are raising our 2025 EPS estimate to \$8.58 from \$8.12, while upping our 2026 forecast to \$9.12 from \$8.94.

### FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Morgan Stanley is High.

As of March 31, 2025, the company estimated a Tier 1 common equity ratio of 17.2% under the Basel III Standardized Approach, up from 16.9% a year earlier.

Following the results of the Fed's June 2024 CCAR stress tests, Morgan Stanley announced a 9% increase in its quarterly dividend to \$0.925 per share. We expect dividends of \$3.79 in 2025 and \$4.00 in 2026. The current yield is about 3.7%.

### MANAGEMENT & RISKS

The CEO of Morgan Stanley is Ted Pick, who took over in January 2024 for the retiring James P. Gorman. Sharon Yeshaya is the CFO.

Morgan Stanley is broadly exposed to conditions in the global economy and financial markets as well as to changes in financial

## Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare MS versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how MS stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how MS might fit into or modify a diversified portfolio.



### P/E



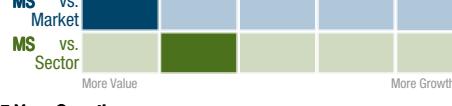
### Price/Sales



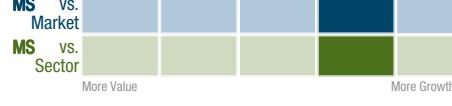
### Price/Book



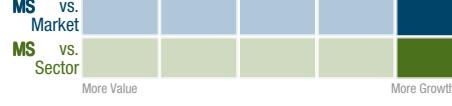
### PEG



### 5 Year Growth



### Debt/Capital



## Analyst's Notes ...Continued

regulations. We believe that Morgan Stanley has generally done a good job navigating the current regulatory environment.

### COMPANY DESCRIPTION

Morgan Stanley is a diversified global financial securities firm. Its businesses include institutional securities sales and trading, investment banking, retail securities brokerage, and institutional asset management. Mitsubishi UFJ Financial Group, one of the largest banks in the world, owns about 23% of Morgan Stanley, and the two companies continue to expand their partnership.

### VALUATION

We think that MS shares are attractively valued at current prices near \$105, in the middle of their 52-week range. We believe that Morgan Stanley's mix of wealth management and capital markets businesses has proven beneficial, and that it distinguishes the company from pure-play investment banks. We expect the stock's valuation to improve as investors recognize the greater earnings stability and cross-selling capabilities of the franchise. While we have pushed out our forecasts for a more durable rebound in investment banking due to the ongoing tariff turmoil, the company has seen surging trading revenues as an offset.

As of March 31, Morgan Stanley's tangible book value was \$46.08 per share. MS shares now trade at 2.3-times tangible book value, versus near par at the depths of the pandemic. We believe that an upward revaluation of MS shares is also justified based on the company's generally improving pretax margin and capital position.

MS trades at 12.6-times our 2025 EPS estimate. We are lowering our 12-month target price to \$129 (from \$145), which assumes a multiple of about 15-times our EPS forecast for 2025, to reflect a more uncertain environment for global trade policy and related delay in investment banking revenue realization.

On April 11, BUY-rated MS closed at \$108.12, up \$1.54.

## About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

### THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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