RRSP Investors: Is Royal Bank of Canada (TSX:RY) Stock a Buy?

Description

The pullback in the banking and energy sectors is giving investors an opportunity to buy some of Canada's top stocks at discounted prices.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see if it deserves to be in your self-directed RRSP today.

Overview

Royal Bank is Canada's largest financial institution by market capitalization. It is also the biggest company on the TSX Index.

The bank reported solid fiscal Q3 2019 results, and investors should see steady revenue and income growth continue, despite some of the headwinds facing the broader banking sector.

Mobile banking is becoming more widespread, and Royal Bank knows it has to build a robust digital banking platform to ensure it remains competitive with its peers and other non-bank competitors. The company is finding success with its digital initiatives as more customers are using the mobile services, and Royal Bank has the financial capacity to invest and be a leader in the digital banking space.

Risks

A global economic downturn would be negative for Royal Bank, as the company has operations in more than 30 countries.

A prolonged trade war between China and the U.S. increases the risk of a recession in the United States and Canada. An ugly Brexit would also be negative. The uncertainty around these situations could result in ongoing volatility in the broader market and in bank stocks in particular over the near term.

However, reasonable deals will likely be reached in both situations. When that occurs, bank stocks should catch a nice tailwind.

Falling interest rates are another concern for bank investors as they put a squeeze on net interest margins. The U.S. Federal Reserve recently cut rates for the first time in a decade and the American central bank is expected to make additional cuts in the coming months. The Bank of Canada just decided to hold rates steady, but analysts expected a downward move to occur if the U.S. cuts again before the end of 2019.

On the other side of that coin, lower interest rates can provide a boost to the housing market as more new buyers qualify for a purchase. Reduced bond yields are also helping the banks offer lower rates on fixed-rate mortgages. This should reduce potential defaults on renewals, while boosting demand for new purchases.

Opportunity

The pullback in the stock price from $107 to a recent low of $98 over the past four months appears overdone.

In fact, bargain hunters have moved in over the past few trading sessions, and that trend could continue, especially if the market starts to believe that the U.S. and China are serious about getting a trade deal done in the next few months.

Dividends

The company is on target to surpass the $12.4 billion it earned in fiscal 2018, and investors should see dividends increase in line with earnings-per-share growth. The current dividend provides an annualized yield of 4.1%.

Should you buy?

Royal Bank is still well above the $90 low it hit last December. It would be great to see it retest that price before starting a new position in the stock, but there is no guarantee the share price is headed for another 10% correction.

As such, investors with a buy-and-hold strategy might want to start nibbling on the stock and look to add to the position on any additional downside.

All previous pullbacks in Royal Bank’s share price have historically proven to be long-term buying opportunities.

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