



## Got \$10,000 to Invest? 1 Cheap TSX Stock to Buy Right Now

### Description

The [market pullback](#) appears to have bottomed out, but TFSA and RRSP investors can still find top TSX dividend stocks to buy at [undervalued](#) prices for portfolios focused on passive income and total returns.

### Royal Bank

**Royal Bank** ([TSX:RY](#))([NYSE:RY](#)) stock rarely goes on sale, but investors can currently buy Canada's largest bank by [market capitalization](#) for less than 11 times trailing 12-month earnings and pick up a solid 4% dividend yield.

Royal Bank trades near \$126 per share at the time of writing compared to \$149 earlier in 2022. The drop in the share price appears overdone, even as the economy heads toward a potential recession, and investors worry that rising interest rates could trigger a crash in house prices.

### Recession risk

Royal Bank's own analysts predict a mild and short recession next year. The Bank of Canada is raising interest rates to try to cool off an overheated economy and drive down inflation. Prices have probably already peaked. Oil is down to US\$90 per barrel from US\$120 in the first half of the year. This is pushing gasoline prices lower.

Crop prices are down considerably as well, with wheat falling 40% and corn down 25%. Copper and steel prices are also giving back gains and lumber prices are off their 2022 peak.

All this should translate into lower prices for gas, food, appliances, and construction materials in the coming months and through next year.

The risk, however, is that soaring interest rates will force more households to shift cash from discretionary spending to loan payments, further slowing the economy. In the event the Bank of

Canada gets too aggressive, and the economic downturn is so steep that unemployment soars again, loan defaults could spike, and the banks would likely see revenue fall and loan losses rise.

## Upside

That being said, Royal Bank remains very profitable and rising interest rates tend to boost net interest margins. This can help offset some of the negative impacts. The bank is actually on track to deliver a 6% increase in earnings this year base on the results for the first six months of fiscal 2022. Royal Bank generated \$16.1 billion in profits in fiscal 2021 and has an enviable return on equity of about 18%.

The bank is sitting on a war chest of excess cash it can use to ride out a downturn while investing for growth. Royal Bank already announced a \$2.6 billion acquisition in the United Kingdom this year to boost its wealth management operations.

## Dividends

The board increased the dividend by 11% near the end of 2021 and raised the payout another 7% when the bank reported second-quarter (Q2) 2022 results, so there doesn't appear to be too much concern at the executive level about the revenue and profit prospects over the medium term.

## Should you buy Royal Bank stock now?

Royal Bank looks undervalued today for buy-and-hold investors. Picking up the stock on a meaningful pullback has historically proven to be a profitable move. A \$10,000 investment in RY stock 25 years ago would be worth about \$185,000 today with the dividends reinvested.

If you have some cash to put to work in a self-directed TFSA or RRSP portfolio focused on dividend growth and total returns, this stock deserves to be on your radar.

### CATEGORY

1. Dividend Stocks
2. Investing

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1. aswalker
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#### **Author**

aswalker

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