Morgan Stanley | RESEARCH

GLOBAL INSIGHT

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Global Equity Strategy

Launching Global Best Business Models Version 5

Global Best Business Models v5 identifies 31 stocks for long-term investors, leveraging Morgan Stanley's Fundamental, Quant, Strategy & Sustainability research teams. These firms are currently delivering a 40% median trailing ROE premium vs. ACWI vs. a forward P/E premium of 17%.

An approach worth repeating: We have made identifying Best Business Models a core part of the research franchise for two reasons – first, Quality has been a source of alpha over the past decade; and second, Morgan Stanley analysts have we believe the capability to identify companies with sustainable competitive advantages. The Best Business Models framework was launched in Asia/EM in mid 2009 and has run since December 2016 on a Global Basis. As v4 transitions to v5, cumulative outperformance versus MSCI ACWI has been around 440 bps (unaudited) in cumulative terms over the four versions with v4 delivering 37% (unaudited) cumulative US$ dollar total returns over its two-year life (Exhibit 10).

How do we identify Best Business Models? We summarise our framework as a method of selecting the highest-quality companies at a reasonable price in the major GICS industry groups globally. The process involves: 1) Quant scoring of companies against industry peers for a) Quality (profitability – eg, ROE / RNOA – and balance sheet strength), and b) Value Factor overlay (eg, FCF Yield, EV / EBITDA and P/B); 2) Input from MS bottom-up analysts, focusing on forward-looking assessments of competitive advantages and management quality; and 3) Review by our regional Equity Strategy and Sustainability teams. We believe this three-step approach is suitable for a two-year buy-and-hold strategy. Our library of BBM reports is available here.

Assessing Quality versus Valuation: The 31 companies selected for version 5 are delivering median trailing return on equity (ROE) of 21% versus the benchmark at 15%, or a 40% premium. Given the median forward P/E on consensus estimates stands at 20.9x or only a 17% premium to MSCI ACWI we think version 5 stocks as a group have attractive valuation characteristics versus their profitability.

Geographical characteristics of Global BBM v5: We select 31 stocks for Global BBM v5 versus 38 stocks for Global BBM v4. The somewhat smaller cohort is due in

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the main to valuation considerations given more elevated levels than two years ago. By geography, 12 (-2 vs Global BBM v4) are from North America, 7 (-3 vs Global BBM v4) are from Europe, 8 (-2 vs Global BBM v4) are from APxJ/EM, and 4 (no change vs Global BBM v4) are from Japan. We retain 25 stocks from Global BBM v4, whilst 6 names are new due to the outcome of our stock-screening process, including changes in fundamentals and valuations. As with our other Best Business Models reports, we intend to monitor the performance of this list of stocks as a two-year "buy-and-hold" portfolio from the date of publication.

Exhibit 1: Global Best Business Models Version 5 (Global BBM v5) – Sorted alphabetically by company name

Ticker	Company Name	Market	GICS Industry Group	MS Rating	MS Analyst	New Inclusion
AAPL.O	Apple, Inc.	United States	Technology Hardware & Equipment	OW	Woodring, Erik	
BSX.N	Boston Scientific	United States	Health Care Equipment & Services	OW	Wood, Patrick	+
4519.T	Chugai Pharmaceutical	Japan	Pharmaceuticals, Biotechnology & Life Sciences	OW	Muraoka, Shinichiro	
KO.N	Coca-Cola Co.	United States	Food Beverage & Tobacco	OW	Mohsenian, Dara	
COST.O	Costco Wholesale Corp	United States	Consumer Staples Distribution & Retail	OW	Gutman, Simeon	
CMI.N	Cummins Inc	United States	Capital Goods	OW	Castillo, Angel	+
8750.T	Dai-ichi Life Holdings	Japan	Insurance	OW	Takemura, Atsuro	
DBSM.SI	DBS Group Holdings	Singapore	Banks	EW	Lord, Nick	
DTEGn.DE	Deutsche Telekom	Germany	Telecommunication Services	OW	Kelly, Emmet	
LLY.N	Eli Lilly & Co.	United States	Pharmaceuticals, Biotechnology & Life Sciences	OW	Flynn, Terence	
XOM.N	Exxon Mobil Corporation	United States	Energy	OW	McDermott, Devin	
RACE.N	Ferrari NV	Italy	Automobiles & Components	OW	Jonas, Adam	
HRMS.PA	Hermes International S.C.A.	France	Consumer Durables & Apparel	OW	Aubin, Edouard	+
IBE.MC	Iberdrola SA	Spain	Utilities	OW	Pulleyn, Robert	+
ICBK.NS	ICICI Bank	India	Banks	OW	Kariwala, Sumeet	
ITX.MC	Inditex	Spain	Consumer Discretionary Distribution & Retail	EW	Smalley, Grace	
JPM.N	JPMorgan Chase & Co	United States	Banks	EW	Graseck, Betsy	
MQG.AX	Macquarie Group Limited	Australia	Financial Services	OW	Stadnik, Andrei	
MSFT.O	Microsoft	United States	Software & Services	OW	Weiss, Keith	
MSCI.N	MSCI Inc.	United States	Financial Services	OW	Kaplan, Toni	
7974.T	Nintendo	Japan	Media & Entertainment	OW	Yoshikawa, Kazuo	
RIO.AX	Rio Tinto Limited	Australia	Materials	OW	Anand, Rahul	
4063.T	Shin-Etsu Chemical	Japan	Materials	OW	Watabe, Takato	
SYK.N	Stryker Corporation	United States	Health Care Equipment & Services	OW	Wood, Patrick	+
TCS.NS	Tata Consultancy Services	India	Software & Services	OW	Rateria, Gaurav	
TE.PA	Technip Energies NV	France	Energy	EW	Levy, Guilherme	
TENA.KL	Tenaga Nasional	Malaysia	Utilities	OW	Maheshwari, Mayank	+
0700.HK	Tencent Holdings Ltd.	China	Media & Entertainment	OW	Yu, Gary	
2330.TW	TSMC	Taiwan	Semiconductors & Semiconductor Equipment	OW	Chan, Charlie	
V.N	Visa Inc.	United States	Financial Services	OW	Faucette, James	
WLSNc.AS	Wolters Kluwer	Netherlands	Commercial & Professional Services	OW	Webb, George	

Source: Morgan Stanley Research

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Exhibit 2: Selection Process for Global BBM v5

Source: Morgan Stanley Research

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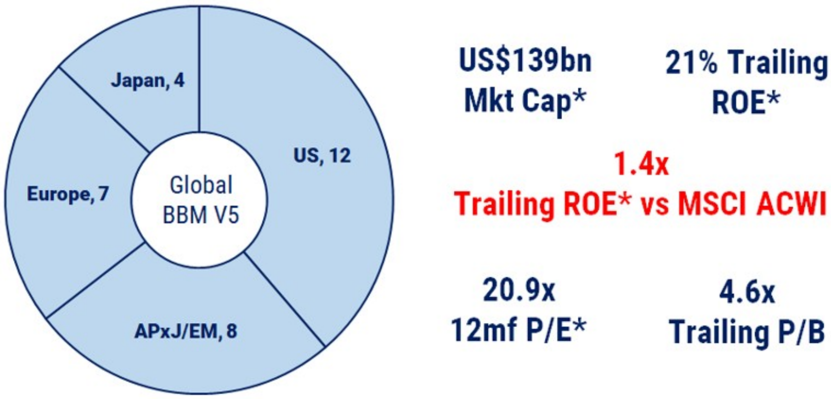
Exhibit 3: Global BBM v5 Regional Breakdown and Key Statistics



Source: IBES, Factset, Morgan Stanley Research. Data as of January 13, 2025. 12mf P/E is calculated based on stocks IBES consensus numbers from Factset. *Median of the 31 companies included in Global BBM v5.

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Global Best Business Models Version 5 – Quality, Profitability and Valuations

Global Best Business Models v5 – MS Analysts Recommendations, Targets, Valuations and Profitability metrics

In Exhibit 4 , we provide MS analysts current recommendations, targets and valuation summary information for the 31 companies included in our Global Best Business Models v5 list. Exhibit 5 shows the results of our quantitative screening approach for each stock. A detailed rationale for each company's inclusion is provided in the Analyst Contribution sections of this report.

Exhibit 4: Global Best Business Models v5 – MS analysts Recommendations, Targets, Valuations and Profitability metrics

Company Name	Ticker	MS Rating	Market	GICS Industry Group	Market Cap (US$bn)	12M Total Return	Last Price (LCY)	Upside to MS Price Target	Currency	MS 2025e P/E	MS 2025e P/B	MS 2025e ROE	MS 2025e DY	MS 2025e RNOA	Analyst
Apple, Inc.	AAPL.O	OW	United States	Technology Hardware & Equipment	3,558.2	26.7%	234.4	16.5%	USD	31.1x	51.9x	166.6%	0.4%	669.9%	Woodring, Erik
Boston Scientific	BSX.N	OW	United States	Health Care Equipment & Services	140.9	57.8%	94.6	5.7%	USD	33.9x	5.4x	16.0%	NA	12.0%	Wood, Patrick
Chugai Pharmaceutical	4519.T	OW	Japan	Pharmaceuticals, Biotechnology & Life Sciences	70.3	6.5%	6,737.0	19.5%	JPY	26.7x	5.3x	19.7%	1.5%	43.1%	Muraoka, Shinichiro
Coca-Cola Co.	KO.N	OW	United States	Food Beverage & Tobacco	265.8	5.2%	61.7	23.3%	USD	20.9x	9.6x	46.0%	3.3%	22.8%	Mohsenian, Dara
Costco Wholesale Corp	COST.O	OW	United States	Consumer Staples Distribution & Retail	410.6	36.1%	924.7	24.4%	USD	48.8x	13.1x	26.9%	0.4%	34.1%	Gutman, Simeon
Cummins Inc	CMI.N	OW	United States	Capital Goods	49.8	55.8%	361.1	20.8%	USD	14.1x	4.0x	28.7%	2.1%	24.7%	Castillo, Angel
Dai-ichi Life Holdings	8750.T	OW	Japan	Insurance	23.9	27.0%	4,096.0	29.6%	JPY	10.0x	1.0x	10.4%	3.8%	8.5%	Takemura, Atsuro
DBS Group Holdings	DBSM.SI	EW	Singapore	Banks	91.4	52.7%	44.1	0.5%	SGD	11.1x	1.8x	16.7%	5.6%	8.4%	Lord, Nick
Deutsche Telekom	DTEGn.DE	OW	Germany	Telecommunication Services	152.5	27.8%	29.9	40.7%	EUR	14.8x	2.2x	14.9%	3.5%	11.0%	Kelly, Emmet
Eli Lilly & Co.	LLY.N	OW	United States	Pharmaceuticals, Biotechnology & Life Sciences	721.7	24.8%	797.5	43.7%	USD	27.2x	25.9x	95.2%	0.8%	69.5%	Flynn, Terence
Exxon Mobil Corporation	XOM.N	OW	United States	Energy	480.3	13.1%	109.3	28.1%	USD	14.4x	1.8x	12.2%	3.7%	13.4%	McDermott, Devin
Ferrari NV	RACE.N	OW	Italy	Automobiles & Components	75.3	19.3%	418.4	24.3%	USD	46.4x	17.4x	37.4%	0.8%	28.4%	Jonas, Adam
Hermes International S.C.A.	HRMS.PA	OW	France	Consumer Durables & Apparel	252.7	20.5%	2,353.0	10.5%	EUR	49.6x	12.1x	24.4%	0.8%	77.4%	Aubin, Edouard
Iberdrola SA	IBE.MC	OW	Spain	Utilities	85.4	9.6%	13.1	14.2%	EUR	14.0x	1.8x	12.9%	5.2%	6.3%	Pulleyn, Robert
ICICI Bank	ICBK.NS	OW	India	Banks	100.2	18.4%	1,229.8	34.2%	INR	17.8x	2.7x	15.3%	0.9%	15.7%	Kariwala, Sumeet
Inditex	ITX.MC	EW	Spain	Consumer Discretionary Distribution & Retail	156.2	20.3%	48.9	6.3%	EUR	23.0x	7.1x	30.9%	3.5%	50.1%	Smalley, Grace
JPMorgan Chase & Co	JPM.N	EW	United States	Banks	688.8	47.8%	244.2	8.5%	USD	13.1x	2.0x	15.3%	2.1%	6.4%	Graseck, Betsy
Macquarie Group Limited	MQG.AX	OW	Australia	Financial Services	54.3	17.0%	225.6	9.9%	AUD	18.6x	2.5x	13.3%	3.4%	13.1%	Stadnik, Andrei
Microsoft	MSFT.O	OW	United States	Software & Services	3,116.4	8.2%	417.2	31.4%	USD	30.0x	8.2x	27.4%	0.8%	41.4%	Weiss, Keith
MSCI Inc.	MSCI.N	OW	United States	Financial Services	45.8	7.7%	580.5	19.7%	USD	33.7x	NM	>100%	1.2%	44.5%	Kaplan, Toni
Nintendo	7974.T	OW	Japan	Media & Entertainment	68.3	6.7%	9,248.0	6.0%	JPY	26.0x	3.6x	14.0%	1.9%	507.8%	Yoshikawa, Kazuo
Rio Tinto Limited	RIO.AX	OW	Australia	Materials	118.5	-10.7%	118.8	14.9%	AUD	10.1x	1.9x	18.8%	6.0%	24.0%	Anand, Rahul
Shin-Etsu Chemical	4063.T	OW	Japan	Materials	65.2	-15.5%	5,195.0	30.9%	JPY	16.6x	2.1x	12.5%	2.6%	19.8%	Watabe, Takato
Stryker Corporation	SYK.N	OW	United States	Health Care Equipment & Services	139.2	16.4%	361.0	23.3%	USD	26.7x	5.7x	21.4%	1.0%	13.2%	Wood, Patrick
Tata Consultancy Services	TCS.NS	OW	India	Software & Services	180.2	7.8%	4,291.8	8.6%	INR	29.7x	17.2x	58.0%	3.2%	109.2%	Rateria, Gaurav
Technip Energies NV	TE.PA	EW	France	Energy	4.9	27.7%	26.6	5.1%	EUR	11.6x	1.9x	16.7%	3.1%	NM	Levy, Guilherme
Tenaga Nasional	TENA.KL	OW	Malaysia	Utilities	18.1	44.4%	13.9	48.2%	MYR	15.0x	1.3x	8.6%	4.0%	9.5%	Maheshwari, Mayank
Tencent Holdings Ltd.	0700.HK	OW	China	Media & Entertainment	438.9	28.6%	366.0	55.7%	HKD	15.0x	2.9x	19.3%	1.2%	52.2%	Yu, Gary
TSMC	2330.TW	OW	Taiwan	Semiconductors & Semiconductor Equipment	842.3	75.8%	1,075.0	29.1%	TWD	17.9x	5.1x	28.6%	1.9%	56.8%	Chan, Charlie
Visa Inc.	V.N	OW	United States	Financial Services	638.4	17.1%	306.9	20.9%	USD	26.4x	11.3x	42.8%	0.8%	40.0%	Faucette, James
Wolters Kluwer	WLSNc.AS	OW	Netherlands	Commercial & Professional Services	40.5	15.3%	163.8	12.7%	EUR	28.8x	35.6x	123.3%	1.6%	30.9%	Webb, George

NM = Not meaningful. Past performance is no guarantee of future results. Results shown do not include transaction costs. Source: RIMES, Factset, Morgan Stanley Research. Data as of January 13, 2025. Note, the final selection process did not rely on standard valuation factors and upside to price target – see Exhibit 2 for details.

Exhibit 5: Global Best Business Models v5 – Summary of quantitative scoring of our Quality and Value Framework

Non-Financial Companies						Quality Metrics					Valuation Metrics				
						Profitability			Capital Use	Risks	Deep Value			Current Value	
MS Ticker	Company Name	Industry Group	MS Rating	Market	Market Cap in USD bn	5Y RNOA Z	RNOA	Accruals*	Capex-to-Depreciation*	5Y Net Debt-to-Assets STD*	Cash-to-Market Cap	EV-to-Sales*	Price-to-Book*	FCF Yield	EV-to-EBITDA*
						25%	25%	15%	15%	20%	20%	20%	20%	20%	20%
AAPL.O	Apple, Inc.	Technology Hardware & Equipment	OW	United States	3,595	0.64	62%	-3.7%	0.8	5.4%	2%	9.8	66.9	3%	28.6
BSX.N	Boston Scientific	Health Care Equipment & Services	OW	United States	141	1.57	8%	6.3%	0.8	1.2%	2%	8.8	6.4	2%	31.2
4519.T	Chugai Pharmaceutical	Pharmaceuticals, Biotechnology & Life Sciences	OW	Japan	70	-0.67	23%	1.9%	25.6	5.0%	8%	9.1	6.2	3%	19.3
KO.N	Coca-Cola Co.	Food Beverage & Tobacco	OW	United States	263	0.49	15%	3.5%	2.0	2.9%	7%	6.4	10.1	1%	20.2
COST.O	Costco Wholesale Corp	Consumer Staples Distribution & Retail	OW	United States	416	0.71	24%	3.1%	2.1	2.4%	3%	1.6	17.2	2%	34.9
CMI.N	Cummins Inc	Capital Goods	OW	United States	49	0.49	13%	1.9%	1.1	6.7%	5%	1.6	4.6	1%	11.9
DTEGn.DE	Deutsche Telekom	Telecommunication Services	OW	Germany	150	1.51	8%	-4.5%	0.8	1.9%	12%	2.6	2.4	20%	6.1
LLY.N	Eli Lilly & Co.	Pharmaceuticals, Biotechnology & Life Sciences	OW	United States	724	-0.09	27%	17.1%	5.0	3.6%	0%	18.6	51.5	0%	47.3
XOM.N	Exxon Mobil Corporation	Energy	OW	United States	468	-0.11	8%	16.5%	1.0	7.1%	6%	1.5	1.8	7%	7.8
RACE.N	Ferrari NV	Automobiles & Components	OW	Italy	77	0.30	19%	20.4%	1.5	7.4%	2%	12.6	23.5	2%	33.2
HRMS.PA	Hermes International S.C.A.	Consumer Durables & Apparel	OW	France	254	0.43	28%	9.8%	1.0	7.0%	4%	16.4	16.0	1%	33.9
IBE.MC	Iberdrola SA	Utilities	OW	Spain	86	0.96	6%	0.9%	1.4	5.6%	12%	3.2	1.8	3%	10.3
ITX.MC	Inditex	Consumer Discretionary Distribution & Retail	EW	Spain	160	1.14	29%	0.5%	0.6	4.1%	7%	3.9	9.2	5%	14.3
MSFT.O	Microsoft	Software & Services	OW	United States	3,130	-0.91	27%	22.8%	0.5	8.2%	3%	12.3	10.9	2%	15.3
7974.T	Nintendo	Media & Entertainment	OW	Japan	68	-1.52	12%	5.4%	1.2	2.7%	18%	6.8	4.5	4%	24.8
RIO.AX	Rio Tinto Limited	Materials	OW	Australia	119	-0.74	16%	4.4%	1.4	3.9%	8%	2.3	2.2	6%	5.9
4063.T	Shin-Etsu Chemical	Materials	OW	Japan	65	-0.83	11%	7.1%	1.7	0.8%	18%	3.4	2.2	4%	8.9
SYK.N	Stryker Corporation	Health Care Equipment & Services	OW	United States	141	1.03	12%	5.2%	0.6	5.0%	3%	6.7	6.8	2%	25.1
TCS.NS	Tata Consultancy Services	Software & Services	OW	India	179	1.17	46%	4.4%	0.7	1.8%	4%	5.7	14.4	3%	21.2
TE.PA	Technip Energies NV	Energy	OW	France	5	-0.56	15%	0.9%	0.7	2.5%	73%	0.3	2.3	11%	4.0
TENA.KL	Tenaga Nasional	Utilities	OW	Malaysia	18	-0.74	-2%	-2.9%	0.9	3.0%	21%	2.8	1.5	12%	19.1
0700.HK	Tencent Holdings Ltd.	Media & Entertainment	OW	China	443	1.13	12%	7.4%	0.8	2.5%	10%	5.7	3.9	6%	14.8
2330.TW	TSMC	Semiconductors & Semiconductor Equipment	OW	Taiwan	862	-0.85	21%	1.2%	1.2	3.2%	8%	10.0	6.9	3%	14.7
WLSNc.AS	Wolters Kluwer	Commercial & Professional Services	OW	Netherlands	41	1.43	21%	-0.1%	0.7	3.5%	2%	7.0	24.4	3%	21.7

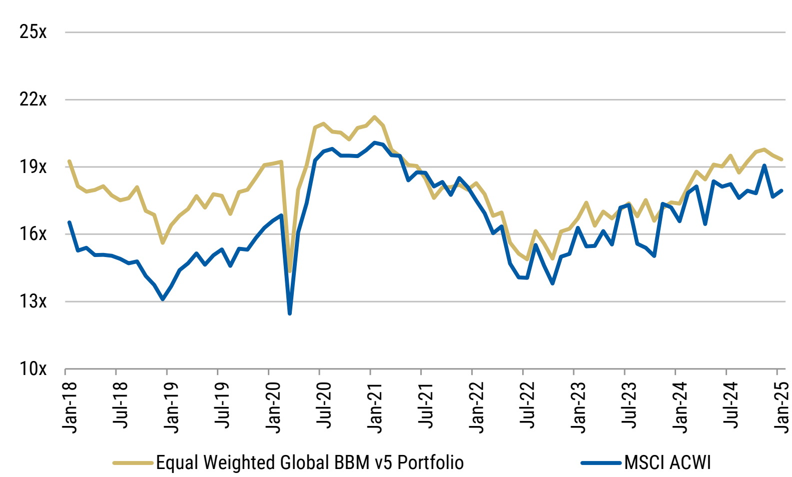
Financial Companies						Quality Metrics						Valuation Metrics		
						Profitability				Risks		Valuations		
MS Ticker	Company Name	Industry Group	MS Rating	Market	Market Cap in USD bn	ROE	5Y ROE Z	ROA	5Y ROA Z	5Y ROE CV*	5Y ROA CV*	Price-to-Book*	Price-to-NTM Earnings*	Total Yield
						20%	20%	20%	20%	10%	10%	40%	40%	20%
8750.T	Dai-ichi Life Holdings	Insurance	OW	Japan	24	17%	0.3	1%	0.5	0.6	0.6	1.6	10.5	6%
DBSM.SI	DBS Group Holdings	Banks	EW	Singapore	92	18%	1.0	1%	1.2	0.2	4.0	1.9	11.2	5%
ICBK.NS	ICICI Bank	Banks	OW	India	102	17%	0.8	2%	0.9	0.2	3.8	3.2	18.2	1%
JPM.N	JPMorgan Chase & Co	Banks	EW	United States	677	16%	0.2	1%	0.6	0.2	4.7	2.1	14.3	5%
MQG.AX	Macquarie Group Limited	Financial Services	OW	Australia	56	11%	-0.9	1%	-1.3	0.2	9.8	2.5	19.6	5%
MSCI.N	MSCI Inc.	Financial Services	OW	United States	45	0%	0.0	22%	1.3	0.0	4.5	NM	35.2	2%
V.N	Visa Inc.	Financial Services	OW	United States	640	51%	1.2	21%	1.2	0.2	5.4	16.6	27.3	3%

NM = Not meaningful. Source: Bloomberg, Factset, MSCI, RIMES, Morgan Stanley Research. Price data as of January 13, 2025. Quality and Valuation metrics data as of January 2025, and based on trailing last 12-month financial data. Note the final selection process did not rely on quant factors alone – see Exhibit 2 .

Of the 31 companies, Morgan Stanley analysts currently rate 27 Overweight within their industry coverage universes whilst the remaining four are rated Equal-weight. The median market capitalization is US$139bn with a range from US$3,558bn (Apple Inc.) to US$4.9bn (Technip Energy). The median upside to MS analysts' price targets is 21%.

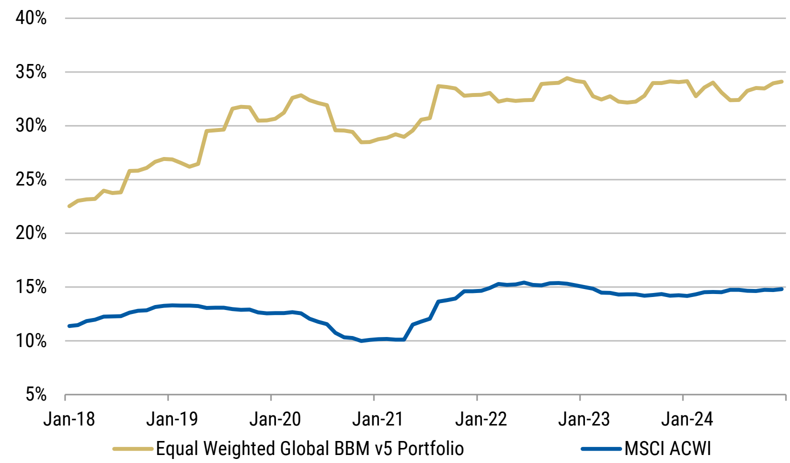
The Global BBM v5 median consensus forward P/E is at 20.9x currently, which is only about a 17% premium versus MSCI ACWI consensus forward P/E of 17.9x. The current median trailing ROE for the portfolio is 21%, which is 1.4x (a 40% premium to) the MSCI ACWI Benchmark mean trailing ROE of 15%. The median trailing P/B stands at 4.6x, with a forward MS 2025e dividend yield of 2.0%.

Exhibit 6: Forward P/E for Global BBM v5 MSCI ACWI Index – An equal-weighted Global BBM v5 portfolio currently trades at only an 8% valuation premium vs MSCI ACWI (versus 17% on a median basis)



Source: MSCI, IBES, Factset, RIMES, Morgan Stanley Research. Data as of January 13, 2025

Exhibit 7: Trailing ROE for Global BBM v5 vs. MSCI ACWI Index – An equal-weighted Global BBM v5 portfolio currently delivers mean ROE of 34% vs 15% for MSCI ACWI (versus 21% ROE or a 40% premium above MSCI ACWI on a median basis)

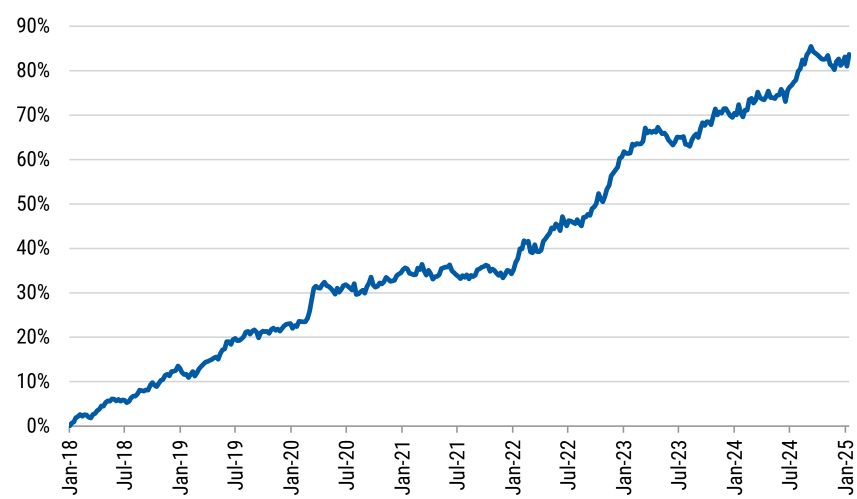


Source: MSCI, RIMES, Factset, RIMES Morgan Stanley Research. Chart data as of December end 2024

Recent relative performance of v5 constituents

We intend to track the performance of the 31 stocks selected for Global BBM as an equal-weighted portfolio with dividends reinvested, in both absolute terms and relative to the MSCI ACWI benchmark. To explore the historical performance of these companies, we constructed an equal-weighted portfolio as of January 1, 2018, of the 30 names that were then listed, adding Technip Energies as of March 2021 when it was listed. With dividends reinvested, the total return since January 1, 2018, would have been 248% in USD vs. MSCI ACWI of 90% with persistent outperformance over the last 7 years. Past performance is of course no guarantee of future outperformance.

Exhibit 8: Simulated backtest historical performance of an equally weighted portfolio of 31 stocks in Global BBM v5 relative to MSCI ACWI benchmark (USD, index to Jan 2018=100)*



Source: MSCI, Factset, RIMES, MS Research. Data as of January 13, 2025; Past 12M performance was 25% in USD vs. MSCI ACWI of 17%. Dividends reinvested. Past performance is no guarantee of future results

**Note the performance data does not predict or project the performance of an investment or investment strategy. Past performance is no guarantee of future results.*

Our Approach to Finding Best Business Models

Our goal is to deliver USD total return outperformance for the Global BBM list versus the MSCI ACWI Index over a two-year buy-and-hold period. The framework we have used for Global Best Business Model v5 selection has remained unchanged since we first launched our Global Best Business Model v1 in December 2016, with subsequent updates including Global BBM v4 in January 2023. We also used this same approach to find the Best Business Model stocks in the APxJ/EM region, version 9 of which was published in February 2023.

When looking at the intended size of the list, empirical evidence and portfolio theory strongly suggest that once a portfolio becomes overly large and diversified, alpha generation diminishes quite rapidly (typically for portfolios larger than 50 stocks). We used the number of companies as a yardstick and further concentrated the list to include 31 companies in v5 versus 38 in v4.

Summary of our Best Business Models Approach:

1) Before launching Global Best Business models we undertook extensive quantitative back-testing over various holding periods for a universe of ~4,500 stocks (from the US, Europe, Japan and Asia/EM) of a wide range of factors including: a) Deep Value; b) Current Value; c) Capital Use; d) Profitability; e) Growth; f) Momentum; g) Revisions; and h) Risks.

2) We then identified a limited group of factors with which to screen stocks in a manner that was both: a) philosophically consistent with our previous Asia/EM Best Business Models approach; and b) had support from the back-tests at a global level. This testing led us to undertake a two-stage screen using the Quality & Value factors with the weights discussed below. Refreshed inputs of these factors have been used for version 5 and are summarised in Exhibit 5 .

3) We then broke down the long list by GICS industry group and compared the quant scoring of companies against global industry peers. We then assessed potential short list companies in collaboration with our global analyst teams to identify the best business models within the major industry groups for inclusion in the Global BBM v5 list. This was a collaborative iterative process between the analyst and strategy teams intending to capture the preferred company in each major GICS industry group, introducing a focus on forward-looking assessments of the competitive advantages and management quality of the companies, which is not captured by the quant factors.

4) The shortlist of MS-covered stocks that passed our quant screening and the collaborative process with the analyst teams was then also assessed by Morgan Stanley's Sustainability Research Team (using its proprietary Environmental, Social, and Governance ["ESG"] ranking system). In particular, this ranking system considers a company's positive exposure to Environmental factors focused on key sustainability themes such as climate change, water scarcity, and waste management, and to Social factors related to food availability, improving lives, health and wellness, and demographics. The Governance component is accounted for through consideration of a company's positive exposure to factors such as each company's board structure, board compensation/remuneration, shareholder rights, and audit and risk oversight.

Exhibit 9: Global BBM v5 Industry groups with their respective index weight and number of stocks included in the process

GICS Industry Group	MSCI Index Weight	No. of Stocks in Global BBM v5
Automobiles & Components	1.4%	1
Banks	3.0%	3
Capital Goods	7.2%	1
Commercial & Professional Services	1.5%	1
Consumer Discretionary Distribution & Retail	4.0%	1
Consumer Durables & Apparel	2.0%	1
Consumer Services	1.8%	0
Consumer Staples Distribution & Retail	1.5%	1
Energy	2.7%	2
Equity Real Estate Investment Trusts (REITs)	1.5%	0
Financial Services	3.5%	3
Food Beverage & Tobacco	6.5%	1
Health Care Equipment & Services	3.5%	2
Household & Personal Products	2.7%	0
Insurance	6.9%	1
Materials	7.1%	2
Media & Entertainment	7.1%	2
Pharmaceuticals, Biotechnology & Life Sciences	1.3%	2
Real Estate Management & Development	2.5%	0
Semiconductors & Semiconductor Equipment	9.7%	1
Software & Services	6.4%	2
Technology Hardware & Equipment	0.5%	1
Telecommunication Services	9.1%	1
Transportation	5.1%	0
Utilities	1.4%	2

Source: Morgan Stanley Research, Data as of January 10, 2025

Quant Factors Included in Our Quality and Value Assessment

Stage 1 – Quality Metrics

- **Profitability (65%)**
  - Return on Net Operating Assets (RNOA) - 25%
  - RNOA five-year Z-scores - 25%
  - Total Accruals - 15%
- **Capital Use (15%)**
  - Capex to Depreciation
- **Balance Sheet Risks: (20%)**
  - Five-year Net Debt to Assets standard deviation

The weighted quality score allowed us to rank stocks in each GICS industry by these characteristics.

Stage 2 – Valuation Metrics

We then added the valuation dimension, further ranking the top-screening names from Stage 1 by the following valuation criteria.

- **Deep value (60%)**
  - Price to Book (20%)
  - Cash to Market Cap (20%)
  - EV / Sales (20%)
- **Current value (40%)**
  - EV/EBITDA (20%)
  - FCF Yields (20%)

All variables used were on a historical basis.

For Banks, Insurance and Diversified Financials, we undertook a similar two-stage process:

1) ROE and ROA levels and variation

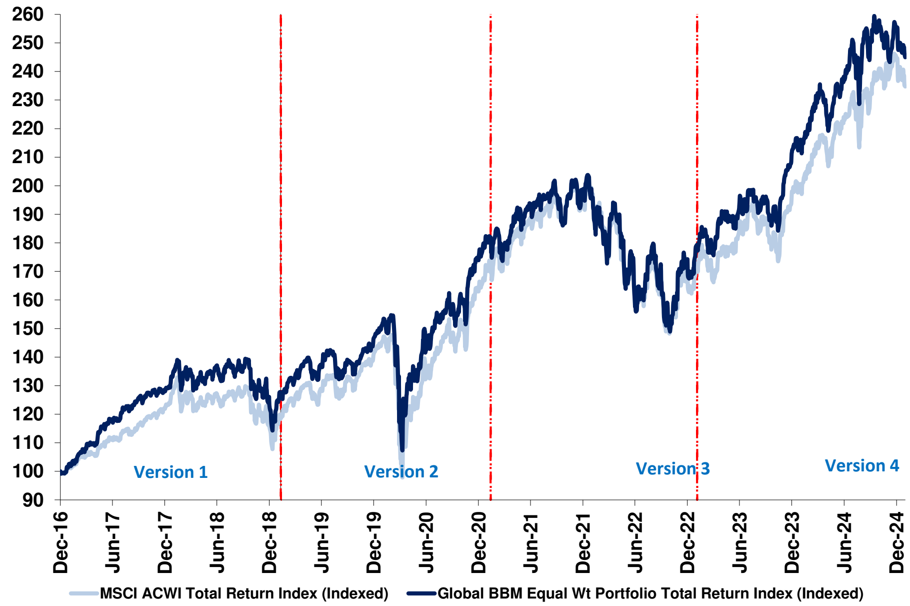
2) Price to Book, Price to Forward Earnings and Total Yield

The full list of stocks that were assessed during the process and the results of this quant scoring process are available on request. For more details on the original factor selection methodology, please see our Global BBM report, Global Equity Strategy: Launching Global Best Business Models v1 (14 Dec 2016).

Historical Performance of Our Global and APxJ/EM BBM Lists

Our Best Business Model framework has generated alpha for global stocks: The previous Global Best Business Model approaches (versions 1-4) that we first launched in December 2016, have delivered cumulative outperformance of around 440bp vs. the MSCI ACWI index on a USD total return basis (unaudited). See Exhibit 10 . The historical record of selections and deletions is available upon request.

Exhibit 10: Performance of Global Best Business Model versions 1-4 – The model has generated a cumulative alpha of +440bp (unaudited) since launch in 2016



Source: RIMES, MSCI, Morgan Stanley Research. Data as of January 13, 2025. *Performance is unaudited and excludes transaction costs. Past performance is not a guarantee of future results.

Stock changes in transition to v4 of Global BBM

Our BBM process does not set out to explicitly target a retention rate for incumbent stocks, but turnover has been relatively low over v1 to v4. This time we have retained 25 of the 38 stocks in the transition from v4 to v5.

Whether stocks are retentions or new inclusions, they were chosen for inclusion in Global BBM v5 due to the process we outline in this note. That is, these are names that offer superior quality characteristics versus global peers with an acceptable ESG profile and reasonable valuations on the metrics we have identified as important in our back-test.

For the non-retained stocks, it is not straightforward to identify the reasons for removal but the key elements are: a) an adverse shift in relative fundamentals in relation to the performance and MS analyst assessment of the prospects for the business model versus those firms that are included; and b) an adverse shift in relative valuations versus those firms that are included.

Exhibit 11: Stock Changes in Global BBM v5 versus v4 (stocks retained are highlighted in grey)

GICS Industry Group	Stocks in V5 (Grey Highlight - Retained Stock)	Stocks in V4
Automobiles & Components	Ferrari NV	Ferrari NV
Banks	DBS Group Holdings ICICI Bank JPMorgan Chase & Co	DBS Group Holdings ICICI Bank JPMorgan Chase & Co
Capital Goods	Cummins Inc	Honeywell International Inc WEG
Commercial & Professional Services	Wolters Kluwer	Wolters Kluwer
Consumer Discretionary Distribution & Retail	Inditex	Inditex
Consumer Durables & Apparel	Hermes International S.C.A.	Lululemon Athletica Inc. Nike Inc.
Consumer Staples Distribution & Retail	Costco Wholesale Corp	Costco Wholesale Corp
Energy	Exxon Mobil Corporation Technip Energies NV	Exxon Mobil Corporation Technip Energies NV
Financial Services	Macquarie Group Limited MSCI Inc. Visa Inc.	Macquarie Group Limited MSCI Inc. Visa Inc.
Food Beverage & Tobacco	Coca-Cola Co.	Coca-Cola Co. Nestle SA
Health Care Equipment & Services	Boston Scientific Stryker Corporation	Getinge AB
Household & Personal Products		L'Oreal S.A
Insurance	Dai-ichi Life Holdings	Dai-ichi Life Holdings
Materials	Rio Tinto Limited Shin-Etsu Chemical	Rio Tinto Limited Shin-Etsu Chemical
Media & Entertainment	Nintendo Tencent Holdings Ltd.	Nintendo Tencent Holdings Ltd.
Pharmaceuticals, Biotechnology & Life Sciences	Chugai Pharmaceutical Eli Lilly & Co.	Chugai Pharmaceutical Eli Lilly & Co. Novo Nordisk
Real Estate Management & Development		Longfor Group Holdings Ltd.
Semiconductors & Semiconductor Equipment	TSMC	TSMC ASML Holding NV
Software & Services	Microsoft Tata Consultancy Services	Microsoft Tata Consultancy Services
Technology Hardware & Equipment	Apple, Inc.	Apple, Inc. Arista Networks Samsung Electronics
Telecommunication Services	Deutsche Telekom	Deutsche Telekom
Utilities	Iberdrola SA Tenaga Nasional	Orsted A/S

Source: Morgan Stanley Research

Key Competitive Advantages and Long-term Drivers for 31 Global BBM v5 stocks

Finally and importantly, Morgan Stanley's fundamental analysts provide in the following pages for each of the 31 Global BBM stocks: 1) their assessment of key competitive advantages and long-term drivers for the stock; and 2) risk-reward pages.

They aim to address the following questions:

Key competitive advantages: Why is this company the most profitable and efficient operator relative to its peers? Why do you think it is sustainable?

Long-term drivers for the stock: What are the key factors that would continue to support the company in the long term?

Risks to competitive advantages: Potential concerns pertaining to the industry competitive landscape (e.g., government regulation, threat of new entrants or substitute products) or company-specific factors (e.g., M&A, succession) that could be harmful to the current RNOA generated by the company, which is not reflected in our historical data analysis.

Apple Inc. – Tech Hardware & Equipment

Primary Analyst: Erik Woodring

Key competitive advantages: We believe Apple's key competitive advantage is its vertically integrated ecosystem of leading technology products and services, which benefits from (1) large, stable end-markets, (2) industry-leading user retention rates, (3) a platform opportunity/multiplier effect to consistently grow existing user spending, (4) strong new customer acquisition (i.e. share gains), and (5) continued technology innovation. Underpinning Apple's technological expertise is its industry-leading supply chain, which benefits from massive scale and has allowed Apple to capture stronger profit margins, better secure components over competitors, and deftly manage inventory levels. Combined, these factors have helped Apple grow revenue and EPS at an 8% and 18% CAGR, respectively, over the last 5 years, pushing the company's market cap to over US $3.5trn. Today, Apple has an installed base of over 1.3bn premium users that exhibit low churn and show a propensity to buy more products and services over time – a nearly unmatchable asset in today's technology markets.

Long-term drivers for the stock: Prior to 2018, Apple was viewed as a cyclical hardware company where P/E valuation peaked around 15x. However, starting in 2018 the market began to realize that as high-margin Services exceeded 20% of Apple's gross profit dollars, Apple should be viewed as more of a high-quality technology platform with less cyclicality. This in-turn drove nearly 5x turns of P/E multiple expansion over the course of 2018, with Apple's multiple expanding to over 20x during the COVID pandemic as revenue and profitability growth materially accelerated beyond Consensus expectations. In our view, Apple is on the cusp of the largest device upgrade cycle ever, as the rollout – and limited backward compatibility – of Apple Intelligence should improve upgrade cycles/new user acquisition and accelerate replacement cycles, resulting in a multi-year product upgrade cycle that we believe will start from FY26. Apple Intelligence initial features have been released for US English users, but we expect the full impact of Apple Intelligence to play out with (1) broader availability of language support, such as Chinese, Spanish, French, Japanese, etc., and (2) more 'intellectual' Apple Intelligence features coming online, such as "personal context" and a much smarter Siri digital assistant. We are also confident in the sustainability of double-digit Services revenue growth for Apple, as less than 50% of Apple users pay for any Services today, which when coupled with (1) an installed base growing MSD Y/Y, (2) pricing power that can add up to 6 points to annual Services revenue growth, and (3) new Services launches in the future, drives confidence in long-term, sustainable growth for Services.

Risks to competitive advantages: We believe potential risks include: (1) regulatory risk, (2) geopolitical risk, primarily around supply chain disruption in China, and (3) greater competition in the pursuit of artificial intelligence superiority. While regulatory risk has always been an overhang for Apple, we believe broader regulations take time to take shape and that Apple is contributing to the formation/growth of new markets, rather than hindering competition. We also believe that Apple has created a competitive moat (i.e. its unmatched ecosystem) such that if regulators force greater competition via legislation, Apple should be able to defend its industry leading position in markets like the search advertising and mobile app economies. Furthermore, while any change to China trade regulations would be detrimental to Apple's primarily-Asia based supply chain, we believe Apple would be able to navigate these dynamics due to its scale and influence. We are already seeing Apple take steps to diversify its supply chain out of China towards countries like India and Vietnam, which are becoming larger manufacturing hubs for key Apple products. Lastly, while some investors are concerned about the law of large numbers and Apple's ability to continue growing, we believe that Apple continues to target new, significant/untapped growth opportunities in regions like India, Brazil, Mexico and SE Asia where penetration is low, and in new categories such as AR/VR, health, and smart home.

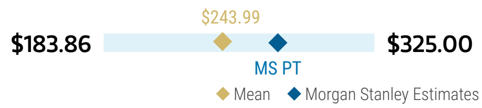
Risk Reward – Apple, Inc. (AAPL.O) Top Pick

Apple Intelligence Upgrade Cycle Undervalued By Market; Top Pick

PRICE TARGET $273.00

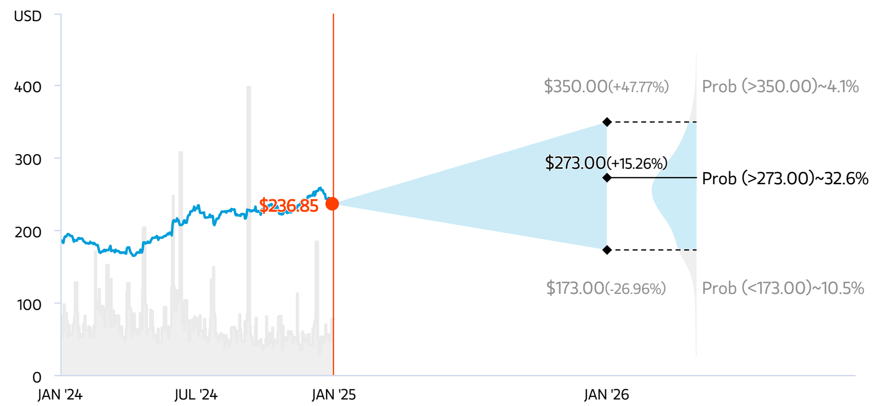
Our $273 PT is based a 8.9x EV/Sales FY26 multiple, which is derived from a regression of tech and consumer platform peers. Our price target implies 32.1x P/E on $8.52 FY26 EPS.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



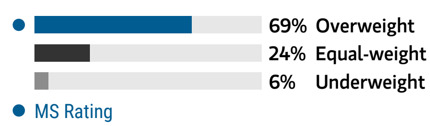
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

Apple is on the cusp of its largest device upgrade cycle ever, as the launch - and limited backward compatibility - of Apple Intelligence improves upgrade cycles/new user acquisition and accelerates replacement cycles, resulting in a record-breaking FY25/FY26 cycle that is underappreciated by the market today. When combined with consistent, double digit services growth and gross margins that are flat to expanding, we believe Apple can generate $8.52 of earnings power in FY26, ~4% above Consensus. Longer-term, investments in AI, payments, cloud, health, and home, and long runway to grow spend per user from $1/day today are key arguments for sustained long-term growth and value creation.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption:	*Positive*
Secular Growth:	*Positive*
New Data Era:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $350.00

10.3x EV/Sales FY26; 35.8x Bull FY26 P/E of $9.78

iPhone replacement cycles accelerate in FY25 as AI iPhone drives mid-to-high teens revenue/EPS growth. Consumer demand returns, and stronger than expected iPhone 16 upgrade intentions + mix shift to higher end iPhones drives 20%+ Y/Y iPhone revenue growth. Total revenue reaches $463B in FY25, while EPS reaches $8.34. We shift to a lifetime value-based valuation, which gives Apple credit for the shift towards subscription. Our bull case valuation implies a 35.5x P/E multiple on FY26 ests.

BASE CASE $273.00

8.9x EV/Sales FY26 or 32.1x FY26 P/E

Services and margins remain resilient, while investors look past near-term to Edge AI opportunity in 2025. Revenue grows 2% Y/Y in FY24, driven by Services growth, partially offset by Product declines. 45%+ GM through FY24, driven by mix, favorable commodities & FX headwinds fading. Investors turn their attention to FY25 & the impact from a potential AI iPhone launch, which alongside services growth, & $90B+ of annual buybacks, can reaccelerate fundamentals.

BEAR CASE $173.00

6.3x EV/Sales FY26; 23.9x FY26 Bear EPS of $7.25

iPhone 16 cycle disappoints as consumer spending weakens more than expected while competition stays intense. Growth slows even further across the portfolio as discretionary income is pressured by hard landing, causing a weaker than expected year of Product spending to lead to only LSD Y/Y revenue growth in FY25. Services growth also decelerates. With revenue flat, slight gross margin expansion drives LSD EPS growth, or ~$7.10 in FY26. Our bear case valuation implies a 24.4x FY26 P/E.

Risk Reward – Apple, Inc. (AAPL.O)

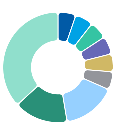
KEY EARNINGS INPUTS

Drivers	2024	2025e	2026e	2027e
Total Revenue Growth (Y/Y) (%)	2.0	4.1	12.3	4.6
iPhone Revenue Growth (Y/Y) (%)	0.3	2.0	16.7	3.1
Services Revenue Growth (Y/Y) (%)	12.9	11.4	12.4	10.4
Gross Margin (%)	46.2	46.8	47.5	47.7
EPS Growth (Y/Y) (%)	10.0	6.7	18.2	5.0

INVESTMENT DRIVERS

- Positive iPhone builds / clearer signs of accelerating replacement cycles
- Further Services revenue growth reacceleration
- Services gross profit dollar mix expands Y/Y
- New product launches
- Shift to hardware subscription model
- Regulatory developments

GLOBAL REVENUE EXPOSURE



- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 0-10% UK
- 10-20% Europe ex UK
- 10-20% Mainland China
- 30-40% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

3/5 **BEST**	24 Month Horizon	1/5 **MOST**	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- iPhone 16 unit and ASP growth outperforms
- Services growth accelerates, despite tougher Y/Y compares
- Gross margins surprise vs. commodity cost headwinds
- Vision Pro and other launches scale quicker than expected

RISKS TO DOWNSIDE

- Weak consumer spending limits Apple Intelligence upgrades.
- Greater competition in key markets
- Increased regulation, particularly in App Store
- Rising commodity costs constrain margins

OWNERSHIP POSITIONING

Inst. Owners, % Active	49.4%
HF Sector Long/Short Ratio	2.1x
HF Sector Net Exposure	23.5%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Sep 2026e

Metric	Morgan Stanley Estimate	Note
Sales / Revenue ($, mm)	457,387	*Note: There are not sufficient brokers supplying consensus data for this metric*
EBITDA ($, mm)	163,854	*Note: There are not sufficient brokers supplying consensus data for this metric*
Net income ($, mm)	126,212	*Note: There are not sufficient brokers supplying consensus data for this metric*
EPS ($)	8.52	*Note: There are not sufficient brokers supplying consensus data for this metric*

Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Boston Scientific – Health Care Equipment & Services

Primary Analyst: Patrick Wood

Key competitive advantages: Boston Scientific differentiates itself competitively through its strategic approach to capital allocation by acquiring strong assets in attractive modalities at opportune times, filling gaps in its own portfolio. We regard its management team as among the best-in-class within medtech, particularly for its disciplined and effective capital allocation strategy. This is evidenced by a strong track record of successful tuck-in acquisitions (e.g. Axonics in 2024, Farapulse in 2021 etc). In addition, BSX employs a pragmatic approach to portfolio management by divesting legacy assets that no longer align with its strategic goals (e.g. BTG spec pharma in 2021, neurovascular business in 2011). Separately, BSX leverages its market leadership in key modalities to drive growth through cross-selling opportunities. By utilizing its large presence and offering targeted rebates, the company can strengthen its competitive position within multiple markets. An example of this is in urology, where BSX has often leveraged its stone-management sales force to introduce newer adjacent offerings like Rezum and SpaceOAR to urologists through promotional activity, further expanding market share in these areas.

Long-term drivers for the stock: We expect further growth in 2025 and beyond to be driven by FARAPULSE (pulsed field ablation system) and WATCHMAN (left atrial appendage closure device), as well as recently acquired assets like Silk Road, Relievant, and Axonics. We believe that FARAPULSE has the potential to continue to take material share from competitors (e.g. RF products from ABT and J&J): reduced risk of collateral damage (target specific cells while protecting surrounding tissue), faster procedure times, and favorable patient outcomes. Additionally, we note that there have been 70+ clinical trials and 150+ publications supporting FARAPULSE, which we think can bolster further uptake in the years ahead. For WATCHMAN, we estimate US$1.5bn in WW sales for 2024 (~15% of total cardiology revenue) and see a sizeable runway ahead, forecasting a robust +mid-teens CAGR through 2028. The recent Medicare coverage expansion to include concomitant implantation is a component of this growth. Data from the OPTION trial highlight that WATCHMAN FLX can serve as a first-line therapy for post-ablation patients, further widening the patient pool by 1-2M patients. Looking ahead, we will be monitoring the CHAMPION trial readout in 2026, which studies WATCHMAN FLX as an alternative to blood thinners for AFib patients, potentially expanding the patient pool by another 14-18M.

Risks to competitive advantages: We see potential risks to BSX's competitive advantage in three primary areas: 1) pipeline risk, 2) increased competition, and 3) M&A integration challenges. While pipeline uncertainty is inherent in the medtech space, we believe that BSX's deep and diversified pipeline across multiple disease states helps mitigate this concern. Furthermore, BSX has a robust VC portfolio with 35+ active VC investments and 10+ historical deals that provides an added buffer against potential pipeline shortfalls. On competition, we think BSX may be pressured from competitive product launches within drug-eluting stents (DES) and cardiac rhythm management (CRM). However, we believe that BSX's track record strong commercial execution positions it well to compete effectively, even in crowded markets. Regarding M&A, BSX's elevated number of acquisitions intrinsically carries integration risk. However, the company has historically managed these challenges effectively, as evidenced by its ability to divest assets when necessary. Moreover, since most of BSX's deals (~55%) are on early-stage companies, the potential impact of integration issues on the enterprise is relatively limited.

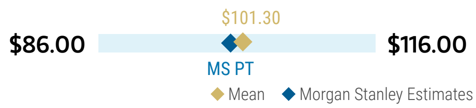
Risk Reward – Boston Scientific (BSX.N)

Boston Scientific Risk-Reward

PRICE TARGET $100.00

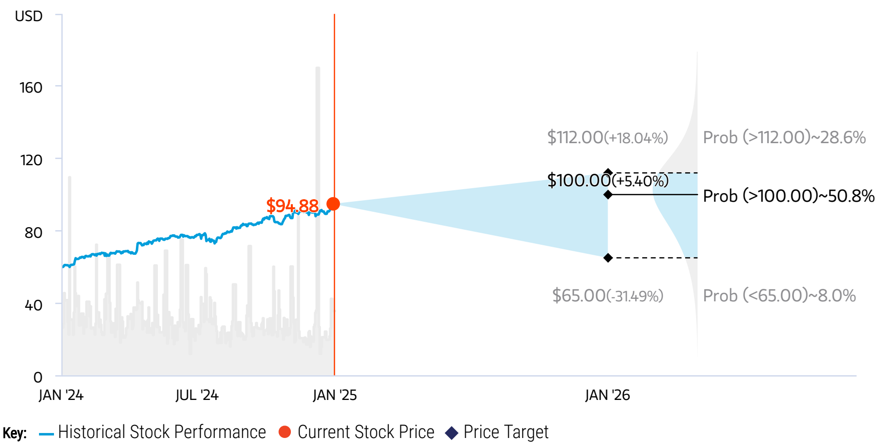
Our price target for Boston Scientific is based on a ~27.5x multiple off of our Base case 2025e EBITDA, reflecting a premium to core large cap comps, justified by Boston Scientific's above-peer revenue growth profile and margin expansion opportunities.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

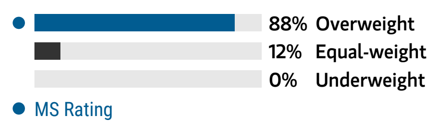


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- A strong product pipeline is augmented by M&A to drive a sustainable HSD organic growth profile.
- 50+ bps of annual margin expansion could drive up to mid-teens EPS growth supporting a premium valuation to peers.
- Organic revenue growth above peer group is sustainable through 2027, as Boston shifts into faster end markets and share gains continue.
- Margin expansion is driven by M&A integration and operating efficiencies. Balance sheet flexibility in CY24 remains sound.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $112.00

~29x Bull Case CY25e EBITDA

Procedure acceleration faster than expected. Organic growth accelerates into the double digits as pipeline programs outperform and M&A sales inflect faster than expected. High incremental profitability on new growth drivers and better leverage of recent M&A accelerates margin expansion and drives high teens or greater EPS growth.

BASE CASE $100.00

~27.5x Base Case CY25e EBITDA

Procedure volume strength and sustained execution support an accelerating high single digit large-cap growth story. Recent M&A builds off pipeline programs to drive above-peer CAGR. Operating margins remain on track for 50+ bps of annual improvement over the next several years driving mid-teens EPS growth.

BEAR CASE $65.00

~21.5x Bear Case CY25e EBITDA

Pressure on multiple fronts. Acquisitions prove less accretive to organic growth, key pipeline products fail to come to market, and TAVR fails to gain traction. Stent and CRM pricing and share pressures increase and weigh on organic growth. Required reinvestment slows margin expansion.

Risk Reward – Boston Scientific (BSX.N)

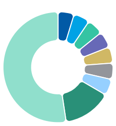
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Organic Growth (%)	12.3	15.5	11.4	10.1
Gross Margin (%)	70.7	70.4	71.2	71.5
Operating Margin (%)	26.3	27.1	27.9	28.3
EPS ($)	2.05	2.47	2.79	3.12

INVESTMENT DRIVERS

- Pipeline and M&A focused on expanding to higher growth end markets as WAMGR moves to 6-7%+
- Progress toward long term margin expansion targets
- Balance sheet deployment

GLOBAL REVENUE EXPOSURE



0-10%	APAC, ex Japan, Mainland China and India
0-10%	India
0-10%	Japan
0-10%	Latin America
0-10%	MEA
0-10%	Mainland China
0-10%	UK
10-20%	Europe ex UK
50-60%	North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 BEST	24 Month Horizon	5/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Key growth products ramp faster than expected (e.g. FARAPULSE, EXALT-D, POLARx, etc.)
- Pronounced market share gains
- Strategic M&A outperforms

RISKS TO DOWNSIDE

- Delays in key pipeline product rollouts
- Increased competition in core DES and CRM markets from competitive product launches.
- Failure to execute on planned pipeline programs and M&A integration
- Unfavorable legal developments

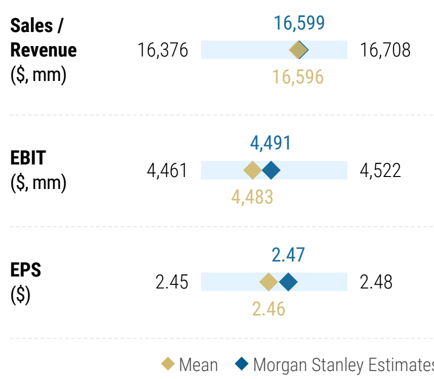
OWNERSHIP POSITIONING

Inst. Owners, % Active	66%
HF Sector Long/Short Ratio	2.4x
HF Sector Net Exposure	18.2%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Chugai – Pharmaceuticals

Primary Analyst: Shinichiro Muraoka

Key competitive advantages: Chugai's appeal is its global alliance since 2002 with Roche (owns a 60% stake in Chugai), the world's leading pharmaceuticals company. The companies have successfully created an efficient and innovative pharmaceutical development cycle by separating their areas of expertise. Products developed by Chugai account for 19% of Roche's global pharmaceutical sales (as at F12/23), and the fact sales exposure in Japan is 8% highlights the strength of Chugai's new drug development capabilities. Chugai has four unique characteristics as below:

1) R&D: Chugai is responsible for R&D in the initial stages, and Roche in the latter stages. Specifically, Chugai's resources are concentrated on new drug discovery through to Ph1/Ph2 testing, while Roche handles global development from the Ph3 stage, which requires heavy investment (Roche holds first refusal rights for drugs developed by Chugai outside of Japan). This has facilitated the rapid development of major global drugs like Actemra, Alecensa, Hemlibra, Enspryng and Piasky (with short development lead times), and there is currently strong interest in GYM329 (SMA/obesity) that was developed by Chugai and is now in the latter development stages under Roche.

2) Sales (Japan): As part of the alliance it formed with Roche in 2022, Chugai acquired the rights to develop and sell Roche's drugs in Japan. This enabled Chugai to take full charge of sales of Tecentriq, Avastin, Vabysmo and other drugs in Japan. With the addition of Roche's products to Chugai's portfolio of its own developed drugs, sales growth momentum in the Japan business skyrocketed.

3) Independent management: While Roche continues to own a 60% stake in Chugai, it has virtually no say in Chugai's management (it only supports Chugai's continued listing in Japan). In order to maintain independent management, Chugai has devoted much of its resources to the development of innovative new drugs, and has independently developed a number of antibody and peptide drug discovery technologies. This has created a win-win relationship for both Chugai and Roche.

4) Alliances with companies besides Roche: Roche holds first refusal rights on drugs developed by Chugai, but if Roche does not exercise these rights, Chugai is free to out-license to a third party. Recent examples include the out-licensing of Orforglipron (oral GLP-1) to Eli Lilly, and Nemolizumab (atopic dermatitis) to Galderma (it also out-licensed SGLT2 and others in the past). There is strong market interest in an oral GLP-1 drug (obesity/diabetes), Ph3 trial results for which are due out in spring/summer 2025. It could be a game-changer that revolutionizes the paradigm of obesity treatment owing to its oral administration, relative ease of mass production and its limited impact on diet.

Long-term drivers: Actemra – the latest collaboration between Chugai and Roche – is at the end of its life cycle, but we expect stable growth over the next 10 years from Hemlibra, Alecensa, Enspryng and PiaSky. The stock market also has high expectations for upcoming new drugs developed by Chugai (Orforglipron and GYM329 for obesity). In addition, Chugai has a number of other new drugs in the early stages of development (Ph1/2). Thus, there is strong potential for stable growth in the medium to long-term.

Risks to competitive advantages: Risks include new drug development failures, delays discovering new innovative drugs and side effects from existing drugs. There is a strong chance Chugai's share price could drop substantially if clinical development of Orforglipron were to fail.

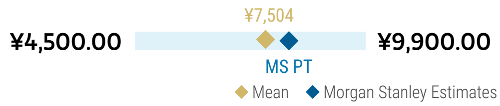
Risk Reward – Chugai Pharmaceutical (4519.T)

Rising visibility for multiple pipelines

PRICE TARGET ¥8,050

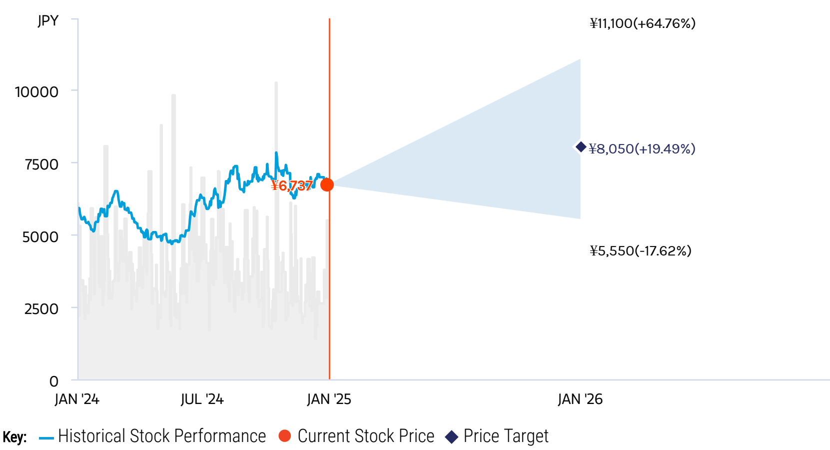
SOTP. ¥2050/sh for sum of the 5 new drugs and ¥6000/sh for the current business. Equates to 32x on our F12/25e EPS. Risk adjustments for 5 new drugs are 30-70%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART

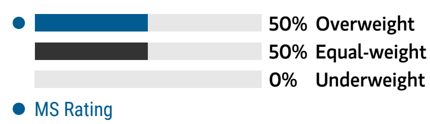


Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- **Multiple new drugs are emerging**
- **Oral GLP-1:** Ph3 results in 2025. Obesity and Diabetes. QD oral.
- **GYM329:** Ph2/3 for SMA (with Evrysdi) result in 2025. Obesity Ph1 result in 2025.
- **Crovalimab (PiaSky):** C5 Ab for PNH. US approval in 2024. Q8W SC.
- **Nemolizumab (Nemluvio):** IL-31 Ab. Atopic dermatitis. Approval in 2024.
- **Enspryng :** TED Ph3 result in 2026
- **Biosimilar risk:** Actemra BS launch in 2024 (IV & SC).
- **Hemlibra competition:** Gene therapy, FVIII mimic (Mim8), etc

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption:	*Positive*
Self-help:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE ¥11,100

¥4300/sh for 5 new drugs, ¥6800/sh for others

No risk adjustments for 5 new drugs (100% success). Hemlibra generates >$8bn global sales in 2030.

BASE CASE ¥8,050

¥2050/sh for 5 new drugs, ¥6000/sh for others

30-70% risk adjustments for 5 new drugs (oral GLP-1, Crovalimab, Nemolizumab, GYM329, Enspryng). Stable growth for Hemlibra. Biosimilar erosion for Actemra gradually starts from 2024.

BEAR CASE ¥5,550

¥150/sh for 5 new drugs, ¥5400/sh for others

0-30% risk adjustments for 5 new drugs. Hemlibra loses growth momentum (competitor Mim8 gains market share), fast biosimilar erosion for Actemra.

Risk Reward – Chugai Pharmaceutical (4519.T)

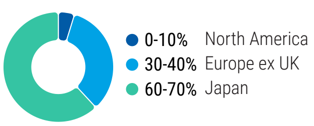
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Royalty Income (¥, bn)	146.5	167.0	159.5	171.5
Hemlibra Export Income (¥, bn)	212.3	304.0	319.0	345.0
Actemra Export Income (¥, bn)	127.5	132.0	92.0	67.0
Alecensa Export Income (¥, bn)	55.7	63.0	76.0	84.0

INVESTMENT DRIVERS

- Oral GLP-1: Obesity and diabetes. Ph3 results in 2025
- GYM329: SMA Ph2/3 results in 2025. Obesity Ph1 result in 2025
- Crovalimab: PNH. Q4W SC. Launch in 2024
- Nemolizumab: Atopic dermatitis. Global launch in 2024-25

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Oral GLP-1: Robust Ph3 results in 2025
- GYM329 : Successful obesity Ph1 results
- Crova & Nemo: Faster penetration.
- Enspryng: Success in TED
- Hemlibra: Faster reacceleration in sales
- Actemra : Slow penetration of biosimilars
- Peptide discovery

RISKS TO DOWNSIDE

- Pipeline failure
- 5 new drugs: Slow penetration after the launch.
- Hemlibra: Erosion to competitors
- Actemra: Fast erosion by biosimilar

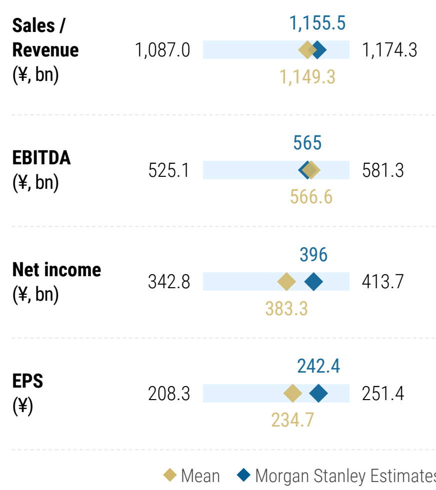
OWNERSHIP POSITIONING

Inst. Owners, % Active 79.2%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Coca-Cola Co. – Food, Beverage & Tobacco

Primary Analyst: Dara Mohsenian

Key competitive advantages: KO's key competitive advantages are rooted in its iconic brand portfolio, unmatched franchised distribution system, advanced revenue growth management (RGM) capabilities, geographic diversification, and stronger beverage industry pricing power vs other CPG categories. Stronger beverage industry pricing power and much lower volume demand elasticity are driven at the consumer level by lower private label penetration and less trade-down risk, at the retail level by more fragmented channel mix that creates less retailer pushback, and at the manufacturer level by a more consolidated industry structure and benign competitive environment. KO's franchised bottling system fosters strong local in-market execution, with incentives aligned through incidence-based pricing for the system to drive profitable revenue growth. The bottlers also bear the bulk of the system-wide commodity exposure. KO's superior RGM capabilities drive competitive advantages by enabling KO to offer a broad range of packages to address affordability for consumers at attractive margins for KO, and drive premiumization. We also view the organizational and portfolio streamlining, execution improvements, and growth mindset under CEO James Quincey as sources of competitive advantage.

Long-term drivers for the stock: We expect KO to grow at the high-end of its 4-6% LT organic sales growth algorithm over the next several years driven by continued momentum for KO's core sparkling category globally, per capita growth in emerging markets, KO market share gains, moderate pricing with limited volume elasticity, strong mix contribution through RGM, and outsized growth for the Fairlife brand in the US. KO's evolution into a total beverages company under CEO James Quincey has also increased KO's total addressable market. KO's tax litigation is a risk factor, with a potential incremental liability of US$10bn (beyond the US$6bn KO already posted pending appeal) and potential 350 bps increase in KO effective tax rate, but resolution could take several years.

Risks to competitive advantages: Risks to KO's competitive advantages include a breakdown in favorable industry pricing dynamics, particularly in the US, which we believe is highly unlikely with KO/PEP/KDP all incentivized to drive profitable growth in the US (in the case of KO to fund global growth, in the case of PEP to fund snacks growth, and in the case of KDP to drive the coffee business). Another risk to KO's competitive advantages would be friction with KO's franchised bottling partners, although we believe the risk here is also low as incidence-based aligns the bottlers and Coke to drive revenue growth. Any consumer shift away from the sparkling category driven by health and wellness concerns or potential government regulations such as restrictions on using SNAP benefits for sugary drinks could also weaken KO's competitive advantages, although KO has helped mitigate this risk through growth in its zero-sugar portfolio. FX is also a risk factor given Coke's high international exposure.

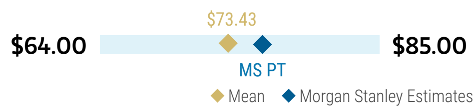
Risk Reward – Coca-Cola Co. (KO.N) Top Pick

OW: OSG Landing Above Peers

PRICE TARGET $76.00

Our PT is derived from a ~25.5x CY25 P/E multiple, roughly in-line with where OW-rated CL is currently trading, and a premium to PG which we believe is appropriate given KO's stronger LT topline growth profile.

Consensus Price Target Distribution

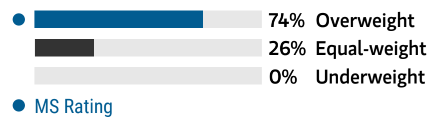


Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

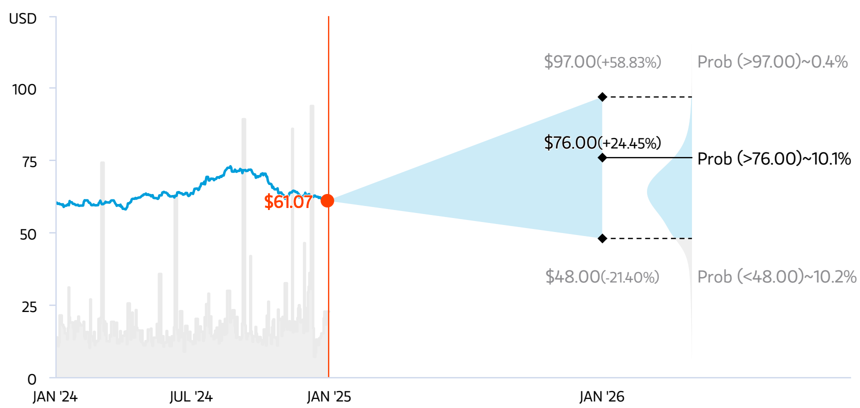
We are OW as Coke's fundamentals increasingly disconnected favorably from the group with strong pricing power, low demand elasticity, strong international growth, higher marketing reinvestment, improved execution, and better margin performance with productivity, and a continued rational pricing environment.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

BULL CASE $97.00

~30x Bull Case 2025e EPS

Topline Upside: Assumes HSD% organic revenue growth in 2024 and 6%+ LT, with 200 bps of operating margin upside vs our base case. We assume zero impact from tax dispute with the IRS with KO winning the appeal. KO multiple expands to ~30x bull case CY25 P/E.

BASE CASE $76.00

~25.5x Base Case 2025e EPS

Topline Rebound: We forecast 5-6% LT topline growth driven by improved revenue growth management and execution. KO operating margins expand to ~31% in FY25. We apply a ~25.5x CY25 P/E multiple.

BEAR CASE $48.00

~18x Bear Case 2025e EPS

Topline/Margin Downside: Weaker topline from global consumer slowdown and volume deleveraging drives 200 bps of operating margin downside vs our base case. We assume 100% payment of the ~$12B tax liability to the IRS. KO valuation contracts to ~18x bear case CY25 P/E.

Risk Reward – Coca-Cola Co. (KO.N)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Unit Case Volume (%)	2.0	0.7	2.6	2.6
Price/Mix (%)	10.0	9.6	3.3	2.8
Organic Sales Growth (unit case + price/mix) (%)	12.0	10.3	5.9	5.4
Gross Margin Bps Change	106.0	115.0	20.0	40.0
EPS % Growth (%)	8.2	6.7	2.8	8.1

CATALYST CALENDAR

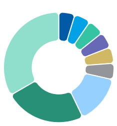
Source: Refinitiv, Morgan Stanley

Date	Event
01 May 2025 - 05 May 2025	Coca-Cola Co Annual Shareholders Meeting

INVESTMENT DRIVERS

- EPS growth inflection
- Post-COVID topline growth acceleration
- Working capital improvements
- FCF conversion continued improvement to 90-95%

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

3/5 **BEST**	24 Month Horizon	1/5 **MOST**	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

Stronger than expected price/mix, stronger volume growth, higher productivity/cost savings and marketing efficiency.

RISKS TO DOWNSIDE

Higher than expected volume elasticities in the US and Europe, emerging markets macro volatility, GLP-1 and broader health & wellness pressures, negative FX movements, and unfavorable resolution of the tax dispute with the IRS.

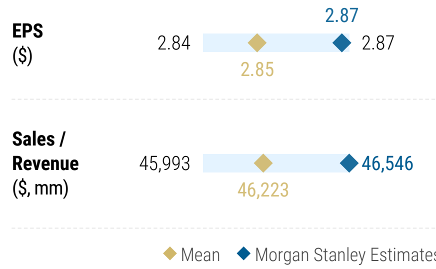
OWNERSHIP POSITIONING

Inst. Owners, % Active	52.2%
HF Sector Long/Short Ratio	1.2x
HF Sector Net Exposure	1%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Costco Wholesale Corp – Consumer Staples Distribution & Retail

Primary Analyst: Simeon Gutman

Key competitive advantages: We view Costco as one of the best-positioned companies in Retail. In contrast to most traditional retailers which aim for key customers to shop more frequently with greater basket sizes, customers pay Costco to shop in its clubs. This customer base continues to be sticky, with membership growth at a 7% CAGR from F19-F24 and total comps ex fuel averaging 6% since 2014.

For the customer, the anchor is the consistent value Costco's shopping experience delivers. This is evidenced by an industry-leading membership renewal rate of 92.8% (and increasing in each of the past 8 years). Costco's best-in-class private label brand, Kirkland Signature, has grown to over US$60b in global revenue (~high 20s% of total net sales excluding gas). The size of this brand is favorable for Costco's margins (we estimate private label products carry a ~800 bps gross margin advantage over branded ones) and protects its position by offering products not found anywhere else. Costco's unmatched value proposition was enhanced post-Covid, and we believe this should continue to drive healthy, profitable growth in the future.

Long-term drivers for the stock: Costco is a durable top-line and EBIT compounder bolstered by an expanding valuation gap to the market and to Retail peers. Regarding fundamental growth, we anticipate high-single-digit to low-double-digit annual EBIT growth based on several drivers: 1) ~2-3% unit growth (an additional ~100 US warehouses over the next 6 years along with ~30 potential new warehouses in the near- to medium-term); 2) Mid-single-digit comp growth, fueled by merchandising and online growth. Costco's superior merchandising and ability to innovate has driven increases in sales per member over time; 3) Membership growth, which continues to expand at a solid rate; 4) Opportunities in retail media, which Costco is only just beginning to test. Costco's alternative revenue and profit stream via digital media is an upside lever that has yet to be fully appreciated by the market given the business is nascent for Costco. Valuation can be difficult to assess given the stock's premium to the market and retail peers. That said, a significant premium is appropriate given Costco's annuity-like recurring revenue stream from membership. Trading at ~50x NTM P/E currently (well above the stock's long-term average of ~27x) and at ~2.3x the market multiple, we think this valuation premium screens reasonably and is supported by Costco's status as a best-in-class, defensive retailer.

Risks to competitive advantages: One structural risk is millennials not adopting Costco's club model, though this doesn't overly concern us. Although millennials spend the least, they are the fastest-growing segment and we believe their wallet shares with Costco should increase as they age into prime spending years. Gen Xers and Baby Boomers spend the most at present and should remain the strongest contributors to Costco's sales growth. E-commerce competition is another potential risk given Costco has not invested in omni-channel to the same degree as peers. That said, Costco's eCommerce has grown at a healthy ~23% average rate over the past 5 years, with robust fulfillment capabilities in '*Big and Bulky*' through Costco Logistics. We believe there could be more to come later this year in the form of expanded inventory availability and faster fulfillment leading to higher conversion rates.

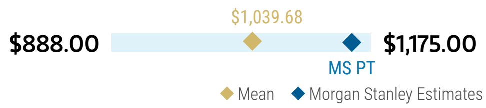
Risk Reward – Costco Wholesale Corp (COST.O)

Excellent Fundamentals Justify Elevated Valuation

PRICE TARGET $1,150.00

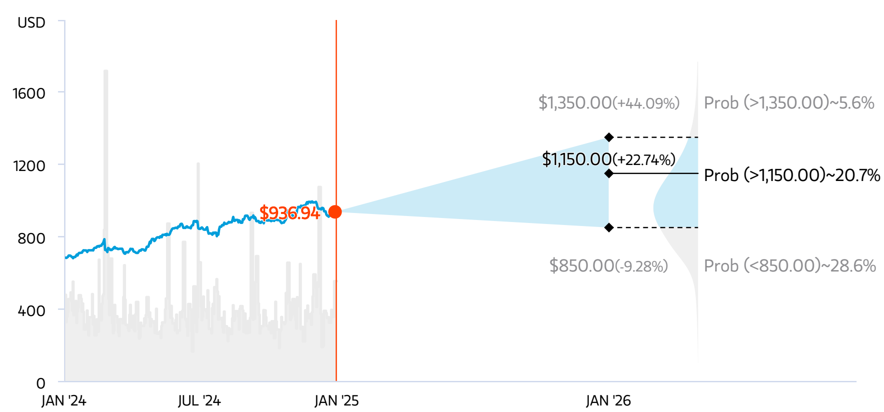
PT derived using a historic & relative P/E and EV/EBITDA multiple framework with further DCF support. Our $1,150 PT is based on ~55x our calendarized 2026e EPS of ~$20.84 and equates to a ~34x EBITDA multiple. Both multiples are near historic highs and imply LT annual comp/EBIT growth of ~6%/~10%. We think this is achievable as COST offers defensive, durable growth & best-in class fundamentals on a consistent basis.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



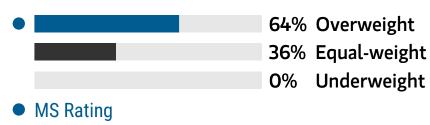
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- COST's results have consistently been among the best in Retail. Over the past decade, COST has delivered ~6% comps and ~10% EBIT growth on average.
- It is rare to find a business with COST's solid comp/membership growth, while relative e-commerce insulation differentiates its value proposition from other retailers.
- We are Overweight even as the stock trades at an elevated valuation given COST's scarcity value, safety, and scale.
- In the near-term, we expect incremental sales uplifts, and earnings power looks stronger despite elevated inflation in the business.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Pricing Power: *Positive*
Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $1,350.00

~61x C'26e EPS of ~$21.83, or ~38.5x EV/EBITDA

US ex-fuel comps of +7.6%/+7.0%/+7.2% in F'25/F'26/F'27, above historical trends despite tough laps/uncertain macro as Grocery strength persists with discretionary stabilization. EBIT margin expansion of ~23 bps/~8 bps/~9 bps in F'25/F'26/F'27, which produces ~17.3%/~11.3%/~11.4% EBIT growth. ~61x P/E equates to ~38.5x EV/EBITDA, above peak, reflecting a return to peak EPS & membership growth despite challenging laps driven by customer retention & best-in-class execution.

BASE CASE $1,150.00

~55x C'26e EPS of ~$20.84, or ~34x EV/EBITDA

US ex-fuel comps of +5.8%/+6.4%/+6.6% in F'25/F'26/F'27. ~16 bps of EBIT margin expansion in F'25 despite wage investments, with ~8 bps / ~ 6 bps of expansion in F'26/F'27; EBIT margins reach ~3.81%/~3.88%/~3.94 in F'25/F'26/F'27, with EBIT growth of ~12%/~10%/~10%. Valuation at/near historic peaks and at ~2.3x market multiple, reflecting better relative outperformance to historic trends & much of Retail and stronger EPS power than much of Retail.

BEAR CASE $850.00

~46.3x C'26e EPS of ~$18.38, or ~28x EV/EBITDA

US ex-fuel comps slow to ~4.3%/~5.4%/~5.6% in F'25/F'26/F'27 as discretionary & consumables trends normalize in a macro/spending slowdown off tough compares. EBIT margins expand +8 bps in F'25 before contracting ~15 bps in F'25/F'26, which results in +8%/+3.7%/+4.1% EBIT growth, settling below COST's typical growth algo. Target multiples seem appropriate as they are closer to COST's L-T averages given lower earnings growth vs. historic high-single-digit % average & weaker flow through.

Risk Reward – Costco Wholesale Corp (COST.O)

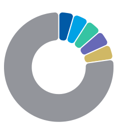
KEY EARNINGS INPUTS

Drivers	2024	2025e	2026e	2027e
Comp ex. Gas & FX (%)	5.9	6.4	6.4	6.6
Total sq footage growth (%)	3.5	3.0	2.9	2.5
Membership change y/y (%)	9.1	3.9	4.0	4.1
Gross Margin on net sales (%)	10.9	11.1	11.3	11.4
EBIT Margin on total sales (%)	3.6	3.8	3.9	3.9

INVESTMENT DRIVERS

- Top-line growth: continued mid- to high-single-digit comps across all store vintages, driven by COST's leading value proposition
- Mid- to high-single-digit-earnings growth

GLOBAL REVENUE EXPOSURE



- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% Europe ex UK
- 0-10% Japan
- 0-10% Latin America
- 0-10% UK
- 80-90% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 **BEST**	24 Month Horizon	3/5 **MOST**	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- US comps (ex. gas/FX) accelerate beyond the 7-8%+ range driven by market share gains
- Membership growth accelerates
- Sustainable gross/EBIT margin expansion

RISKS TO DOWNSIDE

- US comps (ex. gas/FX) decelerate, driven by discretionary weakness as the consumer downturn worsens
- Membership growth slows
- Margin pressures intensify from dilutive mix/channel shift

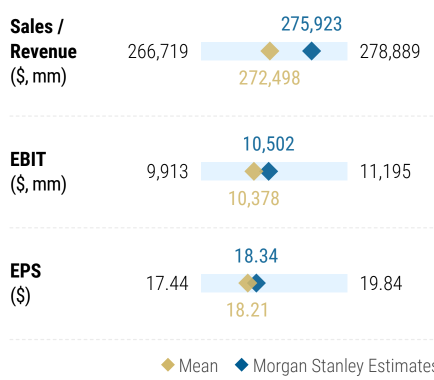
OWNERSHIP POSITIONING

Inst. Owners, % Active	48.7%
HF Sector Long/Short Ratio	1.2x
HF Sector Net Exposure	1%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Aug 2025e



Source: Refinitiv, Morgan Stanley Research

Cummins Inc – Capital Goods

Primary Analyst: Angel Castillo

Key competitive advantages: CMI's primary competitive advantage is its leading market position within the vital components it supplies for key products, including 1) manufacturing engines for commercial vehicles, where it has a leading ~35% market share in Class 8 Group 2 (Heavy Duty) engines and roughly ~90% share in the Class 7 and Class 8 Group 1 (Medium Duty) category, and 2) manufacturing large engines used in data centers to back up power generation, where it has a leading market share of ~23%. Cummins is also a key driver of low/zero emission technology advancement via its new power segment Accelera where it is investing in battery systems (battery packs/modules/systems), hydrogen fuel cells, and electric powertrain systems (eAxles, eMotors and inverters, and accessory systems). The company's commitment to both battery and hydrogen fuel cell development should position it to win in the market regardless of which technological alternative OEMs ultimately choose. This dominant market position and its reputation amongst customers for quality and reliability, combined with partnerships with customers and its leading investments in next gen technology, position the company to remain a dominant player in these markets. CMI is our Top Pick heading into 2025 as we believe the stock also has multiple ways to win, including 1) expanding its dominant share in heavy duty and medium duty truck engines, 2) benefiting from increased demand ahead of EPA'27 emissions regulations changes, 3) benefiting from the ongoing expansion in data center construction as it provides backup power generators, and 4) leading technological advancement of new power development (batteries and hydrogen). Cummins' products help reduce operational costs for customers by improving fuel efficiency while also helping them achieve ESG targets by reducing emissions. Cummins' strong market position has been reflected in its financials, driving a healthy +7.5% revenue growth CAGR and a +8.3% EPS growth CAGR over the past five years.

Long-term drivers for the stock: Cummins is positioned to benefit from several long-term market trends, including the core commercial vehicle cycle, emissions regulations, the energy transition and GenAI. Its Engine segment is primarily tied to the strength of the North America truck cycle with a greater emphasis on heavy duty trucks than on medium duty. Continued market share penetration within the heavy duty market will therefore be an essential driver of continued market outgrowth. We expect CMI to continue to dominate the market and gain incremental share as OEMs prioritize R&D spending towards lower-emission/zero-emission powertrains and outsource more of their heavy duty diesel powertrains to Cummins. We anticipate pre-buy activity ahead of the EPA'27 emissions regulations impacting engines model year 2027+, which should augment what we believe would be otherwise healthy demand in the face of improving freight rates and expected improvement in trucker profitability (per Morgan Stanley Transportation analyst Ravi Shanker's earnings estimates). Cummins' Accelera business, in addition to the aforementioned electric powertrains, is investing in electrolyzers. Its electrolyzers create "green" hydrogen utilizing electricity derived from renewable sources and therefore should see multi-year tailwinds from the ongoing energy transition away from "dirty" energy towards cleaner solutions. Lastly, we expect GenAI to drive incremental data center demand, and therefore backup power demand for those data centers, for several years to come. With CMI's market leading position and the high barriers of entry for new market participants (large degree of difficulty at properly manufacturing the large engines required for these gen sets with CMI estimating any new competitive entrant would realistically take several years to gain the manufacturing know-how to compete successfully, and the low number of companies currently able to provide these products making market entry via M&A more difficult), Cummins is expected to materially participate in the GenAI build out.

Risks to competitive advantages: The key risk to Cummins' Engine business is vertical integration by its customers (i.e. the truck OEMs) that structurally erodes its market share positioning. We see vertical integration risk for CMI's current diesel engines as relatively low as many OEMs are shifting R&D towards new technology and are outsourcing diesel systems more. As a result, we consequently see a greater risk of vertical integration within the nascent ZEV landscape. First, OEMs seem to be focusing a larger share of R&D spend in low/zero emission technology and would therefore need to sell their own motors to make those investments profitable. Second, though there have been several new entrants to the ZEV market that have not been successful, we would not rule out new entrants being successful as the requisite technology is further developed. Beyond vertical integration, we highlight a more severe cyclical downturn in the HD market, potential for EPA'27 regulations to be impacted by the incoming administration and thus affecting our expected pre-buy demand, disappointing off-highway demand and softer-than-expected Accelera volumes pushing out breakeven EBITDA expectations as key risks to CMI stock performance.

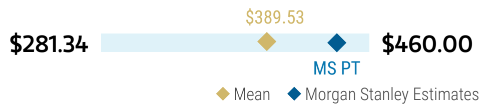
Risk Reward – Cummins Inc (CMI.N) Top Pick

Room to Run

PRICE TARGET $436.00

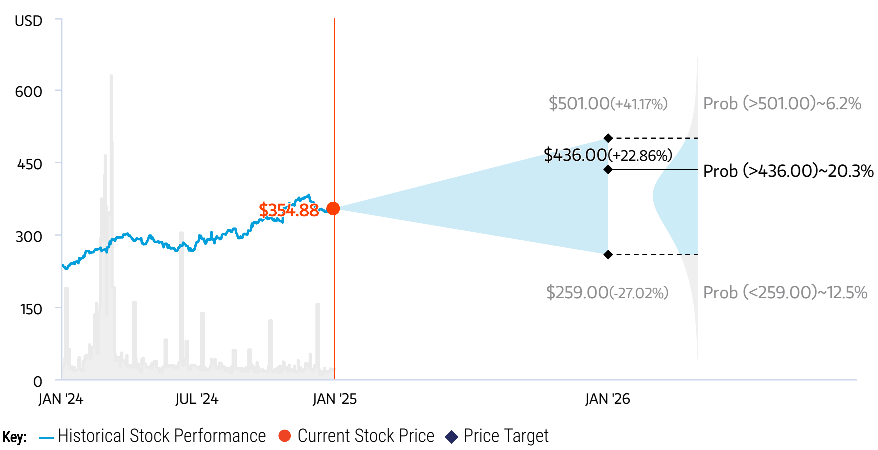
~17x P/E multiple on FY25E base case EPS, toward shares' peak level to reflect expectations of a commercial vehicle upcycle and AI narrative boost

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

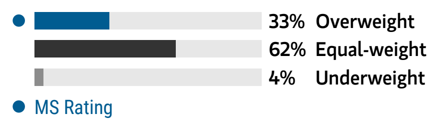


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

More modest than expected downturn in HD trucks in the US, solid growth in MD, and strong execution of Accelera growth strategy result in better than expected sales and margins, driving positive earnings revisions. AI tailwinds for power generation also boost sentiment. Combined with a rebound in US Class 8 orders shifts investor focus to a stronger 2025/26, driving shares higher.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

BULL CASE $501.00

~15x Bull Case FY25E EPS of $33.39

Class 8 and off-hwy markets are stronger than expected on better economic activity driving overall company sales to grow +LDD% yoy in 2025. Power generator demand exceeds expectations driving stronger price/volume growth. CMI margins expand yoy in 2025. Shares' valuation trades down to ~15x NTM P/E, closer to mid-cycle, as investors weigh peak engine demand offset by more sustainable back-up power generation tailwinds.

BASE CASE $436.00

~17x Base Case FY25E EPS of $25.65

Growth in MD and a rebound in HD result in stronger sales in 2025. Margins expand driven by improvement in Engine and Power Systems, Accelera profitability, and stability elsewhere. Market's focus shifts to rising US truck orders from EPA'27 pre-buy and PS growth. As a result, we think the multiple may expand to ~17x or approaching peak-cycle levels and up modestly from ~16x currently

BEAR CASE $259.00

~14x Bear Case FY25E EPS of $18.48

Economic activity slows more than expected driving weaker demand for Class 8 and Off-Hwy trucks. Margins deteriorate. Power Systems and Accelera growth is slower to accelerate with more limited progress toward breakeven profits at Accelera. The multiple contracts to ~14x NTM P/E to discount the deterioration in earnings as the market worries of further downside risk.

Risk Reward – Cummins Inc (CMI.N)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Engine Revenue Growth (%)	6.8	(0.4)	9.3	9.3
Distribution Revenue Growth (%)	14.8	9.4	4.3	2.0
Components Revenue Growth (%)	37.7	(13.1)	2.9	7.6
Power Systems Revenue Growth (%)	12.7	11.0	7.8	12.8
Consolidated Adj. Operating Income Margin (%)	11.6	8.0	13.8	15.3

CATALYST CALENDAR

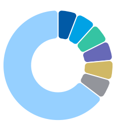
Source: Refinitiv, Morgan Stanley

Date	Event
04 Feb 2025	Q4 2024 Cummins Inc Earnings Release
30 Apr 2025 - 05 May 2025	Q1 2025 Cummins Inc Earnings Release
14 May 2025 - 18 May 2025	Cummins Inc Annual Shareholders Meeting

INVESTMENT DRIVERS

- Commercial Vehicle demand
- Zero emissions technology proliferation and demand
- Emerging market growth and market share gains

GLOBAL REVENUE EXPOSURE



0-10%	APAC, ex Japan, Mainland China and India
0-10%	Europe ex UK
0-10%	India
0-10%	Latin America
0-10%	MEA
0-10%	Mainland China
50-60%	North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

2/5 BEST	24 Month Horizon
3/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Vehicle orders/2025 sales exceed expectations
- Accelera rev ramp faster than expected and achieves break-even sooner than expected
- US Infra. drives better off-hwy truck demand
- Power gen orders/vol exceed expectations

RISKS TO DOWNSIDE

- More severe HD market slowdown
- 2027 emissions reg enforcement delayed, resulting in weaker demand in 2025/26
- OEM vertical integration accelerates
- Off-hwy vehicle markets disappoint

OWNERSHIP POSITIONING

Inst. Owners, % Active	53.3%
HF Sector Long/Short Ratio	1.4x
HF Sector Net Exposure	7.6%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e

	Low	Morgan Stanley Estimates	Mean	High
Sales / Revenue ($, mm)	33,442	33,942	33,784	34,291
EBITDA ($, mm)	5,061	5,281	5,348	6,218
Net income ($, mm)	2,787	2,921	2,897	2,996
EPS ($)	19.85	21.01	20.87	21.55

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Dai-ichi Life Holdings – Insurance

Primary Analyst: Atsuro Takemura

Key competitive advantages: With Japanese interest rates rising and bond portfolios being reshuffled, yields on managed assets are trending upward. Meanwhile projected interest rates – insurance liability costs – move at a lag to interest rates, and combined with other factors such as ceding at high contracted projected interest rates, this provides protection against growth in insurance liability costs. In these circumstances, spreads between managed asset yields and insurance liability costs (direct spreads) are starting to widen, and may well set the scene for rising profit levels.

In addition, our strategists have a bullish stance on Japanese stocks, and Dai-ichi Life Holdings' mix of high exposure to Japanese shares and relatively good balance sheet leverage positions it well for growth in shareholder value on the basis of market prices as a result of gains in the Japanese stock market.

Long-term drivers of the stock: Group company Dai-ichi Life Insurance, responsible for domestic insurance business, had ¥4.0trn in domestic shareholdings at end-F3/24, accounting for just under half of its risk volume. The firm's intention to reduce domestic stock exposure to a level below ¥1.5trn by end-F3/31 suggests that the economic value-based solvency ratio (ESR) obtained from effective net assets/risk volume is set to rise to a level above its target. This suggests the possibility of the firm reducing effective net assets by boosting shareholder return, or increasing risk volume via moves such as M&A, potentially feeding in to a higher ROE level in the medium/longer term.

Risks to competitive advantages: Prospects of higher profit levels could recede if Japanese interest rates fell. Another conceivable risk is that of a steep fall in Japanese shares being perceived to spell relatively large downside risk for shareholder value.

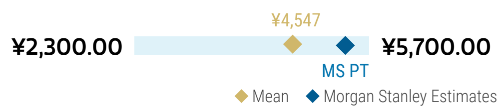
Risk Reward – Dai-ichi Life Holdings (8750.T)

Shareholder returns likely to keep improving

PRICE TARGET ¥5,310

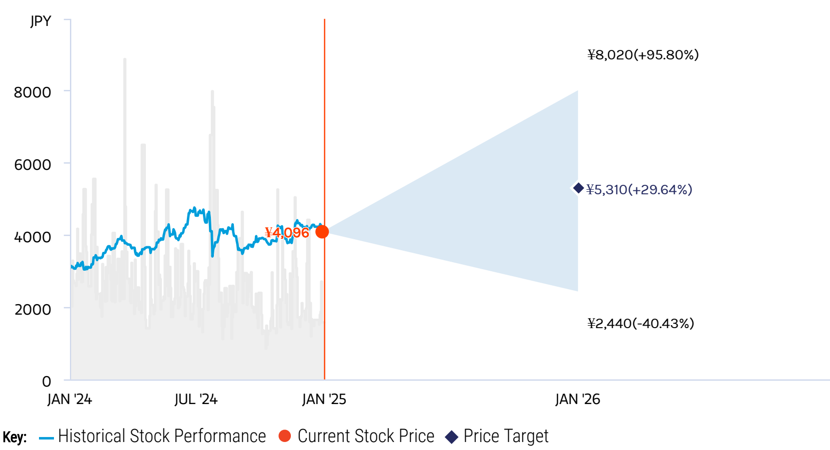
F3/25e EVPS ¥10,250 x 0.5
Assuming TOPIX will go gradually toward 3,000 at 2025 Dec-end, JGB 10 year interest rate gradually toward 1.10% at 2025 Dec-end.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART

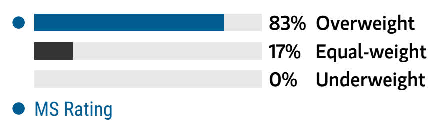


Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- Shareholder returns are likely to keep improving in our view, given the considerable improvement in profits over the last few years, along with company policy to base such returns on profits over the last three years.
- Considering the firm's relatively high financial leverage, we think expectations for higher EV could also mount if prices of domestic stocks rise.
- A hike to the dividend payout ratio target before the final year of the current medium-term plan would be a positive surprise, in our view, a scenario that our base case does not call for.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Self-help: *Positive*
Special Situation: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE ¥8,020

F3/25e EVPS ¥10,682 x 0.8

Assuming TOPIX will go up gradually toward 3,400 at 2025 Dec-end, JGB 10 year interest rate toward 1.65% at 2025 Dec-end.

F3/25 EV ¥9.8tn, RoEV 13.6%, Adjusted NI ¥406.9bn

F3/26 EV ¥11.4tn, RoEV 19.3%, Adjusted NI ¥451.7bn

BASE CASE ¥5,310

F3/25e EVPS ¥10,250 x 0.5

Assuming TOPIX will go gradually toward 3,000 at 2025 Dec-end, JGB 10 year interest rate toward 1.10% at 2025 Dec-end.

F3/25 EV ¥9.4tn, RoEV 9.0%, Adjusted NI ¥383.0bn

F3/26 EV ¥10.5tn, RoEV 13.7%, Adjusted NI ¥398.4bn

BEAR CASE ¥2,440

F3/25e DPS ¥122 / 5.0%

Assuming TOPIX will go down gradually toward 2,200 at 2025 Dec-end, JGB 10 year interest rate toward 0.25% at 2025 Dec-end.

F3/25 EV ¥8.6tn, RoEV -0.4%, Adjusted NI ¥356.9bn

F3/26 EV ¥8.4tn, RoEV -0.1%, Adjusted NI ¥346.0bn

Risk Reward – Dai-ichi Life Holdings (8750.T)

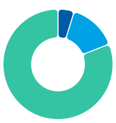
KEY EARNINGS INPUTS

Drivers	2024	2025e	2026e	2027e
Group Adjusted Profits (¥, bn)	319.3	383.0	398.4	395.3
Embedded Value (¥, bn)	8,892.1	9,432.9	10,461.1	10,924.8
ESR (%)	228.6	248.6	276.0	296.2

INVESTMENT DRIVERS

- Market share gains in domestic & overseas markets.
- Rapid profit growth driven by recovery of overseas business.
- Profit contribution from recent acquisition.

GLOBAL REVENUE EXPOSURE



- 0-10% APAC, ex Japan, Mainland China and India
- 10-20% North America
- 80-90% Japan

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Progress in reducing market risks track ahead of expectations.
- Greater than expected profit growth from overseas business.
- Greater than expected shareholder return..

RISKS TO DOWNSIDE

- Slower than expected profit contribution from overseas business.
- Poorer than expected shareholder return.

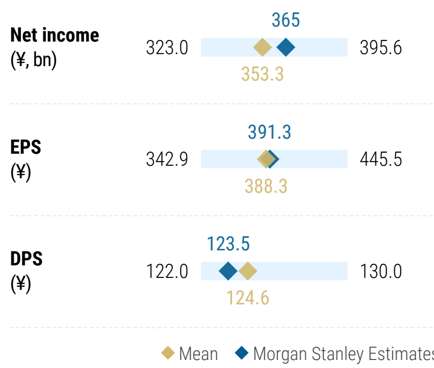
OWNERSHIP POSITIONING

Inst. Owners, % Active 54.3%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Mar 2025e



Source: Refinitiv, Morgan Stanley Research

DBS Group Holdings – Banks

Primary Analyst: Nick Lord

Key competitive advantages: The first is its dominance of the Singapore CASA market, where it has a ~70% market share. This helps it maintain a funding advantage vs. peers, an advantage that increases in a higher rate environment. DBS's second competitive advantage is Singapore's AAA sovereign rating, which both allows its banks to have an AA rating, allowing a further funding advantage in international markets, whilst making it an attractive geography to support a growing wealth management industry where DBS has a strong business offering relative to peers in our view. Finally we note DBS has invested heavily in technology over the last decade giving it operating advantages vs. peers, especially regional peers.

Long-term drivers of the stock: Long-term drivers of DBS profit growth are its higher returns in a 2.5-3.5% rate environment. This allows it to generate sufficient capital to support mid to high single digit loan growth and return capital to shareholders. In addition, with the wealth expansion in Asia, we expect DBS to be one of the biggest beneficiaries of stronger wealth income where DBS has derived 20% of revenue from its affluent customer base. Lastly, we see DBS's operating environment allowing it to generate the required loan growth driven by Singapore's position as a major FDI centre for SE Asia, plus DBS's position in China, India and Indonesia. possibly also supported by a lower cost of equity if measures to revitalise Singapore's equity market are implemented.

Risks to competitive advantages: A return to longer term low rates, lowering DBS RoE, significant disruption to global trade, or increase in geopolitical tensions.

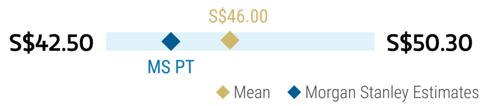
Risk Reward – DBS Group Holdings (DBSM.SI)

Benefiting from high NIM and Wealth income, but returns in the price

PRICE TARGET S$44.30

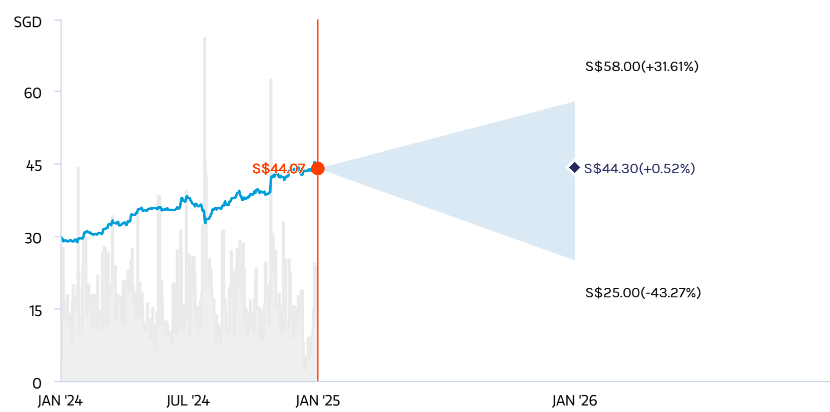
Three-stage Gordon Growth model, probability weighted at bull 20%, base 70% and bear 10% to reflect an improved rate environment and increases to MS rate forecasts.
Key assumptions: Cost of equity and sustainable return on equity 9.8%, sustainable growth rate 3.1%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



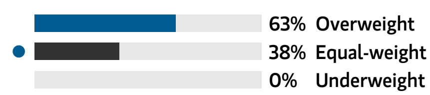
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

EQUAL-WEIGHT THESIS

- The underlying business model appears strong. DBS has a good deposit franchise with strong and developing corporate and wealth franchises. Management is forward looking.
- A turn in the rate cycle will affect NIM, but impacts are manageable. Modestly lower rates should also help support loan growth as well as wealth, card and transaction fees. Credit charges are expected to remain at normalised levels. Sustained >2.0% NIM should support RoE above 15%.
- We expect DBS to continue to generate surplus capital and return it to shareholders via a high ordinary payout, share buy backs and special dividends.
- Despite this, we view the share price as fairly valued and see limited upside.

Consensus Rating Distribution



● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth:	*Positive*
Self-help:	*Positive*
Technology Diffusion:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE S$58.00

13.1x bull-case 2025e P/E

Soft landing despite high rates means NIM and returns remain high. No deterioration in credit costs.

BASE CASE S$43.20

10.8x base-case 2025e P/E

US rates begin to fall to 3.875% by mid-2025, and SORA remains stable; credit costs well controlled.

BEAR CASE S$25.00

9.4x bear-case 2025e P/E

Growth relapse drives weaker loan growth and higher loan loss charges vs. base case. US rates fall to below 2.5%.

Risk Reward – DBS Group Holdings (DBSM.SI)

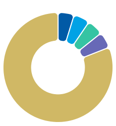
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Loan Growth (%)	0.4	2.4	4.1	4.6
NIM (%)	2.15	2.11	2.05	2.02
Fee Growth (%)	8.90	24.47	9.84	8.75
Cost:income ratio (%)	41.12	39.99	40.75	40.94
Loan Loss Charge as a % of gross loans (%)	0.14	0.12	0.13	0.18

INVESTMENT DRIVERS

- Easing of global uncertainties, improving macro outlook
- Wider recognition of benefits of Digital Transformation

GLOBAL REVENUE EXPOSURE



0-10%	Europe ex UK
0-10%	India
0-10%	Mainland China
0-10%	UK
80-90%	APAC, ex Japan, Mainland China and India

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

1/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Singapore and US rates fall by less than currently forecast.
- Faster-than-forecast improvement in wealth management revenues.
- Improved sentiment towards the Singapore equity market

RISKS TO DOWNSIDE

- Global macro uncertainties, affecting revenue growth and global rates.
- Relapse in credit losses.
- Significant fall in SORA.

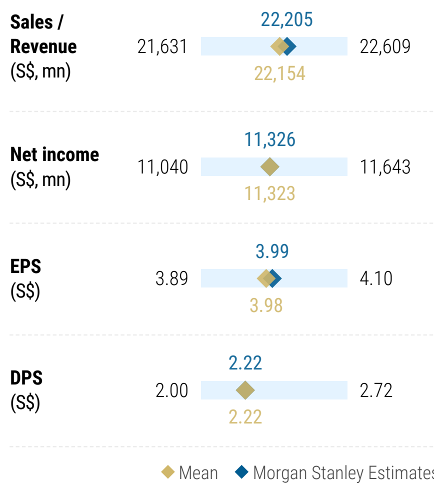
OWNERSHIP POSITIONING

Inst. Owners, % Active 86.1%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Deutsche Telekom – Telecommunication Services

Primary Analyst: Emmet Kelly

Key competitive advantages: i. Network quality – a critical Telco success factor (MS view). We believe DT owns the best networks in the US, Germany & Europe, in terms of coverage, download speeds and consistency/quality. Indeed, independent network surveyor Opensignal rates T-Mobile Germany as the top US network in 12 of 14 categories (Nov 2024, link here). Telekom's market-leading domestic grid is being expanded, from 37K to 40K sites, with low/mid-band spectrum deployed, while ~90% of all sites will be equipped to offer ≥1Gbps top download speeds. Similarly, Opensignal research ranks T-Mobile USA as No1 in 9 of 15 categories (July 2024, link here). Going forward, we expect TMUS to continue to seek to expand its network leadership via further mid-band spectrum deployment, 5.5G / 6G, and also via AI. **ii. The value of the T Brand.** We believe that brand is under-appreciated and increasingly-important in the Telco world. According to Brand Finance, T is now the most valuable Telco brand across the globe, ranked No9 among all global brands (across all industries). T is the only European brand in the Top 15. Moreover, T has increased its brand ranking significantly, from No31, just 4yrs ago. We believe the T brand represents different characteristics & merits across Telekom's markets (Germany: trust, quality & reliability … US: innovation, Challenger & value), factors that we see as key to further market share gains. **iii. TMUS 'value for money' proposition.** We believe TMUS offers the best 'value for money' to the US consumer, certainly among the Big 3 operators – for single line mobile-only, Family Plans and broadband (FWA). The combination of Best Network and the lowest postpaid ARPU is resonating well with US telecoms customers, we believe, a factor that could enable Telekom to win a disproportionate amount of US wireless revenue share, going forward.

Long-term drivers for the stock: i. Sector-leading EBITDAaL growth. DT is targeting EBITDAaL growth of +4% to +6% pa in 2023a-27e. Meanwhile, we forecast 4yr EBITDAaL uplift of +6% pa, at the top-end of the CMD guide. Our confidence in DT's EBITDAaL growth outlook is part-based on Telekom's recent history of very strong gross profit uplift (averaging +7% pa, last 7yrs), but also of above-trend EBITDAaL growth forecasts in Germany and the US in 2025e-27e (less headwinds from wholesale, pay rises etc). **ii. Shareholder / cash returns.** Telekom estimates it will generate excess cumulative FCF of >€15bn by the end of 2027 (MSe: >€17bn). This excess cash can be used for additional DT share buybacks (MS forecasts €11bn in 2024e-27e) or funding an increased equity stake in TMUS (from its current stake of ca 51%). Indeed, we see attractive DT shareholder returns averaging 6% pa until 2027e (combining dividend & buyback). Meanwhile, TMUS will generate US$80bn in surplus FCF by 2027 (of which US$10bn has been set aside for M&A, with a minimum US$50bn allocated to TMUS shareholder returns). **iii. Scope for further portfolio M&A.** As outlined in our recent research (Telekom's Six Bs, link here), DT has a recent history of M&A (eg merger with Sprint, the sale of German / Austrian towers, the disposal of TMO NL etc). Telekom has outlined a number of further strategic opportunities at each of TMUS (three asset purchases pending antitrust approval & completion – US Cellular, Metronet, Lumos), British Telecom (DT believes recent shareholder changes highlight optionality on its 12% equity stake), towers (DT considers its 49% stake in GD Towers could enable it to play a kingmaker role in potential European towers consolidation) and DT Cap Partners (DT plans to invest €2bn here over the coming

4-5 years, where key DTCP investments include towers, data centers and fiber).

Risks to competitive advantages: i. Competition. DT could be subject to greater competition from the discounters in Germany (TEF D or 1&1) or from either Verizon or AT&T in the US (who are more focused, post portfolio disposals); **ii. German broadband competition.** Telekom could encounter greater broadband competition in Germany (in both wholesale & retail), driven by the emergence of new players and networks. DT currently enjoys 40% retail German broadband share, but >90% of German wholesale share (a further 35% of the market); **iii. Technology disruption.** DT could face potential disruption in the B2C Telco market from Hyper-scalers (Technology giants such as Amazon, Google etc).

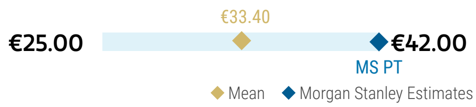
Risk Reward – Deutsche Telekom (DTEGn.DE) Top Pick

Building best 5G/FTTH grids, robust EBITDAaL & DPS growth, falling Group capex

PRICE TARGET €42.00

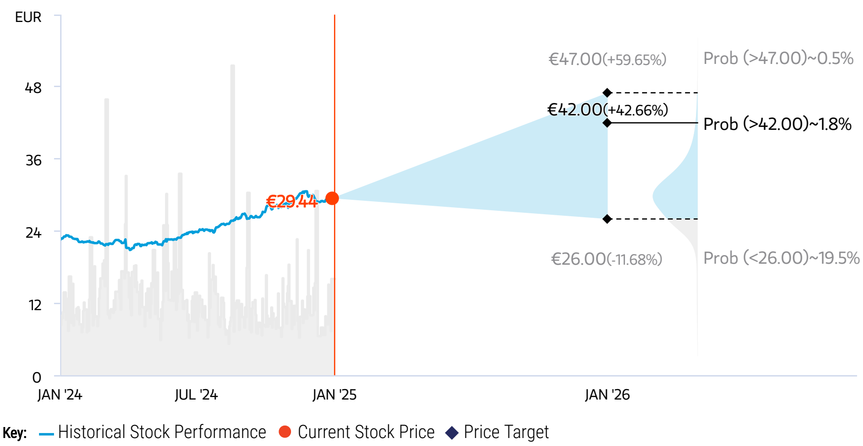
Our price target is derived from a SOTP. Each subsidiary is valued via a DCF, except T-Mobile US, which we value at our price target ($280/share). Key WACC/long-term growth assumptions as follows: German fixed 7%/0.5%, German mobile 6.5%/1.5%. Contingent liabilities include pension, restructuring and spectrum costs.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

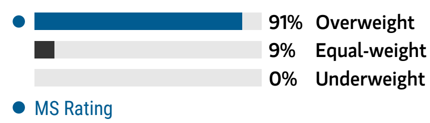


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- TMUS owns Best US network (Source: OpenSignal), but has lowest postpaid ARPU. Heavy German investments can drive share win.
- Strong Group EBITDAaL growth of +6% pa (23a-27e), driven by US (+7% pa), Germany (+3%) & Europe (+4%). US EBITDA generated by Best 5G grid, fiber, FWA, B2B, 'the Other 40%' & spectrum.
- Excess cash generation at TMUS ($50-70bn) and DT (€15bn) - by 2027e, cumulative. TMUS can continue to buy back shares and fund growth (fiber, M&A). DT can increase DPS (to €1.37/sh by 27e), buy back its own shares (MSe: €11bn in 24e-27e, total) and increase its TMUS stake.
- Attractive valuation: 27e EFCF yield c8%. DPS yield 4%. Cheap stub: ca 2x 26e EBITDAaL for Germany, Europe, towers.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Pricing Power:	*Positive*
Secular Growth:	*Positive*
Special Situation:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE €47.00

9.3x 2027e EV/EBITDA

We value Germany (fixed + mobile) at 8.5x 2025e EBITDAaL, Europe at 7.5x and T-Mobile US at our bull case valuation ($300/share).

BASE CASE €42.00

8.5x 2027e EV/EBITDA

We value Germany (fixed + mobile) at an implied 7.4x 2026e EBITDAaL and T-Mobile US at our price target ($280/share). We assume German EBITDAaL growth of +3% pa (2023a-27e) and ongoing strong operational / financial results in the US.

BEAR CASE €26.00

7x 2027e EV/EBITDA

We value Germany (fixed + mobile) at just 5.5x 2026e EBITDAaL, Europe at 4.0x EBITDAaL, Towers at 15x and T-Mobile US at our bear case valuation ($200/sh).

Risk Reward – Deutsche Telekom (DTEGn.DE)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Revenue Growth (%)	(2.1)	2.9	5.8	4.0

INVESTMENT DRIVERS

- T-Mobile US contract adds, EBITDA & OpFCF growth (synergies)
- German revenue & EBITDA uplift
- Net debt, contingent liabilities (pension, restructuring, spectrum costs)
- Exposure to new technologies (5G, Edge, data centres)
- Share buybacks, DPS yield

GLOBAL REVENUE EXPOSURE

40-50% Europe ex UK
50-60% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

1/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- TMUS top-line & EBITDA growth
- Better-than-expected German revenue & EBITDAaL (share win, costs)
- Further DT AG / TMUS share buybacks
- Potential disposals e.g. towers

RISKS TO DOWNSIDE

- Possible re-emergence of intense competition in Germany (1&1)
- US mobile competition from DISH or cable
- Wholesale German revenue loss & lower retail EBITDA via FTTH new entrants
- Higher spectrum costs / taxes
- More elevated FTTH capex

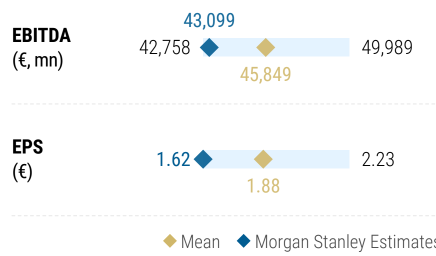
OWNERSHIP POSITIONING

Inst. Owners, % Active	75.2%
HF Sector Long/Short Ratio	2.5x
HF Sector Net Exposure	5.8%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Eli Lilly & Co. – Pharmaceuticals, Biotechnology & Life Sciences

Primary Analyst: Terence Flynn

Key competitive advantages: We expect LLY will maintain a leadership position within the GLP-1 class, based on the profile of LLY's products on the market today (Mounjaro for Type 2 Diabetes, Zepbound for obesity), and the company's pipeline. Mounjaro and Zepbound are in the early stages of their launch trajectories, and we believe the products' efficacy/safety profile, benefits shown in obesity-related comorbidities (e.g. sleep apnea, heart failure), and significant investments LLY is making in both manufacturing and sales/ marketing will enable the company to retain leading share over time. Beyond Mounjaro/ Zepbound, LLY has a pipeline with multiple compelling assets, which include 1) its oral GLP-1 (orforglipron), which we do not expect to experience the same supply constrains that injectables have faced to date, and where LLY has a multi-year lead to market vs. competing oral drugs, and 2) retatrutide, which is aimed at delivering best-in-class weight loss (a high 20% of body weight vs. low 20% from products seen to date). Outside of the diabetes/obesity space, LLY is focused across multiple other large disease areas: oncology, immunology, and neurology (including Alzheimer's disease), and has a broad pipeline of assets within each.

Long-term drivers for the stock: We expect contribution from LLY's GLP-1 franchise will lead to meaningful revenue growth and margin expansion over the course of the decade, and result in LLY having the strongest growth outlook across the pharma peer group. We believe GLP-1 penetration is in its early stages and expect LLY shares to outperform as Mounjaro/Zepbound treat larger numbers of patients and investors better appreciate the long-term opportunity for the class and for LLY. In the coming years the Phase 3 clinical trial readouts for orforglipron and retatrutide will also be relevant as we expect those to contribute to LLY later in the decade.

Risks to competitive advantages:

- GLP-1 uptake is lower than we project among patients with diabetes/obesity
- Delay in FDA review/approval of new manufacturing sites leading to supply constraints
- Reimbursement dynamics and negative readouts from additional obesity outcomes trials
- Other players enter the obesity space with better efficacy/tolerability/dosing
- Ongoing regulatory disputes regarding compounded GLP-1 products

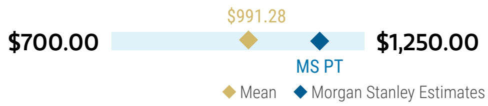
Risk Reward – Eli Lilly & Co. (LLY.N) Top Pick

Mounjaro and new product cycles will potentially fuel best growth in industry

PRICE TARGET $1,146.00

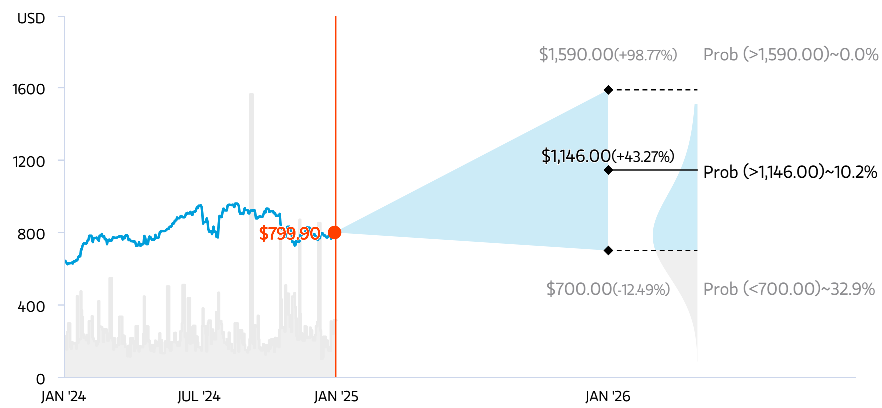
Our 12-month price target of $1,146 is based on a 31x P/E multiple applied to our 4Q25-3Q26 EPS estimate of $36.97. This multiple is above LLY's 10-year average (26x) and the industry (~15x) but deserved in our view, given the company's growth profile and pipeline optionality.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

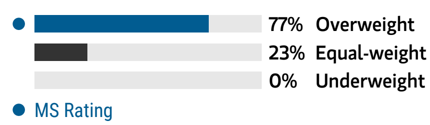


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

LLY has the most robust new product cycle (and hence growth) outlook in Pharma as the company could launch five new drugs over the next two years (across large end markets such as diabesity, Alzheimer's disease, cancer and immunology). Our work on Zepbound/Mounjaro (Tirzepatide) for diabetes and obesity underpins our thesis. All in we project that these new launches will boost LLY's top line by over 100% (2025 vs. 2022) with Tirzepatide accounting for over half of this, expand operating margins to ~47% from 28% (2025 vs. 2022), and put LLY on pace to deliver 2025/2030 EPS of ~$29/$55.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*
Technology Diffusion: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $1,590.00

37x bull case 4Q25-3Q26 EPS

Upside driven by greater market penetration and orforglipron. Commercial uptake in both T2D and obesity indications is very robust, leading to diabesity sales of ~$110bn in the early 2030s (LLY total sales of ~$140bn in 2033). We model 2025/2030 EPS of ~$37/$75

BASE CASE $1,146.00

31x base case 4Q25-3Q26 EPS

Outperformance driven by Mounjaro/Zepbound. We model '24/'25/'30 Mounjaro+Zepbound WW sales of ~$17bn/$38bn/$70bn. For orforglipron we assume a 70% POS and 2030 sales of ~$10bn. Top-line growth should drive operating margin leverage (~47% in 2025) and we model EPS of ~$29/$58 in '25/'30.

BEAR CASE $700.00

19x bear case 4Q25-3Q26 EPS

Orforglipron fails in Ph3 studies. Orfor does not reach the market due to a safety issue. In this case, we assume diabesity contribution only from Mounjaro + Zepbound and Retatrutide in the outer years. We model 2025/30 revenue of $67bn/$107bn.

Risk Reward – Eli Lilly & Co. (LLY.N)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Total revenues growth (%)	19.6	32.3	47.9	25.7
Trulicity growth (%)	(4.1)	(26.7)	(22.8)	(38.8)
Mounjaro Growth (%)	1,006.4	225.9	118.5	43.4
Gross profit growth (%)	22.5	34.7	47.5	25.5
Operating income, EBITA growth (%)	(11.5)	107.7	114.5	33.6

CATALYST CALENDAR

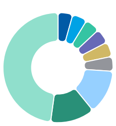
Date	Event
2025	Orforglipron (Oral GLP-1R): FDA Filing for T2D/Obesity

Source: Refinitiv, Morgan Stanley

INVESTMENT DRIVERS

- New product cycles
- Operating margin expansion
- Near term data readouts

GLOBAL REVENUE EXPOSURE



0-10%	APAC, ex Japan, Mainland China and India
0-10%	India
0-10%	Latin America
0-10%	MEA
0-10%	Mainland China
0-10%	UK
10-20%	Europe ex UK
10-20%	Japan
50-60%	North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 BEST	24 Month Horizon	4/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Orforglipron outperforms expectations in clinical trials/commercially
- Tirzepatide has positive outcomes trials in obesity, opens new market
- LLY brings on autoinjector supply quicker than our expectations

RISKS TO DOWNSIDE

- Orforglipron is discontinued prior to reaching the market
- Tirzepatide underperforms obesity expectations
- Competitor data from diabesity pipeline drugs

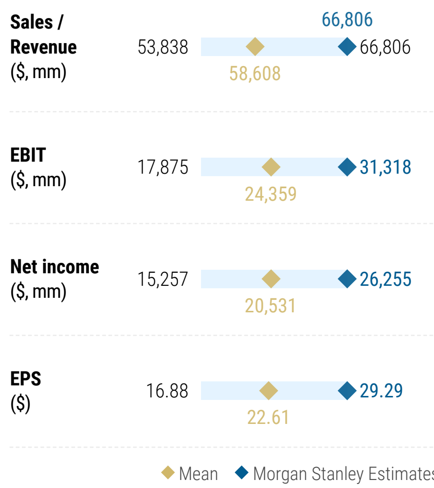
OWNERSHIP POSITIONING

Inst. Owners, % Active	55.7%
HF Sector Long/Short Ratio	2.4x
HF Sector Net Exposure	18.2%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2025e



Source: Refinitiv, Morgan Stanley Research

Exxon Mobil Corporation – Energy

Primary Analyst: Devin McDermott

Key competitive advantages: XOM is one of the world's largest integrated energy companies, with global operations across upstream, midstream, downstream, and chemicals. XOM's strong FCF profile is supported by an advantaged portfolio of high return growth projects, underpinned by a countercyclical investment strategy. This growth, coupled with ongoing execution on US$18bn of cost cuts (>US$11bn realized to date), should allow the company to grow earnings and cashflow through 2030 at a 10% and 8% CAGR respectively. Robust FCF supports >300% dividend cover in 2025, and a cumulative US$40bn of share repurchases 2025-26. In total, XOM offers a 7% shareholder return yield (assuming US$70/bbl WTI) in 2025.

XOM is also an industry leader in decarbonization, focusing on technologies that are synergistic with core competencies including carbon capture & storage (CCS), hydrogen, lithium and renewable fuels. The company owns and operates the largest CO2 pipeline network in the United States connecting carbon emitters from many industries to subsurface storage capacity. Furthermore, XOM is looking to FID its Baytown blue hydrogen project which would produce 1 bcf/d of blue hydrogen and 1 mtpa of low carbon ammonia, capturing 98% of associated CO2. For lithium, the oil major plans to produce the mineral in Arkansas by 2027 with the aim to supply manufacturing needs for >1mn electric vehicles per year by 2030. Looking ahead, earnings from these and other low carbon ventures should grow to US$2bn by 2030.

Long-term drivers for the stock: XOM's diversified business, resilient FCF, and strong balance sheet support continued investments in a high return portfolio of opportunities across the Energy value chain. XOM has also set forth a viable path to profitably transition toward a lower carbon business mix over time. The company's proactive (but still returns focused) decarbonization strategy, which includes rising investment across a suite of low carbon solutions, should help de-risk longer term cash flows and mitigate terminal value uncertainty – offsetting the impact of longer-term erosion in oil & gas demand.

For the Energy majors, expectations for growth in free cash flow and improving dividend coverage drives outperformance. While many in the industry constrained capex after the covid downturn, XOM invested countercyclically to drive growth. These long-term projects have begun to drive outsized growth in returns and FCF for XOM versus peers and the broader market – and should continue to do so for years to come.

Risks to competitive advantages: 1) weakness in macro conditions (e.g. inflation eroding returns); 2) low commodity prices including oil & gas, LNG, crack spreads and chemicals margins; 3) cost overrun on major capital projects; 4) geopolitical risks impacting production volumes and/or returns.

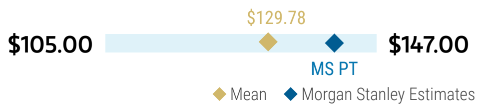
Risk Reward – Exxon Mobil Corporation (XOM.N)

Pipeline of attractive projects combined with cost cuts drives cash flow growth.

PRICE TARGET $140.00

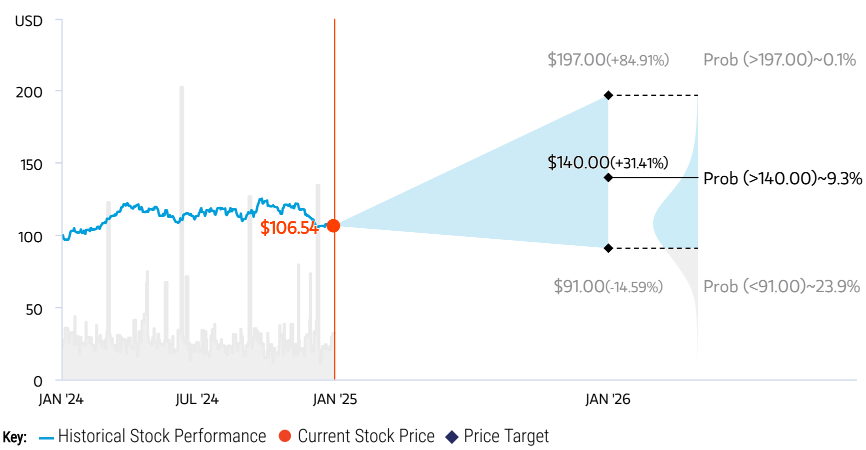
Base case of $140/share which is a 50/50 blend of 1) a target multiple of 9.5x 2025e EV/DACF ($137/share) and 2) our discounted cash flow value of $142/share (with a WACC of 8.1% and terminal EV/EBITDA multiple of 6.3x).

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

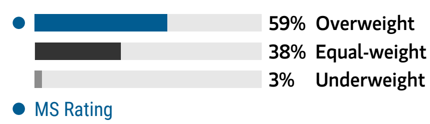


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- **Attractive growth.** Earnings should rise by ~$14.5 B over 2023-2027 (pro-forma for PXD) normalized at $60/bbl Brent, driving a cash flow per share CAGR of ~20% and EPS of ~14% - well above the S&P 500 of ~9% and ~2x the average of Energy peers.
- **Compelling valuation.** XOM trades at a 7% FCF 2025 yield at $70/bbl WTI (roughly flat with current prices), ~1.6x the broader market and fairly in-line with Energy peers despite offering stronger growth.
- **Resiliency to lower prices.** XOM's large global integrated operations and strong balance sheet (0.2x 2025 net leverage) make it a clear defensive play in an uncertain macro backdrop

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Renewable Energy: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $197.00

10.6x 2025e EV/DACF of $82.25 B

Bull case of $197/sh is based on a 50/50 blend of 1) a target multiple of 10.0x 2025e EV/DACF ($194/share) and 2) our discounted cash flow value of $201/share. Scenario assumes $87.50 WTI, $92.50 Brent, $4.25 Henry Hub, and refining, specialty, & chemicals margins increase ~10%.

BASE CASE $140.00

9.7x 2025e EV/DACF of $64.03 B

Base case of $140/share which is a 50/50 blend of 1) a target multiple of 9.5x 2025e EV/DACF ($137/share) and 2) our discounted cash flow value of $142/share (with a WACC of 8.1% and terminal EV/EBITDA multiple of 6.3x). Scenario assumes long-term (2026+) $67.50 WTI, $72.50 Brent, $3.75 Henry Hub.

BEAR CASE $91.00

8.4x 2025e EV/DACF of $46.7 B

Bear case of $91/sh is based on a 50/50 blend of 1) a target multiple of 9.5x 2025e EV/DACF ($92/share) and 2) our discounted cash flow value of $89/share. Scenario assumes $47.50 WTI, $52.50 Brent, $3.25 Henry Hub, and and refining, specialty, & chemicals margins decline ~10%.

Risk Reward – Exxon Mobil Corporation (XOM.N)

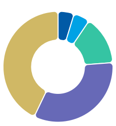
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Oil Production (Mbbl/d)	2,104	2,520	2,796	3,111
Total Production (Mboe/d)	3,738	4,339	4,686	5,036
Realized Oil Price ($)	69.60	70.32	67.11	65.11
Realized Gas Price ($)	9.48	6.70	4.83	4.78
EBITDA Margin per Boe ($)	54.97	47.85	45.45	45.50

INVESTMENT DRIVERS

- Capex
- Capital efficiency
- Commodity prices including oil & gas, LNG, crack spreads, and chemicals margins
- Major capital projects including Guyana, Permian, Brazil, Papua New Guinea LNG, Mozambique

GLOBAL REVENUE EXPOSURE



- 0-10% Europe ex UK
- 0-10% Latin America
- 10-20% APAC, ex Japan, Mainland China and India
- 30-40% MEA
- 40-50% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

1/5 BEST	24 Month Horizon	4/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

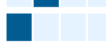
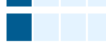
RISKS TO UPSIDE

- Higher commodity prices, including liquefied natural gas (LNG)
- Successful execution of major capital projects
- Permian well performance improvements
- Additional cost cuts

RISKS TO DOWNSIDE

- Lower commodity prices
- Cost overruns on major capital projects
- Service cost inflation in the Permian erodes returns
- Geopolitical risk could impact production volumes and/or returns; Guyana is a particular focus now.

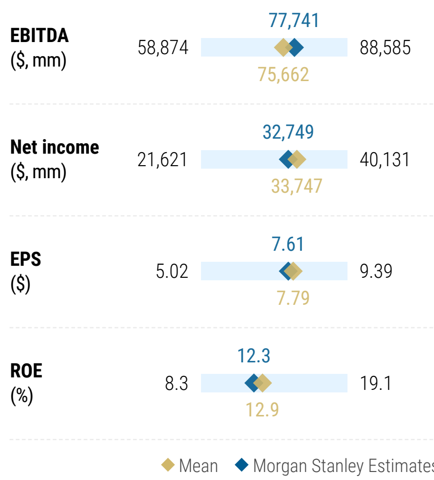
OWNERSHIP POSITIONING

Inst. Owners, % Active	49.9%	
HF Sector Long/Short Ratio	1.5x	
HF Sector Net Exposure	3.3%	

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2025e



Source: Refinitiv, Morgan Stanley Research

Ferrari – Automobiles & Components

Primary Analyst: Adam Jonas

Key competitive advantage: Ferrari has built its moat on scarcity, desirability, and brand values around performance and luxury which is the key driver for continued demand. These factors make it hard for a competitor to replicate the Ferrari model overnight. In our view, buying a Ferrari today is not so much about "the sound of the engine" or the "performance" in and of itself. Rather, we think it is a totality of factors that drive customers to want the elements that a Ferrari possesses: scarcity, desirability, connotations of luxury and performance (stemming from Formula 1 racing pedigree), and exquisite Italian design and engineering. The brand and scarcity drive unparalleled demand for the vehicles, which Ferrari is able to leverage with tight supply control. This makes Ferrari the most recession-proof auto company in our coverage. Ferrari's low-volume, high-ASP business model has largely sheltered the company from the ongoing global supply chain issues.

Long-term drivers for the stock: We believe two key long-term drivers for RACE are 1) the roll-out of new vehicle models and 2) Ferrari's ability to capitalize on higher price BEV and PHEV units while using lower volumes to make ICE 'super exclusive.' Combined with an increase of high-net-worth individuals providing Ferrari with a bigger pool of potential 'Ferraristi,' we see secular drivers for both top line and margins. We expect Ferrari to continue to grow unit volumes at a CAGR of 4.6% through 2030, driven by the launch of new vehicles, capacity expansion for a move to hybrid/ EVs and continued prudent demand/supply management. For ASPs, we see continued pricing power growing ASPs at a CAGR of 5.2% to 2030 via the launch of new, higher ASP models such as the F80 as well as the first Ferrari BEVs. We forecast the initial EVs delivered from Ferrari to have an ASP US$500K, about US$50K above our forecasted average ICE ASP for 2026. We expect the increase in ASPs combined with operational improvement to drive a 2ppt EBITDA margin expansion by 2026.

Given Ferrari's industry leading operating performance, financial profile, and significant premium, it is difficult to compare Ferrari to other auto OEMs. Rather, we compare Ferrari to a group of luxury peers, most notably Hermes. Ferrari trades at 45x forward earnings, at the high end of their historical average and at a slight discount to Hermes. We view the valuation as justified given Ferrari's visibility into forward sales (order book sold through 2026) and low China exposure (limited to 10% of global units).

Risks to competitive advantage: While we do see significant mitigants, EV execution is one of the biggest risks to Ferrari's main competitive advantage (the Ferrari brand). An unsuccessful EV product launch could harm Ferrari's brand and begin to deteriorate Ferrari's unparalleled pricing power. Ferrari's brand is built on racing DNA and a deviation from the drive train that the brand was built on adds risk. That being said, Ferrari will continue to have ICE vehicles in their portfolio for many years to come, smoothing the transition.

See our recent reports:

- Ferrari NV: 3Q24 Results: Slight OP Miss, Guide Reiterated (5 Nov 2024)
- Ferrari NV: Ferrari vs. Honey Deuce (3 Sep 2024)

- Ferrari NV: Multiple RACEs Ahead: Target to $520, Bull Case $600 (27 Aug 2024)
- Ferrari NV: Benedetto's Secret (22 May 2024)
- Ferrari NV: Ferrari at 50x: Lessons from Luxury (1 May 2024)

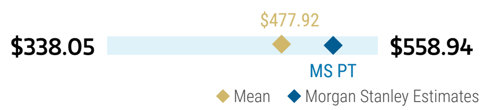
Risk Reward – Ferrari NV (RACE.N)

Leading Luxury Brand & High Quality Earnings - On a Road to EVs

PRICE TARGET $520.00

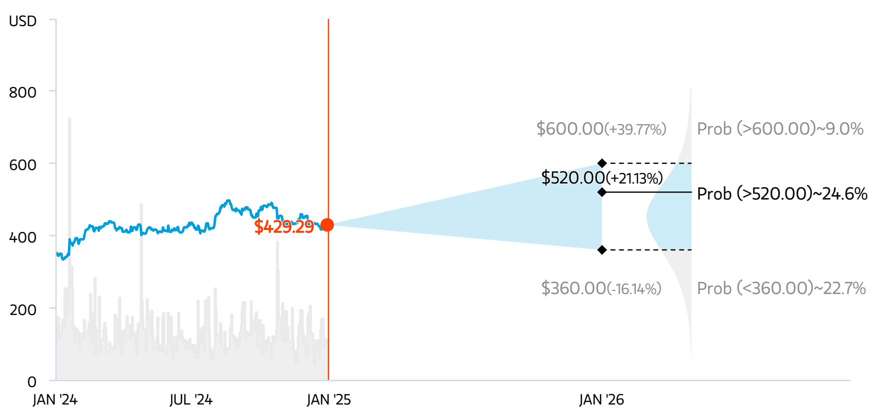
Our $520 PT is derived using a 16 year DCF Valuation to 2040 applying a WACC of 8.7%. We apply an exit multiple of 25.0x . Exit assumptions also include a 29.0% EBIT margin & 39.2% EBITDA margin.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



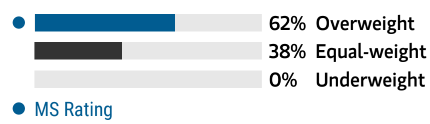
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

Growth potential and strong execution. Global shipments of ~14k units in 2024, growing at a ~5% CAGR to 2030 ending at ~18k shipments. Adj. EBITDA margins at ~38.1% in 2024 on strong mix and pricing/personalization. Ferrari trades at a justified premium to many luxury brands and a slight premium to Hermes, albeit with more opportunity to grow organically via: new customers, new segments and limited China exposure at 10% of units. RACE also exhibits a unique moat with a world renowned brand and a 24+ month customer orderbook.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Pricing Power: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $600.00

~32.5x 2025e Bull Case EBITDA of ~€3.0bn

Firing on all 12 cylinders. RACE beats guidance, releases long-term plans and the market prices in higher growth and profitability on outer reference years, while retaining a multiple greater than luxury brand peer leader, Hermes, as well as the market assuming better-than-expected cost performance on incremental volume, mix and ancillary revenue opportunities. The shift to EVs is extremely profitable and customers embrace Ferrari BEVs.

BASE CASE $520.00

~30.0x 2025e EBITDA of ~€2.8bn

Compounding growth potential and strong execution. Global shipments of ~14k units in 2024, growing at a ~5% CAGR to 2030 ending at ~18k shipments. Adj. EBITDA margins at ~38.1% in 2024 on strong mix & pricing/personalization. Our $520 PT is derived using a 16 year DCF Valuation to 2040 applying a WACC of 8.7%. We apply an exit multiple of 25.0x . Exit assumptions also include a 29.0% EBIT margin & 39.2% EBITDA margin.

BEAR CASE $360.00

~22.5x 2025e Bear Case EBITDA of ~€2.6bn

Burnout and re-rate down. Global shipments do not rise as expected on a weaker macro backdrop, with more persistent demand problems & cancellations ensuing. Production halts and recalls. Margins come in 100 bps below base case as costs are higher than anticipated & new models contribute less to mix. RACE trades closer to lower end of luxury peer group. RACE LT targets lower than anticipated. BEVs fail to deliver on both customer demand & margins. Loss of brand relevance.

Risk Reward – Ferrari NV (RACE.N)

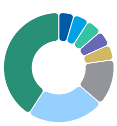
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
ASPs (€) (€)	374,697	408,439	NA	NA
Units	13,663.0	13,785.1	NA	NA
EBITDA (€mm) (€, mm)	2,280	2,495	NA	NA
Diluted EPS (€) (€)	6.90	7.99	NA	NA
Free Cash Flow (€mm) (€, mm)	849	776	NA	NA

INVESTMENT DRIVERS

- New Product Launches
- ASPs, Sales, Margins, FCF
- Residual Values
- Guidance Revisions
- F1 Performance
- Brand Value

GLOBAL REVENUE EXPOSURE



- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% Mainland China
- 10-20% UK
- 20-30% North America
- 40-50% Europe ex UK

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

RISKS TO PT/RATING

RISKS TO UPSIDE

- Robust orderbook, new customers, new models, shipment growth
- High ASPs, strong mix & margins
- Commoditization of EVs mean more value is placed on Ferrari ICE

RISKS TO DOWNSIDE

- Weakness in demand or production issues
- Execution risk around brand expansion
- Increases in engineering costs to EV migration & EVs could hurt value proposition
- F1 R&D costs higher than expected
- Austerity limits perception of Ferrari owners

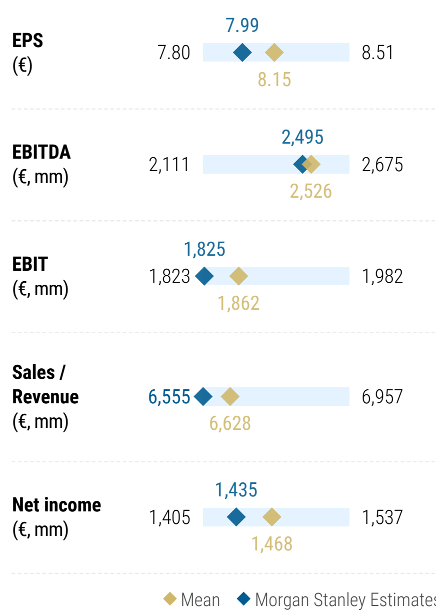
OWNERSHIP POSITIONING

Inst. Owners, % Active	75.6%
HF Sector Long/Short Ratio	1.7x
HF Sector Net Exposure	12.6%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Hermes International S.C.A. – Consumer Durables & Apparel

Primary Analyst: Edouard Aubin

Key competitive advantages: We view Hermès' 1) pricing power 2) high brand desirability and 3) unique business model as key sources of competitive advantage relative to industry peers. Even though Hermès tends to sell products with the highest price points in their respective category, we would argue that Hermès has more pricing power in the medium term than most of its peers. This is a function of the brand having been more disciplined in terms of price increases over the past three to five years than the likes of Chanel, Vuitton or Dior. It is also a function of the brand desirability remaining very high (as evidenced, for example, by current resale prices). As a result, Hermès was able to increase prices +9% in 2024 (vs. peers closer to +2%) and is likely to command more relative pricing power in 2025 than others (MSe Hermès +6.5% vs. peers ~+3%). We also note that on top of the luxury industry's already high barriers to entry (Heritage & Provenance), Hermès' unique business model of limited or difficult access to its top products and high level of craftsmanship (almost 100% of leather goods produced in France) gives it an almost 'unattainable' status placing it at the tip of the luxury pyramid. This very high status related to leather goods (in particular) goes onto produce a halo effect across the bands' other categories (RTW, Scarves, Watches & Jewellery, Home etc,) propelling it to grow further in all segments.

Long-term drivers for the stock: Growth in all categories and expanding production capacity will support growth on a longer-term timeframe. We believe Hermès will continue to gain market share in all verticals in which it operates (LG, RTW, shoes, Beauty, Homewear, etc.) thanks to its very strong brand desirability. Growth should also be supported by Hermès' plans to increase supply (volume) of leather goods (where is it supply-constrained) by about 7% per annum. Additionally, we see the possibility for further penetration with Chinese nationals (despite its ~42% exposure on MSe); as annual spend per capita of €4 remains much lower than Koreans at €16 in 2023, as per MS estimates. Hermès should also continue to benefit from the trend of ultra-premiumisation (given its positioning at the very top of the pyramid) and as a result should be somewhat less exposed to cyclical downturns given its exposure to HNWIs over the aspirational consumer. Nevertheless, luxury remains a recruitment market (across categories and markets) and Hermès is well placed to further recruit aspirational / middle class consumers through its lower price point categories (RTW, scarves, watches & jewellery).

Risks to competitive advantage: 1) Some channel checks have indicated that the LG multiplier (the theoretical amount a client needs to spend at Hermès before being "allowed" to buy a Birkin or Kelly handbag) has been coming down notably in Greater China – a weakened barometer of brand desirability. 2) Hermès is not immune to the middle-class / aspirational consumer being under pressure, as evidenced in 1H24 where non-LG product categories posted slower growth than LG for the first time in years (potentially lessening the brands' pricing power). 3) We expect there could be a catch-up in terms of costs as the company increases recruitment and remains in investment mode – post pandemic there was a lag, currently leading to a scissor effect vs. revenue OSG.

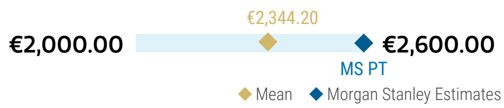
Risk Reward – Hermes International S.C.A. (HRMS.PA)

We see the risk/reward profile as skewed to the upside

PRICE TARGET €2,600.00

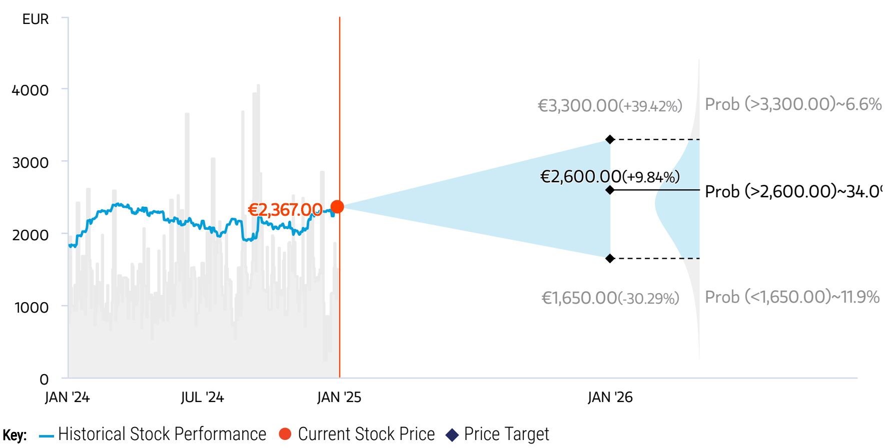
We use a DCF-based valuation methodology as we think this best reflects Hermès' margin potential and cash flow generation. We assume a WACC of 6.9% and long-term growth rate of 2.8%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

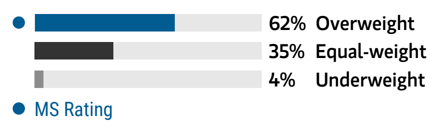


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

We believe that Hermès' shares are undervalued by the market, with top-line consensus expectations too conservative. While we expect most personal luxury goods brands to face subdued demand and have limited pricing power over the next 18 months at least, Hermès stands out. The brand is a key beneficiary of the trend towards 'ultra-premiumisation', which has been accelerated through the cyclical effect of HNWIs driving growth and the secular factor of Asia quickly becoming the central force for the sector, where luxury is more aligned with status than in the West.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Pricing Power: *Positive*
Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE €3,300.00

Faster increase in the share of leather goods

We model Hermès increasing its operating margin from 41% in 2022 to ~43% in 2026e (and 15% average top-line growth), mostly driven by a higher share of leather goods (from 50% in 2020 to 60% in 2024, more or less in line with Saint Laurent today at 69%) in the sales mix and acceleration in growth of the non-leather goods category.

BASE CASE €2,600.00

Steady growth

We forecast Hermès' EBIT margin to reach 44% by 2033 with a 14% top-line CAGR until then (compared to Hermès' 20-year historical average of +12%). Margin expansion is a function of higher sales densities (annual selling space growth remains limited), higher share of online sales and higher-margin categories increasing in the mix.

BEAR CASE €1,650.00

Margin reversion and slower growth

Assumes that Hermès' margin reverts within five years to its 20-year average, reaching 31% by 2030 vs. 41% in 2022 (and top-line growth is +8.9% CAGR). This is mostly driven by lower pricing power on its iconic products as the brand's desirability declines and overall demand for luxury goods from Chinese nationals softens

Risk Reward – Hermes International S.C.A. (HRMS.PA)

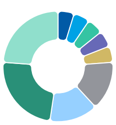
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Group % Change - constant currency (%)	20.6	13.6	12.8	14.5
Europe % Change - constant currency (%)	20.0	16.8	12.0	12.0
Americas % Change - constant currency (%)	20.5	12.6	15.0	15.0
APAC % Change - constant currency (%)	20.2	9.0	11.1	14.9

INVESTMENT DRIVERS

- Spending of Chinese nationals on luxury goods
- Brand desirability
- Leather goods supply

GLOBAL REVENUE EXPOSURE



0-10%	India
0-10%	Japan
0-10%	Latin America
0-10%	MEA
0-10%	UK
10-20%	Europe ex UK
10-20%	North America
20-30%	APAC, ex Japan, Mainland China and India
20-30%	Mainland China

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 **MOST**	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Operating margin lifted by a higher share of most profitable categories in the sales mix.

RISKS TO DOWNSIDE

- Discount rate. Two-thirds of Hermes' equity value is in its TV.
- FX: Majority of Hermès' products manufactured in the euro zone.
- Overdependence on a few iconic products? We estimate Birkin & Kelly bags account for ~25% & 33% of sales & profits, respectively.
- Middle-income consumers become the main growth driver

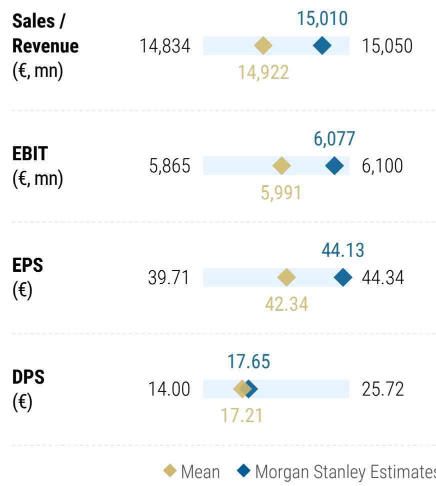
OWNERSHIP POSITIONING

Inst. Owners, % Active	73.2%
HF Sector Long/Short Ratio	2.6x
HF Sector Net Exposure	17.2%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Iberdrola – Utilities

Primary Analyst: Robert Pulleyn

We view Iberdrola as a low-risk quality compounder. The stock sustains a >5% EPS CAGR to 2030 that together with a ~5% dividend yield provides a ~10% TSR (vs. ~12% on average since 2001). Iberdrola currently trades at ~15x 2025 P/E, a ~30% premium to European integrated peers but more in-line with other quality compounders across the market. We believe Iberdrola's competitive advantage comes from: 1) Premium earnings mix with ~80% of 2025e EBITDA from highest valuation/ fastest growing networks and renewables; 2) Focus on developed markets such as Spain, UK and US presenting a stable regulatory environment & reasonable band of policy risks; and 3) The longest serving management team with a track record of avoiding negative developments through proactive and leading edge pivots in capital allocation across the global portfolio.

Grids development acceleration and higher electricity demand are its biggest long-term drivers. In networks, Iberdrola should benefit from the need to accelerate grids development in the markets where it is present, with group RAB CAGR of 8% to 2030. Particularly, in the UK we expect the group to deliver a regulatory asset base CAGR 2024-30 of 12%. In renewables, Iberdrola is among the best developers globally, which positions to benefit from increasing data centre announcements and higher electricity demand by offering fast access to grid connections and premium-priced 24hr PPAs thanks to its diverse technology offering in Spain (nuclear, hydro, wind and solar). Outside of Spain, we also see Iberdrola to benefit from US data centre theme given US Renewables is 7% of 2025 EBITDA. Iberdrola already sells 7TWh of power globally via PPAs for data centre usage, representing 5% of group volumes.

High yields for longer or power price concerns are the main risks. From the macro side, rising/elevated bond yields would erode the NPV of long duration cash flows in both Networks and Renewables. From a fundamental perspective, if power prices were to decline, the market could price in declining Liberalised earnings as well as weigh on the stock via its Renewables exposure. However, Iberdrola has less exposure to this dynamic than peers and we would expect Iberdrola to fare well on a relative basis.

Next events to be mindful of are the Spanish networks regulatory review around YE24/1Q25, upcoming offshore wind auctions and the UK draft determination for RIIO-T3 in June 2025.

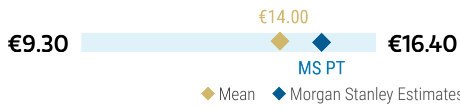
Risk Reward – Iberdrola SA (IBE.MC)

Quality compounder

PRICE TARGET €15.00

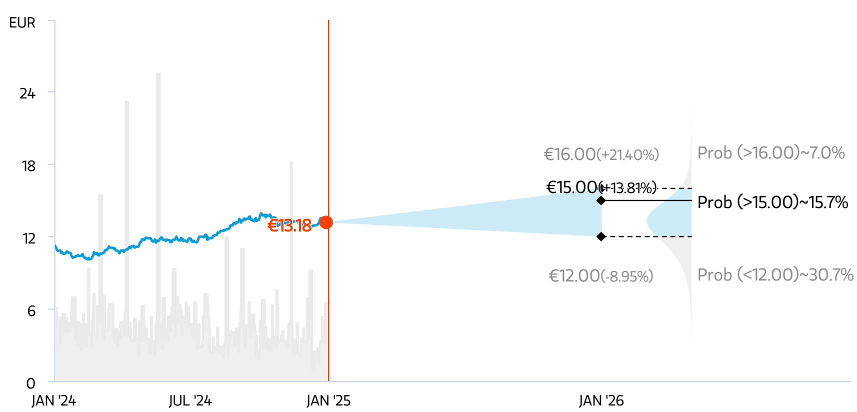
We use a SOTP approach, with a DCF for each of IBE's main businesses (except UK Networks, at 36% premium to RAB and Brazil at implied market value), using different WACCs depending on risk and cost of debt: 6.8% for Spain Liberalised (no terminal value), 6.6% for USA (2% terminal growth), 8.2% for UK Liberalised (0% terminal growth), 5.5% for Spanish Networks (1% terminal growth), 6.6% for Renewables and Mexico 7.9%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



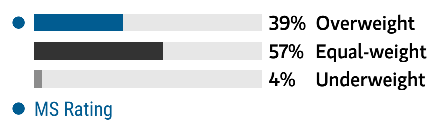
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- **Quality compounder:** We expect Iberdrola to sustain a ~6% EPS CAGR to 2030 even with normalising Iberian integrated margin. This growth, together with a >4.5% dividend yield supported by a ~75% payout, makes Iberdrola a relatively low-risk quality compounder for ~10% TSR p.a., in our view.
- **Pivoting more to networks:** We see networks as the new primary growth driver, where increasing capex growth offers attractive risk-adjusted returns.
- **Premium valuation justified:** We believe Iberdrola's premium earnings mix, with ~80% of EBITDA coming from highest-valuation networks and renewables, and DM focused, justifies a premium to peers.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Renewable Energy:	*Positive*
Secular Growth:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE €16.00

Acceleration in renewables & networks

Our main assumptions are:

- 30% more value in unallocated renewables growth vs base case

- 10% higher EV for UK networks than in our base case

- €4bn higher value in unallocated networks growth vs base case

- Forward curve for power prices until 2028-29 followed by normalized commodity assumption

- Mark-to-market of FX

BASE CASE €15.00

~€13bn of annual organic investments to 2030

Our main assumptions are:

- €13.2bn of average organic annual capex for 2024-30e

- We model 3.5GW of annual net wind & solar capacity additions for 2024-30 for Iberdrola

- Forward curve for power prices until 2028-29 followed by normalised assumption thereafter

- Mark-to-market of FX

BEAR CASE €12.00

Limited renewables growth & unfavourable FX

We assume:

- No future RES additions beyond 2024-26 commitments

- No new Regulated network capex beyond agreed plans

- Forward curve for power prices until 2028-29 followed by normalised input

Risk Reward – Iberdrola SA (IBE.MC)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Spanish Base power prices (€/MWh)	67.0	60.0	63.0	64.9
1 EUR = x USD	1.1	1.1	1.0	1.0
1 EUR = x BRL	5.4	5.8	6.3	6.3
Installed Wind & Solar capacity (GW)	28.3	31.6	34.3	37.3
Spanish hydro output (TWh)	15.5	20.0	14.7	14.7

CATALYST CALENDAR

Date	Event
20 Feb 2025 - 24 Feb 2025	Full Year 2024 Iberdrola SA Earnings Release
22 Apr 2025 - 28 Apr 2025	Q1 2025 Iberdrola SA Earnings Release

Source: Refinitiv, Morgan Stanley

INVESTMENT DRIVERS

- Regulated returns in Spain, the US and UK
- Pace and allocation of new investments
- Power prices and generation output in Spain, US and UK
- Renewables value creation
- USD/BRL/GBP FX

GLOBAL REVENUE EXPOSURE

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

1/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- High integrated margin for longer
- Higher electricity network capex
- Lower bond yields
- Supportive Energy policies in key markets
- Market confidence in Renewables returns

RISKS TO DOWNSIDE

- Quicker normalisation in supply margins
- Negative FX moves for international exposure
- Deterioration in regulatory and political environment in key markets
- Lower value creation in Renewables
- Higher bond yields and financing costs

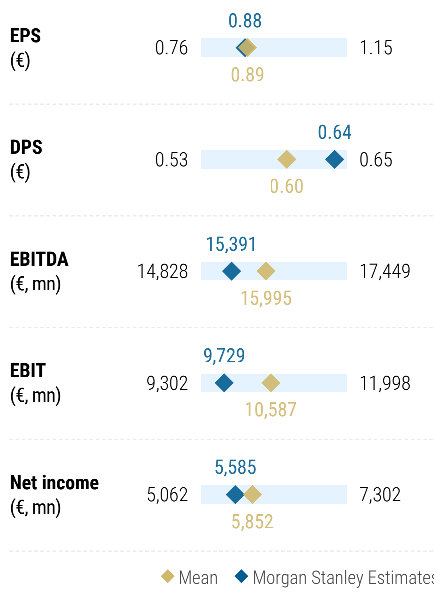
OWNERSHIP POSITIONING

Inst. Owners, % Active	69.9%
HF Sector Long/Short Ratio	2.1x
HF Sector Net Exposure	2.8%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

ICICI Bank – Banks

Primary Analyst: Sumeet Kariwala

Key competitive advantages: The Indian banking sector is seeing rising headwinds – a) high competition for granular deposit growth; b) pressure on margins given very high competitive intensity; c) various regulatory challenges that will hurt capital and profitability at less-strong banks. We believe that margins and asset quality are set to normalize and drive divergence in profitability based on franchise strength amongst Indian Banks. With this backdrop, ICICI Bank is our top pick for 2025 – the starting point of higher margins/RoA will help absorb the ongoing challenges in the banking system.

Over the years, ICICI Bank has seen strong improvement in its franchise across funding, underwriting and technology capabilities. Balance sheet is strong with high capital ratios as well as strong contingency provisions. Further, we expect earnings to continue to outperform peers helped by its improving delivery systems. Moreover, we see the group including life insurance, general insurance, retail banking, corporate banking, etc as a strong and clean play on India's full suite of financial services.

Long-term drivers for the stock: We expect earnings to continue to outperform peers on account of:

- Differentiated delivery solutions build-up: Over the past five years, ICICI has reduced layers of management, is simplifying products (and its delivery) and realigning itself from product-centric teams to a customer-oriented approach for greater synergies. This can help the bank capture a full spectrum of customer wallet across business segments.
- Strong asset quality: ICICI will deliver a strong asset quality as reflected by 1) Improving funding franchise 2) Better underwriting capabilities 3) Granular portfolio and improved rating profile and 4) Significant provisioning buffers.
- Funding franchise differentiation should be sustainable and drive strong core PPoP growth: ICICI Bank will continue to maintain its competitive advantage in cost of funds while enhancing the liability franchise and maintaining a stable and healthy funding profile.

Risks to competitive advantages:

- Sharp slowdown in economic growth weighing on loan growth and resulting in higher NPLs.
- Weaker-than-expected progression on deposits growth / margins.
- Slower execution of delivery systems.
- Higher-than-expected impact of regulatory guidelines.

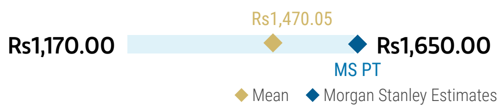
Risk Reward – ICICI Bank (ICBK.NS) Top Pick

Earnings consistency should drive continued outperformance

PRICE TARGET Rs1,650.00

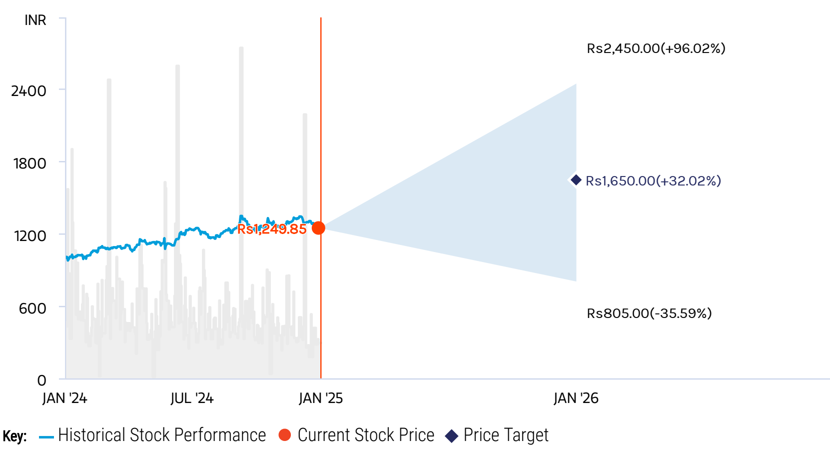
SOTP
Probability-weighted (bull/base/bear: 5%/85%/10%) valuation for the banking and base case for subs. Bear case wt. to factor negative impact of ECL/LCR guidelines.
Core Bank: Adjusted Dec-26e P/B 2.9x (CoE 12.8%, RoE 17.3%, g 10.5%)
Life insurance: CoE 12.5%, 1x EV (Mar-26e) + 14x VNB (Mar-27e)
General Ins.: CoE 12%, Implied multiple at 33x Mar-27e EPS
ICICI Securities, based on current price
ICICI AMC - P/E multiple of 20x Dec-26e earnings

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART

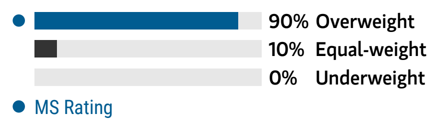


Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- Management has built provisions aggressively and accelerated deposit market share.
- Retail asset quality has held up well, underscoring improved underwriting practices.
- COVID has catalyzed digital adoption, and ICICI has capitalized on this.
- The balance sheet appears strong. The bank is very well positioned for the upcoming cycle.
- RoAs are well above normalized levels, and have room to absorb potential margin/credit cost normalization (over the next two years) as well as potential regulatory changes.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE Rs2,450.00

4.2x Sept-2026e core BVPS

Sharp rebound in economic growth (capex recovery &benign inflation): Loan growth improves sharply, owing to a sharp pickup in the macro climate and higher-than-expected benefits from aggressive branch/digital expansion over the past three to four years. Margin performance is better than expected, helped by an increase in share of high yielding loans and faster-than expected improvement in LD ratio. Fee income growth picks up sharply. Regulatory and competitive pressures are lower than expected.

BASE CASE Rs1,690.00

2.9x Dec-2026e core BVPS

Continued macro recovery: Loan growth remains healthy at 16%/17%/17% in F25/F26/F27, vs. 16% in F24. Margins are expected to be under pressure with it at 4.24% in F25 and 4.18% in F26 and 4.12% in F27 vs. 4.5% in F24. We expect margins to moderate further as deposit costs catch up but a continued mix shift toward higher-margin loans should help reduce the impact. Credit costs normalize; we build in 50bps-7060bps over F25-F26, vs. 27bps in F24.

BEAR CASE Rs805.00

1.5x Dec-2026e core BVPS

Sharp slowdown in economic growth weighing on loan growth: Loan growth and margins are lower than in the base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and retail loan book.

Risk Reward – ICICI Bank (ICBK.NS)

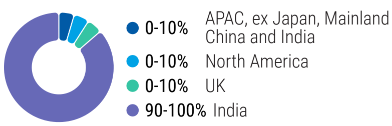
KEY EARNINGS INPUTS

Drivers	2024	2025e	2026e	2027e
NIM (%)	4.5	4.2	4.2	4.1
Credit costs (%)	0.33	0.50	0.59	0.70
Core PPOP Growth (%)	17	13	17	18
Loan Growth (%)	16.2	14.3	17.1	17.4

INVESTMENT DRIVERS

- Asset quality progression
- Loan growth and NIM progression
- Insurance premium growth/margins

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 **MOST**	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Strong pickup in deposit growth
- Greater improvement in operating leverage given digitization
- Slower-than-expected normalization of asset quality

RISKS TO DOWNSIDE

- Sharp slowdown in economic growth weighing on loan growth and resulting in higher NPLs
- Weaker-than-expected progression on deposits growth / margins
- Higher-than-expected impact of ECL and LCR guidelines.

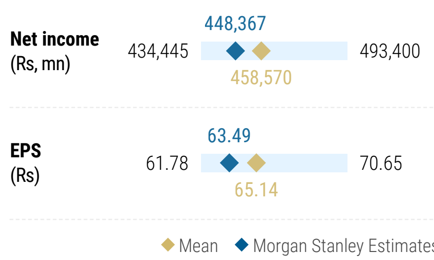
OWNERSHIP POSITIONING

Inst. Owners, % Active 89.6%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Mar 2025e



Source: Refinitiv, Morgan Stanley Research

Inditex – Consumer Discretionary Distribution & Retail

Primary Analyst: Grace Smalley

Key competitive advantages: We view Inditex's flexible operating and proximity sourcing models as sources of competitive advantage relative to industry peers. In short, Inditex operates a unique demand-pull model with a strong feedback loop between empowered store managers (based in stores) and product store liaison managers (based in Inditex HQ, each responsible for 20-40 store managers) with short lead times, limited production runs and tailored store assortments – all helping the company rapidly respond to changing trends and consumer demand. This flexible business model is enabled through Inditex's proximity sourcing model, through which it sources c.60% of product from local markets – Spain, Portugal, Morocco and Turkey – and high use of air freight. This is differentiated versus peers, where the majority of sourcing is based in Asia. We also view Inditex's ongoing store investments as a driver portfolio brand desirability, continuing to widen the competitive moat versus peers in our view (for more see: Inditex – Store Investments in Full Swing). Lastly, Inditex has a rare brand asset in Zara – one of few consumer brands that is able to successfully appeal to a broad income demographic without diluting brand equity, with Zara having succeeded in somewhat elevating the brand in recent years whilst not alienating its core consumer demographic.

Long-term drivers: The fashion apparel market is highly fragmented and therefore Inditex has opportunity to boost its low market penetration in a large numbers of existing markets (214), leveraging its flexible operating model to react to fashion trends and take market share. Growth should be supported by Inditex's omni-channel approach, ongoing store investments and its logistics expansion plan taking place over 2024 and 2025, allocating €900m per year focused on the expansion of the business to increase logistic capacities as the company continues to invest in the technology and differentiation of business to address strong growth opportunities in the medium and long-term. Growth should also be supported by increased demand for fashion, and further growth in the key U.S. market in particular, where Inditex is strategically focused on long-term opportunities – see more on Inditex's US strategy in our note here.

Risks to competitive advantage: There is a risk that competitors increasingly shift manufacturing away from Asia and towards Europe, lessening the competitive advantage of Inditex's proximity sourcing model. There is also a threat from new entrants operating through differentiated but effective business models to gain significant market share. There is a risk that's Zara recent accelerated growth algorithm has been boosted by price increases and favourable price-mix – that may moderate leading to slowing growth.

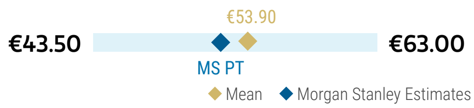
Risk Reward – Inditex (ITX.MC)

Resilience priced in

PRICE TARGET €52.00

Our price target is based on the average of our DCF and P/E multiple valuations. Our DCF valuation of €41 is based on a WACC of 9.5% and terminal growth rate of 1%. Our P/E approach valuation of €51 is derived from the average of implied prices generated using Inditex's historical P/E premium/discount to MSCI Europe and the Retail Sector, and own performance.

Consensus Price Target Distribution

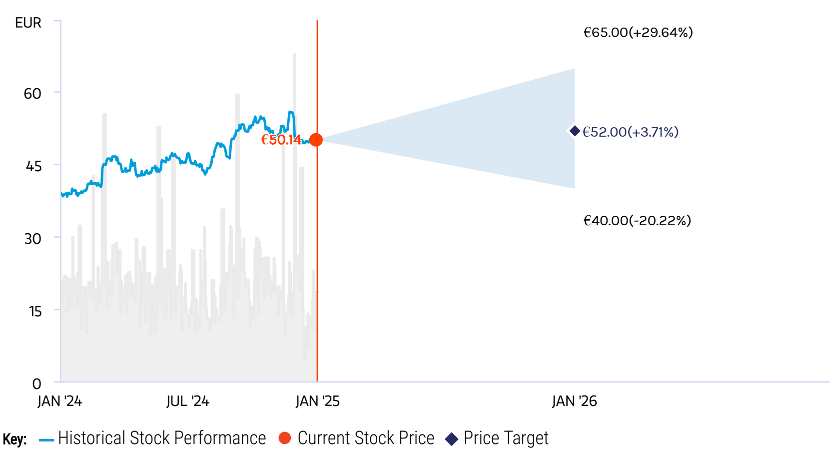


Source: Refinitiv, Morgan Stanley Research

EQUAL-WEIGHT THESIS

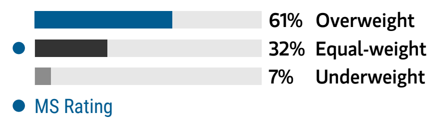
- Inditex is a world-class retailer with a leading operating model and a solid balance sheet, which should allow it to comfortably navigate a challenging operating environment and maintain its above-industry growth rate.
- However, we do not believe the company is completely immune to consumer weakness, and we see the company's relative resilience as priced into the shares.

RISK REWARD CHART



Source: Refinitiv, Morgan Stanley Research

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption: *Negative*

View descriptions of Risk Rewards Themes here

BULL CASE €65.00

Inditex continues its accelerated pace of growth

Inditex experiences accelerating market share gains supported by growth investments

BASE CASE €52.00

Inditex +HSD LFL growth story

Inditex is a world-class retailer with a leading operating model and a solid balance sheet, which should allow it to comfortably navigate a challenging operating environment and maintain its above-industry growth rate.

BEAR CASE €40.00

Inditex slows to pre-pandemic growth rates

Slowing consumer activity and rising operational costs lead to subdued sales and long-term EBIT margins falling to the mid-teens level.

Risk Reward – Inditex (ITX.MC)

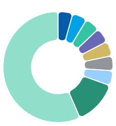
KEY EARNINGS INPUTS

Drivers	2024	2025e	2026e	2027e
Constant currency sales growth (%)	14.1	11.0	9.2	8.1
Gross margin (%)	57.8	57.9	58.0	58.0
EBIT (€, mn)	6,809	7,626	8,454	9,242
EBIT margin (%)	18.9	19.6	19.9	20.2

INVESTMENT DRIVERS

- Constant currency sales growth
- Gross margin
- EBIT margin

GLOBAL REVENUE EXPOSURE



Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

3/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Challenging operating environment normalises and macroeconomic concerns fade.
- Fashion adoption tailwinds stronger than expected.

RISKS TO DOWNSIDE

- Consumer spending on apparel is hit even harder than we envisage in the economic downturn.
- Headwinds from unfavourable currency movements and inflated costs persist.

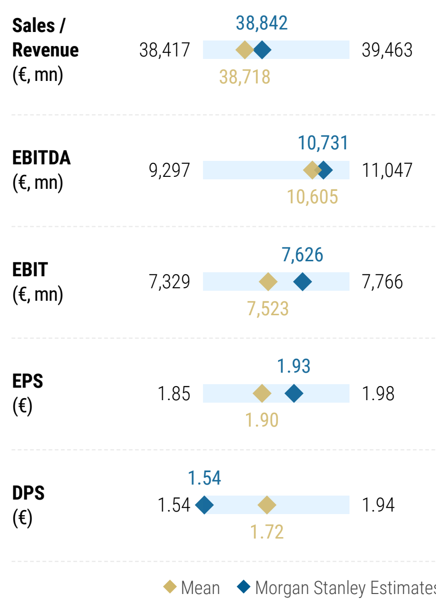
OWNERSHIP POSITIONING

Inst. Owners, % Active	77.5%
HF Sector Long/Short Ratio	2.6x
HF Sector Net Exposure	17.2%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Jan 2025e



Source: Refinitiv, Morgan Stanley Research

JPMorgan Chase & Co – Banks

Primary Analyst: Betsy Graseck

Key competitive advantages: JPM is the largest bank in the US by assets, providing significant scale advantages. JPM's Commercial and Investment Bank (CIB) ranks #1 in IB fees, Markets revenue, Treasury Services revenue, Multifamily lending, and as Middle Market bookrunner; the Consumer & Community Bank (CIB) ranks #1 in US retail deposits, US credit card issuer, and Primary Business Bank; and Asset & Wealth Management (AWM) ranks #1 as the Best Private Banks in the World (per Euromoney) and in active flows, with 20 straight years of positive net new flows. JPM's industry leading scale enables a US$17bn technology war chest, around half of which is related to change-the-bank initiatives. JPM is making significant progress in converting data and applications to the cloud, which should further increase usability for AI applications at a time when many other banks are further behind in converting off of mainframe technology. JPM is also the most efficient GSIB bank with the lowest expense ratio.

Long-term drivers: Key drivers of JPM's long term share price performance are nominal GDP growth, which drives loan growth, deposit growth and securities book growth; equity market appreciation and asset inflows, which drives client asset growth in JPM's Asset & Wealth Management segment, Assets Under Custody growth in JPM's Securities Services business and a larger Investment Banking & Markets wallet. JPM is aiming to increase share across businesses with a philosophy of investing in products and client services through the cycle. We would highlight Consumer & Community Banking as one area of further share gain potential, as JPM is building 500 new branches and refreshing 1,700 existing branches over the next 3 years as many competitors thin out their branch networks. This will enable JPM to have a branch within driving distance to 75% of the US population, up from 65% in 2023. JPM has already made progress gaining share in 95% of the top 125 markets over the last 5 years and is aiming to build on this progress. We would also highlight wealth management as an area where JPM is currently under-leveraged and focused on gaining share.

Risks to competitive advantage: If the regulatory approach in the US lightens up so much that it emboldens competitors, JPM's market share gains could slow. In addition, a CEO transition within the next 5 years risks key talent losses.

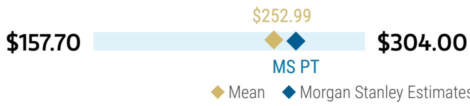
Risk Reward – JPMorgan Chase & Co (JPM.N)

Share Gainer W/ Strong Capital & Return Profile; EW on Negative '25 Op. Leverage

PRICE TARGET $265.00

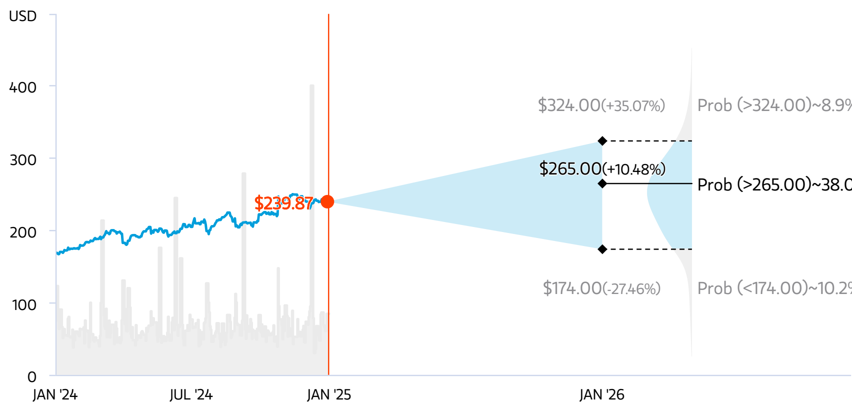
Our price targets are set by triangulating PE, PB vs ROE (a deconstructed PE) and cost of equity relative to our outlook for asset growth, credit risk, operating efficiency and capital return. Our price target is based on a 13x 2026 PE. Multiple is above group average.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



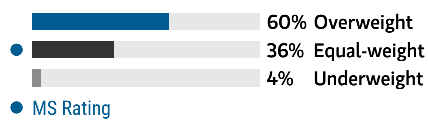
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

EQUAL-WEIGHT THESIS

- JPM has strong capital levels of 15.3%, well above 12.3% regulatory min.
- JPM benefits from capital markets rebound with >40% of revenues from Commercial & Investment Bank
- JPM is taking deposit share across the U.S., with median deposit share up ~1.5% across the Top 50 US MSAs over the last 5 yrs, now further boosted by FRC deal. Goal is 20% US market share over time.
- We see more room for positive NIM surprises elsewhere in our coverage as JPM is asset sensitive
- Expect negative operating leverage in 2025 as Fed rate cuts drive lower NIM

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Contrarian:	*Negative*
Disruption:	*Positive*
New Data Era:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $324.00

13x Bull Case 2026 EPS of $24.89

Persistent growth w/ sticky inflation. GDP re-accelerates in 2H25, with GDP growing 2.6% in '25/'26 as productivity offsets tariff & immigration changes. CPI remains above target. Curve steepens and de-inverts, but Fed then begins to raise rates in 4Q25 to cool inflation. IB activity as a % of GDP spikes to DotCom levels in '26, driving up IB fees ~40-60% yy in '25/'26. QT ends, driving up deposit growth to 5%. Banks optimize CET1. Loan growth increases over base case & credit quality improves.

BASE CASE $265.00

13x Base Case 2026 EPS of $20.35

Tariffs & immigration drag on GDP, inflation moderates. GDP declines from 2.7% in '24 to 1.6% in '26. CPI declines from 2.9% to 2.5%. The curve steepens modestly by '26 with the Fed cutting more than 10yr yields fall. IB volumes as a % of US GDP increase to '21 levels in '26, driving up IB fees 30-50% yy in '25 and '26. QT ends, driving up deposit growth to 4%. Capital & liquidity rules are stable enabling banks to optimize CET1 through buybacks. Loan growth ticks up and credit remains benign.

BEAR CASE $174.00

11x Bear Case 2026 EPS of $15.81

Short-lived recession with steepest curve. GDP contracts in 1Q25, with FY25 GDP at 0.4%. CPI falls below 2%. Fed cuts rates to 1%, keeping recession shallow & driving steepest curve in years. Rate cuts set stage for improving GDP, back to 1.0% in '26. Capital markets activity as a % of GDP increases off lows, but remains below cycle avg of 1996-2023, driving up IB fees only ~20% yy in '25/26. QT ends. Banks optimize CET1. Loan growth up less than base case, credit quality deteriorates slightly.

Risk Reward – JPMorgan Chase & Co (JPM.N)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
NIM (%)	2.70	2.60	2.49	2.41
Loan Growth (Y/Y) (%)	13.4	6.1	3.7	3.6
Fee Growth (Y/Y) (%)	10.7	9.2	7.5	5.7
Operating Leverage (Y/Y) (%)	11.5	(1.0)	(3.6)	(2.5)
NCO Ratio (%)	0.51	0.67	0.72	0.75

CATALYST CALENDAR

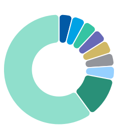
Date	Event
15 Jan 2025	Q4 2024 JPMorgan Chase & Co Earnings Call

Source: Refinitiv, Morgan Stanley

INVESTMENT DRIVERS

- Rate hikes and NIM
- Operating Leverage
- Loan Growth
- Credit Loss Normalization
- Capital and Liquidity Requirements

GLOBAL REVENUE EXPOSURE



0-10%	APAC, ex Japan, Mainland China and India
0-10%	India
0-10%	Japan
0-10%	Latin America
0-10%	MEA
0-10%	Mainland China
0-10%	UK
10-20%	Europe ex UK
70-80%	North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Less rate cuts than expected
- Higher operating leverage
- Increased share gains
- Slower credit normalization
- Slower deceleration in loan growth
- Capital markets rebound

RISKS TO DOWNSIDE

- More rate cuts than expected
- Lower operating leverage
- Faster credit deterioration
- Sharply higher capital requirements
- Geopolitical risk slows international growth

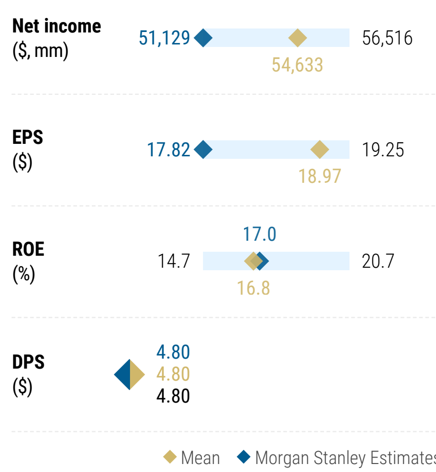
OWNERSHIP POSITIONING

Inst. Owners, % Active	54.3%
HF Sector Long/Short Ratio	1.8x
HF Sector Net Exposure	13.3%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Macquarie Group Limited – Financial Services

Primary Analyst: Andrei Stadnik

Key competitive advantages: MQG is a leading asset manager in global private and public markets, with asset development capabilities plus banking operations. Its infrastructure and green energy capabilities are unique among global financial peers. MQG has green and renewables alignment throughout the group, with the Green Investment Group (GIG) as a renewables developer, Macquarie Asset Management (MAM) as an infrastructure operator, and the Commodity and Global Markets (CGM) division as an energy trader. Insurance is becoming an important channel for distribution, with many US alternative asset managers establishing partnerships with or direct equity stakes in life insurers. MQG is moving on this opportunity by recently setting up its own Bermuda Life (re)insurer and also broadening its existing insurance buying business by setting up new managing general agent partnerships with Lloyds syndicates. MQG is deploying into real assets with green energy, infrastructure and real estate as key focus areas. MQG was also an early investor in data centres – it has six data centre assets in the US, EU and Asia Pacific, both on balance sheet and in the funds. MQG also has a regional investment bank and a domestic retail bank, with the latter growing mortgages at 3-4x system on the back of a best-in-market front-end mortgage origination platform. However, MQG has also been growing private credit in two divisions. MAM saw 21% YoY growth to A$32bn AUM at the end of FY24 or 9% of private market AUM. And then MacCap has a global private credit book of A$21.5bn. Keeping it on balance sheet delivers 7-8x higher margins to AUM vs an asset manager approach (ie, 400-450bp vs 50-60bp). In other words, the A$21.5bn private credit book in MacCap brings revenues equivalent to A$150-170bn of AUM.

Long-term drivers for the stock: We think some of the drivers are economic growth, cost of debt, client activity and the infrastructure replacement cycle (ongoing demand). Another driver is increasing public demand and policy support for the renewable energy transition, which has accelerated post COVID. Delivering on the pipeline of gains on sale and performance fees is another driver. We also see better near-term opportunities from volatility in energy markets / CGM. In the longer-term, we think climate change and the renewables transition will continue to support MQG's CGM business.

Risks to competitive advantage: A key risk is more competition in alternative asset management, particularly in infrastructure. However, we note this is a growing market, and with investments being multi-year, replicating MQG's operations and track record would be a long journey. Increasing margin pressure is another risk, but we think MQG is already operating with this in mind and has the operating scale to offset margin pressure. More competition in green energy development is also coming. But we note MQG has experience in running a blend of capital-light and capital-deploying businesses, and is now adapting its green energy business to deploy external capital in an asset manager model.

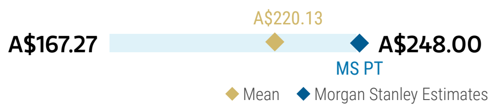
Risk Reward – Macquarie Group Limited (MQG.AX)

Leverage to capital markets recovery and structural tailwinds in infrastructure

PRICE TARGET A$248.00

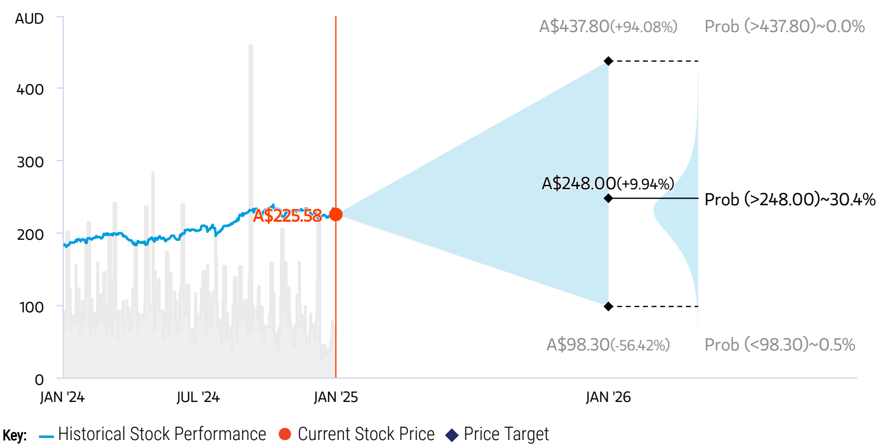
Probability-weighted price target: 30% bull case, 60% base, 10% bear (skew reflects MQG's structural growth options in infrastructure & private markets).
Base: SOTP driven with ~15x blended 12m fwd. P/E for the group. Divisions: MacCap at ~17.5x target P/E, CGM ~11x P/E, Public Investments ~13x P/E, Private Investments ~33x P/E, BFS ~17x P/E.
Bull: Target P/E of 24x.
Bear: Target of P/E 11x with cross-check via P/B (~1x).

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

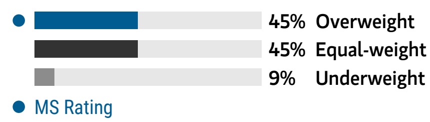


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 13 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- Unique capabilities and track record in renewables advisory, development and management.
- Structural tailwinds in private markets and alternative asset management.
- Favourable and diversified business mix.
- Pipeline of gains on sale and performance fees.
- Track record of resilient earnings and opportunities to deploy dry powder in dislocated markets.
- Gearing to the real economy, not just financial markets.
- Leading alternative asset manager.
- Offshore earner, with growth options.
- Flexibility on the compensation ratio.
- Strong balance sheet, lowering risk profile and providing strategic flexibility.
- Reasonable trading multiples in context of growth options.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption:	*Positive*
Secular Growth:	*Positive*
Renewable Energy:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE A$437.80

~24x 12-month forward bull case EPS

Global private and public investment in infrastructure and renewables provides new and accelerating growth opportunities across all of MQG's divisions. Market conditions improve from the downturn more quickly than expected, driving up equity market-related revenues, asset values, and funds under management. Strong activity in private markets helps MQG to deploy more dry powder in dislocated markets, locking in earnings growth for the start of the next cycle.

BASE CASE A$177.60

~15x 12-month forward base case EPS

Demand for infrastructure and renewable investments remains strong and MQG deploys its deep expertise to generate rapidly growing renewable revenues. A multi-year performance fee harvest and recovery in gains on sale support earnings recovery in FY25 and FY26.

BEAR CASE A$98.30

~11x 12-month forward bear case EPS

Markets and economies take longer to normalise, and so performance fees and gains on sales stay subdued for longer. Our bear case implies a ~1x P/BV multiple. Although this is higher than a bank in a recession, we note MQG's largest business is capital light asset management.

Risk Reward – Macquarie Group Limited (MQG.AX)

KEY EARNINGS INPUTS

Drivers	2024	2025e	2026e	2027e
Total Net Revenues (A$, mn)	16,887	17,407	18,787	19,824
Net Lumpy Revenues (A$, mn)	1,980	2,246	2,787	2,913
Net Underlying Revenues (A$, mn)	14,907	15,161	16,000	16,911
Group Comp Ratio (%)	43.1	40.7	39.1	39.1
MIRA Capital Raised (A$, mn)	21,900	23,468	42,613	48,560

CATALYST CALENDAR

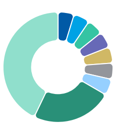
Source: Refinitiv, Morgan Stanley

Date	Event
10 Mar 2025 - 13 Mar 2025	MQG Operational Briefing for institutional investors and analysts
08 May 2025	Full Year 2025 Macquarie Group Ltd Earnings Release

INVESTMENT DRIVERS

- Economic growth
- Equity and bond markets
- Fee margins
- Flows and client activity
- Compensation and operating costs
- Global private and public infrastructure spending
- Renewables transition

GLOBAL REVENUE EXPOSURE



0-10%	Europe ex UK
0-10%	India
0-10%	Japan
0-10%	Latin America
0-10%	MEA
0-10%	Mainland China
0-10%	UK
20-30%	North America
40-50%	APAC, ex Japan, Mainland China and India

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Larger gains on sale and performance fees, especially from renewables
- Higher activity in M&A, equity, commodities
- Stronger flows, higher $ in asset management
- Lower comp ratio or A$
- More value-enhancing acquisitions

RISKS TO DOWNSIDE

- Operating conditions and client activity fall
- Higher impairments and lending losses
- Margin pressure and competition in asset management
- "Risk off" environment and lower peer multiples

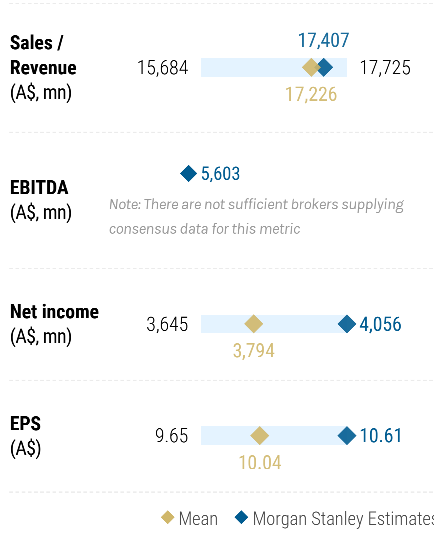
OWNERSHIP POSITIONING

Inst. Owners, % Active 43.8%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Mar 2025e



Source: Refinitiv, Morgan Stanley Research

Microsoft – Software & Services

Primary Analyst: Keith Weiss

Key competitive advantages: We view Microsoft as the best-positioned software company against the emerging GenAI secular trend, given strong competitive differentiation predicated on 1) large install bases, 2) best-in-class distribution capabilities, 3) strong technological innovation and partnerships, 4) cloud-of-choice positioning, and 5) durable pricing power. First, Microsoft has a large commercial and customer install base – ~1.4bn monthly active devices running Windows 10 or 11, >400mn Microsoft 365 Commercial users, >232mn Enterprise Mobility & Security seats – which allow Microsoft to garner scale advantages and operating leverage. Second, Microsoft has a best-in-class network of channel partners, independent software vendors (ISVs), OEMs/distributors, and resellers who are deeply invested in Microsoft's success and with the company's service distribution across >300 data centers and more than 60 regions across the world it has one of the broadest technological distribution capabilities. Third, Microsoft has proven strong leadership through technology cycles under Satya Nadella's leadership, most recently the company has emerged as the frontrunner in the emerging GenAI product cycle as our CIO survey shows – 53% of CIO's expected Microsoft to gain the largest incremental share of GenAI spend in 2024 (44% of CIOs expect the same to hold over three years), 68% of CIO's expecting to deploy M365 Copilot within 12 months, 42% of CIOs in our survey are expecting to use GitHub Copilot, 41% expecting to utilize Azure OpenAI Services within 12 months. Fourth, Microsoft is benefitting from its core positioning as the "cloud of choice" for enterprises, as CIOs view Microsoft as the top IT wallet share gainer among all surveyed companies and indicate expectations for Microsoft Azure to see the fastest growth in public cloud spend. Fifth, over time Microsoft has proven to be able to leverage this unique positioning to realize price increases across key product categories, which particularly in more mature segments with high mission-criticality – e.g. Productivity (Office), Intelligent Cloud (SQL, Windows OS, Azure) and More Personal Computing (Windows) – should help Microsoft protect margins over time.

Long-term drivers for the stock: Key long-term drivers for the stock are 1) durable growth given a recurring revenue streams, a diversified product portfolio, and strong secular tailwinds, 2) margin expansion, and 3) capital return program. First, the majority of Microsoft's business is recurring in nature with a majority of that being derived from commercial customer relationships, the product portfolio spans all layers of the technology stack with larger concentration at the top of the stack in infrastructure and application software, and all of the companies key software end markets exhibit well-above GDP growth – with our CIO survey viewing Microsoft as a share gainer within these attractive end markets. Second, while a near-term investment cycle in AI infrastructure weighs on gross margins, the company has displayed strong execution on margins historically and remains committed to offsetting any gross margin pressures with operating expense discipline. Third, Microsoft's dividend and share repurchase program further raise Microsoft's total return profile to durable mid- to high-teens – which we see driving the stock against a reasonable valuation at 26x GAAP P/E (1.6x PEG).

Risks to competitive advantages: Microsoft is competing in highly competitive end markets with its primary competitors – Amazon, Google, Oracle – being among the best capitalized companies with deep product portfolios, strong balance sheets, and a high willingness to spend on emerging technologies. Further, while Microsoft has played a dominant role in several past and ongoing technology shifts (internet, cloud, AI), the evolving nature of the company's end markets means that future shifts in foundational technologies may require Microsoft to pivot its investments and re-establish its market dominance in new end markets. At Microsoft's growing scale – eclipsing US$3trn in market cap – potential future anti-trust scrutiny may limit Microsoft's ability to compete.

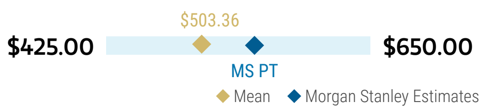
Risk Reward – Microsoft (MSFT.O)

Accelerating Growth & AI Leadership Not Priced-In

PRICE TARGET $548.00

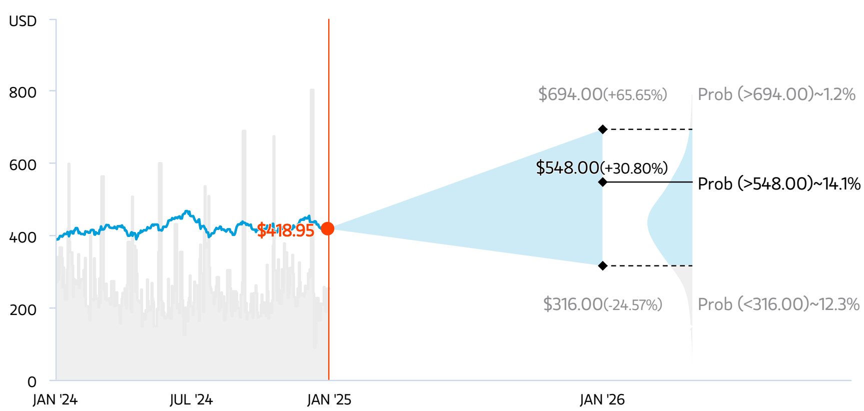
33x Base Case CY26e EPS of $16.60. 33x PE is in line with large cap software peers, 2.1x PEG is a premium to peers and MSFT historical PEG, warranted given durability of EPS CAGR and high conviction in our estimates.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



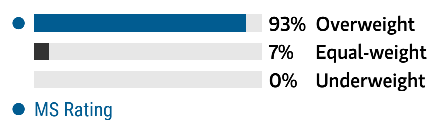
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- Strong positioning for public cloud adoption & AI, large distribution channels and installed customer base, and expanding margins supports EPS growth. Weaker NT cyclical environment improves as cloud optimizations complete - LT trends remain durable.
- Teens revenue growth, opex discipline and strong capital return lead to durable high-teens total return profile long term .
- At ~25x CY26e GAAP EPS, MSFT trades at a discount to the large cap peers, unwarranted due to MSFT's premium return profile. Multiple expansion and positive estimate revisions will come from greater than expected strength in commercial business in coming years.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

New Data Era:	*Positive*
Pricing Power:	*Positive*
Secular Growth:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $694.00

36.5x Bull Case CY26e EPS: $19.01

Azure, O365 & Robust Contribution from AI Drive Top-Line Growth. Acceleration in Azure growth, adoption of higher priced O365 Commercial SKUs and continued seat growth, and robust adoption of Azure AI services and Microsoft AI Copilots across business lines drive high-teens revenue CAGR in the coming years. Operating margins expand to ~47% by CY26 and CY26e EPS is $19.01. 36.5x PE represents a premium to large cap software peers, but in-line with large cap PEG at 1.8x given 20% EPS CAGR.

BASE CASE $548.00

33x Base Case CY26e EPS of $16.60

Azure, O365 & Ramping Contribution from AI Drive Top-Line Growth. Durability of Azure growth, adoption of higher priced O365 Commercial SKUs and continued seat growth, and ramping adoption of Azure AI services & Microsoft AI Copilots across business lines drive mid-teens rev CAGR ahead. Operating margins expand to ~45% by CY26 and CY26e EPS is $16.60. 33x PE is a slight premium to large cap software peers, 2.1x PEG is a premium to MSFT historical PEG, justified due to durability of EPS CAGR.

BEAR CASE $316.00

21.5x Bear Case CY26e EPS: $14.70

Macro, Scale & Limited AI Adoption Drives Top-Line Growth Deceleration. Azure growth continues deceleration given scale, while O365 reaches penetration and adoption of Azure AI services & Microsoft AI Copilots across business lines remains limited. This drives low-teens rev CAGR. Operating margins only expand to ~42% by CY26 and CY26e EPS is $14.70. 21.5x PE is a discount to large cap software peers and a discount on a PEG, given a 13% EPS CAGR.

Risk Reward – Microsoft (MSFT.O)

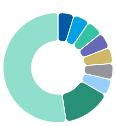
KEY EARNINGS INPUTS

Drivers	2024	2025e	2026e	2027e
Azure Revenue Growth (%)	29.8	29.7	30.2	26.4
Server Products On-Prem Growth (%)	3.2	(2.0)	(1.0)	(1.0)
Gross Margins (%)	69.8	68.0	67.0	66.7
Operating Margins (%)	44.6	44.4	44.5	44.9
GAAP EPS Growth (%)	20.3	9.2	16.0	21.1

INVESTMENT DRIVERS

- Sustainability of commercial growth, cloud momentum, improving cloud margins
- Improving PC data points

GLOBAL REVENUE EXPOSURE



- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 0-10% Mainland China
- 0-10% UK
- 10-20% Europe ex UK
- 50-60% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

3/5 BEST	24 Month Horizon	2/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Cloud adoption accelerates, with Azure as convincing winner
- AI leadership results in substantial revenue contribution over-time
- Operational efficiencies leading to greater than anticipated economies of scale and margin expansion

RISKS TO DOWNSIDE

- Weak macro impacting IT spending
- On-premises cannibalization by Cloud
- Increased investments hurt margin expansion
- AI adoption proves limited

OWNERSHIP POSITIONING

Inst. Owners, % Active	56%
HF Sector Long/Short Ratio	2.1x
HF Sector Net Exposure	23.5%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Jun 2025e

Sales / Revenue ($, mm)	279,067 *Note: There are not sufficient brokers supplying consensus data for this metric*
EBITDA ($, mm)	146,933 *Note: There are not sufficient brokers supplying consensus data for this metric*
Net income ($, mm)	96,342 *Note: There are not sufficient brokers supplying consensus data for this metric*
EPS ($)	12.88 *Note: There are not sufficient brokers supplying consensus data for this metric*

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

MSCI – Diversified Financials

Primary Analyst: Toni Kaplan

Key competitive advantages: MSCI is a leading provider of benchmark indices, portfolio analytics, and ESG research for investment institutions. MSCI has an attractive business model with a scalable infrastructure, recurring revenue, and a strong brand name. The index industry benefits from a network effect and high switching costs. Once a fund manager selects an MSCI index to use as a benchmark, it is disruptive to change it, which promotes stickiness. Strong brand recognition, large ecosystems surrounding flagship indices, and frictions make it difficult or costly for asset managers to switch benchmarks. MSCI is also the leading provider of ESG/climate indices with significant market share. MSCI benefits from having a first mover advantage and continues to invest heavily in the space to maintain its leading position.

Long-term drivers for the stock: MSCI operates in an attractive industry with must-have data sets, pricing power, and operational leverage. MSCI's business model is extremely scalable – once an index product is developed, little further capital investment is required. As a result, MSCI has the highest margins within our Information Services coverage, and we expect margins to expand going forward driven by operational leverage and strong expense management. MSCI has a number of growth avenues across private markets, exchange traded products, direct indexing, and ESG/Climate.

Risks to competitive advantages: We believe the key risks to MSCI's competitive advantages are: 1) tight budgets within the asset management industry, which could lead to moderating price increases and/or lower uptake of new products, 2) lower adoption of ESG/climate investment tools, 3) deceleration of flows into passive investment products, 4) deceleration of flows into ESG/climate investment products.

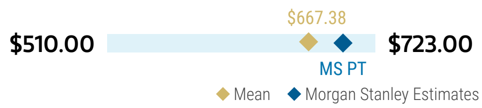
Risk Reward – MSCI Inc. (MSCI.N)

Best-in-Class Business with Upside Opportunities at an Attractive Valuation

PRICE TARGET $695.00

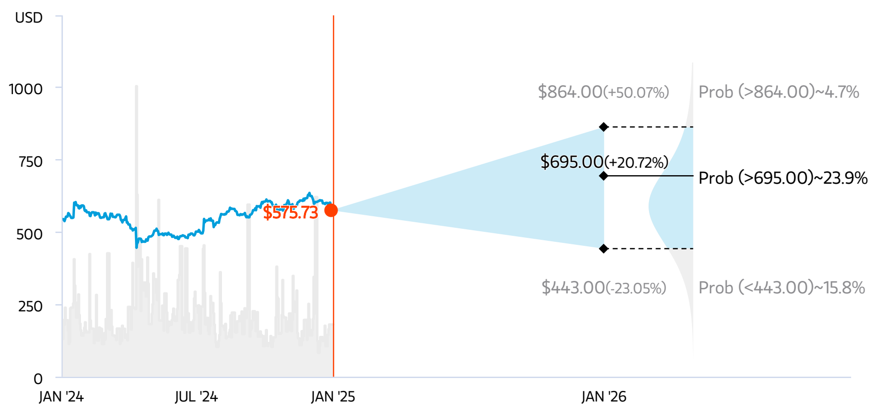
Derived from our DCF model. Our DCF includes an 7.9% WACC and a 3.0% terminal growth rate, implying a 16x terminal multiple.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



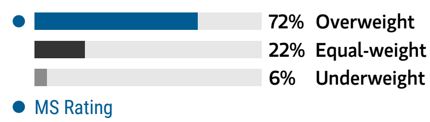
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- MSCI is a leading provider of equity indices, portfolio analytics, and ESG and real-estate solutions for the investment industry
- Organic growth is at the high-end of our Info Services coverage
- Business model has high operational leverage, which has led to best-in-class margins
- Subscription-based model provides high visibility with retention in the mid-90's
- The index industry has substantial switching costs and barriers to entry
- Increased adoption of ESG/climate, and private asset solutions are key drivers for top-line growth
- We find the stock attractively valued

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth:	*Positive*
Pricing Power:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $864.00

32x Bull Case '26e Adj. EBITDA

Passive investing gains further traction, and MSCI capitalizes on ESG, Climate, and Private Assets opportunities driving outsized growth with strong operating leverage. We model 12% annual growth ('23-'27), driven by 16% growth in Asset-Based Fees (12% flows/8% appreciation), 12% growth in Index Subscription, 14% growth in ESG/Climate, and 21% in Private Assets. Strong growth in high-margin Index rev facilitates ~110bps of annual margin expansion.

BASE CASE $695.00

28x Base Case '26e Adj. EBITDA

Passive investing continues to gain share, Index subscriptions sustainably grow at LDD, with outsized growth from ESG/Climate and Private Assets. We model a 10% rev CAGR ('23-'27), driven by a 13% CAGR in Asset Based Fees (10% flows/6% appreciation), 10% growth in Index Subscription, 11% growth in ESG/Climate and 17% in Private Assets. High incremental margins on Index rev and favorable mix shift facilitate ~30bps of annual Adj. EBITDA margin expansion.

BEAR CASE $443.00

23x Bear Case '26e Adj. EBITDA

Industry cost cutting and a challenging market environment put pressure on top line growth. We model 4% annual growth ('23-'27), driven by flat annual growth in Asset Based Fees (3% flows/5% depreciation), 3% growth in Index Subscription, 5% growth in ESG/Climate, and 12% in Private Assets. Margins decline by ~60bps annually.

Risk Reward – MSCI Inc. (MSCI.N)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Organic Revenue Growth (%)	11.4	9.7	8.8	8.9
Equity Index Subscriptions Run Rate Growth (%)	10.8	8.2	9.0	9.3
Analytics Organic Run Rate Growth (%)	7.4	6.5	6.2	6.1
Asset Based Fee Organic Revenue Growth (%)	5.6	17.7	11.1	10.8
ESG & Climate Organic Run Rate Growth (%)	19.6	10.5	10.1	10.1

CATALYST CALENDAR

Date	Event
29 Jan 2025	Q4 2024 MSCI Inc Earnings Release
21 Apr 2025 - 25 Apr 2025	Q1 2025 MSCI Inc Earnings Release

Source: Refinitiv, Morgan Stanley

INVESTMENT DRIVERS

- Favorably aligned for growth in passive investing
- Subscription-based business model supported by high retention rates
- Market performance drives asset based fee revenues
- Growth in high incremental-margin Index rev drives overall margin expansion

GLOBAL REVENUE EXPOSURE

0-10%	APAC, ex Japan, Mainland China and India
0-10%	India
0-10%	Japan
0-10%	Latin America
0-10%	MEA
0-10%	Mainland China
10-20%	Europe ex UK
10-20%	UK
40-50%	North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

2/5 BEST	24 Month Horizon
4/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Market movements, flows in MSCI-linked products
- Adoption of ESG/Climate in investment process
- Expansion of private assets
- Market share gains

RISKS TO DOWNSIDE

- Equity market risk directly pressures asset-based fees, and indirectly, subscription retention
- Deceleration of flows into passive investment products
- Slowdown in ESG/climate investing or share loss
- Self-indexing
- Customer concentration: BlackRock is 10% of rev

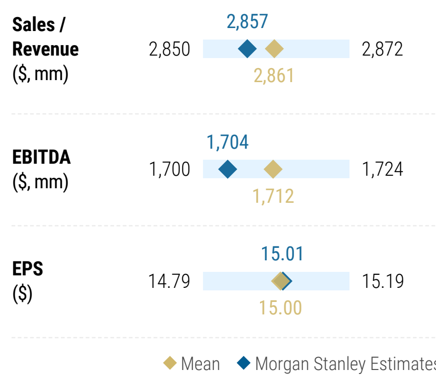
OWNERSHIP POSITIONING

Inst. Owners, % Active	62.5%
HF Sector Long/Short Ratio	1.8x
HF Sector Net Exposure	13.3%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Nintendo – Media & Entertainment

Primary Analyst: Kazuo Yoshikawa

Key competitive advantages: Nintendo aims to put smiles on people's faces through entertainment and provide a unique Nintendo style of play that anyone can enjoy intuitively. We believe that the company's advantage lies in the broad internal dedication to its philosophy and values, and its continued creation of characters and games that are loved across a wide range of users. Nintendo's games are designed to be enjoyed not only by hardcore enthusiasts but also by people that have no previous interest or experience in gaming, and many of its titles are perennially popular games of long standing. For example, one of the company's popular titles, Mario Kart 8 Deluxe, still racked up sales of 2.31mn copies eight years after launch (as of end-2Q F3/25), and we think this reflects the fact that it offers a fun gaming experience even when experienced players and beginners play together. It is usually difficult for beginners to pick up software that has been on the market for a long time, but by utilizing in-game items and mechanisms that give some advantages to weaker players, Nintendo has achieved a game balance that allows even experts and beginners to have fun playing with each other.

Long-term drivers for the stock: We believe Nintendo's initiatives of expanding the gaming population is a long-term driver for the company. This expansion, promoted by former president Satoru Iwata, has been realized by offering software that broadens the company's user base and pursuing efforts to increase the number of people who have access to Nintendo IP through smartphone games, movies, theme parks, and merchandise based on the company's intellectual properties. Such efforts have been successful in helping to lift the number of annual playing users (the number of users that have played Switch software at least once over the previous year) from 36mn in 2018 to 120mn as of end-June 2024. With the planned release of a new Zelda movie in 2025, we think these efforts will continue to expand the fan base for Nintendo IP going forward.

Risks to competitive advantages: While Nintendo intellectual properties continue to be loved by people of all ages, the average life of its IP is getting longer, led by Mario, which has been around for 40 years. In general, it is thought that ARPU for long-lived IP gradually declines as the fan base gets older. However, Nintendo has maintained constant exposure of existing IP to new fans through multiplatform strategies that include smartphone games and movies, leading to a wide age distribution that can be seen in the breakdown of annual playing users. In addition, even with existing IP, the company is constantly developing new titles rather than just remakes that target nostalgia demand, and we think that it will very likely continue to steadily attract new fans.

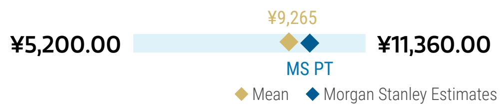
Risk Reward – Nintendo (7974.T)

Switch successor platform to drive earnings growth in 2025-26

PRICE TARGET ¥9,800

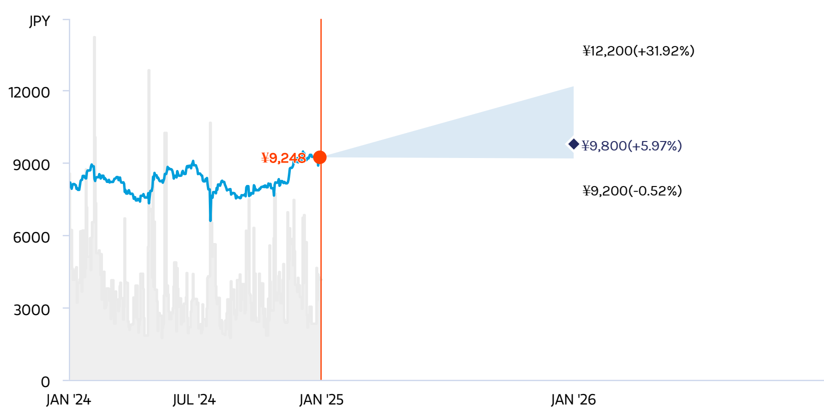
As the Switch successor launch is expected to be near, we believe the share price formation to hinge on expectations of EPS growth from 2025, and apply a P/E multiple of 26x (in line with the avg. for 2017-18 after the Switch launch) to our FY3/26e EPS.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



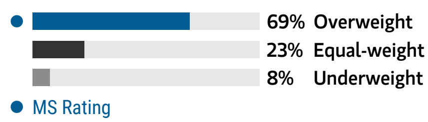
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- Based on efforts up to now to increase active Switch users and to widen the Nintendo IP fan base, we expect the Switch successor platform to drive stronger earnings expansion in 2025-26 than previous platforms.
- We expect the share price to advance further amid further pricing in of related expectations by the market after the Switch successor goes on sale, we envisage in about mid-2025.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE ¥12,200

F3/26e P/E 30.0x

Here we assume better sales of the Switch successor device than in the base case, and the scale of earnings in the firm's non-core businesses including movies, mobile apps and licensing increasing.

BASE CASE ¥9,800

F3/26e P/E 26x

Valued at a target price multiple premium of 25% over the US game publisher average target price multiple (avg. of Electronic Arts and Take-Two Interactive, covered by our US internet analyst Matthew Cost), where we expect the stock to trade on expectations of growth for the Switch successor platform..

BEAR CASE ¥9,200

F3/26e P/E 23.0x

If the market's response to the Switch successor disappoints and hardware penetration languishes.

Risk Reward – Nintendo (7974.T)

KEY EARNINGS INPUTS

Drivers	2024	2025e	2026e	2027e
Annual Paying Users (mn)	123.0	127.7	137.1	140.7
Switch Units (mn)	15.7	12.0	0.7	0.2
SW for Switch (mn)	199.7	159.7	84.7	47.4

INVESTMENT DRIVERS

-Launch schedule and sales trends for the new-generation console and key 1st-party titles

-Software digital download rates

-Nintendo Online subscription numbers

GLOBAL REVENUE EXPOSURE

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

-The scale of earnings in non-core businesses such as movies, mobile apps and licensing increases, and the firm explicitly positions these as a 2nd key earnings source after consumer games.

RISKS TO DOWNSIDE

-The market's response to the Switch successor disappoints and hardware penetration languishes

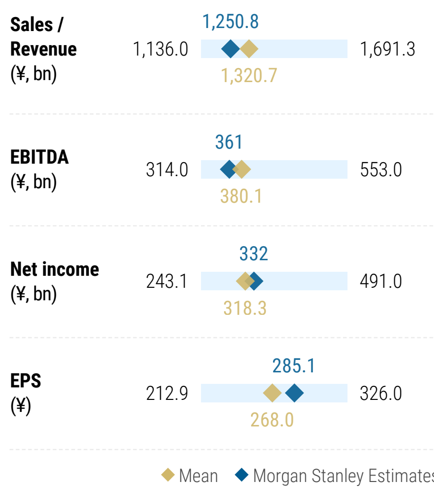
OWNERSHIP POSITIONING

Inst. Owners, % Active 79.8%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Mar 2025e



Source: Refinitiv, Morgan Stanley Research

Rio Tinto Limited – Materials

Primary Analyst: Rahul Anand

Key competitive advantages: RIO is a diversified miner, with a dominant commodity exposure to iron ore, but also to aluminium and a growing copper footprint. We see RIO's portfolio mix and quality as a stand out among its peers. RIO's iron ore assets are long life, Tier 1 assets located in Western Australia. These assets account for ~59% of 2025e EBITDA (on our base case price deck) and are in the first quartile of the global cost curve, supporting profitability through the cycle. RIO maintains a strong balance sheet with CY25e ND/EBITDA -0.2x and CY25e gearing of 6.3%. RIO's balance sheet gives flexibility to continue to build growth optionality while maintaining attractive cash returns to shareholders with CY25/26e dividend yields of 5.9/5.5%.

Long-term drivers for the stock: Longer term, from a top down perspective, RIO will be driven by supply and demand for its key commodities (iron ore, aluminium and copper, see our commodity view here), overall demand from China (its largest customer), as well as the strength of the USD. From a bottom-up perspective, RIO's core competency remains building large, low-cost, scalable long-life assets that are profitable through the cycle. We think RIO's operational performance will continue to improve, whilst the company transitions its focus to decarbonisation, innovation and executing growth options in lithium, copper, aluminium and iron ore.

Risks to competitive advantages: We see risks to RIO's iron ore divisions' competitive advantage stemming from weaker than expected operational performance, higher labour and input costs, and adverse currency moves, which could impact production and costs. Weakness in China's economy and a lack of stimulus directed specifically to its property sector could particularly impact iron ore demand and/or achieved pricing (RIO's biggest earnings driver). Regulatory and governmental risks could hinder/delay RIO's growth, notably as seen for the Jadar lithium project in Serbia (see here).

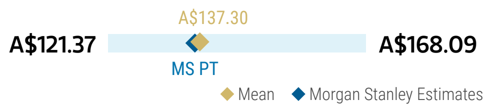
Risk Reward – Rio Tinto Limited (RIO.AX)

Good capital returns, with production growth

PRICE TARGET A$136.50

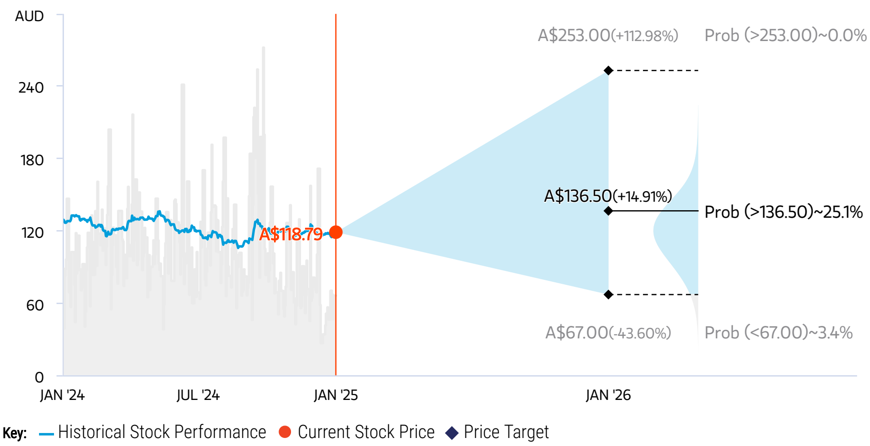
DCF-based sum-of-the-parts, weighted 60% base, 20% bull, 20% bear - with the balanced weightings accounting for higher iron ore prices now forecast in the longer term.
Key DCF assumptions: WACC 8.1% (CoD 5.5%, CoE 10%, beta 0.9x).

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

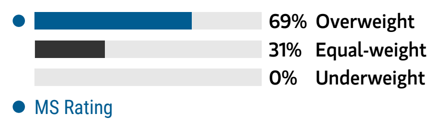


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 13 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- The company maintains a robust balance sheet, giving it flexibility to pursue growth and/or increase cash shareholder returns.
- Rio Tinto's low-cost assets sustain robust cash generation though the cycle.
- The company offers good volume growth prospects relative to peers, dominated by copper with ramp up at Oyu Tolgoi in CY25e.
- We also believe capital returns could be supported by a best-in-class balance sheet.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Contrarian:	*Positive*
Pricing Power:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE A$253.00

Bull-case prices and multiple expansion

Bull-case commodity and currency forecasts, next-12-month EV/EBITDA multiple expansion and a lower WACC.

BASE CASE A$121.00

Base-case prices and production profile

Base-case commodity and currency forecasts. Production and costs are broadly in line with guidance.

BEAR CASE A$67.00

Bear-case prices, multiple contraction

Bear-case commodity and currency forecasts, next-12-month EV/EBITDA multiple contraction and a higher WACC.

Risk Reward – Rio Tinto Limited (RIO.AX)

KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
WAIO Shipments	332	325	332	335
Iron Ore Price (US$/t)	120	110	104	100
WAIO Operating Cost (US$/t)	38.3	39.7	38.9	40.3
Copper production - Mined (kt)	620	668	831	912
Cu Price (US$/lb)	3.86	4.16	4.46	4.31

CATALYST CALENDAR

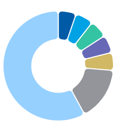
Date	Event
15 Jan 2025	Q4 2024 Rio Tinto PLC Operations Review
19 Feb 2025	Full Year 2024 Rio Tinto PLC Earnings Release

Source: Refinitiv, Morgan Stanley

INVESTMENT DRIVERS

Commodity prices, currency and costs

GLOBAL REVENUE EXPOSURE



- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% Europe ex UK
- 0-10% Japan
- 0-10% Latin America
- 0-10% UK
- 10-20% North America
- 50-60% Mainland China

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

2/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected commodity prices or depreciation in the AUD/USD.
- Stronger-than-expected macroeconomic variables, such as China's steel consumption, ahead of our base-case forecasts.

RISKS TO DOWNSIDE

- Further increase in spending at Oyu Tolgoi or opex overruns.
- Renewed operating challenges in the iron ore business, which could affect volumes and/or cost performance.

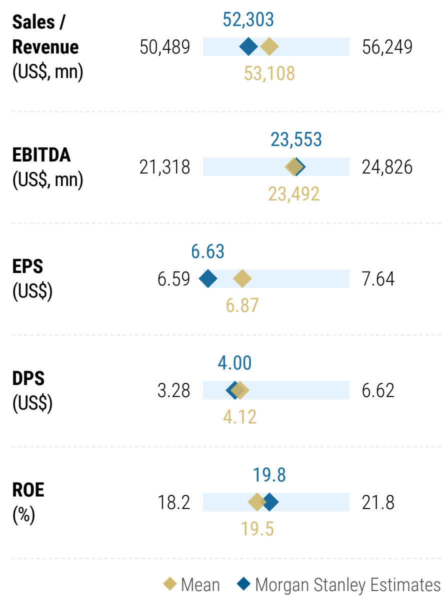
OWNERSHIP POSITIONING

Inst. Owners, % Active 36.2%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Shin-Etsu Chemical – Materials

Primary Analyst: Takato Watabe

Key competitive advantages: Shin-Etsu Chemical is the largest chemical company in Japan in terms of market cap, engaging in the manufacture and sale of various products ranging from industrial chemicals to cutting-edge materials used in areas such as semiconductors. Shin-Etsu is positioned as the top player in almost every business it operates, such as PVC, silicon wafers, silicones, rare earth magnets, and EUV photoresists. The company has been implementing the principle of “small numbers-exceptional talent”, and tries to be faithful to the basics, applying strict cost management in each business to maximize its profitability. The company has always made immediate decisions on large-scale investments, while keeping an eye on market conditions and demand trends. In F3/24, the OPM for the infrastructure materials segment (primarily PVC operations in the US) was 32% and the EBITDA margin was 40%, indicating extremely strong profitability for a business that involves commoditized products. Profitability was also strong in F3/24 at the electronic materials segment (mainly silicon wafers), with an OPM of 32% and EBITDA margin of 44%. At EV/EBITDA of c.9x on our F3/26 estimates and P/E of c.13x on a net cash deducted basis, the stock looks highly appealing. Our rating is OW.

Long-term drivers of the stock: We believe that the PVC business, could be one of Shin-Etsu’s main growth drivers over the medium term. In this segment the company handles commodity products, but it boasts high profitability due to the competitiveness of its US operations (Shin-Etsu operates an integrated production from the ethylene cracker stage), being the top manufacturer globally. In F3/25 we project weaker momentum for the PVC business, with sales volume set to decline because of impact from hurricanes and stagnation in the US housing market reflecting still-elevated interest rates. With US interest rates subsequently set to fall and production capacity set to increase thanks to expansion of existing plants, we estimate a recovery in F3/26 and onwards, achieving further gains in profits. Moreover, another possible earnings driver is the semiconductor silicon business, a market in which Shin-Etsu is the top player.

Recent supply/demand balance for 300mm wafers is somewhat loose, owing to slumping demand for legacy semiconductors and sluggish movement in wafer inventories. We do, however, expect the market to recover over the medium term, with an increase in sales volume backed by further growth in demand for generative AI-related chips and supported by long-term agreements (LTA). Shin-Etsu has been boosting capacity with an eye on the supply/demand balance, and we expect profitability to remain high given minimal risk of a sharp increase in depreciation.

Also, Shin-Etsu engages in the production of other semiconductor front-end related materials, and holds leading global market shares in categories such as photoresist and photomask blanks. The company is also developing new businesses, such as micro-LED materials, materials for compound semiconductors (e.g., GaN), and manufacturing equipment for semiconductor package substrates, which we think could potentially contribute considerably to earnings over the long term. At end-F3/25 1H, the company had net cash of around ¥1.8trn. We think the company can maintain its solid business foundation, given potential strategic action deploying this cash (e.g., M&A).

Risks to competitive advantages: Some of the risks that we see for Shin-Etsu are: 1) A slump in the US housing market due to rising interest rates results in further deterioration in US PVC prices, and stagnant market prices continues to shrink the company's profit margins; 2) a jump in depreciation from major capacity upgrades for semiconductor silicon; 3) fiercer competition in the market for cutting-edge silicon wafers as new entrants (including companies from China) improve their silicon wafer technology; 4) big forex movements (¥1 fall vs. USD is a ¥4.6bn positive for OP; same fall vs. EUR, a ¥0.2bn positive).

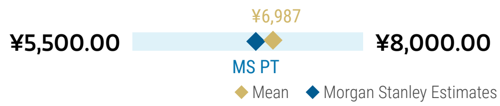
Risk Reward – Shin-Etsu Chemical (4063.T)

Competitive in PVC & silicon wafer businesses, bolstering shareholder returns

PRICE TARGET ¥6,800

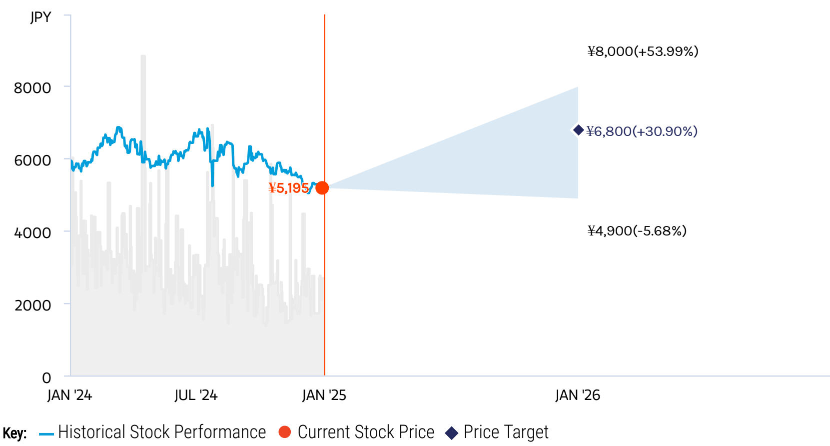
F3/26e EV/EBITDA 10.4x; considering the diversified business portfolios of companies in the electronic materials industry, we use a SoTP approach for setting our price targets. Segment EV/EBITDAs (referencing listed peer levels) are as follows: 8.5x for Infrastructure materials, 12.0x for electronic materials, 11.0x for functional materials and 7.0x for others.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART

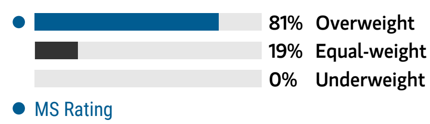


Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- Room to reward shareholders & expand operations in medium term based on strong balance sheet / stable earnings rooted in competitiveness in US PVC business.
- Profit decline in F3/24 and F3/25 on worsening earnings in the US PVC business, but we expect profits to recover again from F3/26. US PVC business to maintain high profit levels, and growth in semiconductor silicon and functional materials to contribute to earnings growth.
- Shin-Etsu is evolving its business portfolio from being more reliant on wafers & the US PVC business to being more focused on electronics & functional materials (cutting edge semiconductor materials, rare earth magnets, etc) as a driver for mid-term growth.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Self-help: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE ¥8,000

F3/26e EV/EBITDA 11.5x

Brisk activity in semiconductor market (greater-than-expected hike on 300mm wafer price). Brisk activity in US housing markets (margins in PVC business improve sharply).

BASE CASE ¥6,800

F3/26e EV/EBITDA 10.4x

Good conditions for semiconductor (300mm wafer ASP YoY +2% (F3/25), +2% (F3/26), 0% (F3/27)) and US housing markets.

BEAR CASE ¥4,900

F3/26e EV/EBITDA 7.7x

Weak semiconductor (scenario where 300mm wafer prices decline on worsening supply/demand) and US housing markets.

Risk Reward – Shin-Etsu Chemical (4063.T)

KEY EARNINGS INPUTS

Drivers	2024	2025e	2026e	2027e
Infrastructure Materials OP (¥, mn)	321,961	294,000	328,000	354,000
Electronics Materials OP (¥, mn)	272,165	342,000	367,000	392,000
Functional Materials OP (¥, mn)	85,004	113,000	122,000	129,000

CATALYST CALENDAR

Date	Event
27 Jun 2025 - 01 Jul 2025	Shin-Etsu Chemical Co Ltd Annual Shareholders Meeting

Source: Refinitiv, Morgan Stanley

INVESTMENT DRIVERS

- We look for further earnings growth at Shintech in US as it brings production of starter material ethylene in-house.
- We expect automotive products like rare earth magnets & silicon products to emerge as new growth drivers.

GLOBAL REVENUE EXPOSURE

- 0-10% Europe ex UK
- 0-10% Mainland China
- 20-30% APAC, ex Japan, Mainland China and India
- 20-30% Japan
- 30-40% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 MOST | 3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Utilization rates in core business swing with semiconductor market
- Good trend for US housing markets

RISKS TO DOWNSIDE

- Jump in depreciation costs from major capacity upgrades for semiconductor silicon
- Strong yen (¥1 rise vs. US$ pares ¥4.6bn from annual RP, vs. € ¥200mn)
- Our assumptions for F3/26 and onwards: ¥140/$, ¥150/€

OWNERSHIP POSITIONING

Inst. Owners, % Active 84.8%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Mar 2025e

	Low	Morgan Stanley Estimates	Mean	High
EBITDA (¥, bn)	1,013.0	1,023	1,036.7	1,054.5
Net income (¥, bn)	545.0	569	576.2	605.2
EPS (¥)	274.0	288.6	290.6	309.6
DPS (¥)	100.0	118.0	112.0	120.0
ROE (%)	12.0	13.3	13.2	15.8

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Stryker Corporation – Health Care Equipment & Services

Primary Analyst: Patrick Wood

Key competitive advantages: Stryker's key competitive advantage is centered around its leadership within hips and knees, where it has consistently achieved above-market organic growth in recent years. We believe this performance is attributable to a strong sales force that has cultivated deep and sticky relationships across ortho-centers and to device pull-through from the Mako robotic platform. Our 2025 US hospital survey suggests Mako is expected to retain its dominant share, with ~68% of surveyed centers planning to purchase a system, significantly outpacing competitors. In addition to Stryker's consistent execution in orthopaedics, we underscore that the company has a relatively lower dependence on pre-market approvals and higher risk R&D projects, reducing overall business risk. Additionally, we note that SYK's management has a strong capital deployment track record and has demonstrated notable value accretion in past deals (e.g. MAKO, Wright). Finally, though an often-underappreciated topic, we would like to also emphasize Stryker's competitive and results-driven culture.

Long-term drivers for the stock: We believe that Stryker's LT growth will be driven by the shift towards ASCs and recent product launches. We estimate that ~11% of hips/knees procedures currently take place in the ASC setting, a mix that we expect to grow to ~23% by 2030. This trend presents a significant tailwind for SYK, which we believe is well-positioned to take incremental share in ASCs due to its wide spectrum of offerings and above-market share in ortho for existing accounts. Additionally, SYK's robust product pipeline across business units further supports growth. SYK's robust product pipeline further supports its LT growth profile, with notable launches across business units giving us confidence in the stock. In MedSurg & Neuro, we think the LIFEPAK 35 defibrillator/monitor can be a US$500M/yr sales opportunity over time, driven by legislative changes that encourage placement in gyms and schools and the acceleration of defibrillator replacement cycles. In Ortho & Spine, our channel checks suggest strong initial feedback for the Pangea plating system that is expect to fully in 2025. We size the plating market, which is currently predominantly JNJ, at around US$4bn and see a significant runway for Pangea to grow in the years ahead.

Risks to competitive advantages: We think that the key risk for SYK is the sustainability of orthopaedic procedure utilization, which could impact the company's performance materially. Currently, orthopaedic procedure growth rates are running above historical norms (+HSD-LDD currently vs. +LSD historically), raising questions about its durability. While this is a valid concern, we believe secular tailwinds, such as an aging yet increasingly physically active population (e.g. pickleball), support demand. Furthermore, hip/knees now account for a smaller part of SYK's overall enterprise (<20% of sales) compared to the past. Increased competition within orthopaedic robots could pose a risk to SYK's competitive advantage: our channel checks indicate that ZBH's Rosa, JNJ's Velys, SNN's CORI and Navio all have a double-digit percentage share in the US. However, we believe that SYK's Mako is well-positioned to maintain its market leadership due its existing share lead, strong commercial execution, and new indication expansions (e.g. Mako shoulder launch). Finally, M&A integration remains a potential risk, especially with the pending NARI acquisition. That said, SYK's management has a track record of integrating assets effectively and as such we do not view this risk as a significant concern.

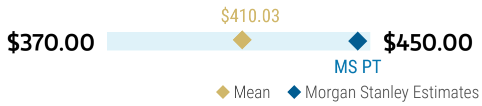
Risk Reward – Stryker Corporation (SYK.N)

Stryker Corp Risk-Reward

PRICE TARGET $445.00

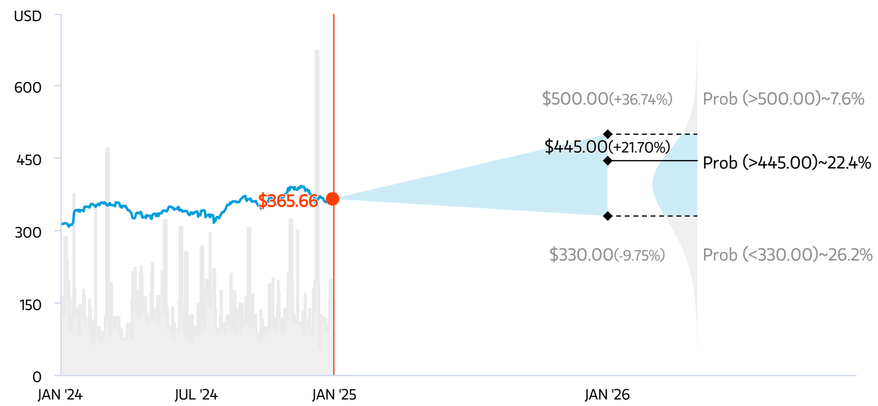
Derived from base case scenario. Our 27x 2025e EBITDA multiple reflects a multi-turn premium to large cap peers reflecting Stryker's top-tier growth and diversified revenue and opportunities for leverage. Our PT reflects ~33x our '25 EPS estimate.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



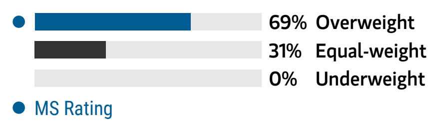
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- Stryker's performance will be predicated on the company's ability to maintain above-peer level organic growth, and increasingly executing on its plan for margin recovery and expansion.
- Double-digit EPS growth driven by 200 bps of margin recovery by '25, and 30 bps in subsequent years could debunk a critical investor concern around leverage
- A strong product pipeline across all categories can be augmented by M&A to further sustain top-tier growth growth portfolio with an increasingly flexible balance sheet

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Disruption: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $500.00

~28x 2025e Bull Case EBITDA

Organic growth accelerates and is aided by continued share gains in recon, and stability in MedSurg. P&L leverage occurs at a fast clip driving mid-teens EPS growth. Stryker utilizes its balance sheet to drive shareholder returns and growth.

BASE CASE $445.00

~27x 2025e Base Case EBITDA

Organic growth remains durable driven by Mako penetration, MedSurg durability and Spine/Neuro acceleration. Margin expansion becomes more visible, and the leveraged earnings continue will Stryker invests and executes on growth initiatives.

BEAR CASE $330.00

~21x 2025e Bear Case EBITDA

Growth slows towards MSD levels and initiatives to drive leverage prove unsuccessful given pricing pressures. Stryker executes on deals that do not generate strong returns.

Risk Reward – Stryker Corporation (SYK.N)

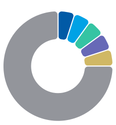
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Organic Growth (%)	11.5	10.0	7.7	7.4
Orthopedics and Spine Organic Growth (%)	11.1	8.6	6.0	6.0
MedSurg and Neurotechnology Organic Growth (%)	11.9	11.1	8.9	8.3
Operating Margin (%)	24.2	25.3	26.2	26.7
EPS ($)	10.60	12.03	13.50	14.90

INVESTMENT DRIVERS

- Mako continues to drive global orthopedic market share gains in Hips and Knees.
- Hospital capex: Stryker is only 15-20% exposed to hospital capex

GLOBAL REVENUE EXPOSURE



- 0-10% Europe ex UK
- 0-10% Japan
- 0-10% Latin America
- 0-10% Mainland China
- 0-10% UK
- 70-80% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 BEST	24 Month Horizon	3/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Ortho recon procedure recovery accelerates post-pandemic
- Favorable mix continues in Mako and cementless knees
- Hospital capital spending remains stable

RISKS TO DOWNSIDE

- Ortho procedures remain significantly impacted from procedure disruption
- Organic growth decelerates y/y closer to WAMGR
- Competitive environment in ortho robotics worsens

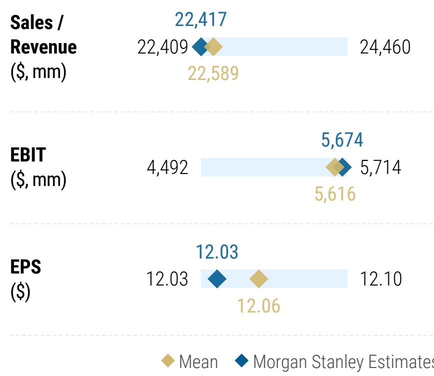
OWNERSHIP POSITIONING

Inst. Owners, % Active	64.7%
HF Sector Long/Short Ratio	2.4x
HF Sector Net Exposure	18.2%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Tata Consultancy Services – Software & Services

Primary Analyst: Gaurav Rateria

Key competitive advantages: We view TCS as the highest quality company within India's IT services industry, with a strong and stable management team and a robust delivery model. TCS has demonstrated strong execution capabilities as it has seen multiple technology as well as business cycles and has evolved stronger over a longer period with industry leading revenue growth and margins. TCS benefits from **1) Long-standing client relationships and scale advantages** – TCS is one of the top 10 IT services providers globally based on its revenue size. Long-standing deep relationships with large Fortune 500 customers provides access and scale provides advantages of being invited to the large deals; **2) Industry leading margins** – TCS has been able to manage and operate at a very competitive cost structure partially helped by scale and also due to its optimal offshore onsite business mix, **3) Ability to make significant investments ahead of time** – Over the last 10 years, INR has depreciated vs USD by over 35% which would imply significant tailwinds to the business (every 1% rupee depreciation vs USD helps margins by ~20bps). Despite this tailwind, margins have moderated by 200bps during this timeframe. This implies significant investments the company has made in the business to stay competitive. While this tailwind would have been available to many other India IT peers as well, we note TCS has made investments in the right areas such as building products and platforms, which provides the company with a competitive edge over others. **4) Best-in-class talent retention reflective in low attrition rates vs the competition.**

Long-term drivers for the stock: 1) Ability to win large deals: TCS has grown deal win TCV by 25.2%+ yoy in F24; 2) Capital Allocation: TCS's capital allocation has been strong with an average payout of 100%+ of FCF during the last five years; 3) Increase wallet share amongst existing clients and win new logos, thereby creating market leadership across verticals and geographies; 4) Disciplined cost management and investments to stay competitive and maintain industry leading margins.

Risks to competitive advantages: 1) Slower than expected growth in technology budgets in CY25: Our last CIO survey highlighted that budget growth for CY25 could be similar to CY24, which could potentially translate into limited acceleration in revenue growth for TCS (in developed markets) in F26e vs F25e. 2) Increase in competitive intensity: While the competition has been stable, any increase in competitive intensity could lead to vendors indulging in aggressive discounting which could impact margins and the earnings profile. 3) New technology adoption of Gen AI has a transition period which cannibalizes existing revenue of IT Service vendors including TCS and IT Services growth rates slow down during such a transition period.

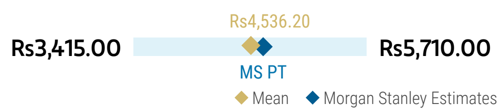
Risk Reward – Tata Consultancy Services (TCS.NS)

Better-than-peer EBIT growth coupled with stock price underperformance

PRICE TARGET Rs4,660.00

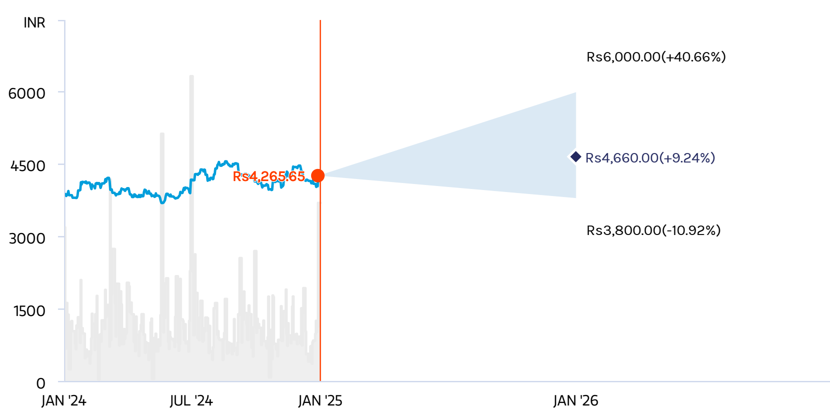
DCF, probability-weighted: bull case (20%), base case (60%) and bear case (20%). Our bull case weighting reflects the possibility of a positive surprise from revenue growth, while our bear case weighting reflects a potential slowdown in the demand environment owing to emerging macro headwinds. We assume a cost of equity of 10.9% and terminal growth rate of 4.5% across scenarios.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



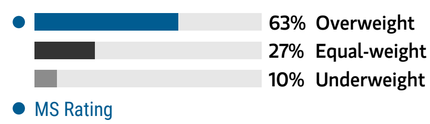
Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- Headcount additions have picked up with fresher hiring remaining intact. Moreover, deal wins were strong in F24 and are decent so far in F25, driving some visibility on revenue growth.
- TCS appears well placed for margin improvement in F25 vs. peers, despite strong delivery in F24. In FY19-24, TCS posted a 9.6% EBIT CAGR. We expect a ~10% EBIT CAGR over F25-27 despite a weak F26 revenue growth outlook (tapering off of India business), as we believe TCS can improve margins as demonstrated in the past.
- On 2-year forward EPS estimates, the stock is trading at ~26x vs the past-5-year average of 24.4x. Following the recent correction, risk-reward appears favorable

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Pricing Power: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE Rs6,000.00

Implies 34.4x bull case on F27e EPS

Acceleration despite macro challenges: Continued acceleration in tech spending and strong execution help TCS continue to grow ahead of most peers in the near to medium term.

BASE CASE Rs4,500.00

Implies 27.8x base case on F27e EPS

Gradual recovery to aid revenue growth: We expect revenue growth to gradually recover through the quarters ahead as some macro challenges abate. TCS is well positioned to participate and along with revenue growth deliver on margin expansion as well.

BEAR CASE Rs3,800.00

Implies ~25.0x bear-case on F27e EPS

Uncertain macro climate: TCS adds lower incremental USD revenues in F25; hence, growth rates remain subdued.

Risk Reward – Tata Consultancy Services (TCS.NS)

KEY EARNINGS INPUTS

Drivers	2024	2025e	2026e	2027e
Employee Count	601,546	612,354	653,354	694,354
Revenue Growth (CC, YoY) (%)	3.4	4.6	4.7	7.8
Revenue Per Employee (US$)	48,244	49,542	48,060	48,763
Fx Rate (US$/Rs)	83.0	84.1	85.1	85.1

CATALYST CALENDAR

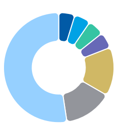
Source: Refinitiv, Morgan Stanley

Date	Event
17 Jan 2025	Tata Consultancy Services Ltd Dividend For TCS.NS
17 Jan 2025	Tata Consultancy Services Ltd Dividend For TCS.NS
10 Apr 2025 - 14 Apr 2025	Q4 2025 Tata Consultancy Services Ltd Earnings Release
30 May 2025 - 03 Jun 2025	Tata Consultancy Services Ltd Annual Shareholders Meeting

INVESTMENT DRIVERS

- Strong brand with customers and employees – TCS has one of the lowest employee turnover rates in the industry
- Strong, stable management team
- New client additions, large deal wins, and margin resilience

GLOBAL REVENUE EXPOSURE



- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Latin America
- 0-10% MEA
- 10-20% Europe ex UK
- 10-20% UK
- 50-60% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

2/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Stronger-than-expected execution and market share gains
- Longer-term acceleration in tech spending
- Favorable currency movements, including rupee depreciation vs. US dollar

RISKS TO DOWNSIDE

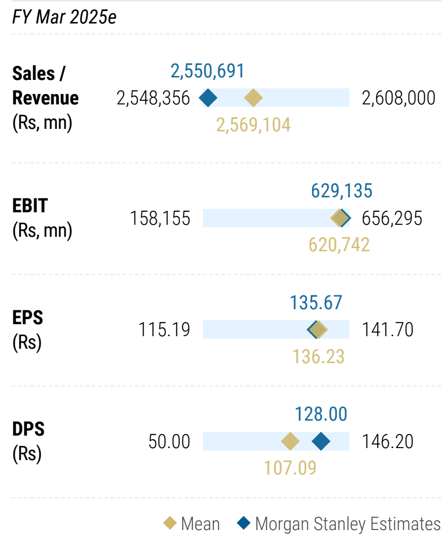
- Escalations in geopolitical environment and inflation risks hampering the global macro environment
- Rising attrition trends across the industry
- Unfavorable currency movements, such as rupee appreciation vs. the US dollar.

OWNERSHIP POSITIONING

Inst. Owners, % Active 85.3%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS



Source: Refinitiv, Morgan Stanley Research

Technip Energies – Energy Services

Primary Analyst: Guilherme Levy

Key competitive advantages: Technip Energies is an engineering company focused on the planning and execution of energy projects (including LNG, refining, petrochemicals, but also on green fronts, such as CCS and biofuels).

As an engineering player, its main competitive advantage in our view is its proven ability to execute and deliver complex engineering projects within the energy system.

That is a result of many factors (sometimes related to one another), including: i) access to talented personnel and technology; ii) a complementary business model, with a wide range of product & service offerings throughout a project life cycle (that allows for early engagement with clients and risk mitigation, as Technip only participates on EPC bidding for projects where it worked on the FEED stage previously); iii) incentives in place for managers to be disciplined and selective in bidding processes; iv) long-term client relationships and track record (which have also fed into execution expertise over the years); and v) a strong cash position (to prevent the company from running into potential financial constraints should it find an unforeseen operational difficulty – a recurring issue in the EPC segment across the industry).

Long-term drivers for the stock: We see two types of opportunities that could allow TE share prices to re-rate over the coming years:

i) *micro initiatives*, including a further increase of reimbursable short-term work in the portfolio (normally within the TPS segment). Historically, EPC players have traded at a discount to non-EPC industry participants (such as Worley). Since 2021, the contribution of the TPS division (and therefore of non-EPC risk) to Technip's consolidated EBIT has increased from ~25% to ~35%, which can partly explain the positive share price performance of recent years. Also, increased access to new technologies (specially on new energies) could put the company at an advantage to win more awards into the coming years, attracting higher multiples.

ii) in terms of *macro trends*, Technip Energies can benefit from an environment of resilient demand for LNG while new energies in which the company is involved continue to gradually increase in importance, providing a bridge to the long-term (and reducing perpetuity concerns related to the energy transition).

Risks to competitive advantages: Two main factors in our view could disrupt the perception of Technip Energies having a proven ability to deliver projects:

i) inability to attract specialised personnel and/or have access to the necessary technologies to execute client demands (particularly in a changing energy matrix); and

ii) a lack of discipline in new bidding leading to operational issues and ultimately a reputation risk.

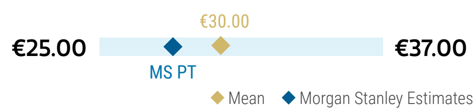
Risk Reward – Technip Energies NV (TE.PA)

More Balanced Risk/Reward After the CMD

PRICE TARGET €28.00

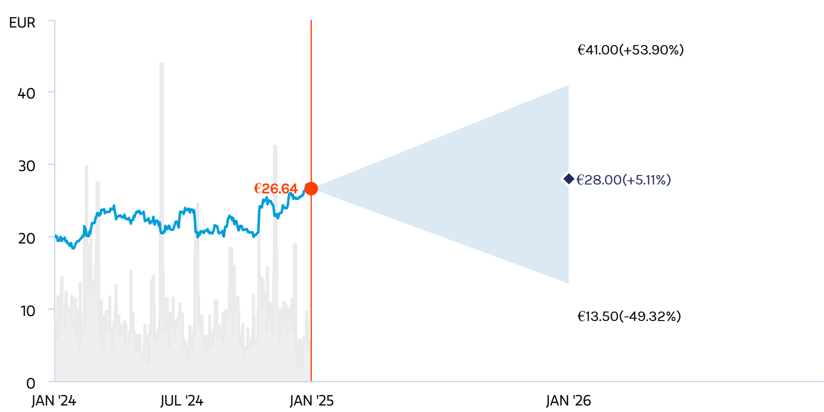
Our price target is the average of a multiple valuation and DCF. We apply 6.75x EV/EBITDA to 2025e EBITDA – the historical average for proxy peers (65% exposed to project delivery peers and 35% to businesses more comparable to the TPS segment). Our DCF assumes an 8.8% nominal WACC (in USD), based on a 3.2% after-tax cost of debt, 10.7% cost of equity. We assume 0% nominal long-term growth, given uncertainty amid the energy transition.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



Key: Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

EQUAL-WEIGHT THESIS

- The stock is up materially from 2022 lows, and now trades more in line with peers, reflecting the strategy of being more exposed to shorter-cycle, high-margin projects in the TPS segment (Technology, Products & Services).
- Near term, Technip Energies is highly exposed to LNG project opportunities, which remain robust.
- Longer term, the company has greater protection against energy transition disruption than peers, which differentiates the story, and could support a slight premium to its peer group, in our view.
- Noise around Russian sanctions needs to be monitored, but to this point we have not seen evidence that recent allegations against the company will unfold into official investigations.

Consensus Rating Distribution

73% Overweight
● 13% Equal-weight
13% Underweight
● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Self-help: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE €41.00

Strong energy transition markets

Whilst demand for new LNG projects remains stronger for longer, supporting pricing power, margins at the TPS segment evolve better than expectations. Momentum for decarbonisation projects increases and Technip Energies emerges as a competitive contender in this environment.

BASE CASE €28.00

Healthy LNG markets and TPS demand

Continued strength in the LNG project markets in the coming years allows the company to re-base its backlog and revenues at a higher level in line with management guidance. Margins at the TPS segment stabilise at ~12%.

BEAR CASE €13.50

Margins fail to trend higher

Cost escalations prevent margins from reaching guidance levels, whilst a downturn in the global energy markets puts a cap on revenue growth potential in the coming years. High competition and technological shortcomings put a question-mark on the company's ability to continue growing in the energy transition years.

Risk Reward – Technip Energies NV (TE.PA)

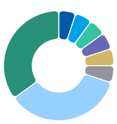
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Book-to-Bill	1.7	1.3	0.9	1.1
EBITDA margin (%) (%)	9.0	8.8	8.8	8.8
Backlog (EURbn)	15.7	18.3	17.8	18.9

INVESTMENT DRIVERS

- New energy projects
- Improved execution
- New contract awards
- EBIT margins
- Increased momentum for new energies

GLOBAL REVENUE EXPOSURE



- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Mainland China
- 0-10% North America
- 0-10% UK
- 30-40% Europe ex UK
- 30-40% MEA

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

2/5 **MOST**	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

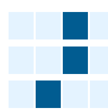
- More order intakes at higher margins
- Upward revisions to company guidance
- Acceleration of project execution on low-carbon technologies

RISKS TO DOWNSIDE

- Downward earnings revisions and a downturn of the LNG project environment
- Cost overruns and project execution setbacks
- Unaccretive M&A deals increasing B/S pressure
- Failure to compete with peers amidst energy transition pressures
- More noise around Russian sanctions

OWNERSHIP POSITIONING

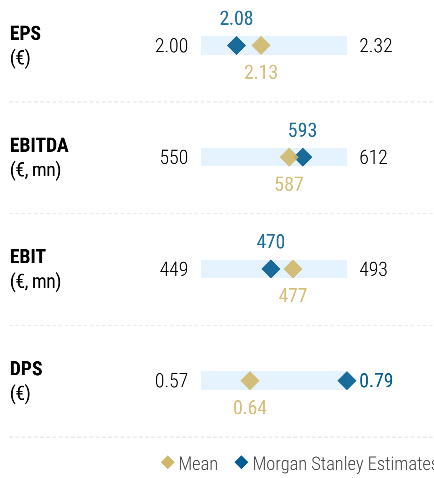
Inst. Owners, % Active	90.5%	
HF Sector Long/Short Ratio	1.8x	
HF Sector Net Exposure	1.6%	



Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Tenaga Nasional – Utilities

Primary Analyst: Mayank Maheshwari

Key competitive advantages: Tenaga is the sole operator of peninsular Malaysia's power grid and benefits from a doubling of power demand growth though 2030 on the back of increased industrial activity and datacenters. Tenaga earns a regulated return on capital employed for grid upgrade works and has regulatory mechanisms to recover additional costs and revenue shortfalls to ensure it's profitability. Tenaga's non- regulated generation business also operates close to half of Malaysia's power capacity

Long-term drivers for the stock: Power demand in malaysia is poised to grow at a ~4% CAGR through 2030, more than double the last decade at 1.8% driven by increased industrial activity and data center power demand. Malaysia, specifically the state of Johor has been the focal point of datacenter growth in South East Asia given its proximity to singapore, geographical security, availability of power, affordability of land and improving regulatory environment. Tenaga has received ~11GW of datacenter connection requests over the past 24 months. To date, Tenaga reports 17 datacenter projects competed at 1.7GW of capacity drawing 248MW of power which is ramping up demand. Tenaga has an additional 1.9GW datacenters under construction. Both greater power demand, increased connectivity demand and Malaysia's objective to increase its renewable capacity would require significantly higher grid investments by Tenaga and grow its regulated asset base on which it earns a 7.3% regulated WACC.

Risk to competitive advantages: 1) Regulatory risks; Tenaga's regulated return framework resets every three years, this however is mitigated in the near term as the most recent reset was completed in Dec-24 covering 2025-2027. 2) Power demand; we see risks of power demand not meeting our bullish expectations due to delay in datacenter startups and reduced industrial activity on US tariff risks.

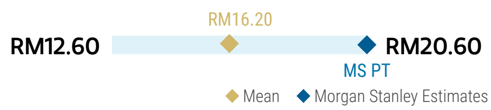
Risk Reward – Tenaga Nasional (TENA.KL)

Energy Transition + Powering AI

PRICE TARGET RM20.60

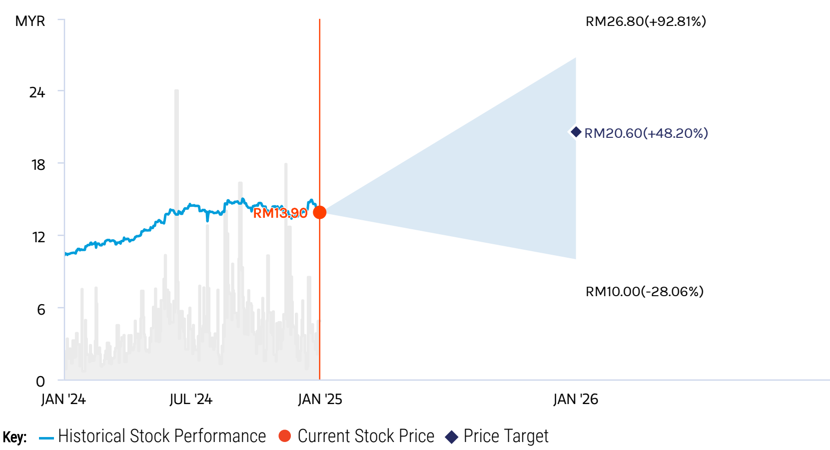
Base case, DCF. We employ a 10-year unleveraged FCF model and consider terminal value for the business after 2035. In deriving our terminal value, we capitalize our terminal-year FCF projection by our WACC of 7.3% and incorporate 2.0% perpetual growth.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART

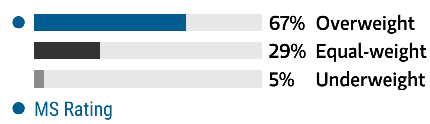


Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- TNB is finally entering an environment where its earnings can grow, after they were cut in half over the past five years amid weak returns on new generation capacity and lower-than-expected returns on its regulated transmission and distribution business.
- Demand from potential datacenter development in Malaysia should anchor demand for energy and help absorb the high 40's (%) reserve margin. It should also help TNB raise the efficiency of about 60% of its capex.
- We see nearly 75% of TNB's incremental investment going into grid hardening and the management of intermittent supply. We assume a WACC of 7.3%.
- We estimate a three-year earnings CAGR of ~20%.
- Valuations look attractive to us.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

New Data Era:	*Positive*
Pricing Power:	*Negative*
Renewable Energy:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE RM26.80

25x bull case 2025e EPS

Electricity demand growth driven by ~7GW of new datacenters is realized sooner with fast-track approval for grid connections with industrial and residential power demand at a ~5% CAGR.

BASE CASE RM20.60

22x base case 2025e EPS

Demand CAGR of 4% in 2023-26e with ~3GW of datacenter power demand priced in. ROCE averages nearly 7% in 2023-26e. Regulators approve a T&D tariff of 14.25sen/kwh for 2025-27 with RM11bn of annual capex at a WACC of ~7.5%.

BEAR CASE RM10.00

11x bear case 2025e EPS

Lower capital efficiency with receivables dragged out to 2025. Demand growth declines to 1% annually as electricity tariffs rise, datacenter pipeline does not get realized.

Risk Reward – Tenaga Nasional (TENA.KL)

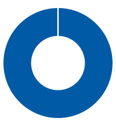
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Electricity Demand (Gwh)	123,206.0	129,622.4	136,072.9	142,927.7
Average Tariff (RM/Kwh)	0.48	0.50	0.50	0.50
Fuel Cost (RM/Kwh)	0.16	0.19	0.17	0.17

INVESTMENT DRIVERS

- Electricity demand growth, dividend payout, higher availability of generation portfolio
- Malaysian Government bond yields and growth quality.

GLOBAL REVENUE EXPOSURE



● 100% APAC, ex Japan, Mainland China and India

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

4/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Demand upside from datacenters
- Higher regulated return and asset base
- Turnaround of international assets
- Rising dividend payout

RISKS TO DOWNSIDE

- Dividend payout falling below the stated policy of 50%
- Higher-than-expected cost inflation
- Fuel receivables delay
- Government potentially capping electricity tariffs
- Higher competition as Malaysia opens up its electricity market for distribution

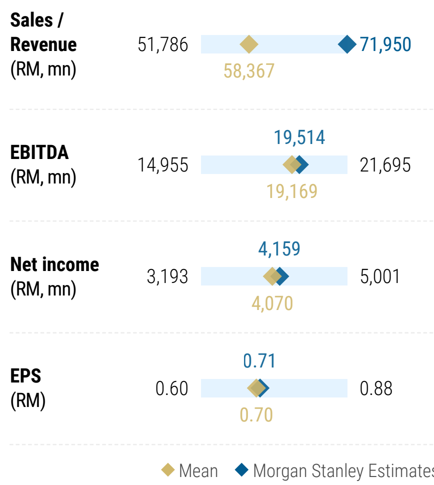
OWNERSHIP POSITIONING

Inst. Owners, % Active 94%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e



Source: Refinitiv, Morgan Stanley Research

Tencent Holdings – Media & Entertainment

Primary Analyst: Gary Yu

Key competitive advantages: Tencent dominates China's online consumer market in terms of revenue size and traffic volume (most total time spent). Most of its services rank in the top three by user base. With the user base / traffic and technology capability to leverage the user data, Tencent shows strongest monetization potential in games (high DAU, social-oriented games), ads (Tencent VAs, Official Accounts, Moments etc. with AI increasing click-through rate), fintech (largest payment user base), and AI cloud offerings.

Long-term drivers for the stock: We continue to see structural changes in the games industry (shift in regulatory focus, preference for high-DAU low-ARPU genres such as MOBA/FPS, rising adoption of mini-games, and overseas opportunities) that are favorable for Tencent. Ads and FBS (50% of revenue) offer exposure to potential macro recovery. We expect ads to benefit from AI adtech upgrade, Video Accounts (VA) monetization, and emerging verticals such as mini-games and e-comm. FBS stands to benefit from the recent integration of WeChat Pay into Alibaba's Taobao/Tmall, SaaS (WeCom, Tencent Meeting) monetization and e-comm ecosystem (VA, Mini Programs and Mini Shops, Official Accounts, WeCom, etc.)

Risks to competitive advantages: 1) Potential slowdown of games growth due to high base effect in 2024, driven by launch of DnFM on May 21 and Supercell titles; 2) Intensified competition in social networks and ad budget with emerging entertainment formats; 3) Tightened regulations on antitrust and amid US/China tensions.

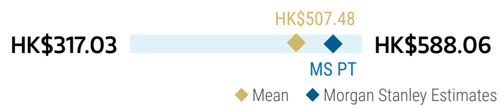
Risk Reward – Tencent Holdings Ltd. (0700.HK) Top Pick

Strategic investments to drive earnings growth and re-rating

PRICE TARGET HK$550.00

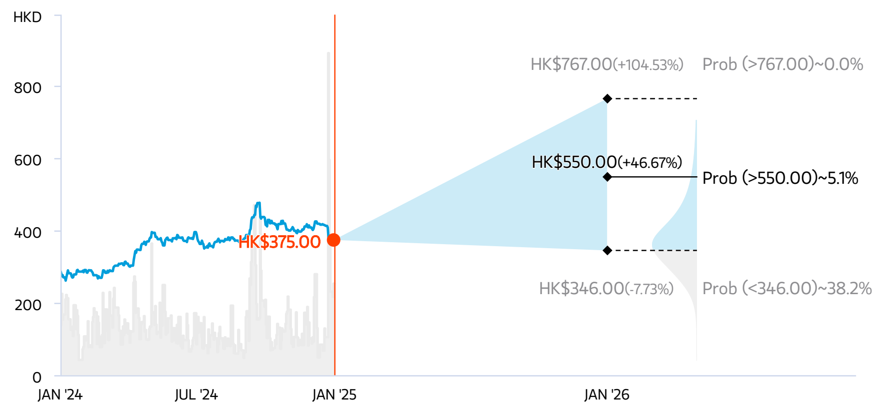
HK$550: Base case, sum of the parts.
Core business - HK$477: DCF (11% discount rate, 3% terminal growth rate)
Associate investments - HK$73/share (based on reported book value) and 30% discount applied to investment value.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)



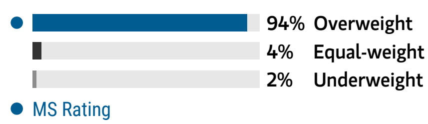
Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 14 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- Tencent dominates China's online consumer market in terms of revenue size and traffic volume. Most of its services rank in the top three by user base.
- Positive earnings levers include the globalization of the game business, higher social ad monetization, fintech offerings, and strategic upgrades to capitalize consumer and industrial Internet.
- We see relative resilience and think regulatory headlines are not a one-sided negative for Tencent.
- Among China's Internet leaders, Tencent has historically merited a premium valuation for its strong revenue growth and earnings visibility. Our price target implies 2026e core P/E of 17x.
- Recently stepped-up share buybacks should cushion the share price.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Secular Growth: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE HK$767.00

20x bull case non-IFRS 2026e EPS

Strong monetization across all products and services as Tencent successfully monetizes its sizable user traffic

Total revenue: 12% 2023-26E CAGR.

Non-GAAP OPM: 42% in 2026E.

20x base case EPS for 2026E vs. historical trading band of 10-48x since 2015.

BASE CASE HK$550.00

17x base case non-IFRS 2026e EPS

Sustained growth in mobile games, with progress in online ads, followed by fintech and business services expansion

Total revenue: 9% 2023-26E CAGR.

Non-GAAP OPM: 39% in 2026E.

17x base case EPS for 2026E vs. historical trading band of 10x-48x since 2015.

BEAR CASE HK$346.00

12x bear case non-IFRS 2026e EPS

Competition weighing on growth outlook with user time spent being challenged by emerging rivals

Total revenue: 7% 2023-26E CAGR.

Non-GAAP OPM: 34.8% in 2026E.

12x bear case EPS for 2026E vs. historical trading band of 15-48x since 2015.

Risk Reward – Tencent Holdings Ltd. (0700.HK)

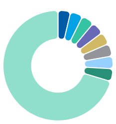
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Non-GAAP OPM (%)	31.5	36.0	38.0	39.4

INVESTMENT DRIVERS

- Video accounts ramp-up
- Game monetization in both domestic and overseas markets
- VAS subscriber base and ARPU expansion
- Advertiser base and ARPA expansion
- Long-term growth potential in Industrial Internet

GLOBAL REVENUE EXPOSURE



0-10%	APAC, ex Japan, Mainland China and India
0-10%	Europe ex UK
0-10%	India
0-10%	Japan
0-10%	Latin America
0-10%	MEA
0-10%	North America
0-10%	UK
90-100%	Mainland China

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

1/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Solid execution in new game launches, both domestically and overseas
- Market share gain in social and short video ads
- Resilience in social network and online entertainment competition

RISKS TO DOWNSIDE

- Gaming industry regulatory uncertainties
- Intensified competition in social networks and ad budget with emerging entertainment formats
- Tightened regulations on antitrust and amid US/China tension

OWNERSHIP POSITIONING

Inst. Owners, % Active 71.5%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e

	Low	Morgan Stanley Estimates	Mean	High
Sales / Revenue (Rmb, mn)	653,670.0	656,753.0	657,500.0	662,800.0
EBIT (Rmb, mn)	198,513.0	206,867	228,252.6	264,544.0
EBITDA (Rmb, mn)	227,525.5	265,122	264,033.7	296,000.0
Net income (Rmb, mn)	166,242.8	182,908	214,432.2	230,475.0
EPS (Rmb)	19.3	19.4	23.1	24.5

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

TSMC – Greater China Semiconductor

Primary Analyst: Charlie Chan

Key competitive advantages: TSMC is the key supplier of global cloud AI semis including NVIDIA's AI GPU. TSMC is also dominating in both leading-edge wafer production (5nm and below) and advanced packaging (CoWoS), where its market share is over 90%. Looking forward to the next generation of semi development, including geometry below 2nm, 3D IC, CPO, etc, we believe TSMC will still be the technology leader and provide the most leading-edge solution for major clients including NVIDIA and CSPs.

Long-term drivers for the stock: With the competition among major CSPs to build up their own AI computing, applications, and ecosystems, we believe TSMC will be the AI enabler that benefits most, as we indicate in our Global Insight on ASIC. In that report, we highlighted that those major CSPs are still trying to develop their own AI ASIC chips, competing with Nvidia's GPU. These efforts not only can help them to build up a second source for their AI chips but also can bring an alternative which is potentially more power-efficient and cost-saving. That said, no matter which type is winning more market share in the future, ASIC or GPU, we believe TSMC can still benefit from production from its leading edge node and advanced packaging.

Risks to competitive advantages: We believe the key risks to TSMC's competitive advantage are: 1) potential antitrust issues since TSMC dominates leading-edge wafer production, 2) technology development from major foundry competitors, including Samsung and Intel, to close the gap with TSMC, 3) price hike pushback from major clients, and 4) overexpansion of capacity or subsidies for fabs in China could put pricing pressure on TSMC's mature nodes.

Risk Reward – TSMC (2330.TW)

AI demand to drive margin upside

PRICE TARGET NT$1,388.00

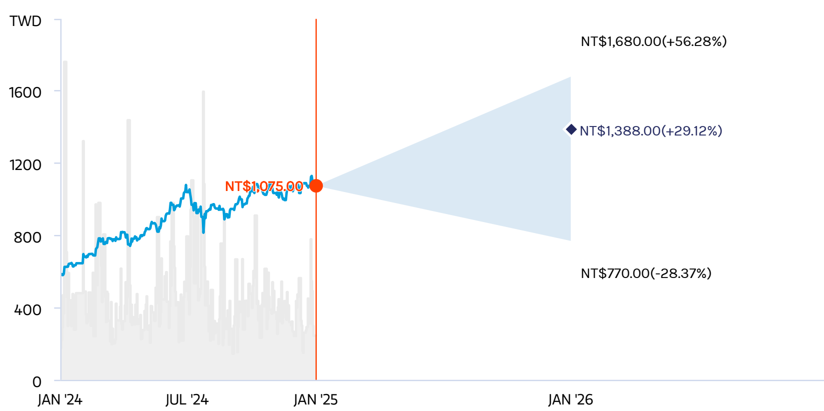
Base case, residual income model. Key assumptions: a cost of equity of 9.2% (beta of 1.2, risk-free rate of 2.0% and risk premium of 6.0%), an intermediate growth rate of 10.0%, and a terminal growth rate of 4.0%.

Consensus Price Target Distribution NT$1,170.00 — NT$1,378.51 / MS PT — NT$1,600.00

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART



Key: — Historical Stock Performance ● Current Stock Price ◆ Price Target

Source: Refinitiv, Morgan Stanley Research

OVERWEIGHT THESIS

- Our supply chain checks suggest that TSMC is seeking to hike wafer prices to pass through overseas fab costs, echoed by TSMC management's comments that customers will need to share increased costs.
- NVIDIA also commented that TSMC's service prices are too low, and its supply chain partners should reflect their value. We therefore expect NVIDIA to accept wafer and CoWoS price hikes.
- As AI semi demand stays strong, we think TSMC's leading edge foundry capacity will become more strategic and scarce. We think other key AI/HPC customers may follow with price hikes, notably for leading edge nodes.
- We forecast a 2023-26 EPS CAGR of >30% for TSMC; the three-year risk-reward balance is attractive.

Consensus Rating Distribution

●	97%	Overweight
	3%	Equal-weight
	0%	Underweight

● MS Rating

Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

New Data Era:	*Positive*
Pricing Power:	*Positive*
Secular Growth:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE NT$1,680.00

28x 2025e EPS

TSMC dominates foundry services: 1) Breakthrough in EUV tech and materials accelerates node migration to 3nm and beyond. 2) Intel outsources its server CPU production to TSMC sooner than expected. 3) Intel or Samsung exits leading-edge foundry business. 4) New tech megatrends such as 6G or AI drive global semi revenue growth and increase demand for leading edge nodes. 5) Cost per transistor decreases further along with node migration.

BASE CASE NT$1,388.00

23x 2025e EPS

Leading position in leading-edge logic foundry services with some gross margin expansion: 1) Global semi revenue CAGR is sustained in the high single digits in 2024-26. 2) TSMC continues to lead in 16nm, 7nm, 5nm, and 3nm market shares. 3) Continues to observe extremely robust AI-related demand. 4) Cost per transistor does not decrease meaningfully further in 3nm and 2nm, while capex per k is more demanding than for 7nm and 5nm.

BEAR CASE NT$770.00

13x 2025e EPS

TSMC's dominance in foundry business erodes: 1) Global ex-memory semi revenue growth is weaker than expected in 2024-26. 2) Declining trailing edge market share causes revenue shortfall. 3) Intel's contribution is weaker than expected. Intel and/or Samsung successfully develop leading edge process technology. 4) Intel's foundry business execution proves successful and weighs on TSMC with order competition. 5) Demand for 2nm is less than expected given high transistor cost for foundry customers.

Risk Reward – TSMC (2330.TW)

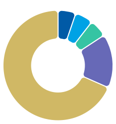
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Revenue from 5nm Geometry (NT$, mn)	613,444	834,027	919,675	971,417
Revenue from 10/7nm Geometry (NT$, mn)	356,261	429,316	456,145	505,502
Revenue from 16/20nm Geometry (NT$, mn)	199,630	216,424	261,885	287,229

INVESTMENT DRIVERS

- Moore's Law migration (chip scaling) and alternative technologies
- Capex intensity - cost of building leading-edge foundry capacity
- Bargaining power with key equipment vendors
- Transistor cost for customers
- ROI for leading-edge foundry

GLOBAL REVENUE EXPOSURE



- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% Europe ex UK
- 0-10% Japan
- 10-20% Mainland China
- 60-70% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

2/5 MOST	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- TSMC charges large customers more to keep its gross margin above 53% in the long term.
- AI semi demand grows more significantly than expected, while TSMC maintains high market share in leading edge foundry business.
- Outsourcing from Intel CPU increases in 2025-26.

RISKS TO DOWNSIDE

- Inventory correction lasts into 2H24.
- Demand for leading edge technologies weakens.
- Costs of overseas fabs grow.

OWNERSHIP POSITIONING

Inst. Owners, % Active 77.9%

Source: Refinitiv, Morgan Stanley Research

MS ESTIMATES VS. CONSENSUS

FY Dec 2024e

	Low	Morgan Stanley Estimates	Mean	High
Sales / Revenue (NT$, mn)	2,824,000	2,902,817	2,878,816	2,902,817
EBITDA (NT$, mn)	1,644,691	2,012,159	1,957,709	2,015,000
Net income (NT$, mn)	1,100,000	1,182,273	1,165,585	1,207,000
EPS (NT$)	43.00	45.60	45.36	57.90

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Visa Inc. – Financial Services

Primary Analyst: James Faucette

Key competitive advantages: Visa runs one of the largest centralized consumer payment networks globally, processing US$13.2trn in total payment volume in FY24. Its low-cost network, significant operating leverage, enhanced risk detection capabilities, and unmatched performance across factors like speed, reliability, and acceptance, enable it to price competitively vs. new players. Visa is presently operating at scale (68% operating margin in FY24 with low fixed cost base and 13% EPS CAGR in FY19-24), while new market entrants would need to balance low fees (to remain attractive vs. Visa) with continued investment in their platforms, high costs to drive user growth and acceptance, and limited benefits of scale. This leaves Visa well positioned to underprice competitors to retain market share globally, if needed.

Long-term drivers for the stock: Visa is a key beneficiary of resilient consumer spending worldwide and consumers/businesses' ongoing migration from cash to electronic payments. Trends toward digitization (mCommerce and eCommerce) over the years should allow Visa's growth to outpace overall global PCE growth, while any rise in inflation should serve as a tailwind to the business. Meanwhile, we expect strength in both international consumer travel and cross-border eCommerce to persist, generating higher yields for Visa that can keep supporting modest earnings upside. Lastly, Business to Business (B2B) payments represent a large untapped market, where innovation has significantly lagged the consumer payments market. Increasing investment in modernizing B2B payments opens up a new large TAM for Visa, as it finds new applications for Visa Direct and its other non-card offerings. We think the ongoing electronification of payments, strength of international travel, the B2B TAM, and strong earnings defensibility should support double-digit compounding earnings growth, driving mid-teens returns over the next few years.

Risks to competitive advantages: Despite investor concern about competition/disruption in payments, we believe the competitive risk to Visa is fairly low, given Visa's cost structure and moat. Since we expect that there is little variance in the types of servers and network equipment that can be purchased to run payment networks, the overall cost of transaction is determined by the investment in that equipment infrastructure, amortized over the payment volume and related revenue. Given Visa is already the largest (with the most redundancies and reach), we believe Visa will likely always have a cost advantage unless an aspiring competitor is able to develop a solution that uses significantly cheaper compute and networking equipment (while at least approaching satisfactory performance levels on factors mentioned above). The slow change in consumer payment behavior also supports incumbents like Visa, giving it ample time to evolve its offerings to meet consumer needs. However, the company does face regulatory and political risk, as policy-makers in some geographies i) promote domestic schemes over global networks like Visa/Mastercard, and ii) contemplate the expanding influence of large technology companies in society.

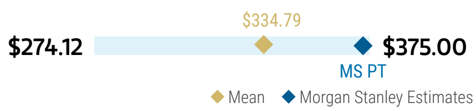
Risk Reward – Visa Inc. (V.N) Top Pick

Resilient double-digit returns over the medium term offers appealing risk reward

PRICE TARGET $371.00

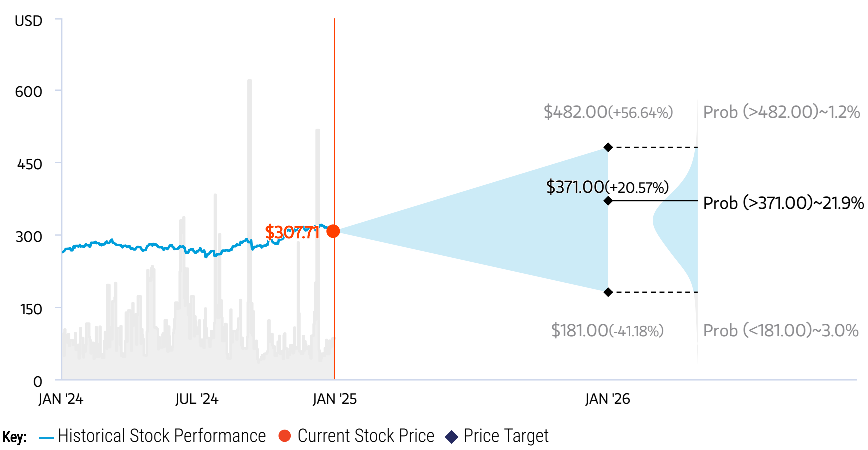
Based on 28x target P/E multiple on our base-case CY26 EPS estimate. This target multiple is ~in-line with V's 5-year average multiple and a ~3x premium to where V currently trades.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

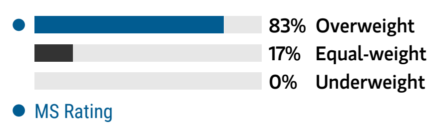


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 10 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

V is one of our preferred stocks, as it is a key beneficiary of resilient global consumer spend growth, the ongoing shift from cash to electronic payments, and broadening merchant acceptance. Global Personal Consumption Expenditure and secular growth drivers should support low double-digit revenue growth in the near-to-medium term. We see upside opportunity from faster-than expected recovery of travel and the sustained strength of cross-border ecommerce. Continued investment in longer term initiatives (faster payments, P2P, B2B) and partnerships continue to increase its TAM and offer an opportunity for compounding double digit earnings growth for the foreseeable future.

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Pricing Power:	*Positive*
Secular Growth:	*Positive*

View descriptions of Risk Rewards Themes here

BULL CASE $482.00

32x CY26e bull-case EPS

Upside from new initiatives and growth channels combined with organic payment volume growth drives a mid-teens revenue CAGR from 2024-26, accompanied by a high-teens to low-20% annual EPS growth.

BASE CASE $371.00

28x CY26e base-case EPS

Organic payment volume growth continues as domestic spend volumes hold up even amid some macro concerns in CY24 while international tourism climbs back. Net revenues grow at a low-double digit CAGR from 2024-26 while Adj. EPS grows low-teens on scale and buybacks.

BEAR CASE $181.00

15x CY26e bear-case EPS

Organic payment volume growth slows due to cyclical factors and international tourism growth stalls, resulting in a high-single digit revenue CAGR from 2024-26, while Adj. EPS also grows high-single to low-double digits as V invests to defend its position.

Risk Reward – Visa Inc. (V.N)

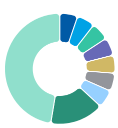
KEY EARNINGS INPUTS

Drivers	2024	2025e	2026e	2027e
US Payment Volume YoY Growth (%)	5.4	5.0	6.0	6.0
Total Payment Volume YoY Growth (%)	6.9	6.8	8.3	8.3
Total Revenue YoY Growth (%)	10.0	9.8	11.1	10.7
Adj. Operating Margin (%)	67.7	67.8	68.3	68.6
Adj. EPS Growth (%)	14.6	11.9	14.4	13.3

INVESTMENT DRIVERS

- Growth in global personal consumer expenditure
- Shift of consumer payments from cash to card
- Market share gains from key competitors and local schemes
- Adoption/monetization of B2B offerings
- Regulatory environment

GLOBAL REVENUE EXPOSURE



- 0-10% APAC, ex Japan, Mainland China and India
- 0-10% India
- 0-10% Japan
- 0-10% Latin America
- 0-10% MEA
- 0-10% Mainland China
- 0-10% UK
- 10-20% Europe ex UK
- 40-50% North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 **BEST**	24 Month Horizon	3/5 **MOST**	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Faster than expected recovery of cross-border tourism
- Ability to continue to meet/beat expectations
- Faster-than-expected adoption/scaling of B2B solutions, driving multiple expansion

RISKS TO DOWNSIDE

- Material slowdown in consumer spend; Slow recovery in cross-border growth
- Portfolio losses in the US
- Regulatory changes in key markets promoting domestic schemes

OWNERSHIP POSITIONING

Inst. Owners, % Active	62.8%
HF Sector Long/Short Ratio	1.8x
HF Sector Net Exposure	13.3%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Sep 2026e

	Low	Morgan Stanley Estimates	Mean	High
Sales / Revenue ($, mm)	42,214	43,837	43,382	45,244
EBIT ($, mm)	28,545	29,936	29,688	31,142
EPS ($)	12.21	12.86	12.64	13.17

◆ Mean ◆ Morgan Stanley Estimates

Source: Refinitiv, Morgan Stanley Research

Wolters Kluwer – Commercial & Professional Services

Primary Analyst: George Webb

Key competitive advantages: Wolters Kluwer is a global provider of professional information and software solutions, serving professional workers in industries such as medical, finance, legal, and regulatory. We would consider the company to be a leading player in each of its five operating segments are: (1) Health, (2) Tax & Accounting, (3) Financial & Corporate Compliance, (4) Legal & Regulatory, and (5) Corporate Performance & ESG. The company has amassed substantial scale and customer footprint across these industry areas, including across much of the (important) US market (US & Canada is c. 64% of revenues). The provision of deeply-embedded workflow tools, which increasingly provide deep domain expertise through a software platform, is represented by the share of revenues classified as 'Expert Solutions'; in 9M24, these solutions accounted for c. 59% of Wolters Kluwer's revenue base. Underlying this, the company has a substantial base of subject matter experts which underpin solutions which provide sensitive information/ outputs (e.g. around tax and accounting laws) that must always be up to date and accurate. In our view, few companies can manage the degree of regulatory complexity, changes, and volume of data at the scale that Wolters Kluwer does in its operating verticals. Furthermore, Wolters Kluwer's substantial financial scale (MSe c. €1.6bn of adj. EBIT in 2024, €1.15bn of FCF), also provides significant capacity to continue to invest, both organically and inorganically. New technologies and solutions can be rolled out through the customer base at speed, building a moat against competition, in our view.

Long-term drivers for the stock: A key driver of the stock historically has centred around organic revenue acceleration. Between 2007-13, organic growth was broadly 0%. However, we now see Wolters Kluwer as operating within a 6-7% org. revenue growth corridor across FY24-27. This has been driven by a shift away from print revenues towards digital revenues, as well as significant investment in product development and a growing mix of faster growth software solutions in the revenue mix. This has achieved through both organic and inorganic means, which much of the M&A conducted over the past decade centred on software companies (particularly those with cloud-based/SaaS deployment models). Looking at the mix in 1H24, Digital & Services revenues amounted to 95% of total revenues (residual 5% is print revenues), of which software was c. 46% of the pie. Continued growth of Expert Solutions in the mix is also important (59% today compares to 54% in 2020), and we expect this penetration level to continue to increase over time. These Expert Solutions are not only higher growth (8% organic in 9M24), but we also believe they are likely to be higher margin, thereby helping to improve the group's operating margin over time (already from healthy MSe FY24 c. 27% adj. EBIT levels). We also expect generative AI use internally to continue to help keep cost growth below revenue growth, over time. As an example at the segment level, we see the Legal & Regulatory (L&R) and Corporate Performance & ESG segments as offering notable catalysts over the medium to long-term. With L&R, we believe the roll-out of generative AI solutions around materials drafting and legal research, will aid longer-term growth rates. Wolters Kluwer's CP&E division is also relatively newly split out within the segment disclosure, but which should be the highest growth division within the group (MSe c. 9% org. growth FY24). Both of these segments are relatively lower margin within the group mix (MSe 2024 L&R 18%, CP&E 10%), which should contribute to longer-term margin expansion.

Risks to competitive advantages: Wolters Kluwer is increasingly operating in software verticals, where the pace of change is high, and where there is a persistent risk of new startups gaining market share; generative AI may also increase the quantity of startups in the market, or at least the pace at which they may be able to create new disruptive solutions. Wolters Kluwer is reliant on the continued growth of its professional services customers, which could be disrupted by cyclical factors or by technology adoption. While we expect Wolters Kluwer to be able to manage material changes to labour count levels of customers in its served verticals (e.g. growth in the number of accountants in the US has been running at a low pace of growth for years), a sharp change in working practices at customers may impact use of some of Wolters Kluwers' solutions. Substantial simplification of regulatory environments / reductions in regulatory complexity, may diminish the value of certain Wolters Kluwer offerings.

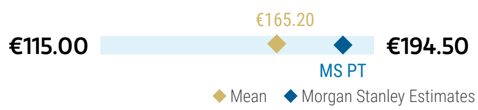
Risk Reward – Wolters Kluwer (WLSNc.AS)

Expert Solutions transition continues and a long margin runway

PRICE TARGET €184.50

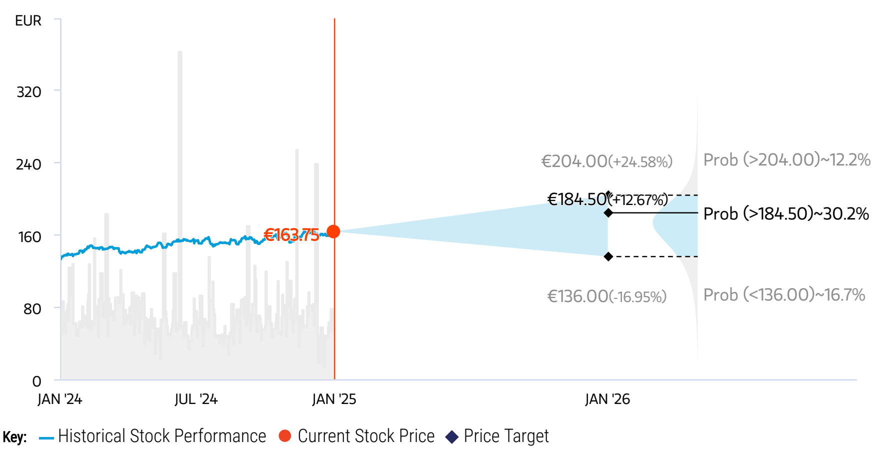
We use a 10-year DCF to value Wolters Kluwer, with a WACC of ~7.5% and terminal growth rate of ~3%.

Consensus Price Target Distribution



Source: Refinitiv, Morgan Stanley Research

RISK REWARD CHART AND OPTIONS IMPLIED PROBABILITIES (12M)

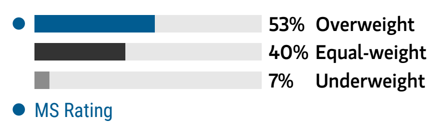


Source: Refinitiv, Morgan Stanley Research, Morgan Stanley Institutional Equities Division. The probabilities of our Bull, Base, and Bear case scenarios playing out were estimated with implied volatility data from the options market as of 13 Jan 2025. All figures are approximate risk-neutral probabilities of the stock reaching beyond the scenario price in either three-months' or one-years' time. View explanation of Options Probabilities methodology here

OVERWEIGHT THESIS

- WK has a strong growth profile in European data analytics. We expect the group's organic top-line growth to continue to run at 6% per annum through the mid-term, with margin expansion.
- >90% of revenues are digital, with digital and services subscription revenues growing by 8% org. in both 2021 and 2022. The continued transition towards digital and expert solutions should support continued solid group growth and provide upsell opportunities.
- WK's adj. EBIT margin is below that of many data peers. We note margins are relatively low in both L&R and CP&E divisions. The migration from information to expert systems (software driven; deep domain expertise) should drive up margins long-term

Consensus Rating Distribution



Source: Refinitiv, Morgan Stanley Research

Risk Reward Themes

Pricing Power: *Positive*
Technology Diffusion: *Positive*

View descriptions of Risk Rewards Themes here

BULL CASE €204.00

An expert in delivering growth

We assume slightly higher group growth, sustaining c. 7% across FY25-28, and closer to 5% across FY28-35, as product investment pays off, driving higher adoption of software and cloud solutions. Competitive pressures are relatively muted. In turn, this drives operating leverage, with margins reaching close to 30% by FY28 (vs. >28.5% in our base case). Longer-term, adj. EBIT margins expand to >35% in terminal state. Our bull case implies a multiple of c. 31x FY26 bull case adj. P/E.

BASE CASE €184.50

Compounding growth (revenue +6-7% y/y organic)

We forecast WK to continue to steadily grow its top-line, benefiting from increased adoption and roll-out of Expert Solutions. Margin improvement is broad-spread, but particularly aided by improvement in L&R and CP&E divisions. We forecast a c. 6.5% revenue CAGR FY25-28, c. 5% FY28-35, with adjusted EBIT continuing to steadily expand (and reaching >28% by FY27). In the long-run, we expect margins to reach c. 33% on adj. EBIT. Our base case implies a multiple of c. 28.5x FY26 adj. P/E.

BEAR CASE €136.00

Onto a lower growth pathway

Gradually building competition combined with weakening macro drive moderating growth, with top-line growth running in the 4-5% range through the mid-term. In particular, growth rates of T&A and CP&E divisions moderate. Revenue growth is c. 5% FY25-28, <4% FY28-34. This hampers WK's ability to expand margins and investment keeps adj. EBIT margins around 26% through the mid-term; it remains in a 26-27% corridor into terminal state. Our bear case implies a multiple of c. 22.5x FY26 adj. P/E.

Risk Reward – Wolters Kluwer (WLSNc.AS)

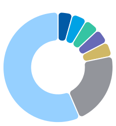
KEY EARNINGS INPUTS

Drivers	2023	2024e	2025e	2026e
Constant currency growth (%)	4.8	6.6	7.2	6.6
MSe organic growth (%)	5.8	6.3	6.8	6.6
Adj. EBITDA Margin (%)	31.8	32.2	32.7	33.4

INVESTMENT DRIVERS

- Recurring revenues (>80% of the mix) growing above average, Expert Solutions/Software growing faster
- Continued shrinking of non-recurring revenue
- Continued scope for margin improvement from 2024 onwards
- Recycling FCF (post dividend) into buybacks

GLOBAL REVENUE EXPOSURE



0-10%	APAC, ex Japan, Mainland China and India
0-10%	Latin America
0-10%	MEA
0-10%	Mainland China
0-10%	UK
20-30%	Europe ex UK
60-70%	North America

Source: Morgan Stanley Research Estimate
View explanation of regional hierarchies here

MS ALPHA MODELS

5/5 **MOST**	3 Month Horizon

Source: Refinitiv, FactSet, Morgan Stanley Research; 1 is the highest favored Quintile and 5 is the least favored Quintile

RISKS TO PT/RATING

RISKS TO UPSIDE

- Scope to redeploy significant FCF generation into shareholder returns (buybacks, dividends).
- Some divisional margins are low vs peers and capable of improvement.
- Strong growth in software-based sales.

RISKS TO DOWNSIDE

- c. 6% of 2023 revenue was derived from Print revenues (which are declining y/y).
- Some macro sensitivity in transactional and non-recurring revenues (c. 20% of the group revenue mix).

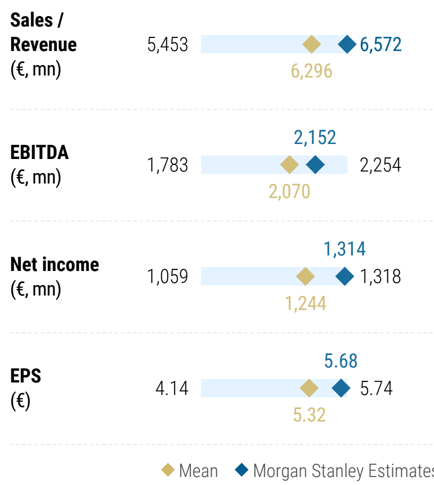
OWNERSHIP POSITIONING

Inst. Owners, % Active	77.2%
HF Sector Long/Short Ratio	3.2x
HF Sector Net Exposure	28.2%

Refinitiv; MSPB Content. Includes certain hedge fund exposures held with MSPB. Information may be inconsistent with or may not reflect broader market trends. Long/Short Ratio = Long Exposure / Short exposure. Sector % of Total Net Exposure = (For a particular sector: Long Exposure - Short Exposure) / (Across all sectors: Long Exposure – Short Exposure).

MS ESTIMATES VS. CONSENSUS

FY Dec 2025e



Source: Refinitiv, Morgan Stanley Research

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Risk Reward Reference links

1. View explanation of Options Probabilities methodology - Options_Probabilities_Exhibit_Link.pdf

2. View descriptions of Risk Rewards Themes - RR_Themes_Exhibit_Link.pdf

3. View explanation of regional hierarchies - GEG_Exhibit_Link.pdf

4. View explanation of Theme/Exposure methodology - ESG_Sustainable_Solutions_External_Link.pdf

5. View explanation of HERS methodology - ESG_HERS_External_Link.pdf

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Global Stock Ratings Distribution

(as of December 31, 2024)

The Stock Ratings described below apply to Morgan Stanley's Fundamental Equity Research and do not apply to Debt Research produced by the Firm.

For disclosure purposes only (in accordance with FINRA requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1463	39%	363	45%	25%	669	39%
Equal-weight/Hold	1703	45%	369	46%	22%	810	48%
Not-Rated/Hold	5	0%	0	0%	0%	2	0%
Underweight/Sell	596	16%	74	9%	12%	222	13%
Total	3,767		806			1703	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country MSCI Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

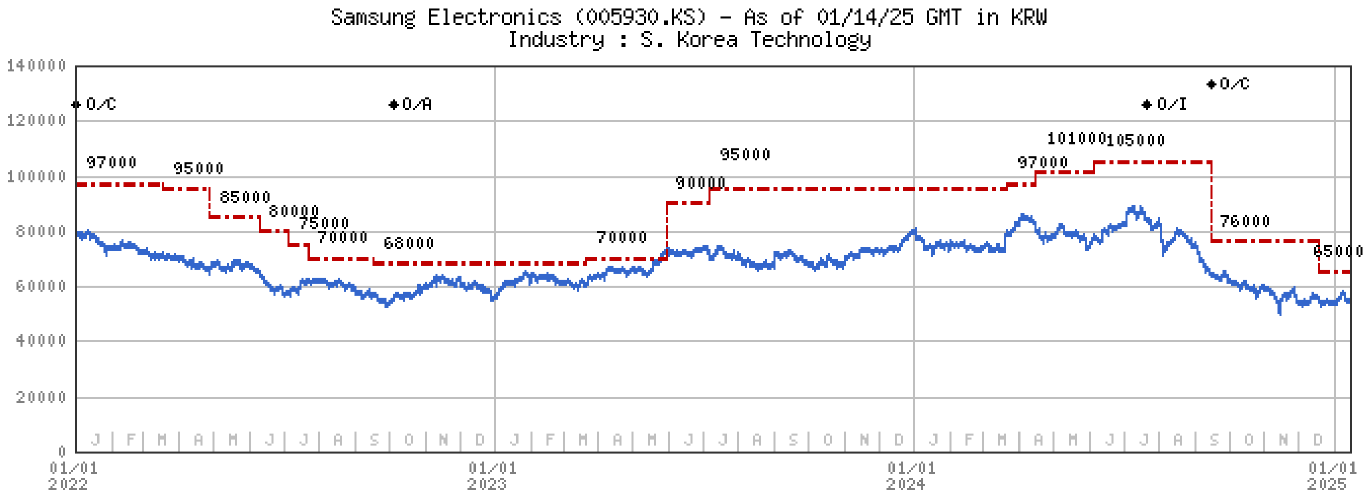
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 1/1/20 : O/A; 7/19/21 : O/I; 8/12/21 : O/C; 10/4/22 : O/A; 7/21/24 : O/I; 9/15/24 : O/C

Price Target History: 11/18/19 : 60000; 1/14/20 : 72000; 2/26/20 : 75000; 3/19/20 : 68000; 4/29/20 : 65000; 7/12/20 : 70000; 9/11/20 : 73000; 11/27/20 : 88000; 1/12/21 : 110000; 2/25/21 : 115000; 5/18/21 : 93000; 6/8/21 : 98000; 8/12/21 : 89000; 9/15/21 : 95000; 12/3/21 : 97000; 3/18/22 : 95000; 4/28/22 : 85000; 6/10/22 : 80000; 7/5/22 : 75000; 7/22/22 : 70000; 9/17/22 : 68000; 3/21/23 : 70000; 5/30/23 : 90000; 7/7/23 : 95000; 3/22/24 : 97000; 4/16/24 : 101000; 6/6/24 : 105000; 9/15/24 : 76000; 12/18/24 : 65000

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Effective January 13, 2014, the stocks covered by Morgan Stanley Asia Pacific will be rated relative to the analyst's industry (or industry team's) coverage.

Effective January 13, 2014, the industry view benchmarks for Morgan Stanley Asia Pacific are as follows: relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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