



Should You Buy Royal Bank Stock Now?

Description

Royal Bank ([TSX:RY](#)) recently announced a late acquisition and just reported solid earnings for the fiscal fourth quarter (Q4) of 2022. Investors are now wondering if Royal Bank stock is undervalued and is good to buy for a Tax-Free Savings Account (TFSA) or self-directed Registered Retirement Savings Plan (RRSP).

Royal Bank HSBC Canada acquisition

Royal Bank has agreed to buy **HSBC Canada**, the country's seventh-largest bank, for \$13.5 billion. The deal will accrue all of HSBC Canada's earnings from June 30, 2022, to the closing date, which is expected some time next year. Royal Bank will pick up about 130 retail branches and more than 4,000 full-time employees. The deal will bolster commercial banking activities focused on international business and adds a portfolio of affluent wealth and personal banking clients.

Royal Bank is using its war chest of cash that it built up during the pandemic to make the acquisition. While the price tag is higher than many analysts expected the business would fetch, Royal Bank sees annual synergies of about \$740 million coming from the deal and expects the takeover to be 6% earnings-per-share accretive for fiscal 2024 based on consensus estimates. Royal Bank says the price paid represents a price-to-earnings multiple of 9.4 times expected 2024 adjusted earnings, with the synergies included.

Once the deal closes, Royal Bank expects to have a common equity tier-one (CET1) ratio of more than 11.5%, which means the bank will remain well capitalized to ride out any potential turbulence in the economy.

Royal Bank fiscal 2022 earnings

Royal Bank generated \$3.8 billion in net income for fiscal Q4 2022, which was largely in line with the same period last year. Diluted earnings per share came in at \$2.74 in the quarter, up 2% compared to Q3 2021.

For the full year, the bank delivered net income of \$15.8 billion, down about 2% from 2021. Diluted earnings per share were effectively unchanged.

The results are positive considering the challenging conditions for the investment banking operations in recent months. Capital Markets earnings dropped 30% in 2022. Wealth Management earnings, however, increased 20% compared to last year. Personal and Commercial Banking saw earnings increase 7%.

For the full year, Royal Bank delivered a solid 16.4% return on equity.

Dividends

Investors are getting another raise. Royal Bank is increasing the quarterly dividend by 3% to \$1.32 per share. This is on top of a 7.5% increase earlier this year and jump of 11% late in 2021. Investors should see steady dividend growth continue, supported by the added profits coming from the HSBC Canada acquisition.

Risks

Royal Bank stock rallied in recent weeks after it dropped as low as \$117 per share in October. The stock currently trades near \$132 but is still well off the 2022 high above \$149 per share. Investors are concerned about the potential impact of an anticipated recession in 2023 or 2024.

Economists broadly expect a mild and short recession to occur, as the Bank of Canada and the U.S. Federal Reserve continue to increase interest rates in an effort to cool off the economy and bring inflation back down to 2%. Assuming a soft landing is on the way, Royal Bank stock is probably attractive today.

However, if a deep recession is in the cards, revenues could drop, and loan losses might surge more than currently anticipated. In that scenario, [bank stocks](#) could be in for a rough time in the coming year.

Should you buy Royal Bank stock today?

Royal Bank is a strong company and should be a solid buy-and-hold pick for TFSA and RRSP investors who are willing to ride out some potential turbulence.

That being said, at the current multiple of 12 times trailing 12-month earnings, the stock isn't cheap, so investors might want to wait to see how the economy fares in the coming months before buying the shares. A better entry point could be on the way.

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aswalker

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