



3 Reasons to Buy Shares of Royal Bank of Canada

Description

Royal Bank of Canada ([TSX: RY](#))([NYSE: RY](#)) is not only Canada's largest bank, but is also Canada's largest company, with a market capitalization of \$115 billion. For that reason, its shares are a staple in many portfolios. However, there are other reasons to own the stock, and below we take a look at three.

1. A leader in Canada

In banking, it's an advantage to be big — regulatory and technology costs are as high as ever, and the bigger the bank, the easier these costs are to absorb. In Canada, Royal Bank has a top-two market share position in all Canadian banking product categories, providing the company with a big advantage over smaller rivals.

To illustrate this advantage, let's compare its Canadian banking business with **Bank of Montreal's** ([TSX: BMO](#))([NYSE: BMO](#)). Royal Bank is much larger in Canada than Bank of Montreal, with about twice as many loans, deposits, and employees. Last year, its profit per employee was 18% higher than Bank of Montreal's, while its profit per branch was more than 80% higher.

With such profitable operations, it can afford to give its customers a better deal; right now, you can get an iPad Mini just for opening a bank account with Royal Bank of Canada. Bank of Montreal has no comparable offer. Thus, Royal is much better positioned to pick up market share; in Canadian banking, the rich are set to get richer.

2. Well-positioned internationally

Besides its domestic operations, it is very well positioned internationally with its wealth management and capital markets businesses. These are areas where other big banks have been retreating, allowing it to pick up market share and cheap acquisitions.

One notable example occurred in 2012, when it bought the Latin American unit of Coutts (a private banking business) from the **Royal Bank of Scotland**. This bank was one of the worst offenders during the financial crisis, and needed to raise some money. The terms of the deal were not disclosed, but you can be sure Royal Bank of Canada got a good price.

So as it continues to make piles of money, it has some great places to reinvest those earnings.

3. A good deal

This bank is clearly firing on all cylinders, yet the shares are still reasonably priced, at only 13.5 times earnings. As a result, the shares yield a healthy 3.6%, even though the bank devotes less than half of its income to dividends. The rest is devoted to increasing earnings per share, which ideally will lead to dividend hikes down the road.

In fact its dividend has increased by more than 170% over the last 10 years. If it can keep up the good work, then further dividend increases will likely follow.

CATEGORY

1. Investing

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