Royal Bank of Canada: 3 Takeaways From the Latest Quarterly Results

Description

Canadian banks are not particularly popular investments nowadays. It's no secret why. Low oil prices, an inflated real estate market, and record consumer debt levels all threaten to derail the Canadian economy. Low interest rates are squeezing margins. And the threat of FinTech companies looms large. Over the past 12 months the Big Six banks have seen their shares decline by an average of 7%.

But the banks' earnings numbers tell a completely different story, with **Royal Bank of Canada** (TSX:RY)(NYSE:RY) being a perfect example. The bank just reported fourth-quarter profit, setting a new company record with $10.0 billion in net income in fiscal year 2015.

Below are the three biggest takeaways from RBC's latest numbers.

1. A strong finish to a strong year

RBC's Canadian banking operations performed rather sluggishly, growing by only 1% in the most recent quarter. But its other operations helped pick up the slack. Capital Markets was the star performer this quarter, with net income of $555 million, up 38% year over year.

And when looking at the entire year, it was undoubtedly a successful one for RBC. Diluted EPS grew more than 12%, easily surpassing the bank's 7% target. Return on equity totaled 18.6%, which also surpassed RBC's goal for the year.

2. The bank is in solid shape

RBC did not achieve these results from outsized risks. Its Common Equity Tier 1 (CET1) ratio increased to 10.6% by the end of the year, an increase of 70 basis points over 12 months.

Furthermore, its exposure to the oil and gas sector seems to be well under control. Impaired oil and gas loans slipped to $156 million in the fourth quarter, down $27 million quarter over quarter. Keep in mind that total loans at the bank amount to nearly $500 billion.

3. Next year will be more of a challenge

The news isn’t all rosy. CEO Dave McKay maintains that next year will be much more of a challenge. And this shouldn’t surprise anyone for a number of reasons.

First of all, Canada’s energy sector has largely managed to scrape by in the low oil price environment. But unless oil prices recover soon, weaker players will be under serious pressure and could easily start defaulting on their bank loans. Secondly, Canada’s housing market has yet to endure the correction that so many pundits are calling for. If that happens next year, then the banks will certainly take a hit. Finally, low interest rates will continue to drag down lending margins.

All told, it’s little wonder that investors are scared.

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