Raging War: Will Corporate Earnings Drop in Q1 2022?

Description

Canadians were looking forward to investing in 2022 and earn passive income to cope with rising inflation. The stock market is the investment ground because of a potential dividend growth cycle of epic proportions. Many companies emerged stronger from the pandemic, reported huge profits, and had excess cash.

The earnings season is underway, although the majority of the presentations are Q4 2021 results. Unfortunately, the eruption of the Russia-Ukraine war mid-week poses a big threat for the global economy. While Canadian firms are in great financial shape to start 2022, the armed conflict could impact some sectors or industries.

Corporate earnings in Q1 2022 might not be as rosy as in year-end 2021 if the war rears its ugly head. The TSX could also enter correction territory like the **S&P 500 Index** or **Dow Jones Industrial Average** in the United States. Many will turn away from stocks and hold cash instead.

However, people who will stay invested to create passive income must make the right choices. The safe assets to own are blue-chip stocks like the **Royal Bank of Canada** (TSX:RY)(NYSE:RY) or **Canadian Utilities Limited** (TSX:CU), TSX's only dividend king.

TSX's most valuable company

Canada's largest bank kicked off the new earnings season for the banking sector. RBC's net income in Q1 fiscal 2022 (quarter ended January 31, 2022) rose 6.6% to $4.1 billion versus Q1 fiscal 2021. Its president and CEO, Dave McKay, said the performance showed the significant momentum RBC was building despite uncertain times in the wake of the continuing pandemic.

At the quarter's end, RBC's Common Equity Tier 1 (CET1) ratio was 13.5%. According to McKay, the robust capital position supported strong client-driven organic growth, common share dividends ($1.7 billion), and common share buybacks ($1.2 billion).

McKay adds, "This is a testament to our scale, diversified business model, and strategic investments in technology, talent and innovation to create differentiated value for our clients and shareholders."

Besides the strong business volume growth, the RBC posted double-digit residential mortgage growth. Because of the heightened housing market activity, its Canadian Banking segment realized higher net interest income. The $193.79 billion bank dislodged **Shopify** and is back as the TSX's most valuable company.

The Big Bank stock trades at $140.49 per share (+5.5% year-to-date) and pays a decent 3.42% dividend.

Unmatched dividend growth streak

On January 14, 2022, Canadian Utilities announced a 1% dividend increase to extend its dividend growth streak to 50 consecutive years. The hike officially crowns the $9.42 billion diversified global energy infrastructure company as a dividend king. Would-be investors can expect growing dividends from this utility stock.

In Q4 and full-year 2021, adjusted earnings increased 3.2% and 9.5% versus the same periods in 2020. According to management, the $334 million investment in capital projects went to regulated utilities (75%) and energy infrastructure. During the same quarter, Canadian Utilities acquired Alberta Hub natural gas storage facility to add to its assets. If you take a position in CU today ($35.07 per share), you can partake of the lucrative 5.09% dividend.

Different picture

RBC and Canadian Utilities presented earnings for the quarter before the Russia-Ukraine conflict. The next quarterly results could be different and show the impact of the war in Eastern Europe.

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Date
2025/07/21
Date Created
2022/02/27
Author
cliew