3 Reasons to Buy Royal Bank of Canada

Description

The past few years have been very kind to Canada's big banks, especially **Royal Bank of Canada** (TSX: RY)(NYSE:RY), Canada's largest company. The bank continues to set earnings records — just last quarter, RBC set records in Canadian banking, wealth management, capital markets, and insurance.

But many investors are worried that the good times may not last. After all, much of RBC's income growth came in capital markets (known for its volatility and lack of transparency) and Canada's real estate market appears to be overheated.

That being said, RBC should remain a core holding in most portfolios. Below are three reasons why.

1. A strong domestic franchise

First of all, Canadian banking is a wonderful business to be in. Competition is limited, barriers to entry are high, and, as a result, profitability is pretty easy to come by. Better yet, consumers are typically more loyal to their bank than in years past, making life even easier for the biggest banks.

And RBC is one of the market leaders in Canada, holding a top two position in every Canadian banking product. This leadership position helps the bank control fixed costs better than competitors. So shareholders can always count on this division making plenty of money.

2. Growth in other businesses

The Canadian banks all have a common problem: Growth is hard to come by in Canada. And each of the banks have their own way of dealing with that. RBC's strategy is to grow through capital markets and wealth management, where it ranks among the top 10 worldwide.

These are businesses where other banks around the world have been in retreat. And RBC has been glad to step in. In wealth management, this comes in the form of cheap acquisitions. In capital markets, this simply means stealing market share.

Looking ahead, RBC remains committed to these businesses, and shareholders should count on continued growth for years to come.

3. Not too expensive

So RBC has a solid Canadian Banking franchise, as well as growing businesses around the world. You would think this bank would be very expensive.

But that's not the case at all, with RBC trading for just 13.2 earnings, which is actually cheaper than **Toronto-Dominion Bank**. As a result, RBC has a respectable dividend yield of nearly 4%. And this s a dividend that has consistently grown over the years. For example, the payout has nearly tripled over the past decade.

So RBC certainly deserves to be a core holding in most portfolios. But this discussion leaves out the other banks. You can read more about them in the free report below.

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