How Investing in RY Stock Could Bring in Handsome Passive Income

Description

Royal Bank of Canada (TSX:RY) is a well-known Canadian bank that also happens to be a popular dividend stock. In fact, it might be the most widely dividend owned stock in Canada: it has highest market value of any Canadian stock, weighing in at a hefty $186 billion. Clearly, investors trust Royal Bank of Canada with their savings — not just their savings accounts, but the money they have invested in RY stock as well.

They're quite right to. Royal Bank of Canada is one of Canada's most proven companies. Founded 158 years ago, it has been paying a dividend consistently for over 100 years. History isn't everything, but a track record that speaks volumes about a company's character. Royal Bank has stood the test of time.

Of course, a long track record can end. Ancient Rome lasted a long time, but it fell eventually. To determine whether Royal Bank of Canada is still a reliable source of passive income today, we need to know how the company is doing right now. So, let's jump into it.

Royal Bank of Canada: Recent earnings

Before getting into RY's most recent earnings release, I should state that the bank has a new earnings release coming up tomorrow, so key facts could change very rapidly. Nevertheless, there are some key points we can pick out from RY's previous release.

In its most recent quarter, Royal Bank delivered the following:

- $12.1 billion in revenue, down 4.9%
- $3.6 billion in net income, down 17%
- $2.51 in earnings per share, down 15%
- $340 million in provisions for credit losses, or PCLs (reserves that the bank has to hold against potential non-performing loans)

These numbers might look pretty rough, but keep in mind the last item on the list: PCLs. This is money that banks have to set aside for loans they *estimate* will go into default. If the loans don't default, then the PCLs can be reversed later, causing earnings to rise.

Royal Bank of Canada has a 3.83% dividend yield

Another big takeaway from RY's third-quarter earnings release was its dividend payout.

In the third quarter release, Royal Bank revealed that it paid out $1.8 billion in dividends on $3.6 billion in net income. The payout ratio (dividends divided by net income) was 50%. That's not an overly high payout ratio. Even after paying out all of its dividends, RY had 50% of its profit left over to re-invest in its business. That's pretty good.

The yield could grow over time

Another thing to note about Royal Bank's 3.8% dividend yield is that it could grow over time. With a 50% payout ratio, RY has plenty of room to raise its dividend. And if its earnings grow, then it can grow its dividend *without* growing the payout ratio.

Of course, Royal Bank has some headwinds to deal with before earnings growth will be possible. The housing market has been slowing down this year, and investment banking in general is generating lower fees than it did last year. There are real risks, but the economy has a way of recovering from its worst moments and coming back later bigger and better than ever. If it happens again this time, then RY should perform at least okay.

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