



Should You Buy Royal Bank (TSX:RY) Stock Today?

Description

Royal Bank ([TSX:RY](#))([NYSE:RY](#)) is the largest financial institution in Canada. Back in 2017, the bank was named by the Swiss-based Financial Stability Board as one of the 20 most systematically important banks on the planet. At the time of this writing, Royal Bank held over \$1.4 trillion in assets.

Investors can expect to see Canada's top banks released their final slate of earnings for 2020 in late November and early December. Today, I want to discuss whether Royal Bank is worth adding as we await the final say from Canadian banks in 2020.

How does Royal Bank look in late September?

Shares of Royal Bank have dropped 3.8% in 2020 as of close on September 28. The stock is down 7.1% year over year. In late August, I'd discussed whether Royal Bank or **TD Bank** was the [better buy](#) heading into September. I'd concluded that TD Bank was the better option, offering better value and a stronger dividend.

The bank released its third-quarter 2020 results on August 26. Royal Bank managed to exceed analyst expectations to kick off the back half of this fiscal year. It posted a \$3.2 billion profit, while putting aside \$675 million for bad loans in the quarter. Meanwhile, the bank approved 500,000 payment deferrals to customers in Q3 2020. Deferrals slowed down in the third quarter for Canadian banks, but these high numbers are still troubling.

Leadership at Canada's top bank was happy with the results, but there is still anxiety in this sector. Royal Bank CEO David McKay warned of the negative effects that are still coming down the pipe due to the ongoing recession.

Are bank stocks risky right now?

In July, I'd discussed whether Canada's top banks were [on sale or scary](#) in this shaky economy. McKay warned in the bank's Q3 2020 results, "The real test of the recovery will come once government

programs start to wind down. We anticipate the fall will be a challenging time ... While we remain focused on creating the bank of the future, cost management will be an increasing priority as we look to deliver long-term sustainable value.”

Canada's GDP plunged at a record annualized rate of 38.7% in the second quarter of 2020. Worse, provinces are beginning to reintroduce stiffer restrictions in the face of rising COVID-19 cases. This could slam the brakes on a recovery before it gets a chance to warm up. Moreover, Royal Bank and its peers may be forced to put aside more cash to guard against bad loans.

The CERB program expired in the month of October. However, the federal government introduced three new benefits and revamped Employment Insurance (EI) to cover a struggling population. This will stretch for another 26 weeks. Because of this, the impacts of the winding down of assistance may not be apparent until 2021.

Verdict: Should you buy Royal Bank?

There is tremendous uncertainty in the early fall, especially as fears of a second wave of COVID-19 have been building. Royal Bank stock last had a price-to-earnings ratio of 12 and a price-to-book value of 1.7. This puts the stock in favourable value territory. The bank stock last paid out a quarterly dividend of \$1.08 per share, which represents a solid 4.5% yield.

Royal Bank boasts a flawless balance sheet and decent value right now. However, I'm not looking to jump into bank stocks in what still looks like an overvalued market in late September. Investors should exercise patience and caution today.

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