



Have \$1,000? Buy This Top Canadian Bank Yielding 5% Today

Description

The coronavirus outbreak and its rapid spread across the world sparked a bloodbath for stocks. The major indices have experienced [significant losses](#). The **Dow Jones Industrial** is a whopping 25% lower since the start of 2020. The TSX has followed suit to see the **S&P/TSX Composite** lose 23%. While considerable fear still surrounds the outlook for stocks, it shouldn't deter you from acquiring quality dividend-paying stocks.

Investor and banker Baron Rothschild is credited with saying, "the time to buy is when there's blood in the streets, even if that blood is your own."

This [underscores why now](#) is the time to acquire quality Canadian dividend-paying stocks with wide moats and solid fundamentals. One top Canadian stock to consider is the largest financial institution, **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)). The bank has lost 19% since the start of 2020, or slightly less than the broader market.

Highly profitable

While Royal Bank will take a hit because of the coronavirus pandemic and ensuing recession, it will emerge from the current crisis in solid shape. Royal Bank, like its Big Six peers, reported some robust numbers for its fiscal first quarter 2020. The bank reported record earnings, including an 11% year-over-year increase in revenue and that earnings per share shot up by an impressive 12%.

That strong performance saw Royal Bank report a notable return on equity of 17.6%, which was one of the highest among the Big Six banks. Such a solid return on equity indicates that the bank's operations are highly profitable, even in the difficult business environment which existed toward the end of 2019.

Solid fundamentals

Importantly for a bank during a time of economic crisis, Royal Bank possesses a high-quality credit portfolio. It finished the first quarter with a very conservative gross impaired loans ratio of 0.45%. This

was one basis point lower than a year earlier. That, along with an 18% year-over-year decrease in credit loss provisions, illustrates that credit quality is improving.

A significant portion of Royal Bank's Canadian residential mortgages, around 34% are insured, providing an important backstop for an increase in loan defaults. Those that are uninsured have a conservative loan-to-value ratio of 52%, indicating there is considerable room to absorb any fallout from the pandemic.

Another enviable attribute possessed by Royal Bank is that the bank is well capitalized. It finished the first quarter with a common equity tier one capital ratio of 12%, which was 0.6% greater than a year earlier. The ratio is also significantly higher than the regulatory minimum.

When coupled with a total capital ratio of 14.9%, it highlights that Royal Bank has more than enough financial resources to weather the current crisis.

Royal Bank is focused on improving the efficiency of its operations, which will boost profitability. A tenant of that program is to bolster its digital presence and boost the volume of self-service transactions. This will allow the bank to reduce the volume of costly branches, while retaining high levels of service and multiple access points for customers.

The bank's ongoing expansion in the U.S., especially for wealth management, gives it access to the world's largest economy. This will give Royal Bank's earnings a significant lift over the long term.

Looking ahead

Royal Bank's earnings over the remainder of 2020 will take a serious haircut. That will weigh on its share price but shouldn't deter you from investing. The 2008 market crash sharply impacted Royal Bank, yet since then, it has delivered considerable value.

From the end of 2008, Royal Bank, after including dividends, has returned 212%, which is a compound annual growth rate of 11%. Aside from being attractively valued, there is every indication that Royal Bank will rally strongly once the coronavirus pandemic declines. Royal Bank's sustainable dividend yielding a juicy 5% will reward patient investors.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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
3. Investing

Date

2025/08/26

Date Created

2020/04/02

Author

mattsmith

default watermark

default watermark