Royal Bank of Canada Is a Screaming Buy at Under $72 Per Share

Description

It's not often that a company beats estimates, raises its dividend, and still has its share price fall in response. But that's exactly what happened when **Royal Bank of Canada** (TSX:RY)(NYSE:RY) reported earnings for the third quarter of 2015.

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Despite beating analyst estimates by $0.01 per share and raising its quarterly dividend by $0.02, RBC saw its share price fall below $72. Consequently, RBC shares are now severely underpriced.

Some legitimate concerns

Without a doubt, the Canadian banks make for very scary investments these days. The Canadian economy is likely in recession, driven mainly by low energy prices. The Central Bank of Canada has responded by cutting interest rates, another headwind for the banks. Meanwhile, our real estate market is due for a correction, and consumer debt remains near record-high levels.

RBC is especially exposed to these risks, and a comparison to **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) helps make this clear. To start, RBC has roughly $7.5 billion of loans outstanding to the energy sector. Over at TD, this number was just $2.7 billion at the end of last year.

RBC also has more exposure to western Canada, while TD has more exposure to Ontario and the United States. Furthermore, RBC is more focused on the risky capital markets business than TD is. And finally, RBC is trying to grow its footprint in Europe, which is certainly a risky geography to be involved in these days. TD's exposure to Europe is practically non-existent.

It isn't that bad

To put it bluntly, these concerns are way overblown, and that is backed up by RBC's latest results. To start, RBC posted net income of $2.5 billion in the third quarter, representing growth of 4% year over year. About half of this profit came from the personal and commercial banking, which set a new record for net income. If RBC is suffering in this environment, it isn't showing yet.

Meanwhile, RBC's strategy remains right on track. The bank is expanding in businesses like capital markets right when other institutions are pulling back, making it easier to hire top talent and gain market share. Remarkably, the bank has kept its capital position strong throughout—its CET1 ratio ticked up last quarter to 10.1%, well above its required minimum of 8%.

RBC isn't the first Canadian bank to post strong numbers either. **Bank of Montreal** and **National Bank of Canada** have also recently reported growing earnings. Clearly, the Canadian banks know how to make lots of money, no matter what headwinds they're facing.

A severely depressed price

Despite these promising signs, RBC clearly isn't a sexy stock pick right now. And it shows. With a share price below $72, the bank trades for less than 11 times earnings, which is a very low multiple for a company as strong as RBC. And thanks to this depressed share price, the bank's recently increased dividend now yields nearly 4.5%.

So, if you're looking for a strong company, a reliable dividend, and a cheap share price, RBC certainly should be on your radar.

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