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

Description

After reporting its fiscal Q2 2019 results on Thursday, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) stock fell 2.4%. Let's explore to see if you should consider buying the quality name today or not.

RBC's Q2 results

RBC operates in five core segments. The Personal & Commercial Banking, Wealth Management, and Capital Markets segments, in particular, helped contribute to net income growth this quarter. They saw earnings growth of 6.2%, 8.9%, and 16.7%, respectively, against the same period a year ago.

Overall, RBC increased revenue by 14% to $11.5 billion versus non-interest expense that only rose 8%. Net income came in 5.6% higher to $3.2 billion, while diluted earnings per share rose 6.8% to $2.20 per share thanks to a reduction in its share count.

RBC's recent results

RBC's half-year results can help reduce any bias that may occur from looking at a quarter's results. For the first half of the fiscal year, RBC saw healthy revenue growth of 10.5%, while diluted earnings per share experienced stable growth of 6.6% to $4.34.

RBC's financial position remains strong. At the end of Q2, it had total assets of more than $1.3 trillion (up 8.1% year over year), deposits of $864 billion (up 5.1% year over year), loans of more than $602 billion (up 9.2% year over year), and common equity of $76.1 billion (up 10.1% year over year). Additionally, the bank's common equity tier 1 capital ratio was solid at 11.8% (up 40 basis points year over year).

Should you buy RBC stock?

RBC is a quality stock that tends to outperform the market with lower risk compared to the average stock. It also offers a safe and growing dividend.

At about $102.60 per share at writing, it appears to be fairly valued trading at a blended price-to-earnings ratio of about 11.8 compared to its long-term normalized multiple of 12.2.

The bank is expected to grow earnings per share by about 6%. Combined that growth with its yield of 4% at writing, RBC stock can deliver long-term returns of about 10% per year. These estimated returns therefore indicate that RBC is still a solid buy.

This year, RBC's payout ratio is estimated to be about 45%. So, it's reasonable to expect dividend growth that could be slightly higher than its actual earnings growth assuming that the bank were willing to steadily expand its payout ratio towards 50%, which would align with its big Canadian peers.

Foolish takeaway

RBC is a leading Canadian financial institution. The stock trades at a reasonable price and offers a solid yield of 4%. Therefore, it's an excellent choice for conservative investors looking for safe income and long-term returns of about 10% per year. And it would be an even stronger buy on any further dips.

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