3 Reasons Why Royal Bank of Canada Belongs in Your Portfolio

Description

Royal Bank of Canada (TSX: RY)(NYSE: RY) has certainly been on a great run, with its shares returning 29% over the past year. As a result, the company may seem overly expensive, but there are plenty of strong arguments for why it still belongs in your portfolio.

1. Strong market share

More than ever, providing financial services is very costly. Just keeping up with regulatory and technology requirements leads to a large bill. This means that size matters; the bigger the bank, the more easily it can handle those costs.

And Royal Bank certainly has plenty of size — in Canada, it has the No. 1 or No. 2 position in all product categories in Canadian banking, which helps keep costs down. To illustrate, it has nearly twice as many financial assets as **Bank of Montreal** (TSX: BMO)(NYSE: BMO) in its Canadian banking operations. By no coincidence, it was more profitable last year in Canada — its expenses as a percentage of revenue were 44.5%, while Bank of Montreal's expenses were over 51%. The bank also made nearly 20% more profit per employee than Bank of Montreal.

2. Excellent track record

Over the course of a single year, any company can have a surging stock price. But over a longer period of time, a strong share price performance can come only from performing well as a company. Royal Bank of Canada has performed better than any of the other big five banks over the past decade, with its shares returning 12.2% per year.

Meanwhile, just to pick on Bank of Montreal again, its shares have only returned 6.8% per year over the same time period. With this kind of track record, it's much harder to justify betting against Royal Bank of Canada or its management team.

3. Still not too expensive

Whenever a company sees its shares surge, that often means it has become overvalued — but that doesn't seem to be the case with Royal Bank of Canada.

The bank still only trades at 12.6 times trailing earnings, not out of line at all for a Canadian bank. It's actually less than the 14.6 price-to-earnings ratio of **Toronto Dominion Bank** (TSX: TD)(NYSE: TD), even though Royal Bank is more profitable — over the past 12 months, it has a return on equity of more than 20%, while TD Bank's ROE is less than 15%.

As a result, Royal Bank of Canada's shares have a nice dividend yield of 3.8%, even though the company pays out less than half of its earnings as dividends. If you're looking for a nice steady payout, this bank still makes a great staple in your portfolio.

CATEGORY

1. Investing

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2. NYSE:RY (Royal Bank of Canada)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BMO (Bank Of Montreal)
5. TSX:RY (Royal Bank of Canada)
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