



Why Royal Bank of Canada (TSX:RY) Deserves to Be at the Top of the TSX Index

Description

Royal Bank of Canada ([TSX:RY](#))([NYSE:RY](#)) is the largest Canadian bank, but the big story over the next five years will be whether Royal Bank will continue to reign as the market cap king. Indeed, other more U.S. and internationally-focused [Canadian banks](#) are starting to pick up traction, and although it may seem like the throne is Royal Bank's to lose, investors ought to commend the company for a solid 2018.

Based on the chart, Royal Bank looked like a 2018 dud, but having a look under the hood, it becomes clearer that the sub-par performance was primarily due to macroeconomic worry rather than less-than-stellar operations going on behind the scenes.

Don't mind the chart. 2018 was a top-notch year for Royal Bank

For the fourth quarter, Royal Bank clocked in \$8.36 in GAAP EPS, up 10.6% year over year, with a slight ROE bump to 17.6%. The results warranted the nice rally, and could be the start of a sustained pop to much higher levels as macro concerns subside, allowing the Big Banks to return to their former glory prior to the multi-month Trump slump.

Make no mistake: Royal Bank is still firing on all cylinders, although pundits praise other players in the Big Six. The bank is operating at a very high level, and over the medium-term, I do believe Royal Bank will continue to hold its spot at the top of the TSX, as management continues to increase its footprint into the U.S. market with its high-net-worth wealth management and commercial banking businesses. With meaningful catalysts on the horizon, I see no huge dents in Royal Bank's armour.

The company is rolling out tech products to enhance upon the customer experience, and although the significant exposure to Canada's frothy housing market, management is slated to continue adopting more conservative loan practices, which should limit loan losses should a strong breeze be aimed at Canada's house of cards housing market.

What about valuation?

If you want a high ROE name, Royal Bank is a top pick, and right now, you can score a massive 4.8% dividend yield thanks to the downward pressure placed on share. Despite the recent relief rally, the stock is down over 8% from the high at the time of writing, leaving ample opportunity for bargain hunters to scoop-up the battered bargain at a discount to its intrinsic value.

The stock currently trades at a 10.6 forward P/E, a 4.7 P/CF, and a 5.0 P/FCF, all of which are substantially lower than the company's five-year historical average multiples of 12.6, 8.6, and 10.9, respectively. With high double-digit ROE numbers that could hover around the 20% mark, Royal Bank of Canada [is a steal](#), plain and simple.

The stock chart and price doesn't do the company justice.

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Date

2025/07/17

Date Created

2019/01/29

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