Royal Bank of Canada (TSX:RY) Is a Dividend King That Must Be Bought

Description

All hail the dividend king, **Royal Bank of Canada** (TSX:RY)(NYSE:RY)!

Amid the barrage of headwinds, Royal Bank of Canada proved why it's a king among men in the banking scene. Shares of Canada's largest bank are down just over 21% from all-time highs, which is not as bad as the declines suffered by most other Canadian and U.S. banks, some of which got cut in half from peak to trough.

While Royal Bank of Canada's discount may be less pronounced than other Canadian banks, I still think the premier bank stock is a must buy in these uncertain times, as banking headwinds aren't going anywhere soon. The Canadian credit downturn is still in full force, and the oil downturn brings forth a new slate of risks for the big banks.

Royal Bank of Canada: a standout performer amid times of turmoil

Royal Bank of Canada's oil and gas (O&G) sector loans have been minimal compared to its peers. And that's a huge reason why it has better weathered the coronavirus crash than many of its peers. Royal Bank's management team has been incredible at keeping risk in check when times were good. And now it's reaping the rewards on a relative basis. Royal Bank stock sports a significant premium to the broader basket of Canadian banks, and it deserves to.

While Royal Bank of Canada will still succumb to the broader headwinds that have brought down its peers, the exceptionally well-run bank looks best poised to continue rolling with the punches that come its way. Royal Bank's capital markets and wealth management business were firing on all cylinders last quarter. With a nice balance of diversification across segments, it's not a mystery to see Royal Bank outperforming its peers at a time of souring loans, slowing loan growth, and thinning margins.

Provision for credit losses (PCLs) have been rising abruptly for the Canadian banks. As we head into the latter part of the year, I suspect PCLs will continue to act as a thorn in their sides. Of all the

Canadian banks, I see Royal Bank of Canada as having among the lowest PCLs ratio, as we slowly move through the perfect storm of headwinds.

Royal Bank of Canada could still get hit hard in a Canadian housing market crash

While O&G exposure is limited, Royal Bank is still heavily exposed to the Canadian housing market. And if the coronavirus crisis spreads to the housing market, causing a Financial Crisis-style crash, Royal Bank could face severe downside. Right now, mortgage deferrals are happening across the board, and as laid-off Canadian workers head back to work, an economic disaster could be averted and the housing market could remain on steady footing.

If fiscal stimulus proves to be insufficient, and temporary layoffs turn permanent, the housing market could crumble, and Royal Bank of Canada shares could stand to lose some ground relative to its peers. If you're of the belief that the coronavirus-triggered recession will be milder in nature and not cause a severe recession or depression, Royal Bank is a wonderful way to navigate the rough waters.

But if a worst-case scenario ends up unfolding, no business, not even the most resilient bank, will be immune from substantial downside.

Foolish takeaway

At 1.5 times book, Royal Bank of Canada is hardly the cheapest bank stock in the space (some banks trade at a discount to book), but in terms of what you're getting, I'd say Royal Bank is a must-buy, especially if you're looking to spread your bets across more banks to further diversify the industry-wide risks.

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