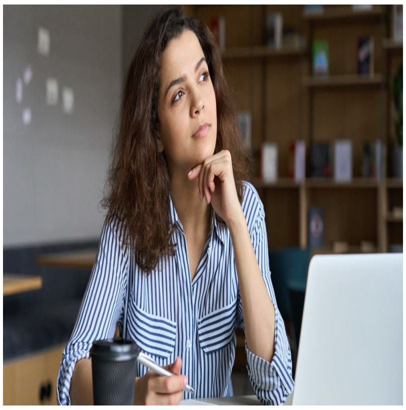

RBC Stock: Should You Invest in February 2023?

Description

In terms of market cap, **Royal Bank of Canada** (TSX:RY) is the largest stock trading on the TSX. The Canadian banking giant has generated massive wealth for long-term investors, with RY stock returning 935% in the last 20 years after accounting for dividends.

The ongoing macro environment, which is quite challenging, has meant RBC stock is also trading 7% below all-time highs. Let's see if you should hold RBC stock in your portfolio right now.

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Is RBC stock a buy or a sell?

In the next 12 months, investors are worried about an upcoming recession and rising interest rates to negatively impact RY stock and its banking peers. The double whammy will quite likely lead to a tepid lending cycle across segments, including personal, commercial, and mortgage loans, driving the top line for Royal Bank of Canada lower. Additionally, an uptick in unemployment rates could cause loan defaults to move higher.

However, a part of the decline will be offset by rising profit margins due to higher rates charged on loans.

But investors should understand that while RBC stock is likely to remain volatile in 2023, a recession will eventually be replaced by a bull market on the back of economic growth. So, if you are prepared for the long haul, you need to check if RBC is a fundamentally strong company and if it can make it through periods of uncertainty.

Compared to their counterparts south of the border, Canadian banks are conservative due to the strict regulations they need to follow. However, a highly regulated system has allowed RBC to perform well across market cycles. Unlike banks in the U.S., RBC and most Canadian large-cap banks maintained their dividend payouts, even during the financial crash of 2009.

RBC ended the most recent quarter with a common equity tier-one ratio of 12.6%, which is higher than a majority of the banks in the U.S.

This ratio measures the financial strength of a bank and its ability to absorb black swan events such as a financial crisis. It's calculated as a ratio of a bank's tier-one capital to its risk-weighted assets, and a higher ratio is preferable.

RBC stock offers a dividend of 3.8%

Similar to most other banking heavyweights, RBC offers shareholders a dividend. Its annual dividend payout stands at $5.28 per share, indicating a forward yield of 3.8%, making the bank stock a favourite among income-seeking investors. Due to its robust balance sheet, RBC has increased its dividends at an annual rate of 9.9% annually.

RBC maintains its diversified business across businesses and geographies, allowing it to capitalize on ever-changing market dynamics and economic conditions. In fact, RBC is forecast to increase its earnings from $11.19 per share in fiscal 2022 (ended in October) to $12.64 per share in fiscal 2024, which should support future dividend growth.

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The Foolish takeaway

RBC stock is priced at 11.8 times forward earnings, which is quite cheap, given its dividend yield and earnings growth estimates. Further, the company's leadership moat in key product categories, well-capitalized balance sheet, and resilient business model makes RBC stock a solid buy at current prices.

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