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

Description

Royal Bank (TSX:RY)(NYSE:RY) is the largest bank in Canada and one of the largest in the world. Shares of Royal Bank rose 1.22% to close out the week on May 24. The stock has climbed 11% in 2019 so far.

Royal Bank rose to all-time highs in mid-April, although there were reasons for investors to express concern ahead of its second quarter earnings release. In the first quarter, net income rose 5% year-over-year to $3.2 billion. Its Capital Markets segment weighed on earnings, a common theme for the top banks in the first quarter.

The Bank of Canada has stressed caution since late 2018 as it has held off on another rate increase. Canada has seen GDP growth slow over the past year. The housing market and a struggling oil patch has weighed on the broader economy. However, the central bank and the OECD is calling for 2% growth in the second half of the year.

Soaring Canadian debt has long worried policy makers. Some big market players are betting on volatility going forward. Steve Eisman of *The Big Short* fame recently revealed that he expects a "normalization of credit" to hit Canada's largest financial institutions hard. Royal Bank was one of the three banks he specifically identified.

Royal Bank released its second-quarter 2019 results on May 23. Net income climbed 6% year-over-year to $3.23 billion and diluted earnings per share posted 7% growth to $2.20. Net income and diluted EPS were up 2% from the prior quarter.

Net income in Royal Bank's Personal and Commercial Banking segment rose 6% year over year to $1.55 billion due to strong volume and deposit growth as well as improved spreads from higher interest rates. Net income in the Wealth Management segment rose 9% to $585 million largely due to higher net interest income. Improved market conditions were a boost for the segment in the quarter.

As expected, the Capital Markets segment enjoyed a bounce-back in the second quarter. Net income in Capital Market jumped 17% year over year to $776 million, which was primarily due to higher revenue in Global Markets across fixed income trading, equity trading in North America and debt origination, and improved market conditions in the late winter and early spring.

As we look ahead to the final two quarters of 2019, there are reasons to be cautious. The Canadian economy is expected to enjoy an uptick in the second half of the year, but the International Monetary Fund (IMF) is still projecting a modest 1.5% growth for the full year. However, it does expect growth to pick up in 2020.

The state of the markets is another lingering concern. The TSX has increased 13.3% in 2019 as of close on May 24. Trade tensions and anemic growth will hover over investors into the next decade, but dovish central banks should alleviate some anxiety.

Royal Bank boasts a forward P/E of 12, putting it in pricey territory relative to its top peers. It’s trading at the high end of its 52-week range, and it looks like a hold as we look ahead to June.

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Date
2025/09/10
Date Created
2019/05/27
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