3 Reasons to Buy Shares of Royal Bank of Canada (TSX:RY)

Description

Given that different investors subscribe to different schools of investing strategies, there can hardly be such a thing as an all-purpose investment option. Take value investing for instance, an investing approach that seeks to find equities that seem undervalued.

Few value investors would risk purchasing shares of a company like **Shopify Inc** (TSX:SHOP) (NYSE:SHOP) with its abnormally high price-to-sales ratio.

However, many growth-oriented investors would, and those who own shares of Shopify have been handsomely rewarded (so far). Despite these philosophical differences, however, some stocUks do possess qualities that investors of many different schools would appreciate.

Royal Bank of Canada (TSX:RY) (NYSE:RY) appears to be one such stock. Let's consider just three reasons why the Toronto-based company is an excellent investment option.

The leader in the Canadian banking market

Royal Bank derives about two-thirds of its revenues from Canada, and it's hard to find a main baking segment in which the firm does not hold one of the top two largest domestic market shares. In other words, even among the Big Six Canadian banks that own about 90% of the market, Royal Bank is ideally positioned.

Of course, there will always be obstacles. The bank's latest financial results — when it failed to deliver earnings on par with analyst expectations — were an example of this. However, Royal Bank is solidly established as one of the top two corporations in the Canadian market, and that isn't going to change anytime soon.

Efficient operations

The banking environment is currently not particularly attractive. Fears of a recession are growing worse, and banks typically do not perform well in times of economic downturns. Further, interest rate pressures are weighing on financial institutions.

As banks generate much of their revenue by charging interests on loans they make, lower interest rates lead to lower revenues, all other things begin equal.

Banks can navigate such shaky economic times in a number of ways, and controlling their expenses is one of them. Royal Bank is outstanding when it comes to controlling its costs. The firm constantly posts higher net margins than most of its peers.

Over the past five years, Royal Bank has averaged a net profit margin of a little over 27%, which compares favourably to the industry average. The company continues to focus on improving its efficiency, perhaps most notably by investing in technology.

Excellent valuation and great dividends

Many of the Canadian banks are currently trading at rock bottom valuations, and Royal Bank is no exception. The Toronto-based company is going for just 11.50 times trailing and 10.74 times future earnings.

For reference, the **S&P/TSX Composite Index** has a price-to-earnings ratio just over 16. Finally, Royal Bank is also an excellent stock for dividend-seeking investors. The company offers a dividend yield of 4.22% and a payout ratio of about 45%. Royal Bank has raised its dividends by 36% over the past five years.

The bottom line

Of course, Royal Bank does not check all the boxes every investor could possibly hope for; no stock does that. However, given its nearly unmatched position in the Canadian market, its unique ability to operate efficiently, and its high dividend yield, Royal Bank might be worth consideration for a variety of investors.

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