



## TFSA Investors: Is Royal Bank of Canada (TSX:RY) a Cheap Stock?

### Description

Canada's largest bank recently reported decent fiscal Q3 2019 earnings results, and investors are wondering whether this is the right time to add **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) to their [TFSA](#) portfolios.

### Earnings

Royal Bank generated net income of \$3.3 billion in the most recent quarter, representing a solid 5% gain compared to the same period last year. Earnings per share rose 6%.

The bank gets revenue from a number of segments in the financial sector.

Royal Bank's personal and commercial banking operations put in a strong performance, with net income coming in at \$1.664 billion, up 10% from the same period in 2018.

Wealth management net income jumped 11% to \$639 million and insurance net income hit \$204 million, rising 29% from the same quarter last year.

Net income in the capital markets segment slipped 6% to \$653 million due to lower syndication revenue in the United States and Europe. This division tends to see more volatility in earnings from quarter-to-quarter, so the dip isn't something that should raise an alarm for investors.

Finally, the investor and treasury services group saw net income fall by 24%, or \$37 million compared to Q3 last year. Client deposit margins, revenue from asset services, and funding and liquidity revenue all fell.

The steep decline is worth watching to see if it carries through to the next quarter, although the segment is a small contributor to overall revenue and net income.

The bank has previously indicated it is targeting annualized earnings-per-share gains of 7-10%. We will see how the final quarter pans out, but diluted earnings on a per-share basis are up 5% to this point in

the fiscal year.

Royal Bank's return on equity remains strong at 16.7%.

## Risks

Ongoing uncertainty with Brexit and the trade dispute between the United States and China are worth considering when evaluating Royal Bank and other stocks in the sector. If the global financial market hits a rough patch, bank stocks will take a hit.

In addition, any downturn in the U.S. economy will have an impact on Canada, which could put pressure on the residential housing market. Royal Bank has a large mortgage portfolio, and while the bank is capable of riding out a downturn, an increase in unemployment could put a percentage of Canada's highly leveraged households in a difficult situation.

Royal Bank has a strong capital position with a CET1 ratio of 11.9%, so it isn't at risk of going bust. Broad-based weakness in the banking sector would nonetheless put pressure on the stock.

## Dividends

On the positive side, Royal Bank just raised its quarterly [dividend](#) by 3 cents to \$1.05 per share. It is the second increase in 2019, suggesting that management remains comfortable with the revenue and earnings outlook despite the potential economic headwinds.

At the time of writing, the dividend provides a yield of 4.1%.

## Should you buy?

Royal Bank trades at \$100 per share, or roughly 12 times trailing 12-month earnings. That's not cheap, but it's a reasonable price in the current environment given the company's leadership position in the Canadian banking sector and its ability to ride out turbulent times.

The 12-month high is close to \$107, so investors can pick up the stock at a bit of a discount right now and look to add to the position on any additional weakness.

I would prefer to see the share price retest the 2018 low near \$90, but waiting for that to happen could result in missed dividends and potential lost upside on a surprise rally.

If you are a buy-and-hold investor searching for a reliable dividend-growth stock for your TFSA, Royal Bank should be a solid pick today. Buying the stock on any dip has historically proven to be a profitable strategy.

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aswalker

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