Royal Bank of Canada Had an Impressive 2014; Can it Carry Your Portfolio Throughout 2015?

Description

2014 is coming to a close and investors are looking at the financial portion of their portfolios and wondering which bank should be their cornerstone. Unlike previous years, the decision might be a little easier after the recent string of Q4 earnings releases, where many of Canada's top banks missed the mark.

One bank that managed to rise above the rest and beat analysts' profit forecasts is the **Royal Bank of Canada** (TSX: RY)(NYSE: RY). But is it smooth sailing ahead for RBC or will 2015 bring with it tough times for all of Canada's banks?

RBC quarterly results

First let's get to RBC's Q4 results where it outperformed the pack and exceeded expectations by posting revenues of $8.38 billion, which are up from $7.91 billion in Q4 2013. RBC also posted another consecutive quarter of over $2 billion in net earnings. This quarter, the $2.33 billion brought in was an increase from the $1.57 billion during the same period last year, with $1.21 billion of net income coming from the bank's Canadian banking operations. In terms of earnings per share, net income came in at $1.57 per share, which is $0.01 higher than analysts' predictions.

These positive results have done much to calm investors who were beginning to grow concerned about the state of Canadian banking as a whole.

RBC annual results

Despite a few hiccups in the Caribbean, 2014 was a good year for RBC with annual revenues climbing to $34 billion from $30 billion in 2013. Thanks to consecutive record quarters, annual net income totalled $9 billion ($6.00 per share) up from the $8.3 billion ($5.49 per share) earned last year.

When you take a closer look at RBC's financials you can see the great growth the bank is garnering from outside of its traditional banking operations. Take for example RBC's wealth management division, which posted earnings growth of 22% over the year and brought in a net income of $1 billion, compared to $886 million in 2013. Wealth management is an area that the bank has targeted aggressively in recent years and this double-digit growth many just be the beginning.

RBC's Capital Markets division, which primarily deals with large corporate lending and acquisition support, posted earnings growth of 21% during 2014. This segment of RBC is controversial as it is seen as the riskiest part of RBC's operations and it has now hit its self-imposed earnings limit.

2015 concerns

We are just a couple weeks away from 2015, but we are already beginning to get a glimpse of what awaits RBC, banks, and the market as a whole. Lower crude prices may limit energy expansion, which could cut into revenues at RBC's Capital Market division. Personal new loans are expected suffer as a new Statistics Canada report has once again shown that household total credit market debt (mortgages, consumer credit and non-mortgage loans) have risen to a new record of 162.6% of disposable income during the third quarter.

This will undoubtedly contribute to continued lower interest rates and could prove to be the last bend in the recent consumer spending spree. This will make RBC's wealth management and insurance divisions even more important as consumers have less cash and lower access to credit.

Even though we are aware of these issues, RBC is still in good financial shape and has hopefully diversified enough to weather what is gearing up to be a rough 2015 for the markets. Investors should take a long look at this bank over the next couple of weeks as it is currently trading at $77.58 and still carries an average price target $86.90.

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