



## Q3 Earnings Preview: Canada's Top Bank

### Description

The biggest banks in Canada are gearing up to release the third round of earnings for 2019. There have been seismic shifts in the global economy since the second quarter earnings season.

However, on the domestic, front things have remained somewhat quiet. The Bank of Canada has attempted to hold off on dropping rates until 2020 at the earliest.

**Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) is the largest financial institution in Canada. Shares of Royal Bank had retreated 3.7% over the past three months as of late afternoon trading on August 8.

The stock is still up 11% so far in 2019. Royal Bank was one of the institutions named as part of [Steve Eisman's Canadian bank short](#). In the late spring, Eisman reiterated that he was feeling strong about his call.

In the second quarter, Royal Bank reported net income of \$3.23 billion which was up 6% from the prior year.

Similar to its peers, Royal Bank benefited from improved market conditions that led to an uptick in net income its Capital Markets and Wealth Management segments.

There has been increased volatility in the summer, but overall investors should not expect a sizable downgrade in either segment for the third quarter.

The Canadian credit environment was a big focus of Eisman's short report. Canadians are some of the most indebted in the developed world, with a debt-to-income ratio that has hovered around 170% in successive quarters.

The spectre of credit normalization has been haunting the Bank of Canada and many analysts, but central banks are beginning to pump the brakes on this expectation.

A round of monetary easing should provide extra relief in the Canadian housing sector, which has been weighed down by tightening and new regulations over the past two and a half years.

Royal Bank CEO Dave McKay recently said that the housing market was now in “well-balanced territory.” He did express hope that regulators would look to revisit and tweak some policy.

Royal Bank is expected to release its third quarter 2019 results before markets open on August 21. The stock last boasted a price-to-earnings ratio of 11 which puts it in middling territory relative to industry peers.

Shares had an RSI of 35 as of close on August 8. This puts Royal Bank just outside of technically oversold territory.

The bank declared a quarterly dividend of \$1.02 back in February. This represents a 4% yield at the time of this writing.

It is a solid rate for Royal Bank, which usually hovers in a lower range compared to some of its high-yield peers. Royal has achieved dividend-growth for 8 consecutive years.

By all accounts, the broader Canadian economy performed well in the second quarter. Earlier this year, the Bank of Canada projected that the economy would experience an uptick in the second half of 2019, but global headwinds are complicating that forecast.

Investors should keep their eyes on a potential downgrade as yield curves are flashing in the crucial U.S. and German economies.

That said, I still like Royal ahead of its next earnings release. The 4% yield is more attractive than usual and the stock flashed a buy signal during the rout earlier this week.

## **CATEGORY**

1. Bank Stocks
2. Investing

## **TICKERS GLOBAL**

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

## **PARTNER-FEEDS**

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