3 Reasons to Buy Royal Bank of Canada

Description

For a long time, Canada's big five banks have been considered must-have investments. This makes perfect sense—our banks are very stable and profitable, especially when compared with international rivals.

That said, investors have become much more concerned about the banks recently. Again, this is not surprising: low oil prices have dented the Canadian economy; real estate prices are due for a correction; and Canadians remain heavily indebted. All of these factors could hurt banks' loan-growth numbers (as well as increase defaults). Making matters worse, the Bank of Canada is keeping interest rates very low, which negatively impacts banks' margins.

That being the case, the banks are still great options for Canadian investors. On that note, below are three reasons to include **Royal Bank of Canada** (TSX:RY)(NYSE:RY) in your portfolio.

1. A stable behemoth

In today's banking environment, with technology and regulatory costs soaring, it pays to be big. And no bank in Canada is bigger than RBC. As a result, the bank is better able to absorb these costs without passing them on to customers.

So, it's no coincidence that RBC has a leading share in many banking categories, and these leads should be safe. As a bonus, Canadians have generally become more loyal to their bank and are less likely to switch.

Thus, RBC's income should be much more stable than most banks, especially those found in other countries. This is certainly something that should be appealing to most investors.

2. Oil: not as bad as we feared

Earlier this year, as oil prices were crashing, there was plenty of fear about how long the slump would last. Some predictions were especially dire. For example, a report from **Citigroup** suggested that oil prices could fall all the way to US$20.

This would have had a big impact on the Canadian economy. Oil companies would have gone bust. Those that remained would have dramatically cut spending as well as their workforces. As a result, unemployment numbers would have gone up and property values would have gone down.

Fortunately, oil prices seem to have stabilized, and now trade above US$55. So, even though oil companies aren't making much money, those with solid balance sheets should be able to survive. This is fantastic news for banks such as RBC, which don't have to worry about skyrocketing defaults.

3. A good deal

At this point, we can establish that RBC will survive this environment, even though earnings may slump a little. With that in mind, the stock appears to be very cheap.

To illustrate, RBC trades at less than 13 times earnings, even though earnings per share increased by 22% from 2012 to 2014. The company's dividend also yields nearly 4%, even though less than half of its income gets earmarked for dividends. You'll be hard-pressed to find such numbers in any other industry.

Despite all the concerns, you shouldn't hit the sell button just yet. RBC remains a solid option for most portfolios.

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