3 Reasons to Buy Royal Bank of Canada

Description

These days, the Canadian banks are not particularly popular investments. It's easy to see why—there are worries about oil prices, the real estate market, and sky-high consumer debt levels.

Those worries are understandable, but now may actually be a perfect time to load up on some bank shares. After all, the banks aren't as expensive as they used to be, and if you're willing to ride out the ups and downs, they make for great long-term holdings.

On that note, I highlight three reasons to buy Canada's largest bank (and largest company overall), **Royal Bank of Canada** (TSX:RY)(NYSE:RY).

1. Size and strength

Banking is a very costly business to be in. Regulatory expenses have skyrocketed, especially since the financial crisis. Technological costs have also soared, partly because of growing cyber-security needs, and also because of growing competition from tech companies. Large banks such as RBC are better able to absorb these costs than their smaller competitors. So, RBC should have no trouble defending its market position, which is arguably the strongest in Canada.

2. Track record

Any stock can take off in any given year. It doesn't mean the company has done anything special. But over a long period of time, you can really see which companies have performed better than others. In the Canadian banking space, few have performed better than RBC.

To illustrate, let's look at the past 15 years. Over this time, RBC shares have gained an impressive 361%, tops among the big five banks. The only other bank that comes close is **The Bank of Nova Scotia**, which rode an unprecedented emerging-markets boom.

Over a time period this long, you can't chalk it up to luck. RBC has done a great job growing its business, while smartly managing risk. I expect that to continue for the next 15 years, too.

3. Price

RBC has a tremendous track record, a stable business model, and steadily-growing earnings. In Canada, you would expect such a company to trade for 15-20 times earnings.

Yet RBC trades for only 12.5 times earnings. The oil rout is partly to blame; the company's shares are down by about 6% since late November. That said, the oil crisis has yet to impact the bank's results. Just last quarter adjusted net income grew by 12% year over year.

Because of this cheap price, RBC's dividend yields an impressive 3.9%, even though less than half of income is paid out to shareholders. Keep in mind this is a dividend that has more than tripled since 2004. So, if you're looking for a solid company paying a steadily-rising dividend for a reasonable price, good luck finding a better option in the Canadian stock market.

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