



Is RBC Stock a Buy in January 2023?

Description

Canadian [bank stocks](#) took a hit in 2022 after a strong start to the year. Investors who missed the rally off the 2020 lows are wondering if this is a good time to buy financials, including **Royal Bank** ([TSX:RY](#)).

Royal Bank overview

Royal Bank is Canada's largest company by [market capitalization](#) with a current valuation of \$177 billion. It is also ranked among the top-10 banks on the planet based on this metric.

Royal Bank gets its revenue from a broad range of segments and geographies. The company has personal and commercial banking, wealth management, capital markets, investor and treasury services, and insurance operations. Canada and the United States provide the bulk of the revenue and earnings, but Royal Bank has operations in more than 30 countries.

Earnings

Royal Bank generated adjusted profits of \$15.8 billion in fiscal 2022. This was slightly below the 2021 results. Higher net interest margins driven by rising interest rates in Canada and the United States helped offset difficult conditions in capital markets in the back half of the year.

The positive impact from higher rates is expected to carry into 2023 and should continue to buffer weakness caused by a slowdown in economic activity. Royal Bank's analysts expected the Canadian economy to go through a short and mild recession this year.

Growth

Royal Bank built up a war chest of excess cash during the pandemic. The company used the extra funds to announce two strategic acquisitions last year. In September, Royal Bank completed its \$2.4 billion purchase of Brewin Dolphin, a U.K. wealth management firm. The deal makes Royal Bank a top-

three player in the U.K. wealth market.

Late in 2022, Royal Bank said it had agreed to purchase HSBC Canada for \$13.5 billion. The move adds 130 branches and brings more than \$130 billion in assets.

Dividends and share buybacks

Royal Bank is also returning more cash to investors. The company repurchased \$5.4 billion in stock in 2022 and raised the dividend. The payout actually increased by 11% at the start of the fiscal year, and Royal Bank bumped it up another 7.5% when the company announced the fiscal second-quarter (Q2) 2022 results.

The payout ratio was 47% at the end of fiscal Q4 2022, well within the 40-50% target range. At the time of writing, Royal Bank stock trades near \$128 per share and provides an annualized yield of 4.1%.

Is Royal Bank stock a buy today?

Royal Bank traded near \$150 at the high in 2022, so investors have a chance to buy the stock on a dip. This is a top-quality global bank that has generated solid long-term total returns for investors. The new acquisitions should help drive profit growth in the next few years and steady dividend growth in the 7-10% range is likely on the way. Overall, Royal Bank deserves to be on your radar for a buy-and-hold portfolio.

That being said, Royal Bank stock isn't particularly cheap at 11.6 times trailing 12-month earnings. The other large Canadian banks trade at lower multiples right now and offer higher dividend yields, so investors with a contrarian strategy might want to consider different options.

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