Is RBC (TSX:RY) the Best Blue-Chip Stock for Your Investing Portfolio?

Description

RBC (TSX:RY)is the largest bank in Canada based on market capitalization, pays regular dividends, and provides steady growth in share value. This makes RBC a good addition for an investor interested in steady income from their investment portfolio. Dividends paid out on the last 12 months reached a total of $4.14 per share, or a return of about 4% based on the current share price. Dividends have increased an average of 7% over the last 10 years, more than doubling since 2009.

When combined with a 6% increase in share value over the past 12 months, RBC also makes a good equity investment for the investor who seeks stability with some growth in their portfolio. The combined return of equity and dividends is expected to provide a return on investment of between 6% and 10%. Over the past three- and five-year periods, RBC's rate of growth has averaged 8% and 12%, respectively, beating their peer group performance by 2% for both time periods.

Steady growth

Earnings per share of $2.44 for the quarter ending January 31 means RBC also beat analyst predictions by 6%. Better-than-expected earnings were helped by a healthy Canadian housing market where bank revenues were up 7% over the same quarter last year, and there were increases in Canadian deposits of 9%. Over the last five years, RBC has averaged a profit margin of 28.33%. Revenue from Investor and Treasury Services decreased 11% from a year ago, bringing down overall performance; however, this represented an increase of $98 million to $143 million over the previous quarter.

Not one to rest on past performance, RBC recently announced its intention to start a direct-to-consumer bank in the United States. Its goal is to increase deposits from wealthy consumers, expanding from its current ultra-wealthy clientele. Already the 10th-largest investment bank in the U.S. with a strong presence in commercial lending, RBC hopes the new digital bank will increase its client base.

Future potential

With operations in 36 countries, RBC currently has over 17 million customers. Almost two-thirds of RBC's revenue comes from within Canada. RBC is not only the leader in the retail banking market; it's also the largest retail fund company in Canada. With this in mind, RBC has plenty of room to expand in international markets that currently only provide 15% of its revenue.

Consumers are continuing to adopt RBC's digital banking platforms with 90-day active mobile users increasing 15% from the same time last year. RBC also announced that over 52% of customers are accessing digital banking. This bodes well for RBC's digital expansion into the U.S. market by indicating users find their banking platform convenient and easy to use.

RBC continues to expand into green and environmentally friendly markets. This past year, the bank pledged $100 billion to finance companies and projects with environmental and social benefits. RBC also announced its inaugural €500 million green bond this past year. The proceeds from the five-year bond are intended to fund the creation of renewable power and green buildings.

With strong dividends and steady growth, RBC makes an attractive acquisition for any investor. While other, smaller firms may provide the potential for a faster increase in investor equity, few other companies have the long-term stability of RBC. The stock price remains somewhat high, but the combination of dividends and equity growth can provide stability in a portfolio designed for growth. Investments in RBC will also provide steady income for the more mature investor. This is especially true, as dividends are taxed at a lower rate than interest on investments outside of registered holdings.

Whether you hold RBC in a registered portfolio or not, the tax advantages afforded by dividend income and increases in equity are difficult to ignore. Because of favourable tax laws, the predicted 6-10% return will provide you with a greater after-tax benefit than an interest-based investment.

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