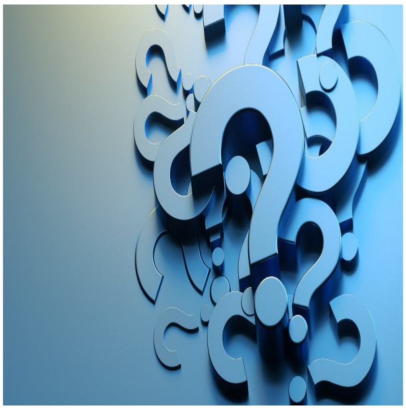

Down 22% From Record High, Is Royal Bank of Canada (TSX:RY) Stock a Buy Right Now?

Description

The broader markets continue to remain volatile, as investors are trying to gauge the impact of the COVID-19 pandemic on global economies as well as enterprises. Several indexes are trading significantly lower than their record highs. Large-cap companies such as **Royal Bank of Canada** (TSX:RY)(NYSE:RY) have also lost significant market value in the last two months.

Shares of Canada's largest bank are trading at $85.9, which is 22% below its all-time high of $109.68. The company now has a market cap of $122.3 billion. Let's see if it is a good buy at the current price.

A market leader

Royal Bank of Canada is one of the 15 largest global banks in terms of market cap and has operations in 36 countries. It generates 62% of sales from Canada, followed by 23% from the United States and 15% from other international geographies. The banking giant has five business segments, including Personal & Commercial Banking, Capital Markets, Wealth Management, Insurance, and Investor & Treasury Services.

Royal Bank of Canada has a well-diversified business and is able to capitalize on opportunities created by the constantly changing economic conditions and other market dynamics.

It has a strong record of earnings and dividend growth and managed to achieve the same by a strong focus on risk and cost management. It also has a strong capital position and a high-quality liquid balance sheet.

RBC's earnings have increased from $11.5 in fiscal 2017 to $12.9 in fiscal 2019. Its return on equity for the first quarter of 2020 stood at 17.6%. It has a leverage ratio of 4.2% and a liquidity coverage ratio of 129%.

RBC aims to increase its earnings at an annual rate of at least 7% in the next three to five years with a return on equity of over 16%. It will have a dividend-payout ratio between 40% and 50% and will continue to increase shareholder returns.

Between 2009 and 2019, the company has increased dividend payments at an annual rate of 7%. Its dividend per share has increased from $2 in 2009 to $4.07 in 2019. The current dividend payout stands at $4.32 per share, which indicates a forward yield of 5%.

Looking at RBC's forward price-to-earnings multiple of 9.7 and comparing this to its forward yield and estimated earnings growth, we can see that the stock is trading at an attractive valuation.

Royal Bank of Canada stock will be volatile

In the short term, investors can expect RBC's stock to be range-bound and volatile. The COVID-19 pandemic will continue to weigh on equity markets over the next few months. Further, Canadian banks, including RBC, have huge exposure to the country's energy sector, which is grappling with low oil prices, increasing the risk of defaults.

However, the recent pullback gives investors an opportunity to buy a top-quality stock at a cheap valuation. In the current environment, investors need to bet on companies that have strong fundamentals, a huge market presence, and a constant stream of cash flows, making Royal Bank of Canada a top bet right now.

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Date
2025/07/19
Date Created
2020/04/08

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