Buy Royal Bank of Canada (TSX:RY) Shares Today or You'll Kick Yourself Later

Description

The Canadian banks, even the best-in-breed ones like **Royal Bank of Canada** (TSX:RY)(NYSE:RY), tend to take the brunt of the damage during economic shocks, downturns, or crises. They get hit hard, possibly too hard for many conservative investors that depend on them for the perfect blend of growth and income.

Despite their propensity to crash when times are bad, the Canadian banks are still among the best dividend darlings on the **TSX Index** for long-term-focused portfolios. They're the bluest of blue chips. And while the big banks tend to come roaring back when it comes time for the economy to expand once again, investors need to remember that they're not defensives and will need to brace themselves for volatility when times (and credit) become hard.

If you're a long-term investor, though, any severe decline in a high-quality Canadian bank such as Royal Bank of Canada ought to be treated as a buying opportunity. It's a chance to pay less to get more.

A different kind of crisis for the Canadian banks

The coronavirus pandemic has wreaked havoc on various vulnerable sectors (travel and leisure) of the global economy while mostly sparing others (tech).

Although Canada's top financial institutions are far better businesses today than before the Financial Crisis (they're much better capitalized), they've still led the downward charge during the coronavirus crash and have barely bounced back alongside the broader indices, which are inching closer to that "V"-shaped recovery by the day. Why? Pressures facing various affected sectors tend to fall right back to the banks. Provisions and expenses pick up, and the focus shifts from EPS growth to damage control, as banks look to make fewer loans at lower margins.

In terms of quality, Royal Bank of Canada is a king among men and is a must-buy for those looking to pick up value on the coronavirus crash. It's demonstrated tremendous resilience through the last few years of the Canadian credit downturn as well as the coronavirus crisis and deserves to trade a premium relative to its little brothers in the Big Six. The bank has a stellar management team that's all about mitigating risks without compromising on the growth front — a strategy it sticks by even when times are good and credit is easy.

Royal Bank of Canada: Stress-tested and ready to roll with the punches

Royal Bank has limited loan exposure to the ailing oil and gas (O&G) sector relative to its peers (such as **Bank of Montreal**) and is in a spot to continue sporting a below-average provisions for credit losses (PCLs) ratio, as souring loans continue to be the focal point for the Canadian banks.

The bank is also tested for stressful times like these. Management noted that with its internal stress tests that nearly every scenario resulted in a Common Equity Tier 1 (CET1) ratio north of the 10% mark, with some of the more "severe" scenarios resulting in a CET1 ratio that's still above 9% (the regulatory minimum).

If the bear-case scenario ends up happening with this pandemic, and unemployment remains in the double digits for a prolonged period as a part of a depressionary environment, Royal Bank will take a hit, but it will hold its own far better than many of its peers that currently have "cheaper" stocks.

So, if you're bullish on the long-term recovery of the banks but want to hedge your downside, given the full range of possibilities with this uncertain economic environment, Royal Bank ought to be at the top of your shopping list.

Foolish takeaway on Royal Bank of Canada stock

Royal Bank stock may not be the "cheapest" as far as traditional valuation metrics are concerned, but in terms of the calibre of business you're getting, I think RY stock is one of today's better Canadian banks for your buck. Shares trade at 1.66 times book alongside a bountiful 4.7% dividend yield.

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