



## Forget About Wells Fargo & Co: This Bank Stock Could Be the Next Apple of Buffett's Eye

### Description

**Wells Fargo & Co** ([NYSE:WFC](#)) has been in the news lately. Thanks to the scandal surrounding reports that bank employees have opened accounts without the clients' approval. As a result, Wells Fargo's share price has taken a beating, losing 14% of its market value for the year.

**Berkshire Hathaway** is the bank's biggest shareholder with an almost 10% stake. Its famous CEO, Mr. Warren Buffett is known as a long-time Wells Fargo fan, even praising the bank's untarnished ethical culture. On the other side, the recent scandal raises a question of the bank's integrity and trust. This is something that an ethical Mr. Buffett would not tolerate.

Mr. Buffett is still silent about the issue. However, it would seem impossible to liquidate a \$20 billion worth of Wells Fargo without moving markets. It could slowly replace Wells Fargo in its might "big four" investments with **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)).

The Canadian banking industry is rather a conservative one. In fact, there were no reports that a big Canadian bank has been connected with toxic subprime products during the financial crisis in 2008. Canadian banks consistently delivered the textbook example of banking, which is acquiring loan assets at commensurate risk. Consequently, banks such as Royal Bank of Canada have exhibited financial performance highlighted by higher returns on equity over a period of time.

As shown in the below chart, Royal Bank of Canada has produced consistent returns on equity between 18% and 19% with net profit growing from \$8.3 billion in 2013 to \$10 billion for the same period. Along with this, it has consistently increased its dividend per share from \$2.53 in 2013 to \$3.08 in 2015.

Source: Royal Bank of Canada 2015 Annual Report  
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In comparison, U.S. based banks could not even match its return generation. For example, WellsFargo generated return on equity of 12%, the venerable **Goldman Sachs** had only 6% and **JP Morgan** had almost 10%.

What could attract Mr. Buffett is that the Royal Bank of Canada has steadily improved its financial performance through a conservative approach to risk taking and effective cost management. Talk about magnifying returns without the use of a lot of leverage, which is something out of Buffett's playbook.

In the latter part of 2015, it has completed its \$5 billion acquisition of City National Corp., an L.A.-based private and commercial bank. The acquisition will definitely build Royal Bank of Canada's presence in the U.S. market as City National has a network of high-net-worth individuals and commercial business. In the coming years, this would definitely improve its overall profitability and could be a springboard for future bank acquisitions in the U.S.

## CATEGORY

1. Bank Stocks
2. Investing

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:WFC (Wells Fargo)
3. TSX:RY (Royal Bank of Canada)

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