

Morgan Stanley (MS) 12/14/09

MS operates as a financial holding company and generates revenue through investment banking and wealth management. MS was one of the first banks to repay its TARP funds in 2009 and also in 2009 purchased Smith-Barney wealth management from Citi. The company was founded in 1935 and is headquartered in New York, New York.

Current Price	\$30.17
52 Week High	\$35.78
52 Week Low	\$12.65
One Yr Target	\$37.00
Market Cap (in billions)	\$41.01
P/E (Trailing)	20.82
P/E(1 Yr Forward)	9.06
P/E/G	2.02
ROA	0.26%
ROE	5.39%
EPS	\$0.74
Beta	1.69
Annualized Dividend	\$0.20
Dividend Yield	0.66%
Analyst Consensus	2.40
Debt to Equity	15.60



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Annual EPS

2005	\$3.84	
2006	\$5.01	30.58%
2007	\$2.94	-41.43%
2008	\$1.63	-44.52%
2009E	\$0.74	-54.57%

Annual Revenue (in millions)

2005	\$52,081.00	
2006	\$70,736.00	35.82%
2007	\$85,281.00	20.56%
2008	\$62,262.00	-26.99%

Annual Net Income (in millions)

2005	\$4,890.00	
2006	\$6,335.00	29.55%
2007	\$3,100.00	-51.07%
2008	\$1,707.00	-44.94%

Free Cash Flows (in millions)

2005	-\$31,892.00	
2006	-\$60,803.00	-90.65%
2007	-\$23,718.00	60.99%
2008	\$72,017.00	403.64%

Required Rate of Return

14.77%

Dividend Growth Model

Present Value of 2014 Price	\$10.60
Holding Period Return (5 years)	-5.85%

Expected Annualized Return Model

Present Value of 2014 Price	\$13.09
Holding Period Return (5 years)	-15.26%

Residual Income Model

Intrinsic Stock Price	\$22.51
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Analysis

Positives

Negatives

All three valuation models point to the stock price being overvalued

Financial Statements

Income Statement has been poor, Administrative Expenses take much from profits

Balance Sheet is ok, Retained Earnings have slipped in recent years and Preferred Stock is bad

Cash Flows are decent but MS has been issuing a lot of Debt

Industry Analysis

Banks have come under much scrutiny lately but could look to breakout in 2010

MS is huge in the industry but has only average financial ratios

Summary

MS is a solid enough company and operates in an industry that should see stock appreciations in the coming year. After the financial crisis MS was one of the first to repay TARP funds and has since been increasing its Tier 1 capital, a sign of its financial strength. Recently MS has overtaken Goldman Sachs in the number of mergers and acquisition deals and also in IPOs. Financial ratios and financial statements for MS are pretty average and don't measure up well compared to top competitors. The investment banking industry should see increased M&A and IPO deals with the returned stability of the market and MS's trading desk should also see increased revenues. Overall MS is a decent company and earns a **hold** rating but it should be outperformed by industry competitors such as GS and JPM.