



Is Royal Bank's Stock a Buy Before Earnings?

Description

It is that time of the year again. On Friday, the **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) is the first of the Big Six banks scheduled to report first-quarter earnings. The rest of Canada's big banks aren't expected to announce results until next week.

The bank earnings season is always one of the most anticipated times of the year. A strong showing by the banks is usually a good sign for the Canadian economy. On the flip side, a disappointing season can be an economic warning sign.

[Is Royal Bank a buy](#) before earnings? Let's take a look.

First quarter expectations

As of writing, Royal Bank is expected to post earnings of \$2.30 per share, which would imply respectable 5.5% growth over the first quarter of 2019. It is interesting to note that EPS estimates have been trending downwards over the past 90 days. This is a sign that analysts are becoming slightly more bearish.

As Canada's largest bank, it is less susceptible to a large earnings miss. On the flip side, it is also likely that it won't crush estimates. This doesn't mean however, that it can't surprise.

Over the past 12 quarters, RBC delivered four quarters that were inline (+/- 2%) with expectations and six that beat estimates. It only missed once, and that came during the last quarter when it missed earnings estimates by 2.7%. Given this history, odds are that the company will either meet or beat expectations.

Current valuation

As Royal Bank isn't likely to make large moves post-earnings, valuation becomes an important factor. As of writing, the bank is trading inline with historical valuations and at a slight premium to industry averages.

	RBC	5-YR AVG	Industry AVG
Price to earnings (P/E)	12.4	12.3	11.8
Price to sales (P/S)	3.4	3.4	3.2
Price to book (P/B)	1.99	2.03	1.83
Forward P/E	11.7	11.7	10.8
P/E to growth (PEG)	2.3	2.1	1.6

The valuation metrics above are quite normal for the company and a sign that the company is fairly valued. As RBC is a blue chip, investors would do well buying the bank at fair value.

A dividend raise

Royal Bank is a Canadian Dividend Aristocrat and owns a nine-year dividend growth streak. Since the company's dividend growth streak began, it has raised earnings twice yearly: once in the first quarter and again in the third. The expectation is for the company to announce a mid-single digit raise to the dividend this coming Friday.

This will mark a decade's worth of dividend growth for the company — a notable achievement and relevant for our counterparts south of the border. In the U.S., the dividend growers are broken into four categories:

- Dividend Kings (50+ years)
- Dividend Aristocrats (25-49 years)
- Dividend Contenders (10-24 years)
- Dividend Challengers (5-9 years)

As you can see, RBC will graduate from being a Challenger to a Contender and is one step closer to becoming a U.S. Dividend Aristocrat, further establishing the bank as a reliable income investment for investors south of the border.

Foolish Takeaway

Is the Royal Bank of Canada a buy before earnings? Without a doubt.

RBC is one of the best blue-chip companies in Canada and one of the few stocks investors can buy and hold for decades without worry. The bank is likely to raise the dividend and post earnings that are either inline or above expectations

. Both of which should be a positive for the company.

In the unlikely event of an earnings miss, any downward pressure will be limited. The Big Banks aren't stocks that suffer from large double-digit losses in the event of disappointing earnings.

It will require a significant macro-economic event to move the needle in such a way. In those cases, it's likely the entire market will dip along with the big banks.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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Author

mlitalien

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