

3 Reasons Royal Bank of Canada (TSX:RY) Is a Must-Own in Your TFSA

Description

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) stock was up 0.41% as trading opened on July 24. Shares are still in negative territory for 2018, but the stock is up 7.4% year over year. I have discussed why [banks are enticing](#) considering the history of second half performances on the TSX. That does not mean investors should not exercise some caution with the [possibility of additional tariffs](#) being imposed in the fall, however.

Royal Bank was recently labelled one of the 20 banks in the world that are “too big to fail” by the Swiss Financial Stability Board. Let’s review why Royal Bank belongs in your TFSA for the long haul.

Earnings have been positive in 2018 so far

Royal Bank is expected to release its third-quarter results before trading opens on August 22. The third-quarter earnings season sparked a massive run for Canadian banks in the late summer and fall of 2017. Of course, that does not mean we will see history repeat itself in 2018. In any case, the first six months of fiscal 2018 have been strong for Royal Bank.

Net income has climbed 4% year-over-year to \$6.07 billion compared to the first six months of 2017, while diluted earnings per share are up 7% to \$4.07. Excluding its sale of its U.S. operations of Moneris Solutions Corporation, profit was up 8% from the prior year and diluted EPS have increased 11%. Nearly all of Royal Bank’s major segment saw a bump in profit, with the exception of a flat performance in Capital Markets due to less favourable market conditions.

Top banks should continue to thrive with higher interest rates

The Bank of Canada elected to raise the benchmark interest rate to 1.5% on July 11. Bank stocks dipped on the news, but have since recovered. Rate tightening could frustrate loan growth going forward, in particular mortgage books, which are already under stress due to new regulations introduced by the OSFI this year. Financial institutions will also benefit from higher margins, which will be a fresh change from the historically low rates that banks have contended with over the past decade.

In the second quarter, Royal Bank saw net income in its Personal and Commercial Banking segment grow 7% to \$1.46 billion. This was mainly due to average volume growth of 5% and improved spreads on higher interest rates. Higher margins bolstered earnings for most of the big banks in the second quarter.

Royal Bank is gearing up for the future

In the past I have targeted Royal Bank because of its forward-thinking investment. This trend has continued in 2018.

In late June, Royal Bank announced that it would invest \$2 million into cyber security research at Ben-Gurion University in Israel. Israel is a global leader in cyber security and banks are making a strong

push to improve protection against breaches that could be devastating for clients and the institution itself.

More exciting is Royal Bank's foray into cryptocurrency and blockchain technology. In the fall of 2017, Royal Bank announced that it had started using block chain for payments between Canada and the United States. The bank also released a report early this year that projected that crypto and block chain had the potential to unlock a \$10 trillion ecosystem. Royal Bank is getting in on the ground floor, which should excite investors who are holding for the long haul.

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Date

2025/07/17

Date Created

2018/07/24

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