Retirement Investors: Should You Buy Royal Bank of Canada (TSX:RY) Stock Today?

Description

Canadian investors are searching for efficient and effective ways to set cash aside to cover a comfortable retirement.

One popular strategy involves owning quality stocks inside a TFSA or RRSP, and the TSX Index certainly contains a number of top companies that have proven to be solid buy-and-hold picks.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see if it deserves to be in your portfolio right now.

Housing risk

Royal Bank is Canada's largest company with a market capitalization of more than $150 billion. The firm is so big that is was deemed as one of the handful of banks in the world that are considered to be too big to fail, meaning the financial markets could be destabilized if it goes bust.

Fortunately, Royal Bank is in great shape. The company is well capitalized, reporting a CET1 ratio of 11.4% at the end of fiscal Q1 2019. This is important, as some analysts are concerned a housing downturn in Canada could put the Canadian banks at risk.

A total residential real estate meltdown would be negative and Royal Bank has about $285 billion in mortgages in its portfolio. However, a good chunk of the loans (38%) is insured and the loan-to-value ratio on the uninsured component is 62%. As a result, house prices would have to fall considerably before the bank takes a meaningful hit.

Mortgage rates are falling again amid a surge in bond prices connected to the change in sentiment by the Bank of Canada and the U.S. Federal Reserve. Both have put their rate-hike programs on hold in recent months, and that appears to be the course for the next year. This should remove some risk from the market as it will give Canadian homeowners a chance to adjust after the rate hikes that occurred in the past two years.

Earnings

Royal Bank remains a very profitable company. The bank reported net income of $3.2 billion for fiscal Q1 2019, representing a 5% increase over the same period last year.

Fiscal 2018 earnings came in at $12.4 billion, so the bank makes about $1 billion per month.

Dividends

Royal Bank just increased its dividend by 5%. The company has a strong track record of boosting the payout, and that should continue in line with anticipated annual earnings-per-share gains of 7-10%. The current payout provides a yield of 3.9%.

Should you buy?

Royal Bank is trading at 12.4 times trailing earnings, which isn’t cheap, but waiting to catch the stock on a dip means missed distributions and potential lost upside. Over time, the share price should continue to move higher. If you are searching for a buy-and-hold anchor for your retirement portfolio, Royal Bank deserves to be on your radar.

Long-term investors have done well. A $10,000 investment in the stock 20 years ago would be worth more than $110,000 today with the dividends reinvested.

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