Royal Bank of Canada (TSX:RY) Could Be the Best Canadian Bank for Your Buck in 2020

Description

Many Canadian bank investors have been feeling the crunch in 2019. As credit (hopefully) looks to normalize in 2020, many contrarians are eyeing an opportunity to get into Canada's top financial institutions before the capital markets can bottom out and enter the next expansionary phase, which could yield outsized returns for bank investors who get in at the right time.

For now, Steve Eisman continues to maintain bearish conviction on the Canadian banks with his short positions. But if everybody on the Street expects less profitability and higher provisions for credit losses (PCLs), the earnings bar will continue to be lowered for the group, thus paving the way for big beats down the road for some of Canada's better-prepared banks.

Credit Suisse recently expressed "concern" over the ability of the Canadian banks to navigate what could be another underwhelming year with more of the same: "Coming out of the Q4 reporting season we are more concerned about the near-term outlook for the sector as we expect the same headwinds around volatile and rising loan loss provisions, margin compression, very modest upside in capital markets, and weaker growth in non-domestic exposure to persist in fiscal 2020."

Despite low expectations for the sector overall, however, Credit Suisse upgraded **Royal Bank of Canada** (TSX:RY)(NYSE:RY), Canada's largest bank, to "outperform" from its original "neutral" rating. It's not a mystery as to why Royal Bank may be deserving of such a rating despite the rocky road that lies ahead when you look at the relatively decent results that the bank clocked in over the past year.

While Royal only managed to beat on earnings once out of three quarters in 2019. While that's nothing to write home about, what separated Royal from its peers was the fact that none of Royal's quarters were massive, panic-inducing misses.

So, getting a “C” grade in a class that averaged an “F” puts Royal near the top of its class. While that’s nothing fancy, it passed, which could be enough to win over investors in the new year as investorsgrow accustomed to the new norm (at least for now) in Canada’s banking scene. As such, Royal Bank,I believe, could be the best bank for your buck heading into 2020.

Growth is going to be tough to come by, though, with provisions eating away into the results of all the banks. So, you’re going to want a bank that’s proven it can hold up under pressure and not crumble like a paper bag as **CIBC** did in its fourth quarter.

Royal suffered from lower growth and higher expenses in its quarter — symptoms shared by all Canadian banks. Still, management is retaining its 7% EPS growth, which is encouraging given the flat or potentially negative growth that 2020 could have in store for the Big Banks.

At this juncture, I’d say that 11.2 times next year’s expected earnings is a low price to pay given Royal has the foundation in place to weather the storm ahead.

Stay hungry. Stay Foolish.

CATEGORY

1. Bank Stocks
2. Dividend Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks

Date
2025/08/14
Date Created
2019/12/20
Author
joefrenette