COMPANY PROFILE

Morgan Stanley

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TABLE OF CONTENTS

COMPANY OVERVIEW

Morgan Stanley (or 'the company') is a global financial services provider company. It provides investment banking, financial advisory services, wealth management, asset management, credit cards and other related consumer products and services. Additionally, it originates, trades, manages and distributes capital for, governments, institutions and individuals. The company operates in the Americas, Europe, Asia Pacific, the Middle East and Africa. Morgan Stanley is headquartered in New York City, the US.

The company reported revenues of (US Dollars) US$37,949 million for the fiscal year ended December 2016 (FY2016), an increase of 0.1% over FY2015. In FY2016, the company’s operating margin was 23.3%, compared to an operating margin of 22.4% in FY2015. In FY2016, the company recorded a net margin of 15.8%, compared to a net margin of 16.2% in FY2015.

The company reported revenues of US$10,754 million for the third quarter ended September 2017, a decrease of 1% over the previous quarter.

KEY FACTS

Head Office	Morgan Stanley 1585 Broadway New York New York New York New York USA
Phone	1 212 7614000
Fax	
Web Address	www.morganstanley.com
Revenue / turnover (USD Mn)	37,949.0
Financial Year End	December
Employees	57,702
New York Stock Exchange Ticker	MS

SWOT ANALYSIS

Morgan Stanley is a leading underwriter of equity-related securities, convertible securities and American Depositary Receipts (ADRs). It also commands a strong market position in underwriting fixed income securities including investment grade debt, non-investment grade instruments, mortgage-related, and other asset-backed securities. Morgan Stanley is a key player in the financial services industry and leverages its reach, brand name and market position to increase association with top clients. However, increasing competition could impact the company's profitability.

Strength	Weakness
Corporate actions contributing to strong capital position Well diversified business mix sustaining revenue visibility Leading positions in the securities market sustains revenue visibility	Low business performance of Institutional Securities and Investment Management segments Over dependence on the Americas increasing the business risk
Opportunity	**Threat**
Asia-Pacific wealth market likely to offer growth opportunities Positive outlook for global asset management industry Strategic Initiatives	Natural Calamities Intense Competition Changing Regulations

Strength

Corporate actions contributing to strong capital position

Morgan Stanley's equity capital has been increasing in the recent years. For instance, the company's equity capital increased from USD62,109 million in FY2012 to USD76,050 million in FY2016. The company remained well capitalized with its tier 1 capital ratio and total common ratio at 19% and 22% respectively, at the end of FY2016. Moreover, Morgan Stanley increased its global liquidity reserve to USD202.3 billion at the end of FY2016 from USD171 billion in FY2010. In FY2011, the company negotiated two significant transactions to further strengthen its balance sheet (1) conversion of the company's stock owned by Mitsubishi UFJ Financial Group, Inc. (MUFG), which increased the company's common equity capital by USD8 billion and it also eliminated legacy exposure through a settlement with MBIA. This settlement significantly reduced risk-weighted assets and increased the pro forma tier 1 common ratio by approximately 75 basis points by the end of 2012 under the proposed Basel III framework. Therefore, Morgan Stanley's corporate actions are contributing to strong capital position.

Well diversified business mix sustaining revenue visibility

Morgan Stanley's business mix is well diversified. For instance, in FY2016, the institutional securities segment accounted for 50.4% of revenues with the rest from wealth management segment (44.3%), and investment management segment (6.1%). Institutional securities segment’s revenues in turn were from a well balanced mix consisting of equity, fixed income, and investment banking. The wealth management segment's revenues were also from a variety of sources including brokerage of securities and trading, asset allocation, annuity products, and cash management services. Well diversified business mix is sustaining the company's revenue visibility.

Leading positions in the securities market sustains revenue visibility

Morgan Stanley is a leading underwriter of equity-related securities and convertible securities. It also commands a strong market position in underwriting fixed income securities, including investment grade debt, non-investment grade instruments, mortgage-related and other asset- backed securities, tax-exempt securities and commercial paper and other short-term securities. Morgan Stanley's institutional securities segment usually ranks among the top firms in global mergers & acquisitions (M&A), and global equity issuances. Leading position in the securities market sustains the company's revenue visibility.

Weakness

Low business performance of Institutional Securities and Investment Management segments

Morgan Stanley reported decline in performance in two of its segments in the past year, which is a cause for concern to the company. In FY2016, the Institutional Securities and Investment Management segments indicated a revenue decline of 3% and 9%, respectively over that in FY2015. The Institutional Securities segment reported net revenue of USD17,459 million in FY2016 as compared to USD17,953 million in 2015. The decline in revenue was due to the result of lower Investment banking and sales and trading revenue. The Investment Management segment reported net revenue of USD2,112 million in FY2016 as compared to USD2,315 million in FY2015. The decline in revenue was due to the lower investment performance compared with FY2015.

Over dependence on the Americas increasing the business risk

Morgan Stanley is more dependent on the US market in comparison to other geographies. For instance, in FY2016, the company derived 73.6% of its revenues from the Americas, where as it derived 14.4% of its revenues from Europe, the Middle East and Africa and 12% of its revenues from Asia. Morgan Stanley's increasing concentration in the Americas market increases the risk of negative financial impact owing to events that affect the US economy. Concentration of operations in the Americas not only increases its exposure to local factors, but also deprives the company of more revenues from high growth markets in Asia and other Latin American countries.

Opportunity

Asia-Pacific wealth market likely to offer growth opportunities

The population and wealth of Asia-Pacific's high net worth individuals (HNWI) increased significantly over the last six years (2011-16), according to industry sources. The population and wealth of Asia-Pacific's HNWIs grew 4% in FY2015. In particular, China and Japan experienced the most significant gains in HNWI population and wealth in 2015. China's HNWI population grew by 15% while Japan's population grew by 11%. Asia-Pacific's HNWI wealth and population grew 10% and 9% respectively in 2015, while that of North America expanded by 2% respectively and that of Europe increased 5% respectively. Building on this trend of strong performance in 2015, Asia-Pacific region is positioned to become the largest wealth market by the end of 2017. With Morgan Stanley launching its wealth management operations and strengthening its presence in Asian countries, the company is set to benefit from the growth in the Asia-Pacific wealth management market.

Positive outlook for global asset management industry

The global asset management industry has been growing at a positive rate and the trend is expected to continue in the coming years. According to industry estimates , the volume of investable assets is set to increase at a compound growth rate of nearly 6% to $102 trillion by 2020. Assets under management in the South America, Asia, Africa, and the Middle East economies are set to grow faster than in the developed economies. Growth in assets will be driven by the government-incentivized shift to individual retirement plans; the increase of high-net-worth-individuals from emerging economies; and the growth of sovereign wealth funds. Since Morgan Stanley's primary business is managing funds for public and private pension plans, the company could realize greater revenues from its asset management businesses amidst the positive demand outlook.

Strategic Initiatives

The company implemented certain strategic initiatives that are aimed at enhancing its business and existing offerings. In FY2016-FY2017, Morgan Stanley along with its subsidiaries initiated a few acquisitions and partnership agreements, which would enhance its operations significantly. In September 2017, the company through Morgan Stanley Investment Management (MSIM) entered into an agreement to acquire Mesa West Capital, LLC, a US-based commercial real estate credit platform. Subsequent to the acquisition Mesa West will operate as a separate business unit within MSIM’s Real Assets group along with its brand. This acquisition would expand MSIM’s existing product offerings across real assets and private credit by adding a premiere commercial real estate credit platform.

Morgan Stanley in November 2017, through Morgan Stanley Energy Partners (MSEP) entered into a strategic partnership with Durango Midstream, a US-based natural gas company which provides midstream services to oil and gas producers. Uncer the terms of the partnership, MSEP would support the growth of Durango’s midstream businesses in the Midcontinent region of the US. This agreement would significantly expand Morgan Stanley’s energy-focused private equity business. In June 2017, the company entered into a partnership with Twilio, a US-based cloud communication platform as a service company. Under the terms of the agreement, Twilio will help to enhance Financial Advisor-client communications by enabling Morgan Stanley Financial Advisors to text message with clients. Twilio's cloud based architecture provides secure APIs which will be integrated into Morgan Stanley's digital applications. This will enable Morgan Stanley Financial Advisors to converse with clients through archived text messages and broaden the company’s client relationships.

Threat

Natural Calamities

Natural calamities are likely to impact the overall insurance industry. The year 2016 witnessed a series of natural calamities. For instance, the Tellico Fire in North Carolina, which started on October 23, 2016 in Swain County, North Carolina, burned more than 5,600 hectares (14,000 acres) as of November 18, 2016. In June 2016, floods in the state of West Virginia and nearby parts of Virginia killed 23 people. In the same month, floods in Maryland, the US, affected low-lying areas of the Patapsco and Jones Falls valleys. The unusual spurt in the number and the size of these calamities presents numerous challenges for the global insurance industry. Natural calamities such as these give rise to uncertainty in the loss estimation process and adversely impact the operators in the insurance market. Such events may also adversely impact the company’s performance, in the event of the company failing to implement efficient underwriting practices and reliable risk assessment methods.

Intense Competition

Morgan Stanley operates in a highly competitive financial services market. The company competes with numerous domestic and international players in the US. A few of the company’s key competitors include Associated Capital Group, Inc; BGC Partners, Inc; CME Group Inc; Gain Capital Holding, Inc; JPMorgan Chase & Co; Citigroup Global Markets Holdings Inc.; The Goldman Sachs Group Inc; and Merrillynch & Co. Inc. Intense competition from established players and consolidation of their financial products could have a negative impact on the company’s operations. This highly competitive market could adversely affect company’s profitability, if it fails to retain and attract clients and customers. The company should come up with innovative ways of serving its customers so as to remain profitable in the highly competitive financial services market.

Changing Regulations

The company’s businesses are regulated by various governmental and regulatory authorities. Changes in government policy, legislation or regulatory interpretation may adversely affect the company’s product range, distribution channels, capital requirements and consequently, reported results and financing requirements. These changes include possible changes in statutory pension arrangements and policies, the regulation of selling practices and solvency requirements. Thus, changes in government policies and regulations may have a negative impact on the company’s growth and expansion strategies.