



Should You Buy Royal Bank of Canada Around Earnings Report Time?

Description

One of Canada's largest banks, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)), will report its third-quarter earnings along with **National Bank of Canada**, and **Canadian Western Bank** on August 26, following **Bank of Montreal's** earnings report on the previous day.

Priced under \$76 per share and yielding close to 4.1%, Royal Bank of Canada has close to \$108.9 billion in market capitalization. It is over 8% off its 52-week high and about 6% above its 52-week low, so it's just under the midpoint of \$78. It has experienced less of a dip compared with most of the other banks.

Should investors buy its shares around earnings report time? First, let's take a look at Royal Bank of Canada's business.

The business

Royal Bank of Canada is one of North America's leading diversified financial-services companies that provides personal and commercial banking, wealth management, insurance, investor services, and capital markets products and services globally.

Specifically, it employs roughly 78,000 employees to serve over 16 million personal, business, public sector, and institutional clients in Canada, the United States, and 39 other countries.

For the 12 months that ended on April 30, 2015, Royal Bank's derived 51% of its earnings from personal and commercial banking, 24% from capital markets, 11% from wealth management, 8% from insurance, and 6% from investor and treasury services.

In the same period, 63% of its revenue came from Canada, 19% came from the United States, and 18% came from other countries.

Because most of its revenue comes from Canada, investors should keep track on the health of the Canadian economy. For instance, low oil prices remain a concern. Any spike in unemployment rates is also unfavourable.

Valuation

Historically, Royal Bank normally traded around a price-to-earnings ratio of 12.5 and today's shares are around 11.5. Based on its price-to-book and price-to-sales, it is trading at a small discount to its 2012 multiples. So, I believe Royal Bank shares are discounted by about 10% today.

Dividend

At under \$76 per share, Royal Bank of Canada yields 4.1%. Its payout ratio of about 46% implies a solid dividend. So, it should be able to continue increasing its dividend on a half-year schedule. The next hike is anticipated to be in October.

It last raised its quarterly dividend in April at an annualized rate of 8.5%. If you bought 100 shares, or an investment under \$7,600 today, you'd receive \$77 every three months. As mentioned before though, you should get a hike in income for your first payment in October.

In conclusion

I'm not encouraging the timing of the market, but around earnings report time the market can get especially emotional about a company. Royal Bank of Canada could go up or down 3% in one day.

Because the bank's shares are slightly discounted today compared with historical multiples, Foolish investors could act cautiously by buying half a position now and finishing off the position after the earnings report.

That is, if you plan to buy \$5,000 in the bank, you could buy \$2,500 today, and buy more after the earnings report.

Pro earnings report, if the price goes up it means the company is doing better than expected. If not, then you might be able to spend another \$2,500 and buy more shares at a lower price.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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Date

2025/08/27

Date Created

2015/08/19

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