Did Royal Bank of Canada (TSX:RY) Just Become the Best Bank for Your Buck?

Description

It's been a dreadful earnings season for the big banks thus far. With a weakening macro environment paving the way for a potentially disastrous 2019 for the Canadian bank stocks, investors may be a bit jittery, wondering if it still makes sense to hold their favourite banks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) given that total returns over the next year may be muted.

While there are certainly better opportunities scattered across the TSX, I'd encourage investors to think of the banks as foundations for their portfolio, rather than non-essential holdings that should be traded to improve near-term returns. With that in mind, the banks are still great holds if you already own them. They'll continue paying and hiking their dividends as usual, with less regard for near-term factors that'll influence their near-term stock price trajectories.

The question on the mind of most investors, however, is not whether they should sell their bank stocks, but whether they should be adding to their positions on the recent rounds of post-earnings pullbacks. In this article, let's have a closer look at Canada's top dog, Royal Bank of Canada, to see if the stock is trading at a royal discount to its intrinsic value or if the name is at risk of being knocked from the throne.

Royal Bank kicked off bank earnings season last month, and the results, while underwhelming on the surface, weren't nearly as bad when compared to the likes of its peer group (Yes, I'm looking at you, **CIBC**!)

At $2.19, first-quarter adjusted EPS numbers were in line with expectations, thanks in part to tax gains. The top-line was propelled by the capital markets segment, the bane for other banks like CIBC this quarter, and although provision for credit losses was propped up due to the bankruptcy of one of its higher-profile commercial clients, things could have been much worse had the bank lacked its robust operating structure. Management's solid operational performance allowed Royal Bank to weather what's been a rather windy storm in Canada's banking scene.

As we head into the latter part of 2019, the bar has undoubtedly been lowered, as was the case for all the banks. So, there is room for Royal to make up for lost time in the latter half of the year now that investors have tempered their expectations.

Dividend raise? Yes, please!

Royal Bank concluded its Q1 reveal by raising its dividend by 9%. With the stock now yielding around 4%, I consider the Royal to be a pretty solid bet for the income-savvy investor.

In comparison to how the other banks faired this season, Royal looked to be one of the standout winners, although it didn't beat analyst expectations! With shares trading at 11.4 times next year's expected earnings, I have no problem recommending Royal Bank stock to investors with a long-term horizon, although I don't think the name is the best bank for your buck at this juncture.

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