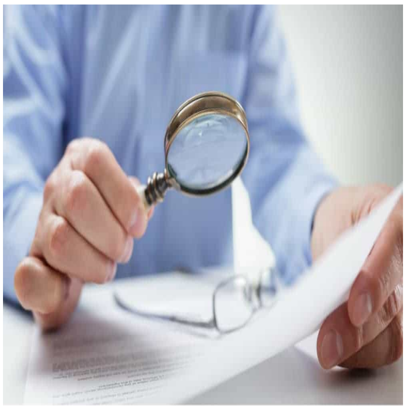

Royal Bank of Canada (TSX:RY) Hikes Dividends: Is It Time to Buy?

Description

The past 12 months have been a mixed bag for the banking industry. Banks benefited from interest rate hikes, but economic pressures rocked global equity markets. These conflicting forces resulted in strong financial performances for most of the major Canadian banks while incurring important losses on the stock market.

Royal Bank of Canada's (TSX:RY) (NYSE:RY) first quarter of the fiscal year 2019 was in the midst of the worst stretch for equity markets late last year. The company managed to increase year over year earnings, however, and recently announced that it would be treating investors to higher dividends. Is now a good time to buy shares of the Montreal-based financial institution?

A closer look at RBC's earnings report

RBC shed as much as 13% of its share value on the market last year and closed the year with a net loss of about 10%, roughly the average TSX return for the year. The company's recent earnings report showed a 7% increase in revenue year over year, a 5% increase in net income, and a 7% growth in diluted earnings per share (EPS). However, RBC's earning report warrants a closer look.

First, the company's results were down compared to the previous quarter – Q4 2018; net income and EPS both dropped by about 2%. Second, while RBC's Personal & Commercial (P&C) Banking and Insurance segments performed well, most of its other segments did not deliver.

P&C baking is RBC's most important segment, representing north of 40% of the company's earnings. RBC's P&C revenue increased 3% year over year. This increase was driven by client growth (powered by higher interest rates resulting in a higher net interest spread). RBC's is the largest Canadian banks by deposits. The company provides several incentives to customers to increase banking activity. The higher banking activity that RBC is experiencing is a good sign.

Capital markets, RBC's second largest revenue by segment, saw net income drop by 13% year over year. This decrease was primarily due to poor market conditions. Wealth management is RBC's third largest segment by revenue, and revenue for this unit was the same as last year's. While interest income grew, again, thanks to higher interest rates, the company incurred higher fees and costs which offset the growth in interest income.

What about the economy?

Banks thrive on economic growth. Strong economic activity encourages more spending and borrowing, and higher interest rates help banks pocket in higher net interest income. The current economic climate appears to be favourable to RBC, both in Canada and the U.S.

The economy is doing well in both countries, and while growth will likely slow down, the overall climate should still be fairly positive. Equity markets have also been doing much better (so far) than they did at the end of last year. As global economic pressures loosen up, RBC should take advantage.

Investor takeaway

RBC's recent dividend hike bumped quarterly dividend payout to $1.02 per share, up 4% from the previous quarter. Over the past five years, the company has increased its quarterly payouts by 52%, or an average yearly increase of about 10%. RBC currently boats a healthy 45.10% payout ratio and a 3.85% dividend yield. The company is undoubtedly a top dividend stock.

The lower income in several of RBC's business segments compared to last year's Q4 were primarily due to global economic conditions. Despite these pressures, the company's most important segment is booming. RBC is poised to pounce on the recovery of equity markets and the global economic landscape. For these reasons, RBC looks like a buy at the moment.

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