3 Reasons to Invest in Royal Bank of Canada Today

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY), the second-largest bank in Canada in terms of total assets, has watched its stock fall about 10% year-to-date, but it has the potential to pare these losses and head significantly higher going forward. Let's take a look at three of the primary reasons why this could happen and why you should be a long-term buyer of the stock today.

1. Its strong earnings results could support a near-term rally

On the morning of August 26, RBC released very strong earnings results for its three and nine-month periods ending on July 31, 2015, but its stock has remained relatively flat in the weeks since. Here's a summary of 10 of the most notable statistics from the first nine months of fiscal 2015 compared with the same period in fiscal 2014:

1. Adjusted net income increased 8.2% to $7.21 billion
2. Adjusted earnings per diluted share increased 8.5% to $4.98
3. Total revenue increased 6.1% to $27.3 billion
4. Net interest income increased 3.9% to $10.97 billion
5. Non-interest income increased 7.7% to $16.33 billion
6. Total assets increased 18.7% to $1.085 trillion
7. Total deposits increased 15.4% to $694.24 billion
8. Total loans, net of allowance for loan losses, increased 7.5% to $462.6 billion
9. Total assets under management increased 13.9% to $508.7 billion
10. Book value per share increased 17.2% to $38.20

2. Its stock trades at inexpensive forward valuations

At current levels, RBC's stock trades at just 10.9 times fiscal 2015's estimated earnings per share of $6.63 and only 10.4 times fiscal 2016's estimated earnings per share of $6.93, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 13.6 and the industry average multiple of 12.3.

I think RBC's stock could consistently command a fair multiple of at least 12, which would place its shares upwards of $79 by the conclusion of fiscal 2015 and upwards of $83 by the conclusion of fiscal 2016, representing upside of more than 9% and 14%, respectively, from today’s levels.

3. It has a 4.4% dividend yield with an active streak of annual increases

RBC pays a quarterly dividend of $0.79 per share, or $3.16 per share annually, which gives its stock a 4.4% yield at current levels. Investors should also note that the company has increased its dividend for five consecutive years, and its strong operational performance could allow this streak to continue for decades.

Does Royal Bank of Canada belong in your portfolio?

I think Royal Bank of Canada represents one of the best long-term investment opportunities in the market today. Its strong earnings results in the first nine months of fiscal 2015 could support a near-term rally, its stock trades at inexpensive forward valuations, and it is both a high-dividend and dividend-growth play, which will amplify the potential returns for investors going forward.

All Foolish investors should strongly consider making it a core holding today.

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