



Royal Bank (TSX:RY) Raises Dividend: Time to Buy the Stock?

Description

Royal Bank ([TSX:RY](#))([NYSE:RY](#)) just reported solid fiscal Q2 2022 results and raised the dividend by 7%. Investors who missed the big rally off the pandemic crash are wondering if the recent pullback in the stock now makes Royal Bank [undervalued](#) and a good buy for a TFSA or RRSP portfolio.

Royal Bank Q2 2022 earnings

Royal Bank is Canada's largest financial institution with a current [market capitalization](#) of more than \$180 billion. That's large enough for the bank to qualify among the top-10 in the world.

Royal Bank generated net income of \$4.3 billion for fiscal Q2 2022. This is pretty good for three months of work and represents a 6% increase over the same period last year. The results include a \$504 million release of provisions for credit losses. This is money the bank had set aside to cover potential losses on loans but can now add back with the reduced risks due to the pandemic. Investors will want to keep an eye on provisions going forward as rising interest rates and high inflation are expected to put new pressure on borrowers.

Royal Bank maintains a strong capital position with a CET1 ratio of 13.2%. The company built up a significant war chest of cash to ride out the challenges of the past two years. Now that the situation has improved, the company is looking for ways to deploy the cash. Royal Bank is spending \$2.6 billion to buy a wealth-management business in the United Kingdom. Additional deals could be on the way, especially with valuations down in the past two months.

Royal Bank's personal and commercial banking group saw net income jump 17% year over year for the quarter to \$2.234 billion. Deposits rose 10% and loans increased 9% due to improved conditions for business clients and a strong housing market.

Net income from capital markets activities dipped 26% to \$795 million. Fixed income and equity trading revenues slid, mostly in the U.S. operations. Royal Bank also booked higher provisions for credit losses in the group compared to Q2 last year. Investment banking revenue declined as well.

The wealth management group generated \$750 million in net income, up 10% from fiscal Q2 2021.

Insurance net income jumped \$19 million to \$206 million. Investor and treasury services net income was essentially the same as Q2 2021.

Based on the solid results and a positive outlook for earnings for the rest of the year the board declared a 7% increase in the quarterly dividend to \$1.28 per share. This comes on top of an increase of 11% late last year.

Should you buy Royal Bank stock now?

Royal Bank trades near \$129 per share at the time of writing compared to the 2022 high above \$149. Additional weakness could be on the way in the near term as investors try to weigh the expected boost to net interest margins coming from higher interest rates against the risks of a recession and a potential plunge in the Canadian housing market.

That being said, Royal Bank has a balanced revenue stream that can ride out an economic pullback and the strong capital position ensures the bank will be able to navigate a housing shock. The dip in the share price appears overdone at this point, and investors who buy at the current level can pick up a 4% yield.

If you have some cash to put to work in a buy-and-hold TFSA or RRSP, Royal Bank stock deserves to be on your radar.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. aswalker

2. kduncombe

Category

1. Bank Stocks
2. Investing

Date

2025/06/29

Date Created

2022/05/26

Author

aswalker

default watermark

default watermark