Royal Bank of Canada Posts a Strong Q3 and Increases its Dividend by 5%

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) released its third-quarter results this morning, which showed the company post revenues of $9.9 billion for the quarter — down over 2% from 2016 when it recorded over $10.25 billion in sales. Net income was also slightly down year over year with RBC showing profits of just under $2.8 billion — a drop of over 3% from the previous year.

However, in the third quarter of last year, the company benefited from an after-tax gain on its sale of RBC General Insurance, which totaled $235 million. Without the gain, the company's net income this quarter would actually be up 5% year over year. On a per-share basis, earnings of $1.89 for Q3 were up over 7% from last year's total of $1.76.

Overall, RBC looks to have had a good quarter, and I'll have a closer look to see if you should consider buying the stock today.

Segment breakdown

A quick overview of the bank's segmented performance shows that its wealth management division had the strongest year-over-year increase with net income rising 25% from the previous year. Investor and treasury services saw the next biggest increase of 13% year over year, but in terms of actual dollars, the improvement represented just $21 million more in the bottom line. Personal banking, where the company netted almost $1.4 billion in profits for the quarter, also increased by 6%, which the bank credits to increased volumes of about 7%.

The insurance segment of the company's business was down 56% year over year; however, without the prior year's gain, that loss turns into an improvement of about 25% from the prior year. Lastly, income from RBC's capital markets also decreased by 4% year over year as the company saw a decline in fixed-income trading.

Strong history of growth

RBC has been consistent in growing its revenues and, over the past four years, has seen revenues continue to rise year over year. With over $38.4 billion in net revenue for 2016, the company's sales have grown by 30% since 2012 for impressive average annual growth of almost 7%. More importantly, the company posted net income of over $10.4 billion in its most recent fiscal year, which is also up almost 40% over the same period.

Dividend hike

In its earnings release, the company announced that it would be increasing its dividend by 5% and will now pay $0.91 per share every quarter. The bank has already increased dividends once this year from $0.83 to $0.87 for an increase of just under 5%. RBC has a long history of paying and increasing dividends and, with the new dividend hike, it will mean that in five years the dividend will have risen by almost 60% for a compounded annual growth rate of just under 10%.

With the increase in the dividend, the company's yield will now be around 3.95% per year, up from the 3.78% that it was yielding as of the close of Tuesday. However, that rate will certainly change depending on how well markets react to the earnings results.

Bottom line

RBC has continually found ways to grow, and there is no reason to expect that to stop anytime soon. Long term, it is hard to go wrong by putting one of Canada's top banks into your portfolio.

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