Should You Buy Royal Bank of Canada (TSX:RY) After Q1 Earnings?

Description

Royal Bank (TSX:RY)(NYSE:RY) stock has climbed 8.8% in 2019 as of close on February 22. Shares are down 0.8% year over year.

Back in late September 2018, I'd suggested that Royal Bank was a top hold heading into 2019. Unfortunately, Royal Bank and its peers were battered in the following months, as global stocks were hit with some of the worst turbulence since the financial crisis. Earlier this month, I'd asked whether the TSX was now overheated. The index has climbed 11.8% in 2019 so far, and this point is worth considering, as Royal Bank remains the top constituent on the TSX.

Royal Bank released its first-quarter results for 2019 on February 22. Net income rose 5% year over year to $3.17 billion, and diluted earnings per share increased 7% to $2.15. However, both net income and diluted EPS were down 2% from the previous quarter.

Royal Bank continued to see solid growth in most of its segments. In the Personal and Commercial Banking segment, net income climbed 3% from the prior year on the back of volume growth and improved margins due to higher interest rates. Net income in its Wealth Management segment was unchanged from the first quarter of 2018. Higher interest rates and decent volume growth salvaged what was a challenging month for the wider market.

Net income in Investor and Treasury Services fell 26%, or $58 million, from Q1 2018. The segment suffered from market conditions and lower client activity but did report improved client deposit margins. Capital Markets reported a $95 million year-over-year decline in net income. The bank posted lower revenue in Corporate and Investment Banking due to the rough market conditions in the final quarter of 2018.

Royal Bank declared a quarterly dividend of $1.02 per share, which represents a $0.04 increase from its previous payout. The bank has achieved dividend growth for eight consecutive years. The new dividend represents a solid 4% yield. So, is Royal Bank stock worth picking up after its latest earnings report?

The first three months of the year are typically the strongest for banks. Royal Bank posted solid growth in Q1 2019, but the Canadian economy is expected to experience a sharp dip in growth this year. The Bank of Canada projected GDP growth to slip below the 2% mark in 2019, which will have an impact on the heavily weighted financial sector.

The relative strength index (RSI) is a technical indicator that aims to chart the current and historical strength or weakness of a stock. As of close on February 22, Royal Bank stock boasted an RSI of 63. This indicates that the stock is just outside overbought territory, which starts at the 70 mark. Royal Bank is at the higher end of its 52-week range after a significant two-month rally on the TSX. This should be setting off alarm bells for potential buyers.

Royal Bank and other bank stocks will be more attractive, particularly to income investors, if central banks commit to the reversal on rate hikes in 2019 and possibly beyond. Slower growth is a concern, but Royal Bank’s sizable footprint and world-class management will keep it churning out profits in the next decade. Value investors should await a pullback for more favourable pricing. Royal Bank is a stock to keep on your radar heading into March.

CATEGORY

1. Bank Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/09/11
Date Created
2019/02/25
Author

aocallaghan