



## Royal Bank of Canada (TSX:RY): A Stock to Buy Right Now?

### Description

**Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) is the largest financial institution in Canada based on its market capitalization. The Canadian bank had a tough year in 2020, much like its peers. However, RBC has rallied significantly in the last 12 months.

Trading for \$125 per share at writing, RBC stock is up by almost 60% from its March 2020 low. I will discuss whether the stock could make for a [good investment](#) to add to your portfolio at its current levels.

### Recent quarterly earnings

Royal Bank of Canada recently reported its second-quarter earnings for fiscal 2021. The bank had a strong performance in its last quarter. One of the most crucial revelations from the earnings report was that the most fearful losses from the pandemic its management anticipated didn't happen. It means that the bank is in a good position to make significant moves in the market.

The bank raked in \$4 billion in revenues in Q2 2021. That is a massive figure for just three months of operations. The bank's provisions on performing loans were around \$260 million. Royal Bank of Canada set provisions for credit losses (PCL) at \$2.1 billion last year, as it anticipated widespread loan defaults like its peers. This quarter saw the bank effectively reverse its PCLs due to government aid programs helping businesses and individuals avoid the worst-case scenario for loan and mortgage defaults.

Sustained strength in the housing sector, the reopening of the economy, and improved performance in its personal and commercial banking operations should keep improving the bank's performance in the coming quarters.

### Suspended dividend growth

The government implemented restrictions on financial institutions during the pandemic, forcing Royal Bank of Canada and its peers to hold share buybacks and dividend growth. As the vaccination rollout

continues and the economy improves, the government will likely allow financial institutions to restart dividend hikes.

Royal Bank of Canada boasts a robust CET1 ratio of 12.8%. It means that the bank has a substantial amount of additional cash that it can use in several ways. A chunk of the excess cash with the bank will likely go towards dividend increases once restrictions are lifted. The stock is trading for \$125.53 per share at writing, and it boasts a juicy 3.44% dividend yield.

## Growth prospects

The bank is well positioned to make significant acquisitions using its robust balance sheet. Royal Bank of Canada already acquired City National in the U.S. six years ago for US\$5 billion. It would not be surprising to see RBC make another major acquisition to expand its commercial banking, private banking, or wealth management business, considering all the excess cash it has.

## Foolish takeaway

Royal Bank stock may not be the cheapest stock to buy in the stock market today. However, the high-quality income-generating asset has all the qualities necessary to be a core holding for any investor portfolio. With the anticipation of dividend hikes starting again, Royal Bank of Canada could make an [excellent long-term addition to your portfolio](#).

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

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1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

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**Date**

2025/07/19

**Date Created**

2021/07/02

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