



## Bank Earnings Preview: Royal Bank of Canada (TSX:RY)

### Description

The fourth and final earnings season is fast approaching for Canada's banks. In August, I'd explained why I was [loading up on bank stocks](#) ahead of Q3 reports. Economic conditions had improved in the summer, and top bank stocks still looked undervalued. **Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) is Canada's largest financial institution. This is the first bank stock I want to preview ahead of its fourth-quarter and full-year 2020 results.

### How Royal Bank beat expectations in the third quarter

Royal Bank released its third quarter 2020 results on August 26. Its shares have climbed 2.1% over the past three months as of close on November 2. The stock is still down 5% in 2020.

Canada's top bank managed to beat analyst expectations in Q3 2020. Net income fell 2% from the prior year to \$3.2 billion and diluted earnings per share fell 1% to \$2.20. The big story in the third quarter was the performance of Royal Bank's Capital Markets segment. Net income in Capital Markets surged 45% year-over-year to \$949 million. This was driven by higher fixed income revenue trading across all regions. Favourable market conditions in North America and globally contributed to this promising performance.

The bank was also able to draw down on its provisions for bad loans in comparison to its peers. This was likely due to the massive build up it posted in Q2 2020. Despite the positive quarter, CEO Dave McKay warned of broad economic uncertainty. Indeed, that warning may prove prescient as we move into what looks to be a tough fall and winter season.

### Should investors expect a repeat performance?

Investors should expect to see Royal Bank's fourth quarter and full-year 2020 results in early December. In late September, I'd discussed whether investors should [scoop up](#) Royal Bank stock. I'd concluded that investors should exercise caution in the current environment. The stock has been mostly flat month over month.

Canada's economy enjoyed a slight rebound in the summer, but things are looking grim again as provinces have returned to restrictive policies. Top European nations like the United Kingdom, France, and Germany have retreated into lockdowns of their own. Finally, the U.S. election looms large today. Many are worried about the prospect of a contested election which could result in major economic uncertainty. Investors will get plenty of time to digest the results of this much-anticipated election today.

## Royal Bank: Buy before Q4 earnings?

In any case, Royal Bank is still in a very strong position. Canada's top bank boasts a flawless balance sheet. Shares of Royal Bank last possessed a price-to-earnings ratio of 12 and a price-to-book value of 1.6. This puts Royal Bank in decent value territory relative to industry peers. Royal Bank last paid out a quarterly dividend of \$1.08 per share. That represents a solid 4.6% yield.

Royal Bank offers solid value and income relative to its peers. However, there is a great deal of domestic and global economic uncertainty that investors should keep in mind. There are still good reasons to remain patient in this market.

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