



## Will Royal Bank Deliver Another Dividend Hike for Shareholders?

### Description

**Royal Bank of Canada** (TSX:RY, NYSE:RY) is set to release its quarterly report next Wednesday. And while the company is expected to deliver another round of record profits and dividend hikes, some problems are starting to brew beneath the surface. Here's what investors should be watching for next week.

### Stats on Royal Bank

Analyst EPS Estimate	\$1.43
Change From Year-Ago EPS	3.6%
Revenue Estimate	\$8.11 billion
Change From Year-Ago Revenue	2.5%
Earnings Beats in Past 4 Quarters	2

Source: Yahoo! Finance

### Will Royal Deliver For Shareholders This Quarter?

Royal posted solid numbers in 2013. The company generated \$8,429 million in earnings, up 12% year-over-year, thanks to good contributions from retail banking and wealth management. And the firm also grossed more than a third of its total revenue outside the Canada, showing that it's capitalizing on promising opportunities in countries around the world.

However, analysts have become more pessimistic on Royal's earning recently. Over the past three months the street has lowered its first quarter EPS estimate by a penny and cut its full-year 2014 projections slightly. The stock has been trading lower in lockstep, falling 5% over the last quarter.

Other transactions could also cloud the company's financial results next week. In January the firm raised the white flag in the Caribbean country of Jamaica, announcing that the sale of its subsidiaries RBC Jamaica and RBTT Securities to competitor Sagicor Group for \$97 million. This transaction will result in RBC taking a loss of \$60 million for its failed Jamaican campaign.

The losses are mainly attributed to a write down of RBC Jamaica's intangible assets and goodwill. And while these are only small one-time accounting items, the sale calls into question the company's entire expansion strategy in the Caribbean.

Also on investors minds is a recent report from credit rating agency **Moody's** Investor Services. In the research note Vice President and Senior Risk Officer David Beattie raised concerns that risky bank trading activities expose the industry to unforeseeable losses and wild swings in profitability.

"The significant reliance of Royal Bank of Canada, **Bank of Montreal** and **National Bank of Canada** on earnings from capital markets (CM) business exposes all three of these banks to high earnings volatility and the prospect of large, unpredictable losses that could rapidly deteriorate their creditworthiness," he said highlighting Royal Bank in particular as "the most exposed to large and unpredictable losses."

Of the three banks, RBC which has the largest global reach and is therefore the most exposed to the risks highlight in this report with more than 70% of RBC's capital markets revenue coming from outside of Canada.

Investors should be worried about this type of thinking from rating agencies as it could threaten Royal's credit rating resulting in a higher cost of capital. Shareholders will want to listen for management's response during the conference call.

Finally, investors are also expecting another round of dividend hikes from Canada's banking giant. Coming out of the financial crisis, Royal has fallen into a habit of raising its payout every other quarter. However the company's payout ratio nearing 50%, about the upper end of its target range. That may not leave much room for a big hike next week.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

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