Why Royal Bank of Canada (TSX:RY) Is a Top Dividend Stock

Description

Income investors love financially stable companies with high dividend yields and the potential for capital appreciation. These factors make for a steady stream of income in the form of dividends. In this regard, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is one of the top TSX bank stocks investors can purchase. Let's consider why RY is an excellent choice for income investors.

Growth prospects

RY is part of a group of six banks that share 90% of the market share within the Canadian banking environment. Even among these well-established corporations, RY commands a respectable portion of the market. The Toronto-based financial institution is either first or second in every major Canadian banking product, which includes checking and savings accounts, among others.

The ability to increase the amount of deposits it holds is critical for any bank. The more deposits a bank has, the more money it can lend, which directly translates to higher earnings. Over the past five years, RY's personal deposits have increased by 29%. The company's net interest income grew by 32% over the same period.

The percentage of total earnings RY's personal and commercial banking (P&C) revenue contributes has been decreasing over the years, despite making up a bulk of the firm's income. In 2013 P&C revenue accounted for 56% of the company's revenue. That number decreased to 48% at the end of last year.

This trend is primarily due to RY's growing wealth management unit, which grew to 18% in 2018 from 11% five years ago. RY's average assets under management increased by 117% since 2013, and the company's net interest income from its wealth management segment increased by 152%. The company's return on equity for this segment has remained constant at 17%.

All these figures demonstrate RY's potential for growth — a desirable trait for any company to possess.

Final thoughts

The Canadian economy is currently doing well and is projected to keep growing at a steady pace, at least for the foreseeable future. Business and personal loans increase when the economy is booming. Thus, the current economic climate is good for banks, and RY is very well positioned to take advantage. The company will be one of the dominant banks in Canada for many more years.

RY's current dividend yield is 5.03%, which is higher than that of most of its competitors. The company has increased its dividend per share by 22% over the past five years. RY also has an explicitly stated goal of keeping its payout ratio between 40% and 50%. But most of all, RY has a competitive advantage in the Canadian banking market and strong growth potential.

Income investors should consider purchasing shares of RY.

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