



## Key Takeaways From the Royal Bank of Canada's Q3 Results

### Description

**Royal Bank of Canada** ([TSX: RY](#))([NYSE: RY](#)) is the largest bank in Canada and ranks number 12 globally based on market capitalization. The Canadian banking operation currently makes the largest contribution to income (74%) with roughly equal contributions from the U.S. and other international operations. Personal and Commercial Banking is the largest business unit followed by the Capital Markets division and Wealth Management.

### Third-quarter profit as expected but with some surprises

Third quarter 2014 financial results were in line with consensus expectations and earnings per share were 5% ahead of the previous year. The star performance came from the Capital Markets division (trading and investment banking) where profits improved by 66% while the Personal and Commercial Banking division turned in a slightly disappointing performance with a 2.5% decline in profit.

A quarterly dividend of \$0.75 per share, 12% higher than the year before, was declared by the Board of Directors.

### Record-breaking performance from the Capital Markets division

The Capital Markets division made a record contribution of \$641 million to profits with both the Corporate and Investment Banking division and the Global Markets (trading) division increasing revenues by more than 40% compared to a year ago. According to the company records, the trading division recorded one day of trading losses with all the other days profitable. Unfortunately the profit of this division is volatile and can therefore not be considered as sustainable "high quality" income.

Also of note was the comment from the company that the U.S. operation will have to comply with the so called "Volcker Rule," which prohibits banking entities from engaging in proprietary trading and having certain relationships with hedge and private equity funds as of July 2015. This will result in the reorganisation or ceasing of certain U.S. trading operations but is not expected to materially impact company results.

## **The Personal and Commercial Banking Division disappointed**

This division produced a disappointing quarter with profits declining by 2.5% to \$1.14 billion, mainly as a result of a further \$40 million loss on the disposal of the Jamaican banking and broking operation finally sold during the quarter. Excluding this loss, the profits would have been 1% higher. Other factors that negatively impacted the profit were a sharp increase in the provisions for credit losses and a slight increase in the tax rate.

On the positive side, the total loans and deposits in this division increased by just over 1% from the previous quarter and by 3% and 6% respectively compared to the previous year. Net interest margins remained stable and the non-interest expenses were well controlled.

## **Excellent performance by the Wealth Management division**

The Wealth Management division increased profits by a stellar 22% to \$285 million with solid contributions from the Canadian, U.S. and international operations. Assets under management, as a key driver of future profitability, increased by 18% to \$436 billion.

## **Profit growth on target to meet full year objectives**

Royal Bank is on record stating that the objective is to grow earnings per share by 7% or more for the full year, achieve a return on equity of 18% or more and a dividend payout ratio in the range of 40-50%. Given the results of the first three quarters, the company is on track to meet and possibly exceed these objectives.

## **Investors well rewarded**

The share price has been doing well over the past year and ramped up over the past few weeks, adding 7% since the previous results announcement. The bank is getting solid profit contributions from all divisions although the Personal and Commercial Banking division probably needs higher interest margins to improve performance while the magnitude and volatility of the profit contribution from the Capital Markets division add another layer of risk for investors.

However, in my opinion, the stock is still not expensively valued at a 12-month forward price-to-earnings ratio of 12.8 times and a dividend yield of 3.5%.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

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

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