



Latest Results Confirm Royal Bank of Canada (TSX:RY) Is the Best Big Bank to Own

Description

Canada's latest bank reporting season has not been as impressive as it once was. **Bank of Nova Scotia** reported an [earnings miss](#), despite otherwise credible results, while **Canadian Imperial Bank of Commerce** disappointed the market with some rather lacklustre results. The domestic as well as international headwinds facing Canada's banks, along with fears that the bad credit cycle has yet to end, sees them attracting considerable [short interest](#) from U.S. hedge funds and traders.

Even after beating the average analyst estimate by \$0.01 per share with diluted EPS of \$2.20 Canada's largest lender, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) remains a favourite [among short sellers](#), with it ranked as the third-most shorted stock on the TSX.

Solid results

While there are plenty of headwinds ahead for Canada's banks, Royal Bank of Canada remains one of my top buy and hold picks for 2019, recently reporting some solid results. Second-quarter 2019 net income soared by 6% year over year to \$3.2 billion, while diluted EPS shot up by 7% to \$2.20, which was driven by strong growth in personal and commercial banking in Canada where net income popped by 6% compared to a year earlier on the back of strong deposit taking activity and better deposit spreads.

Wealth management, which has been a key growth objective for Royal bank, saw its net income soar by 9% year over year because of strong loan growth and higher asset fees. As predicted in an [earlier article](#), capital markets experienced a solid uptick in trading and other fee earning activity, which propelled its net income 19% higher quarter over quarter and lifted it by 17% compared to a year earlier to \$776 million.

Growing trading, lending and other capital markets activity will continue to lift earnings over the remainder of 2019 and into 2020, particularly if the emerging trade war between the U.S. and China can be averted.

Credit quality remained strong, with Royal bank reporting a gross impaired loan (GIL) ratio of 0.48% for the quarter, which was 0.03% greater than the quarter prior and 0.02% higher than a year earlier. Notably, Royal Bank's GIL ratio is quite low, even compared to other major banks being almost half of Scotiabank's 0.89%, highlighting the rock-solid nature of its credit portfolio.

Royal Bank managed to maintain such a healthy ratio despite the value of gross impaired loans expanding by an unhealthy 15% year over year to \$3 billion, which can be attributed to an uptick in impaired loan formations in the U.S. oil patch.

The bank's U.S. operations will become an important growth engine. On a trailing 12-month basis, Royal Bank earned 17% of its total income from the U.S. The ongoing robust economic outlook south of the border was responsible for the 11% year over year increase in net income from its U.S. businesses.

Higher U.S. interest rates are also boosting the profitability of Royal Bank's operations in the world's largest economy. For the second quarter, it reported a net-interest-margin (NIM) for its U.S. operations of 3.48%, which was 0.2% greater than a year earlier and 0.68% higher than the NIM for its Canadian banking business.

Foolish takeaway

For these reasons, Royal Bank's earnings will continue to expand at a healthy clip despite trade war fears and the [headwinds facing](#) Canada's economy. While investors wait for that to boost the bank's market value, they will be rewarded by its regular sustainable dividend yielding just under 4%. If earnings grow as anticipated, it isn't difficult to see Royal Bank rewarding shareholders with another annual dividend hike after having boosted its dividend for the last eight years straight.

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Date

2025/08/27

Date Created

2019/05/28

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