Does Royal Bank of Canada Belong in Your Portfolio?

Description

Searching for the right stock to add to your portfolio can be frustrating. This is true even when looking at the Big Five banks, which get repeat coverage. If you're not careful, you could wind up owning all of them, weighing your portfolio down with financial stocks. But one bank that is certainly worth looking into is **Royal Bank of Canada** (TSX:RY)(NYSE:RY).

Compared to all five, it is the largest bank by market capitalization in the country. It has $1.198 trillion dollars in assets with $515.8 billion in outstanding loans and deposits of over $750 billion. With operations in 38 different countries, it services more than 16 million clients. However, unlike some of the other banks, the vast majority of its income comes from right here in Canada, though this is something the bank wants to change.

In its Q3 2016 earnings release, the bank revealed that it had net income of $1.322 billion–up $41 million year over year. Its Canadian Banking division increased net income by $45 million to $1.284 billion. But, as I alluded to above, only $38 million came from its Caribbean & U.S. banking division, which was down $4 million year over year.

Its Wealth Management division absolutely killed it with net income of $388 million–up 36% from a year ago. Management revealed that this is thanks to its acquisition of City National, a small but profitable bank based out of California. That deal went through in November 2015 and provided $82 million in net income to the balance sheet. And finally, its Capital Markets division saw net income of $635 million–up $90 million from the previous year.

The quarter was smooth sailing, though you should always expect there to be credit losses. For Royal Bank, credit losses were only $342 million–down 31% from last quarter. Its loan loss ratio was only 0.24%, so I feel quite confident that the bank will continue to see its losses shrink.

A good reason to buy a bank stock like Royal Bank of Canada is for the dividend. And Royal Bank doesn't disappoint. It currently pays $0.83 per quarter, which is a comfortable 4.08% yield. What's impressive is that the bank actually increased this dividend by 2% at the end of the quarter thanks to the strong growth in earnings. And at 43%, the payout ratio is low enough that the dividend is not at risk, while still showing room for possible growth.

And it’s that growth that matters. Back in 2005 the annual distribution was $1.18 per share. By 2008 it was $2.00 a share, but growth stopped as the financial crisis was going on. In 2015 it was $3.08 per share. That’s a compound annual growth rate of approximately 10%. That’s a great return, and I see no reason why the dividend can’t continue to increase going forward.

If you’re looking to own a bank that continues to grow its business across multiple revenue channels, then you really can’t go wrong with Royal Bank of Canada. And with such a lucrative and growing dividend, this could be one of those forever stocks that offers a stable foundation to your long-term portfolio. I highly recommend considering this stock.

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1. Editor's Choice

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