Royal Bank of Canada Is Still a Solid Buy-and-Hold Investment Despite Oil Exposure

Description

These days, just the mention of weak oil prices can send a stock price lower. **Royal Bank of Canada** (TSX:RY)(NYSE:RY), which reported its latest quarterly earnings results on Wednesday, admitted it's beginning to feel the impact of lower oil prices. Now, RBC stressed the effect on the country's largest bank is manageable, but the damage was done, and the stock closed 0.4% lower, despite RBC boosting its quarterly dividend and reporting stronger profits.

In a conference call, Chief Executive David McKay said he's confident the bank can handle tough economic conditions, but conceded that total gross impaired loans linked to the oil sector in the May to July quarter were nearly $140 million. "What gives me confidence during this period of market and economic uncertainty is that RBC is diversified across different businesses, client segments and geographies, has strict risk and cost discipline, and is backed by a strong capital position," McKay told analysts.

"We continue to participate in the [energy] industry," added Doug McGregor, RBC's group head of capital markets. "We've been in this business for a long time. We think that we have good processes, in terms of determining companies' ability to pay."

To put the impaired loans into perspective, RBC posted a quarterly profit of $2.475 billion, up 4% from the same period last year. On an adjusted basis, RBC's earnings were $1.68 cents per share, a penny above analyst estimates. The impaired loans linked to the oil sector represent just 5% of RBC's quarterly profits. Of course, RBC's stock decline can't really be completely blamed on the oil patch. All stocks have suffered in the past few trading sessions as China's markets have collapsed.

On top of that, the market is "going to have some issues with Royal Bank's credit quality," said Barclays analyst John Aiken. "While it had some impairments in its oil portfolio, it incurred additional credit losses in its international wealth management operations," he said. "This issue has dogged Royal's wealth management operations for several quarters and will not be viewed positively, given reassurances on previous calls."

Canadian banks have struggled this year, with the S&P/TSX commercial bank index falling as much as 18% from its highs in 2014. Still, for long-term investors, owning at least one of the Big Six banks is practically a no-brainer.

RBC increased its quarterly dividend to $0.79 per share on Wednesday, up two cents per share for a dividend yield of about 4.47%. RBC currently has $747 billion in assets under administration and has enjoyed regular increases in its quarterly profits for years, even riding out the financial crisis with little trouble.

A lower valuation for RBC (which has lost 10% this year) and other Canadian banks is a golden opportunity for buy-and-hold investors. Don’t let it slip away.

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1. Bank Stocks
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