



Royal Bank of Canada: This Forever Stock Refuses to Stop

Description

Although shares of Canada's largest bank are relatively flat in early morning trading on Wednesday, shareholders of **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) are once again delighted by the company's solid quarterly results.

Royal Bank delivered a quarterly profit of \$2.9 billion for the quarter ending July 31—a new record. Earnings increased \$420 million (or 17%) compared with a year ago and \$322 million (13%) from its latest quarter.

Headline results included an after-tax gain of \$235 million from the sale of the company's home and auto insurance business to Aviva Canada. Even after accounting for that gain, the bottom line was still \$2.66 billion.

What's more impressive is the company is well on pace to earn \$10 billion for the year. Earnings for the first three quarters of 2016 were \$7.92 billion, or \$5.13 per share. That puts Royal Bank on pace for earnings of \$10.56 billion, or \$6.84 per share.

Credit losses, the "Achilles's heel" of any bank, came in at \$342 million for the quarter—down \$142 million, or 31%, on a quarter-over-quarter basis. This increase was mainly due to lower provisions dedicated to the oil and gas sector. The loan loss ratio was 0.24%.

And finally, Royal Bank gave investors another raise, increasing its quarterly dividend from \$0.81 to \$0.83 per share. That's the second dividend raise this year and the 10th in the past five years. The yield is just over 4%.

Solid quarterly results aren't the only reason to buy a stock. The company needs to have other things going for it, like a solid management team, a competitive advantage, and the ability to keep growing the business.

Fortunately, Royal Bank has all of these qualities. Here's the simple case for loading up on this forever stock even though shares are trading at close to a five-year high.

A dominant position

A simple rule of thumb that has worked out pretty well over the years is this: if you're looking for exposure to a sector, buy the undisputed leader.

Royal Bank is that leader in Canada. The company has more assets under management, more loans outstanding, and more branches than any of its peers. It ranks either number one or number two in every important banking category in Canada.

The acquisition of City National helped boost the bottom line from both the U.S. and wealth management divisions. City National added \$82 million to the bottom line after a number of one-time items. Excluding those non-recurring costs, City National had a profit of \$123 million.

Growth

The beautiful part of the banking business is growth, which is really only limited to two things—access to capital and acceptable credit risks.

The Canadian housing market is the real wild card, of course. The latest results out of Vancouver show a real slowdown in its housing market after the province instituted a 15% land transfer tax on foreign buyers. If housing slows down, Royal Bank could easily feel it.

If housing crashes, Royal Bank is relatively well protected. The riskiest loans are guaranteed by mortgage default insurance. Yes, a housing crash will lead to more defaults—they always do—but the company is well prepared to weather the storm.

Another interesting growth area going forward will be wealth management. There are millions of Canadian baby boomers who need help converting savings into a reliable income stream. These folks will turn to the banks for help, especially Royal Bank.

Conclusion

Royal Bank is big enough that it has essentially become a proxy for Canada's economy. The company showed that things aren't so bad by continuing to deliver solid results.

The bank has a history of great results, a dividend that keeps on growing, a dominant position in the Canadian market, and, perhaps most importantly, a management team that is always keeping an eye out for the next prize.

It doesn't get much better than Royal Bank. It's that simple.

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