

Royal Bank of Canada (RY)

Overview & Current Events

Royal Bank of Canada was founded in 1864. Today, the bank employs over 80,000 people to service 16 million clients in 38 countries. Royal Bank of Canada is one of the 20 largest banks in the world.

Royal Bank of Canada recorded adjusted earnings-per-share growth of 3.1% in its most recent quarter (5/26/16). The company's growth is a result of gains in its insurance, personal banking, and commercial banking divisions.

Competitive Advantage & Recession Performance

In the banking and insurance industries, taking less risk than your competitors can be a competitive advantage. Risk-seeking behavior damaged much of the United States banking industry during the Great Recession. Royal Bank of Canada has a long history of prudent decision making. The company's large size, global presence, quality management, and lower risk appetite give the company its edge.

The Great Recession of 2007 to 2009 caused earnings-per-share to drop from \$4.19 in 2007 to \$3.28 in 2009. Royal Bank of Canada *did not reduce its dividend* during the Great Recession. Even in 2009, it maintained a safe payout ratio of 61% while many of its United States counterparts were slashing dividends to remain in business.

Growth Prospects, Valuation, & Catalyst

Royal Bank of Canada grew its earnings-per-share at 7.2% a year (in Canadian Dollars) over the last decade. Dividends grew at 8.8% a year over the same time period. The company's growth will come from a mix of continued expansion into the United States and other markets, both organically and through acquisitions. In addition to 7% to 9% expected earnings-per-share growth, Royal Bank of Canada has a 3.9% dividend yield. Together, this gives investors expected total returns of ~11% to 13% a year going forward (before potential valuation gains).

Royal Bank of Canada's 10 year historical average price-to-earnings ratio is just 12.8. The company is currently trading for a price-to-earnings ratio of 12.2. I believe a price-to-earnings ratio of at least 13.5 is fair value for the company given today's low interest rate environment and higher price-to-earnings ratios overall. This implies a fair value of ~\$69/share for the company. It is currently trading for ~\$62/share.

Key Statistics, Ratios, & Metrics

Maximum Drawdown¹:	63%	10 Year EPS Growth Rate:	7.2% per year
Dividend Yield:	3.9%	10 Year Dividend Growth Rate:	8.8% per year
Most Recent Dividend Increase:	2.5%	10 Year Historical Avg. P/E Ratio:	12.8
Estimated Fair Value²:	\$69/share	10 Year Annualized Total Return:	8.6% ³
Dividend History: 74 years without a reduction ⁴			

¹ Since year 2000. Maximum drawdown occurred in February of 2009 (measured in USD)

² Currently trading for \$70.87 per share

³ Measured in USD

⁴ Dividend history measured in Canadian Dollars, which excludes effects of currency changes for United States investors