



Royal Bank of Canada Reports Record Q4 Profit: Should You Buy Now?

Description

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)), the second-largest bank in Canada in terms of total assets, announced record fourth-quarter earnings results before the market opened on December 2, and its stock has responded by moving higher. Let's take a closer look at the results to determine if this could be the start of a sustained rally higher and if we should buy the stock today.

Breaking down the record-setting performance

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

Metric	Q4 2015 Actual	Q4 2015 Expected	Q4 2014 Actual
Earnings Per Share	\$1.74	\$1.64	\$1.57
Revenue	\$8.02 billion	\$8.65 billion	\$8.38 billion

Source: *Financial Times*

RBC's earnings per share increased 10.8% and its revenue decreased 4.3% compared with the fourth quarter of fiscal 2014. Its very strong earnings-per-share growth can be attributed to its net income increasing 11.1% to a record \$2.59 billion, led by 10.3% growth to \$1.27 billion in its Personal & Commercial Banking segment and 38.1% growth to \$555 million in its Capital Markets segment.

Its slight decline in revenue can be attributed to its non-interest income decreasing 12.5% to \$4.21 billion, driven by a 38.6% decline in insurance premiums, investments, and fee income to \$717 million and an 18.2% decline in underwriting and other advisory fees to \$350 million.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Net interest income increased 6.7% to \$3.8 billion
2. Total assets increased 14.2% to \$1.07 trillion

3. Total deposits increased 13.5% to \$697.23 billion
4. Total loans, net of allowance for loan losses, increased 8.5% to \$472.22 billion
5. Total securities increased 8.2% to \$215.51 billion
6. Total derivative related assets increased 20.9% to \$105.63 billion
7. Total common equity increased 17.3% to \$57.05 billion
8. Total assets under management increased 9.1% to \$498.4 billion
9. Book value per share increased 17.3% to \$39.51
10. Adjusted efficiency ratio improved 280 basis points to 54.8%

RBC also announced that it will be maintaining its quarterly dividend of \$0.79 per share, and the next payment will come on February 24, 2016 to shareholders of record at the close of business on January 26, 2016.

Should you buy RBC's stock on the dip?

It was a solid quarter overall for RBC, so I think the market has reacted correctly by sending its shares higher. I also think this could be the start of a sustained rally higher and that the stock represents a great long-term investment opportunity today, because it still trades at attractive valuations and is one of the top dividend plays in the market.

First, RBC's stock still trades at just 11.6 times fiscal 2015's adjusted earnings per share of \$6.66 and only 11.2 times fiscal 2016's estimated earnings per share of \$6.91, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 12.8 and the industry average multiple of 13.

It also trades at just 1.96 times its book value per share of \$39.51, which is a major discount compared with its market-to-book value of 2.38 at the conclusion of fiscal 2014 and its five-year average price-to-book value of 2.21.

At the very least, I think the company's stock should trade at 12.5 times earnings, which would place its shares upwards of \$86 by the conclusion of fiscal 2016, representing upside of more than 11% from today's levels.

Second, RBC pays an annual dividend of \$3.16 per share, which gives its stock a very generous 4.1% yield. It has also raised its dividend for five consecutive years, and it has a target dividend payout range of 40-50% of net income, so it is safe to assume that it will announce another increase in 2016.

With all of the information provided above in mind, I think Foolish investors should strongly consider beginning to scale in to long-term positions in Royal Bank of Canada today.

CATEGORY

1. Bank Stocks
2. Dividend Stocks

TICKERS GLOBAL

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2. TSX:RY (Royal Bank of Canada)

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