

What's Next for Royal Bank of Canada?

Description

When Dave McKay takes over as CEO of **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), he'll have a lot to live up to. Canada's largest bank completed yet another strong quarter, with adjusted net income of \$2.2 billion, up 5% year-over-year. Adjusted earnings per share came in at \$1.47, beating the general analyst estimate by five cents. RBC also raised its dividend from \$0.67 to \$0.71 per share, an increase of 6%. The bank's shares now yield nearly 4%.

Canadian banking continues to perform well, accounting for about half of RBC's earnings for the quarter. But growth is clearly difficult to come by; the division grew by only 4% year over year. This was despite an increased contribution from Ally Canada, a leading auto finance business. The good news is that both housing and the Canadian consumer continue to perform well, despite repeated warnings of an overpriced real estate market and high consumer debt levels.

But what separates RBC from the other Canadian banks is its capital markets and wealth management businesses, both of which continue to perform well. Capital markets net income increased by 9% from a year ago, while wealth management increased earnings by 3% year-over-year, despite some abnormally high credit losses.

Ever since the financial crisis, many of the world's largest banks have been retreating from the capital markets and wealth management businesses in an effort to conserve (or even raise) capital. RBC did not emerge from the crisis entirely unscathed, but like most of the Canadian banks, performed far better than its global peers. And as other banks cut back, RBC has been aggressively filling the void. RBC now ranks 11th on the global investment banking tables, and is the sixth largest wealth manager with over \$1 trillion in assets under management.

Foolish bottom line

RBC's global ambitions do not come risk-free. In fact [Moody's recently issued a report](#) that sounded an alarm about the capital markets businesses of RBC, **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)) and **National Bank** ([TSX:NA](#)). The report estimates that over 70% of RBC's capital markets business comes from outside Canada, exposing the bank to "large and unpredictable losses".

But it's hard to argue with the bank's success over the past five years, and the bank remains an excellent way to bet on a continued global economic recovery. With Mr. McKay, who has been running the bank's retail banking unit, becoming CEO in just a few months, shareholders are hoping he is able to maintain RBC's momentum.

CATEGORY

1. Investing

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1. NYSE:BMO (Bank of Montreal)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:BMO (Bank Of Montreal)
4. TSX:NA (National Bank of Canada)
5. TSX:RY (Royal Bank of Canada)

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