Why RBC Stock Is the Most Valuable Stock on the TSX Today

Description

Royal Bank of Canada (TSX:RY) stock is currently the most valuable stock on the TSX today based on market capitalization. History seems to repeat itself — whenever another TSX stock swoops in to steal that spot, the dividend stock, time and time again, retakes its place.

In 2000, Nortel stole the spot only to come crashing down the following year. In 2020, **Shopify** stock took RBC's spot, as the pandemic brought an explosion of businesses to the tech company.

A *Financial Post* article published in May 2020 also listed Valeant and **BlackBerry** as other examples that had surpassed RBC and became the most valuable stocks on the TSX, only to falter later. The reason may be as simple as that they had growth spurts or their growth was not sustainable.

Solid business

Royal Bank of Canada is one of the largest banks in Canada that provides diversified financial services. It offers personal and commercial banking that makes up about 40% of its revenue, wealth management services (30% of revenue), capital markets services (18%), insurance (7%), and investor and treasury services (4%). Because of its large size, operating efficiency, leading positions in key areas, and focus on operations in Canada and the United States, RBC is able to maintain solid business performance through economic cycles.

Perhaps the only time we see a drop in earnings in the quality bank is during economic contractions that sometimes turn into recessions. For example, RBC experienced earnings declines around the global financial crisis in 2008 and 2009. It also saw lower profits during the 2020 pandemic year. Due to its ability to remain highly profitable, even during gloomy economic times of high uncertainty, the bank stock has kept its dividend safe.

Dividend safety

Investors are confident in Royal Bank of Canada to maintain a safe dividend. In fact, they expect it to increase its dividend over time. The large bank stock has paid dividends for more than 150 years! And it has increased its dividend every year for about 12 consecutive years. Its dividend-growth streak would have been longer if it weren't for the global financial crisis. Around that time, the bank maintained its dividend, which was much better than some other North American banks that ended up cutting their dividends.

Actually, when the economy turns south, and there's high uncertainty, the big Canadian banks, including RBC, are restricted by regulation, which includes freezing dividends and share buybacks, to retain more capital. It's a good thing, because it makes our overall financial system safer.

Other than maintaining a strong S&P credit rating of AA-, Royal Bank also preserves a sustainable payout ratio, which is at about 45% of earnings.

Investing takeaway

In summary, RBC is a resilient stock that grows stably in the long run, leading to the stock regaining its position, time and time again, as the most valuable stock on the TSX. Long-term investors can sleep well at night owning the stock and adding to it over time on dips. Analysts believe the stock is fairly valued, at writing, at about $138 per share with a yield of roughly 3.8%.

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