3 Reasons Why Royal Bank of Canada (TSX:RY) Is a Great Stock Pick

Description

While there are different schools or investing strategies, some companies have the potential to attract investors of all stripes. After all, it is important to avoid putting all your eggs in one basket by filling your portfolio with similar investments. Among the top TSX stocks that can attract all types of investors are the biggest Canadian banks, and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is atop that list. Let's consider three reasons why.

Leading market share

Some financial institutions are so essential that they are deemed to be "too big to fail." For if they fail, so the argument goes, it will have serious negative ramifications for the economy. Back in late 2017, Royal Bank became the first Canadian bank to be classified as such by the Financial Stability Board (FSB). While this classification does not mean a great deal to investors, the reason why RBC earned this label ahead of its competitors should.

RBC is the largest Canadian banks by market capitalization. The firm has over $700 million of assets under management and over $5 trillion of assets under administration, more than any of its competitors. RBC also holds a dominant market share in many important banking segments in the Canadian market, including deposits. That is one of the main reasons RBC joined the club of the "too big to fail." Sure, it would be a disaster if any of Canada's top banks had a financial collapse, but the worst-case scenario would clearly be RBC.

Note that banks generate much of their income by pocketing the difference in interest they charge customers versus the interest they earn on their own capital (provided by customer deposits). In other words, the more capital a bank owns, the more interest revenue it earns, all other things remaining equal.

Royal Bank has yet another advantage: the firm is able to produce its services at a lower cost in part due to its size — lower costs that are passed down to its customers. Further, the company offers excellent operating efficiency. RBC's average net profit margin for the past five years is about 27%, which compares very favourably to that of its competitors.

Attractive valuation and dividends

The only thing better than buying a stock with a strong competitive advantage is doing so at a discount. With RBC, that is exactly what investors get, at least for now. As of writing, the firm is trading at just 12.21 times past and 11.06 future earnings. These are excellent valuation metrics, particularly for a stock as coveted as RBC. The average price-to-earnings ratio for the S&P/TSX Composite Index is around 17.

The bank also offers a very competitive dividend yield of 3.87% at writing. This comes with a 45% payout ratio and a 49% increase in its dividends per share over the past five years. Investors can be relatively certain that RBC will continue to reward shareholders by way of dividend increases.

The bottom line

Royal Bank will probably not provide returns that significantly outpace those of the market. However, the financial institution is well positioned to operate within the Canadian banking sector and will remain one of the largest (if not the largest) bank for many years, which, despite headwinds, should help keep revenues and earnings afloat. Investors could benefit from purchasing shares of RBC in multiple ways, be it by way of dividends or by simply having a strong company with solid fundamentals to count on when equity markets tank.

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