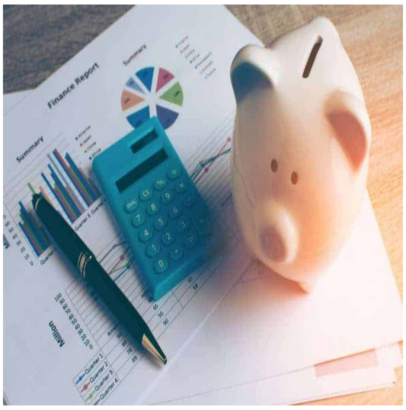

RBC (TSX:RY) Reports Huge Profits: Will Dividend Restrictions Lift Soon?

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) relinquished the throne to **Shopify** in 2020. Canada's largest bank is now second fiddle to the tech phenomenon as the largest publicly listed company on the TSX. However, it doesn't mean it's an inferior investment to the e-commerce platform.

On the contrary, many income investors would pick RBC over Shopify any time of the day. Furthermore, if you have both and the market tanks, you'd sell the tech superstar instead of the blue-chip stock. The $185.41 billion bank has, for decades, displayed resiliency and stability in the most trying times.

In its recent quarterly report, RBC posted huge profits. Investors look forward to lifting dividend increase restrictions by the Office of the Superintendent of Financial Institutions (OSFI). The bank has more than enough capital to hike dividends and reward loyal investors.

Surge in profit

In Q3 fiscal 2021 (quarter ended July 31, 2021), market observers didn't expect the 34% increase in net income versus Q3 fiscal 2020. Management even released more than $500,000,000 in rainy-day funds during the quarter. RBC's net income surged, despite the 1% year-over-year drop in revenues.

RBC, along with the other big banks, increased the provision for credit losses (PCLs) significantly at the onset of the pandemic. All of them anticipated their loan portfolios to deteriorate and delinquency buckets to overflow. In Q2 fiscal 2021, RBC released $96 million from its PCLs then $540 million in the next quarter.

Diversified businesses

RBC's president and CEO Dave McKay credited the bank's diversified businesses and disciplined approach to risk and cost management underpinned for the impressive quarterly results. The core personal and commercial banking unit posted the highest surge, with profit soaring 55% to $2.1 billion.

RBC's capital markets division saw a 19% year-over-year net income growth. It was also a record revenue for the corporate and investment banking unit. Meanwhile, the Canadian banking division posted an 8% growth due to increased lending activity. Even the balance of residential mortgages climbed 13% from a year earlier to $320.1 billion.

OSFI had to impose a ban on share buybacks and dividend increases to preserve the banking sector's strength and maintain capital cushion. RBC's Common Equity Tier 1 ratio improved to 13.6% compared to 12.8% in the previous quarter. Analysts believe OSFI will lift restrictions later this year.

Stock performance

RBC's total return in the last 48.77 years, the total return is 47,787.14% (13.49% CAGR). As of September 7, 2021, the share price is $129.95 — a 28% year-to-date gain. The share price sunk to as low as $67.80 on March 23, 2020, during the height of the market selloff.

However, RBC eventually recovered to end the year at $95.48 or 41% higher than its COVID low. Investors did not lose, too, and relished the 7% total return in 2020. Remember, the bank's dividend track record is among the longest in the TSX. Its first dividend payment was 151 years ago.

Widespread expectation

After Q2 fiscal 2021 and the lack of dividend growth last year, the widespread expectation is that a dividend increase, possibly in the double digits, is forthcoming. In the back of half 2021, tailwinds have replaced headwinds. Royal Bank of Canada is well positioned to grow its profits further, and, therefore, a yield hike is justifiable.

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