



Royal Bank of Canada (TSX:RY): 2020 Q3 Earnings Preview

Description

Canadian bank **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) is set to report its 2020 Q3 earnings Tuesday, August 26. The company will report its earnings before the market's open.

Valued at a market cap of close to \$140 billion, RBC is not only the largest bank in Canada, but it's also one of the largest publicly traded companies in the country. It was recently passed by **Shopify** and is now ranked as the second-largest company in Canada.

The company divides its company into five major segments, which include personal & commercial banking, wealth management, insurance, investor and treasury services, and capital markets. The bank also serves clients across the globe, making it [one of the most diversified banks](#) for Canadian investors to own.

How have bank stocks fared this year?

Similar to the rest of the Big Five Canadian banks, RBC has trailed the broader Canadian market, but not by much. RBC shares are down just over 5% on the year, while the **S&P/TSX Composite Index** is down about 2%. In comparison to its peers, RBC has held up relatively well this year.

With plenty of high-flying tech stocks reaching all-time highs today, bank stocks might not be the most exciting sector for investors to deploy their cash. Value investors, on the other hand, might be keeping a close eye on bank stocks next week as each of the major Canadian banks report its quarterly earnings.

RBC, like each of the other Big Five banks, is [undervalued at today's stock price](#). The country's largest bank trades at a forward price-to-earnings (P/E) ratio of 11.5 and a price-to-book ratio of 1.75. A P/E ratio of 11.5 may be on the higher side compared to some of the other Canadian banks, but for long-term investors, you may not get another chance any time soon to pick up shares of Canada's largest bank at this valuation.

With RBC set to report earnings next week, here's what I'll be watching closely when management presents the company's 2020 Q3 results.

Personal and commercial banking

RBC's largest business segment, personal and commercial banking, accounted for just under 50% of the bank's net income in the most recent quarter. The segment focuses primarily on offering checking and savings accounts, credit cards, mortgages, loans, and investment products.

Due to the substantial size that the segment makes up of the bank's total net income, I'll be curious to know how it held up during Q3. In the most recent quarterly report, management commented that the significant drop in net income was largely due to the increase in provisions.

The losses, however, were offset by strong volume growth from the Canadian bank segment. I'll be listening closely to see if the same type of volume growth can once again help offset expected quarterly decreases in net income once again.

Foolish bottom line

Banks stocks have me interested today because of the attractive valuation, but there are several signs pointing towards a potentially long turnaround. Interest rates do not look like they will be shooting up anytime soon, which would not fare well for any major bank's profitability.

For short-term investors, bank stocks are likely not the most appealing stocks to purchase today. For buy-and-hold Foolish investors, the attractive valuation today could lead to market-beating returns over the long-term.

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