3 Big Takeaways From Royal Bank of Canada's Latest Earnings Release

Description

It's that time of the year. Canada's big banks are all reporting results, and on Wednesday morning, it was **Royal Bank of Canada's** (TSX: RY)(NYSE: RY) turn. This is certainly a very interesting time for the banks, so of course many were anxious to see how the bank would do.

On that note, below are the top three takeaways from the company's earnings release.

1. Strong numbers have become the norm

As would be expected, RBC continued to report incredibly strong numbers. The bank made $2.3 billion in the quarter, good enough for 11% year-over-year growth. Clearly analysts were ready for this kind of number; RBC's results were in line with expectations. Incredibly, earnings grew this much even though Capital Markets revenues fell 43%.

The bank's other business units all performed very well. Canadian Banking volume grew by 5%, a very impressive number in such a mature market. Wealth Management net income was up 41%, and adjusted income from insurance increased 14%. Investor & Treasury Services chipped in with 24% growth.

These numbers helped RBC exceed its annual goals. To illustrate, the bank's diluted earnings per share grew by 9.3% in 2014, compared to its initial 7% goal. Its return on equity of 19% also beat its goal of 18%. For now, all is well.

2. The bank is on very solid footing

RBC's strong results do not come from taking increased risk. The bank's Basel III Common Equity Tier 1 (CET1) ratio came in at 9.9%, up from 9.5% at the end of the third quarter. To put this number in perspective, 8% is the minimum for the big Canadian banks.

Credit quality also remains strong. Over in Canadian Banking, annualized credit losses came in at only 0.27% of loans. Gross impaired loans total only 0.44% of loans, another number that has been ticking steadily down.

3. But headwinds remain

That being said, Canada's declining energy sector should be a concern for RBC, for a few reasons.

First of all, Capital Markets accounted for 23% of earnings over the past 12 months, and much of this comes from the energy sector, which RBC claims to specialize in. And when looking ahead, you're unlikely to see many energy companies go public in the coming years. You're also unlikely to see many big mergers in such an environment. So fewer bankers will be needed. Energy & Other Commodities also account for 15% of the Capital Markets loan book – some of these loans could easily go bad.

Declining stock market values could also mean lower trading revenues for Capital Markets, as well as lower fees in Wealth Management. Remember, RBC's fourth quarter ended on October 31, before the energy sector really took a nosedive.

So investors should remain cautious. The bank is doing very well, and is on very solid footing. But it can't keep hitting home runs forever.

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