



## RBC (TSX:RY) Smash Estimates in Q1 on Trading Boom

### Description

**Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) beat expectations in the [first quarter](#). Profits increased 10% from a year ago, boosted by record capital market profits as well as growth in personal and commercial banking services, wealth management, and insurance. RBC set aside less money to absorb potential loan losses.

### Profit tops analysts' forecast on record capital market earnings

The country's largest bank reported just \$110 million in provisions for credit losses, down 74% from the same quarter last year. RBC clawed back \$97 million that had previously been set aside in the event that still-performing loans deteriorated, which helped offset some of the new funds allocated in the first quarter to cover impaired loans.

Lower loan-loss provisions are a sign that RBC believes it has built an adequate cushion to absorb future losses from the crisis created by the coronavirus.

In its first quarter of the fiscal year, which ended January 31, RBC reported net income of \$3.85 billion, or \$2.66 per diluted share, up 10% from \$3.51 billion, or \$2.40 per diluted share in the same period a year ago.

Adjusting for special items, RBC earned \$2.69 per share, better than the consensus estimate of \$2.27 among analysts, according to Refinitiv. Revenue totalled \$12.94 billion, up from \$12.84 billion.

The bank kept its quarterly dividend at \$1.08, as Canada's banking regulator imposed a temporary moratorium on dividend increases.

In RBC's Capital Markets division, higher trading income and the bank's second-best quarter for M&A advice helped push profits up 21% to nearly \$1.07 billion. The volatility brought on by the COVID-19 pandemic has fueled a trading boom, particularly in the United States, where RBC has a strong presence.

Net income from personal and commercial banking services — RBC's most important source of income — increased 6% to \$1.79 billion.

Wealth management profits rose 4% to \$649 million, as higher client assets boosted fees and insurance profits rose 11% to \$201 million. But RBC's investor services and treasury division, which has undergone an overhaul, saw profits drop 14% from a year ago to \$123 million.

RBC continues to hold substantial excess capital. Indeed, its tier-one capital ratio — a key measure of a bank's capital reserve and resilience in a crisis — is unchanged at 12.5%.

## RBC is not the only bank to beat profit estimates

**National Bank of Canada** also beat profit estimates on Wednesday, as lower provisions for credit losses and record profits for its capital market units helped the bank outperform its pre-pandemic performance.

The smallest of Canada's six largest lenders saw its adjusted income increase to \$2.15 per share compared to estimates of \$1.71. National Bank reported an 8% increase in personal and commercial banking net income to \$262 million.

The largest and smallest of Canada's six major lenders joined rivals **Bank of Montreal** and **Scotiabank**, which also [reported higher profits on Tuesday](#) due to similar factors.

Canadian banks have largely avoided an increase in soured loans thanks to several government assistance measures.

As loan impairments are expected to increase in the coming quarters, investors and executives are optimistic that sufficient reserves, as well as an economic recovery boosted by the coronavirus vaccine rollout, will help banks bounce back from the declining profits for 2020.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
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