Why Royal Bank of Canada’s (TSX:RY) Q4 Earnings Are Worrisome

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) — Canada’s largest bank — reported its fourth quarter of fiscal 2020 results on Wednesday last week. Since then, its stock has been largely trading on a mixed note.

Let’s take a closer look at the recent trend in its financials and find out whether its stock is a good buy right now.

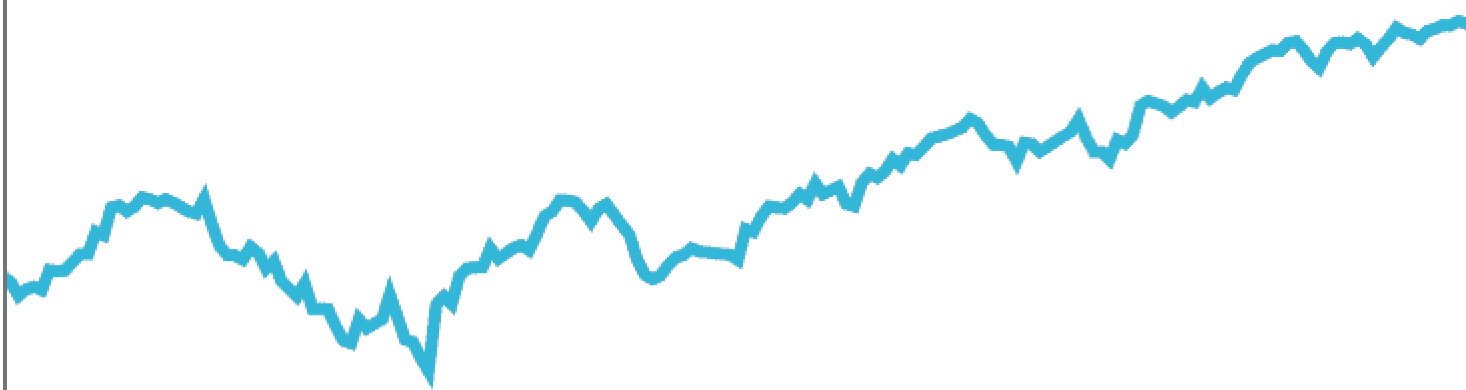
Royal Bank of Canada’s stock

Last week, the shares of Royal Bank of Canada fell by 2.8%, but they seem to be recovering this week. After posting a sharp 13.8% gains in November, its stock is currently trading within the positive territory on a year-to-date (YTD) basis.

As of December 7, the stock has risen by about 3% in 2020. The **S&P/TSX Composite Index** has outperformed RY by a wide margin with 14.3% YTD gains.

By comparison, many other Canadian bank stocks such as the **National Bank of Canada**, **Canadian Western Bank**, and **Bank of Montreal** are still trading within the negative territory on a YTD basis.

RY Royal Bank of Canada 105.88 CAD



RY Royal Bank of Canada Total Revenues (LTM) C$42.8

Q4 earnings highlights

In Q4 of fiscal 2020, Royal Bank of Canada reported adjusted net earnings of $2.21 per share — better than analysts' consensus estimate of $2.05. The bank reported positive year-over-year quarterly earnings growth in the last quarter after registering declines in a previous couple of quarters.

On the flip side, its total revenue of $11.1 billion couldn't meet Bay Street's expectations of $11.5 billion. The bank also registered a drop in its net interest income in the October quarter to about $5 billion compared to $5.1 billion in the same quarter of fiscal 2019.

A negative trend in core banking operations continued

The overall trend in the Royal Bank of Canada's core banking operations remained weak in the fourth quarter. The bank reported a 21% year-over-year drop in its personal and commercial banking segment earnings. Similarly, its wealth management segment earnings fell by 15% in the last quarter.

Nonetheless, higher income from capital markets, insurance, and investor and treasury services segments helped RBC report better-than-expected total net earnings.

The key reason for my worries

As I've argued in some of my recent articles, a massive rise in most Canadian banks' capital markets segment earnings could be temporary. This argument proved to be right after the Royal Bank of Canada reported only a 4% year-over-year rise in its capital markets segment compared to a massive 45% year-over-year increase in the previous quarter.

But this wasn't something I was primarily focused on. I was looking forward to seeing an improvement in the Royal Bank of Canada's core banking segment. In contrast, the bank reported a 21% year-over-year decline in its personal and commercial banking segment earnings in the fourth quarter — even worse than an 18% drop in the third quarter.

Foolish takeaway

Royal Bank of Canada's stock is currently trading at $105.94 per share on the **TSX** — not far away from its all-time high. While long-term investors — with expectations of consistent dividends — might continue to hold RY stock at the moment, it might not be wise to buy its stock at current levels, at least not before getting some signs of a significant recovery in its core banking operations.

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