



Should You Buy Royal Bank of Canada Right Now?

Description

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)), the largest bank in Canada in terms of total assets, announced second-quarter earnings on the morning of May 28, and its stock has responded by making a slight move to the downside. Let's take a closer look at the quarterly results to determine if we should consider using this weakness as a long-term buying opportunity, or if we should wait for an even better entry point in the trading sessions ahead.

A growing asset base leads to record profitability

Here's a summary of RBC's second-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$1.61	\$1.60	\$1.47
Adjusted Revenue	\$8.72 billion	\$8.37 billion	\$8.28 billion

Source: *Financial Times*

RBC's adjusted earnings per share increased 9.5% and its adjusted revenue increased 5.4% compared with the second quarter of fiscal 2014. The company's near double-digit percentage increase in earnings per share can be attributed to its adjusted net income increasing 8.8% to a record \$2.39 billion, led by 23.2% growth to \$625 million in its Capital Markets segment and 7.6% growth to \$1.2 billion in its Personal & Commercial Banking segment.

Its strong revenue growth can be attributed to its non-interest income increasing 9.2% to \$5.27 billion, driven by a 15.1% increase in investment management and custodial fees to \$943 million, a 14.7% increase in mutual fund revenue to \$716 million, and a 30.6% increase in underwriting and advisory fees to \$559 million.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago

period:

1. Total assets increased 15.2% to \$1.032 trillion
2. Total deposits increased 10.3% to \$651.55 billion
3. Total loans and acceptances, net of allowance for loan losses, increased 6.6% to \$460.95 billion
4. Total assets under management increased 12.9% to \$486.3 billion
5. Net interest income increased 3.1% to \$3.56 billion
6. Adjusted efficiency ratio contracted 60 basis points to 51.9%
7. Return on equity contracted 60 basis points to 18.5%
8. Book value per share increased 12.7% to \$35.91

RBC also announced that it will be maintaining its quarterly dividend of \$0.77 per share, and the next payment will come on or after August 24 to shareholders of record at the close of business on July 27.

Does RBC belong in your portfolio?

The second quarter was one for the record books for Royal Bank of Canada, so I think the post-earnings weakness in its stock is simply a result of overall weakness in the market. With this being said, I think the stock represents a very attractive long-term investment opportunity today.

First, RBC's stock trades at just 12.1 times fiscal 2015's estimated earnings per share of \$6.57 and only 11.5 times fiscal 2016's estimated earnings per share of \$6.90, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 13.5 and the industry average multiple of 14.2. Also, it trades at a mere 2.21 times its book value per share of \$35.91, which is very inexpensive compared with its market-to-book value of 2.38 at the conclusion of fiscal 2014.

Second, RBC pays an annual dividend of \$3.08 per share, which gives its stock a 3.9% yield at today's levels. The company has also increased its dividend eight times in the last four years, showing that it is fully dedicated to maximizing shareholder returns, and its financial stability could allow for another increase in the second half.

With all of the information provided above in mind, I think Royal Bank of Canada represents one of the best long-term investment opportunities in the market today. All Foolish investors should take a closer look and strongly consider beginning to scale in to positions.

CATEGORY

1. Bank Stocks
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2. TSX:RY (Royal Bank of Canada)

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