Evaluating Canada's Banks: Royal Bank of Canada

Description

Shareholders of Canada's biggest bank have very little to complain about after the first half of the year. On a year-to-date basis, shares of **Royal Bank of Canada** (TSX:RY)(NYSE:RY) have increased by 4% in addition to paying investors a quarterly dividend.

The bank, which is the largest by market capitalization, carries a relatively low beta of 0.72 and offers investors a dividend yield of almost 3.75%. The trailing price-to-earnings (P/E) multiple is almost 13 times, which is in line with expectations. By historical standards, 13 times earnings is not expensive, nor is it inexpensive.

The dividends paid by the company have steadily increased from $2.46 per share in 2016 to $3.20 for fiscal 2016. The compounded annual growth rate (CAGR) of dividends is currently 9.2% with another increase already in the books for fiscal 2017. Throughout the first half of the year, the dividends paid per share have totaled $1.66.

While dividends have increased consistently, the earnings per share (EPS) have also moved up. Given EPS of $5.50 in fiscal 2013, company management has done an excellent job in growing earnings to $6.78 for fiscal 2016, which translates to a CAGR of 7.2%. Although this may not seem like a huge number to many, it is important to appreciate that with a market capitalization of $138 billion, there may be some difficulty in continuing to grow an already large number at a high rate.

Since the increase in dividends was higher than the increase in earnings, the dividend-payout ratio has also increased as a result. The company, which paid out 44.7% of earnings in 2013, has increased that amount to 47.2% in fiscal 2016. Clearly, there is only so much that can be done with the capital the company is holding.

Shares outstanding increased by almost 3% from fiscal 2013 to 2016, while the total equity inside of the company increased as well.

When investors calculate the return on equity, it is essential to understand where the percentages are coming from. Return on equity is calculated by taking the net profit and dividing it by the shareholders' equity. Either a high amount of profit or a low amount of equity will lead to a high return on shareholders' equity. Successful companies which do not get rid of their profits through dividends and buybacks will be the victims of their own success.

Although profits increased from $8.244 billion in fiscal 2013 to $10.405 billion in fiscal 2016 (an increase of 26%), shareholders' equity increased as well. The total amount as of the end of fiscal 2013 was $47.665 billion, which increased to $71.017. The result of these increases was a decrease in return on equity from 17.3% in fiscal 2013 to 14.6% in fiscal 2016. Clearly, investors are receiving less "bang for their buck," as has been the case with almost all of Canada's banks over the past few years.

Now that I've written about each of Canada's banks, investors now have the opportunity to find the one most suitable for their investment goals. For those of you who've missed these articles, they can be found my either clicking on my name at the top of this article or on "Bank Stocks" on the right-hand side of the page.

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