Should You Buy Royal Bank of Canada Following its Record Q1 Earnings Results?

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY), Canada's second largest bank in terms of total assets, released record first-quarter earnings on the morning of February 25, and its stock has responded by moving higher. Let's take a closer look at the quarterly results to determine if we should consider initiating long-term positions today, or if we should look elsewhere in the industry for an investment.

The record-setting results

Here's a summary of RBC's first-quarter earnings results compared to what it accomplished in the same period a year ago.

Metric	Q1 2015	Q1 2014
Earnings Per Share	$1.65	$1.44
Revenue	$9.64 billion	$8.46 billion

Source: Royal Bank of Canada

RBC's adjusted earnings per share increased 14.6% and its revenue increased 14% compared to the first quarter of fiscal 2014. The company's strong earnings per share growth can be attributed to net income increasing 12.5% to $2.46 billion, led by 17.2% growth to $1.26 billion in its Personal & Commercial Banking segment. Its double-digit revenue growth can be attributed revenues increasing in all of its major segments, led by 47.6% growth to $1.89 billion in its Insurance segment and 12.3% growth to $2.03 billion in its Capital Markets segment.

Here's a breakdown of 10 other important statistics and ratios from the report compared to the year-ago period:

1. Total assets increased 20.1% to $1.09 trillion
2. Total deposits increased 10.1% to $654.71 billion
3. Total loans and acceptances, net of allowance for loan losses, increased 7.9% to $459.99 billion

4. Noninterest income increased 20.3% to $6.01 billion
5. Net interest income increased 4.9% to $3.63 billion
6. Net interest margin contracted 15 basis points to 2.15%
7. Return on assets remained unchanged at 0.94%
8. Return on equity improved 40 basis points to 19.3%
9. Adjusted efficiency ratio contracted 50 basis points to 52.1%
10. Book value per share increased 13.7% to $35.59

RBC also announced a 2.7% increase to its quarterly dividend to $0.77 per share, bringing its annual payment to $3.08 per share. The next payment will come on May 22 to shareholders of record at the close of business on April 23.

Is now the time to buy RBC?

Royal Bank of Canada is the second largest bank in Canada, and increased demand for its products and services led it to a record-setting first-quarter performance, and its stock has responded accordingly by rising.

I think RBC's stock represents an attractive long-term investment opportunity today, even after the slight post-earnings pop, because it still trades at very inexpensive valuations. These valuations include just 11.6 times fiscal 2015's estimated earnings per share of $6.47, 10.9 times fiscal 2016's estimated earnings per share of $6.87, and a mere 2.1 times its book value per share of $35.59.

Furthermore, the company now pays an annual dividend of $3.08 per share, which gives its stock a very high 4.1% yield, and I think this makes it qualify as both a value and dividend play today.

With all this information in mind, I think Royal Bank of Canada represents one of the best investment opportunities in the market today, so long-term investors should strongly consider initiating positions.

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