



3 Reasons to Invest in Royal Bank of Canada Today

Description

Royal Bank of Canada ([TSX: RY](#))([NYSE: RY](#)), the second largest bank in Canada in terms of total assets, has watched its stock widely outperform both the TSX Composite Index and the S&P 500 Index over the last year.

Several factors have played a role in this rally. Even though the stock has risen more than 10% year-to-date, it still represents a great opportunity. Let's take a look at three reasons why you should consider adding it to your portfolio today.

1. Consistent growth in both earnings and revenue

One of the keys to a sustained rally in the stock market is quality earnings, and Royal Bank of Canada has released three very strong quarterly reports in 2014. Here's a chart of the earnings per share and revenue reported in the first three quarters of fiscal 2014 and the percentage growth from the year-ago period.

Quarter	Q1 2014	Q2 2014	Q3 2014
Release Date	2/26/14	5/22/14	8/22/14
Earnings Per Share	\$1.44	\$1.47	\$1.62
EPS Growth	7.5%	17.6%	11.7%
Revenue	\$8.45 billion	\$8.27 billion	\$8.98 billion
Revenue Growth	7.6%	7.2%	25.2%

Source: Royal Bank of Canada

Royal Bank of Canada has grown its earnings per share by more than 11% and revenue by more than 13% in the first nine months of fiscal 2014 compared to the first nine months of fiscal 2013, putting it on pace for its best yearly financial performance in its 145-year history. Record financial performances have been a common theme for the company over the last few years and this is exactly what we like to see from a long-term investment standpoint.

2. A very inexpensive valuation

Today, Royal Bank of Canada's stock trades at about 14 times its trailing-12-months earnings of \$5.83, slightly below its five-year average price-to-earnings multiple of 14.2. Looking further out, you will find that the stock trades at just 13.3 times 2014's estimated earnings per share of \$6.12 and only 12.4 times 2015's estimated earnings per share of \$6.57; this allows us to conclude that shares are undervalued on both a current and forward basis.

If Royal Bank of Canada's stock traded at its average multiple of 14.2, shares would trade upwards of \$86 by the end of fiscal 2014 and upwards of \$93 by the end of fiscal 2015, representing returns of more than 5% and 14%, respectively.

3. A world-renowned dividend

Royal Bank of Canada has one of the healthiest dividends you will find in any of the world's stock markets and the company has shown a strong dedication to maximizing its payout. Here's a chart of the total dividends paid per share since 2010.

Year	2010	2011	2012	2013	2014
Dividends Paid Per Share	\$2.00	\$2.08	\$2.28	\$2.53	\$2.84

Source: *Royal Bank of Canada*

Royal Bank of Canada's dividend has increased by 42% since 2010, which is a result of seven increases in the last four years, with the most recent hike coming on August 22. I think it is safe to assume that the dividend will continue to rise as the bank's earnings and revenue rise.

Should you initiate a long-term position?

Royal Bank of Canada is one of the largest and most respected banks in the world and it has shown consistent growth in earnings and revenues, while also showing a strong dedication to its shareholders. Its stock is undervalued on both a current and forward basis and has a 3.5% dividend, making for an excellent buying opportunity.

Foolish investors seeking a long-term investment that can offer both growth and dividend income should take a closer look and consider initiating a position in Royal Bank of Canada today.

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1. NYSE:RY (Royal Bank of Canada)
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