TFSA Investors: Does Royal Bank of Canada (TSX:RY) Stock Deserved to Be a Top Pick Right Now?

Description

The TFSA contribution room expanded by $6,000 in 2019, bringing the maximum since inception to $63,500 for Canadian residents who were at least 18 years old in 2009.

People use the TFSA for a variety of savings objectives, including planning for retirement, and one popular strategy involves holding top dividend stocks and using the distributions to buy new shares.

Let's take look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see if it might be an interesting pick for your self-directed TFSA portfolio today.

Earnings

Royal Bank reported $12.4 billion in profit for fiscal 2018. That's a tidy sum and the result highlights the quality of the company's different business units.

Royal Bank is best known for its vast retail banking operations that concentrate on personal and commercial banking customers. This group generated 48% of the company's earnings last year. However, the other divisions are also important to consider when evaluating the stock. The capital markets operations provided 22% of profits, followed by wealth management at 18%, insurance at 6%, and investor and treasury services at 6%.

The balanced revenue stream ensures steady results. When one group has a rough quarter, the others generally pick up the slack.

Going forward, the bank is targeting 7-10% earnings per share growth over the medium term.

Risks

Investors might be concerned that rising interest rates could hit the Canadian housing market and put a dent in bank earnings. It is true that mortgage growth could slow down and some borrowers might be forced to sell.

Homeowners have responded reasonably well to the series of rate hikes we saw over the past two years, and it appears the Bank of Canada is going to sit on its hands in 2019 to evaluate the ongoing impact. This should provide some relief and help ensure a soft landing for the housing market.

Royal Bank's mortgage portfolio is large, but the loan-to-value ratio is reasonable and a good chunk of the portfolio is insured. In addition, the company is well capitalized, so there shouldn't be much to worry about on the housing front.

Competition from non-bank IT companies is another area investors are watching as the financial industry evolves. Royal Bank knows it has to remain competitive and is investing heavily in its digital platforms. The effort is paying off as the bank saw its mobile users jump 17% to 3.9 million in 2018.

Dividends

Royal Bank raised its dividend by 8% in 2018, and investors should see the distribution continue to increase in line with earnings growth.

The current payout provides a yield of 4.7%.

Returns

Long-term investors have done well with this stock. A $10,000 investment in Royal Bank 20 years ago would be worth more than $100,000 today with the dividends reinvested.

Should you buy?

The stock is off the 2018 low, but still trades at a reasonable level. Given the solid earnings outlook and the company's leadership position in the market, Royal Bank should be an attractive pick today for a dividend growth TFSA portfolio.

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