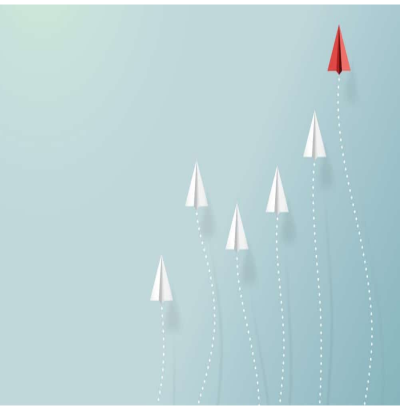

Passive-Income Investors: 1 Dividend Stock That Could Beat the TSX

Description

Few stocks offer as tasteful a combination of stability, dividends, and growth comparable to the king of the TSX (by market capitalization): **Royal Bank of Canada** (TSX:RY).

The stock has been helping its investors beat the TSX for quite a while. In the last decade, the stock rose by about 120%, almost double the growth of the TSX during the same period. The difference between the two was narrower in the last five years but still substantial.

The bank

Royal Bank of Canada is the largest bank in Canada in more ways than one. Apart from its market capitalization, which is at the top of the banking sector and the TSX, it's also the number one largest investment bank in Canada and has the highest share of the high and ultra-high net worth market.

60% of its revenue was generated from Canada in the fourth quarter (Q4) of 2022; the rest came from the U.S. (24%) and other international markets (16%). That's adequate enough exposure to international markets, which may help the bank with new growth opportunities and new revenue streams.

Another characteristic differentiator of Royal Bank is the business segments. Only about 53% of its revenue is generated from personal and commercial banking. The rest comes from wealth management, capital markets, insurance, and treasury services. This offers the bank a different kind of preventive layer from headwinds that can rock the retail banking market.

Passive income and growth

Royal Bank of Canada is the best-growing bank in the Big Five and the second-best grower among the Big Six bank stocks of Canada, at least considering the last 10 years of the banking sector. The growth is quite decent compared to tracking the whole market.

It’s also a great stock for generating passive income. As an established Dividend Aristocrat that has grown its payouts for decades, you can be sure that your dividend income coming from this bank can stay ahead of inflation. The dividend growth itself is quite decent. From $0.98 per share in Q1 2019, the bank has grown its payouts to about $1.32 per share in Q1 2023.

The dividends are also quite sustainable, and this comes not just from the payout ratio, but the Canadian banking industry itself, which is conservative and quite secure. The payout ratio is currently 44.85%, and in the last 10 years, the highest rise in the payout ratio was under 55%.

The bank is offering a juicy yield of about 3.79%, and even though it’s currently overvalued compared to its peers, the underlying financials are solid.

Foolish takeaway

As an industry leader with strong financials, a healthy business model, a consistent (and reliable) growth history, and a stellar dividend history, Royal Bank of Canada can be counted among exemplary blue-chip stocks. It’s a market-beating stock from a capital-appreciation perspective alone, and with dividends, the margin by which it is ahead of the market becomes even more significant.

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