TFSA Investors: Is Royal Bank of Canada (TSX:RY) Stock a Buy Right Now?

Description

Saving for retirement isn't easy, so Canadians want to ensure the investments they make with their hard-earned cash are going to help them meet their goals.

The Canadian banks often come up as top stock picks for a self-directed retirement portfolio. Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see if it deserves to be on your buy list today.

Earnings

Royal Bank generated fiscal 2018 profits of $12.4 billion, and the company is well on the way to handily beat that number this year.

Fiscal Q2 net income came in at $3.23 billion, representing a gain of $170 million, or 6% compared to the same period in 2018. Diluted earnings per share hit $2.20, up 7% year over year for the quarter.

Return on equity slipped 60 basis points but is still attractive at 17.5%.

Personal and commercial banking activities saw net income jump 6%, supported by strong deposit growth. Wealth management net income rose 9%, partly driven by an improved performance in the company's U.S. business, City National, that was acquired for US$5 billion in late 2015.

Capital markets net income, which can be volatile, jumped 17% due to higher trading revenue.

Overall, Royal Bank had a strong fiscal second quarter. That wasn't the case for some of its peers and shows the resilience of the bank's balanced revenue stream.

Risks

The Canadian economy remains in good shape, and the country's unemployment rate is at its lowest level in decades. As a result, Canadians are keeping up with their debt payments.

However, critics of bank stocks say the overpriced housing market combined with large mortgage portfolios will eventually hit the Canadian banks hard. In the event the economy tanks and we see a wave of job losses, house prices could plunge and default would likely soar.

That said, the drop in mortgage rates over the past six months has removed some of the risk, and barring a global recession triggered by an extended trade war between the United States and China, the Canadian economy should continue to roll along in decent shape.

In the event we see a downturn in the housing market, Royal Bank is positioned well to ride out the storm. The company has a strong capital position with a CET1 ratio of 11.8%. The loan-to-value ratio on the uninsured mortgages is 63%, so things would have to get pretty bad before the bank sees material losses.

Dividends

Reliable dividend growth is a big part of long-term wealth generation. Royal Bank raised the quarterly dividend by 4% to $1.02 per share earlier this year, and investors should see a second hike before the end of 2019.

At the time of writing, the stock provides a yield of 3.9%.

Should you buy?

Royal Bank trades at a reasonable 12.25 times trailing earnings, and management is targeting annual earnings growth of 7-10% over the next few years. The dividend should continue to grow in step with profit gains, so the outlook remains solid for the company.

If you have some cash to invest in your TFSA retirement fund, Royal Bank deserves to be on your radar today.

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