



Royal Bank of Canada: Buy Canada's Cleanest Capitalist

Description

Corporate Knights magazine recently came out with its 2017 Global 100 list of the world's most sustainable corporations. Just six Canadian companies made this year's list; four of them were financial services companies with **Royal Bank of Canada** ([TSX:RY](#)) ([NYSE:RY](#)) receiving the highest Canadian ranking, finishing in 37th place.

Royal Bank is Canada's cleanest capitalist.

Shareholders can take pride in this recognition, a distinction that's not easily obtained. More importantly, it's a sign that the bank can be socially responsible while also generating \$10.5 billion in profits. That's a tightrope the bank has managed to do better than any other large Canadian enterprise.

How did they do it?

Well, according to *Corporate Knights* magazine, the ranking each company receives is based on publicly available data gleaned from annual reports, sustainability reports, etc. Companies do not submit information to the magazine, thus keeping the process impartial. A shortlist is drawn up from approximately 4,000 companies with market capitalizations of \$2 billion or greater. Once a shortlist is drawn up, the companies are then contacted for verification of the data collected.

Corporate Knights uses 14 key performance indicators in its ranking methodology, all of which are customized to a company's particular Global Industry Classification Standard (GICS). Relevant categories include resource management, financial management, employee management, as well as other additional, industry-specific KPIs.

In addition, every company, regardless of industry, is assessed on leadership diversity, senior management compensation linked to clean-capitalism targets, pension fund status, and percentage of tax paid.

Needless to say, it's only a quantitative examination of a company's business. It doesn't attempt a qualitative assessment which is best left to investors.

What stands out in Royal Bank's ranking?

- It's one of 15 global banks to make the list and, as mentioned previously, it's the highest Canadian company in the ranking at 37th place.
- The highest-ranked bank in the Global 100 was Denmark's **Danske Bank A/S** which was in fourth place overall. Royal Bank's overall score was 60.87%, approximately 11 percentage points behind the Danish bank.
- Royal Bank is back on the list and leading the Canadian contingent (half as many as in 2016) after failing to make the Global 100 in three consecutive years. That's a very important bounce-back given Royal Bank had been a part of the Global 100 ranking for nine consecutive years since its inception in 2005.

What does this mean for its stock?

Nothing — at least, not directly.

However, if a company wants to remain a force in Canadian business, bank or otherwise, it must balance the benefits and risks associated with economic, environmental, and social developments in this country with the profits and revenue goals of the company.

Corporate sustainability is about more than doing good; it's about ensuring the future integrity of your business and the communities in which you do business because to do anything less would result in systemic failure for all stakeholders.

According to *Corporate Knights* magazine, if you'd purchased one share of each of the Global 100 in February 2005, sold 12 months later, and repeated the process with the 2006 Global 100, and so on, you would have achieved a total return of 87.8% as of October 31, 2013 — 6.8% higher on a cumulative basis versus the MSCI All-Country World Index.

Appearing on this list on a consistent basis can only help Royal Bank's stock price no matter how much it looks like "feel good" public relations.

Corporate sustainability is here to stay, and no Canadian large cap does it better.

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