Earnings Alert! Is Royal Bank Stock Worth Buying Despite its Q3 Earnings Miss?

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) released its July quarter results on Wednesday. Its latest quarterly results, however, disappointed investors, as RY stock fell by 2.6% to $123.20 per share after its earnings release. Apart from its earnings miss, a negative shift in its near-term economic outlook for Canada and the United States seemingly made investors worried. Before we discuss whether stock market beginners can consider buying RY stock, despite its third-quarter (Q3) earnings miss, let's take a closer look at some key highlights from its latest quarterly earnings event.

Royal Bank of Canada's Q3 2022 earnings report

Royal Bank of Canada is the largest Canadian bank by revenue and market capitalization. The bank currently has a market cap of around $174.8 billion, as its stock now trades with 8.2% year-to-date losses. In its fiscal year 2021 (ended in October 2021), it reported total revenue of $49.7 billion — up 5.3% YoY (year over year).

In the third quarter of its fiscal year 2022, Royal Bank's revenue fell by 4.9% YoY to $12.1 billion, missing analysts' estimates by a narrow margin. To add pessimism, the bank registered a massive 15% YoY decline in its adjusted earnings for the quarter to $2.55 per share. Its latest quarterly earnings figure also missed Street analysts' consensus estimate by about 4%.

Lower earnings from its capital markets and personal and commercial banking, and insurance segments were the key reasons for its disappointing financial performance last quarter. Royal Bank also blamed unfavourable changes in the macroeconomic outlook for a sharp increase in its provision for credit losses, which stood at $340 million in the last quarter.

Other key highlights

In its latest quarterly earnings report, Royal Bank of Canada also warned about the possibility of a "moderate recession" in Canada and the U.S. in the first half of 2023.

While the largest Canadian bank's expectations about a recession might make investors nervous, investors should always remember that it's never easy for anyone to predict a recession or its exact timing. More importantly, a recession simply means a temporary downturn in economic activity and the country's GDP (gross domestic product). However, its impact on the country's very long-term economic growth outlook remains negligible. This is one of the key reasons why long-term investors' portfolios might remain largely unaffected by a temporary economic downturn or a moderate recession.

Should new investors still buy RY stock on the dip?

That said, Royal Bank is well known for its well-diversified business model, with multiple sources of revenue. In its fiscal year 2021, the bank generated nearly 36% of its total revenue from the wealth management segment. The remaining came from its other segments like personal and commercial banking, investor and treasury services, insurance, and capital markets.

While the recent poor performance of the Canadian banking sector giant's capital markets, personal & commercial banking, and insurance segments might look worrisome at first, its overall long-term financial growth might remain on track with the help of the continued strong performance of its other segments. Given that, a recent dip in Royal Bank's stock could be an opportunity for new investors to buy this amazing dividend stock at a bargain. At the current market price, RY stock offers an attractive dividend yield of around 4.2%.

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Date
2025/08/15
Date Created
2022/08/25
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