Royal Bank (TSX:RY) Raises Dividend by 11%: Should You Buy RY Stock Now?

Description

Royal Bank (TSX:RY)(NYSE:RY) just reported solid fiscal Q4 and full-year 2021 earnings results. Investors who missed the rally in bank stocks over the past year are wondering if this is a good time to buy RY stock for their TFSA or RRSP portfolios.

Royal Bank earnings

Royal Bank generated net income of $16.1 billion in the fiscal year ended October 31. That's up $4.6 billion, or 40%, from the same period last year.

The strong performance shows how well the bank has managed to navigate the pandemic. A number of things have gone right for Royal Bank and its peers. Plunging interest rates propped up the housing market over the past 18 months. CMHC had warned that the pandemic could trigger house price declines of as much as 18%.

Soaring stock markets also helped, as did the extensive financial assistance provided to home owners and businesses that enabled them make their payments during the lockdowns and job losses.

Royal Bank gets its revenue from a variety of business units. The personal banking and commercial banking group saw earnings rise by 54% in the past year, primarily due to lower provisions for credit losses (PCL). In addition, loans grew by 7% and deposits jumped 13%.

Wealth management earning increased 22% largely due to the sharp rebound in equity markets and deposit growth. The capital markets division notched a strong performance relative to the past year with a 51% growth in earnings, largely due to reduced PCL. The corporate and investment banking segment saw record revenue due to strong merger and acquisition activity and loan syndication.

Royal Bank's insurance business generated 7% earnings growth. The investor and treasury services pillar saw revenue drop 18% in fiscal 2021.

Royal Bank finished fiscal Q4 with a CET1 ratio of 13.7%. The strong capital position gives the bank flexibility to raise the dividend, buy back shares, and pursue potential acquisitions.

Dividends

The government recently gave the Canadian financial companies the green light to raise dividends and restart share-buyback programs. Royal Bank announced a quarterly dividend increase of $0.12 to $1.20 per share. That's a boost of 11% from the current payout.

Royal Bank also plans to buy back up to 45 million common shares.

Risks in 2022

The recent discovery of the new Omicron COVID-19 variant adds uncertainty to the economic recovery expected in 2022. Countries have started to put new travel restrictions in place to prevent the spread of the new variant. Vaccine makers say they will know in the coming weeks if Omicron is more transmissible, evades existing vaccine protection, or causes more severe illness.

In the event the Omicron variant forces a slowdown in economic growth or new lockdowns, the banks could take a hit.

The ending of pandemic support programs might also trigger a wave of bankruptcies in the next few months. Households and businesses that managed to keep making payments, but have not recovered their income levels, could be at risk of default.

Interest rates are expected move higher in 2022 and continue to rise in 2023. The short-term impact should be positive for Royal Bank and its peers, as they can generate better net interest margins. A sharp increase in rates over a short period of time, however, might put borrowers in a tight spot and would likely put pressure on the hot housing market.

Should you buy Royal Bank stock now?

Royal Bank is a leader in the Canadian banking industry and one of the top 10 in the world by market capitalization. The company is very profitable and should continue to deliver strong total returns for decades. The stock looks reasonable at the current earnings multiple, and the new dividend provides a 3.8% yield at the current share price of $126.

The gains investors enjoyed in the past year won't likely be repeated in 2022, but Royal Bank remains a top stock to pick as a long-term anchor position for a TFSA or RRSP portfolio.

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