



## 1 Cheap TSX Dividend Stock to Buy in August and Hold for Decades

### Description

The [market correction](#) is giving Canadian investors a chance to buy top TSX dividend stocks at bargain prices. Companies that have great track records of delivering dividend growth and attractive long-term total returns are now [undervalued](#).

### Royal Bank

**Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) trades near \$125 per share at the time of writing compared to the 2022 high above \$149. The stock recently dipped below \$120, but bargain hunters are moving in ahead of the fiscal Q3 2022 results, which are scheduled to come out near the end of August.

Bank stocks have fallen steadily over the past few months, as investors started to worry that a recession in 2023 or 2024 could hurt revenue and profits. Economists currently put the recession odds around 50%, and Royal Bank's analysts anticipate a short and mild recession next year.

### Risks

Weak stock markets, a drop in merger and acquisition activity, reduced business borrowing, and a slowdown in the housing market would all put pressure on Royal Bank's wealth management, capital markets, commercial banking, and personal banking operations.

The bank finished fiscal Q2 2022 with \$373 billion in Canadian residential mortgage exposure that includes mortgages and home equity lines of credit (HELOC). A steep plunge in property prices caused by panic selling due to soaring interest rates would be negative for the bank.

### Upside

Despite the near-term economic headwinds and some anticipated turbulence in the housing market, the drop in Royal Bank's share price appears overdone.

Royal Bank is a very profitable company. The bank generated \$16 billion in earnings in fiscal 2021, and the first two quarters of fiscal 2022 beat the previous year results by 6%, so Royal Bank is on track to deliver another solid full-year performance.

The company has a strong capital position with a common equity tier-one (CET1) ratio of 13.2%. This means Royal Bank has the cash to ride out a downturn and money left over to make acquisitions, buy back shares, and boost the dividend.

At the end of March, Royal Bank announced the \$2.6 billion purchase of a wealth management business in the United Kingdom. The deal will make Royal Bank one of the top three players in the wealth management sector in the U.K. and Ireland.

Royal Bank raised the dividend by 11% near the end of last year and bumped it up another 7% when the company released the fiscal Q2 2022 results. These moves would suggest the management team has a positive outlook for revenue and profits growth in the next 12-24 months, even with the recession risks that are on the horizon.

## The bottom line on Royal Bank stock

Royal Bank investors have typically benefitted from buying the stock on big pullbacks. A quick look at the long-term chart of RY stock indicates a steady upward trend, and there is little reason to expect the next two or three decades will be different. Royal Bank has survived every major financial and economic crisis of the past 150 years.

A \$10,000 investment in RY stock 25 years ago would be worth more than \$175,000 today with the dividends reinvested.

Investors who buy the stock at the current price can pick up a decent 4% dividend yield. If Royal Bank delivers strong fiscal Q3 2022 results and provides positive guidance for the coming quarters, the stock could easily move back up to the 2022 peak.

### CATEGORY

1. Dividend Stocks
2. Investing

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