



Royal Bank of Canada (RY)

Updated December 11th, 2021 by Kay Ng

Key Metrics

Current Price:	\$102	5 Year CAGR Estimate:	11.3%	Market Cap:	\$146.6B
Fair Value Price:	\$107	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	01/25/22
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	02/24/22
Dividend Yield:	3.8%	5 Year Price Target	\$151	Years Of Dividend Growth¹:	10
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase¹:	2.8%

Overview & Current Events

The Royal Bank of Canada – hereafter RBC – is the largest bank in Canada by market capitalization, and the country’s largest bank by total assets. RBC offers banking and financial services to customers primarily in Canada and the U.S. and is a member of the Big 5 Canadian banks. The financial institution operates in five business units: Personal & Commercial Banking (37% of FY2021 revenue), Wealth Management (27%), Insurance (11%), Investor & Treasury Services (4%), and Capital Markets (21%). RBC is cross-listed on the Toronto Stock Exchange and the New York Stock Exchange, trading under the ticker RY on both exchanges. All figures in this research report are in U.S. dollars unless otherwise noted.

On 12/01/21, RBC reported its fiscal Q4 2021 earnings results. For the quarter, it reported net income of C\$3.9 billion (up 20% year over year) and adjusted diluted earnings-per-share (“EPS”) of C\$2.71 (up 19%). The increase was due to a strong recovery of earnings in Q4 2021 from a high provision for credit losses that reduced earnings in Q4 2020. Its fiscal Q4 return on equity (“ROE”) was 16.9% (up from 16.0% a year ago).

For fiscal 2021, RBC reported revenue growth of 5% to C\$49.7 billion, net income growth of 40% to C\$16 billion, diluted EPS growth of 41% to C\$11.06. Its ROE was 18.6% versus FY20’s 14.2%. The bank’s capital position is solid with a Common Equity Tier 1 ratio at 13.7% versus 12.5% in fiscal 2020.

After the regulator, Office of the Superintendent of Financial Institutions, loosened its restrictions, RBC stock increased its quarterly dividend by 11.1% to C\$1.20 per share. The new Omicron coronavirus variant is believed to be more contagious but thankfully less deadly. Eventually, we may get to the point where it will be like a cold. So, we’re not too worried and initiated our 2022 EPS estimate at US\$8.73.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$5.00	\$5.20	\$5.36	\$4.99	\$5.06	\$5.88	\$6.26	\$6.72	\$6.04	\$8.68	\$8.73	\$12.24
DPS	\$2.27	\$2.48	\$2.60	\$2.47	\$2.44	\$2.66	\$2.93	\$3.06	\$3.19	\$3.43	\$3.85	\$5.66
Shares¹	1,469	1,441	1,449	1,450	1,494	1,453	1,439	1,430	1,420	1,427	1,423	1,402

RBC’s EPS performance has been stable – compounding its EPS by 6.3% per year from 2012-2021, despite forex volatility. FY2020 EPS declined about 10% due to pandemic impacts, but management expects a medium-term growth rate of about 7%, which is what we used for our estimate through 2027. Earnings are rebounding strongly this year, but there could be volatility from COVID-19 impacts throughout the year. As soon as regulators allowed it, RBC raised its quarterly dividend (by 11%), which remains healthy. The forex volatility could lead to changes in the effective yield that U.S. shareholders will ultimately receive. RBC has a more diversified business mix than its peers, which should lead to a lower-risk, lower volatility stock. We estimate a dividend growth rate of 8% through 2027.

¹ Dividend growth in C\$; TTM dividend per share over prior TTM dividend per share in C\$; Shares in millions.

Disclosure: Kay Ng owns RY shares.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	11.4	12.1	13.1	12.3	11.8	12.8	13.1	11.9	11.5	12.6	11.7	12.3
Avg. Yld.	3.8%	3.6%	3.7%	4.5%	3.6%	3.3%	4.3%	3.9%	4.6%	3.1%	3.8%	3.8%

Because of the bank's size, above-average stability, and entrenched presence in the U.S. market, RBC tends to trade at a premium to its peers in the Canadian banking industry. From 2012-2021, RBC's average price-to-earnings ratio ("P/E") was 12.3 and averaged a yield of 3.8%. We think it's fair to give RBC a fair P/E of 12.3. Using our estimate for fiscal 2022 EPS, the bank is currently priced at an earnings multiple of 11.7, which makes the stock fairly valued. RBC's yield likely won't stray far away from 4% in the long run. As a Canadian stock, RBC's dividends may be subject to a 15% dividend withholding tax for U.S. investors. This tax can potentially be avoided by investing in RBC shares through a retirement account.

Safety, Quality, Competitive Advantage, & Recession Resiliency

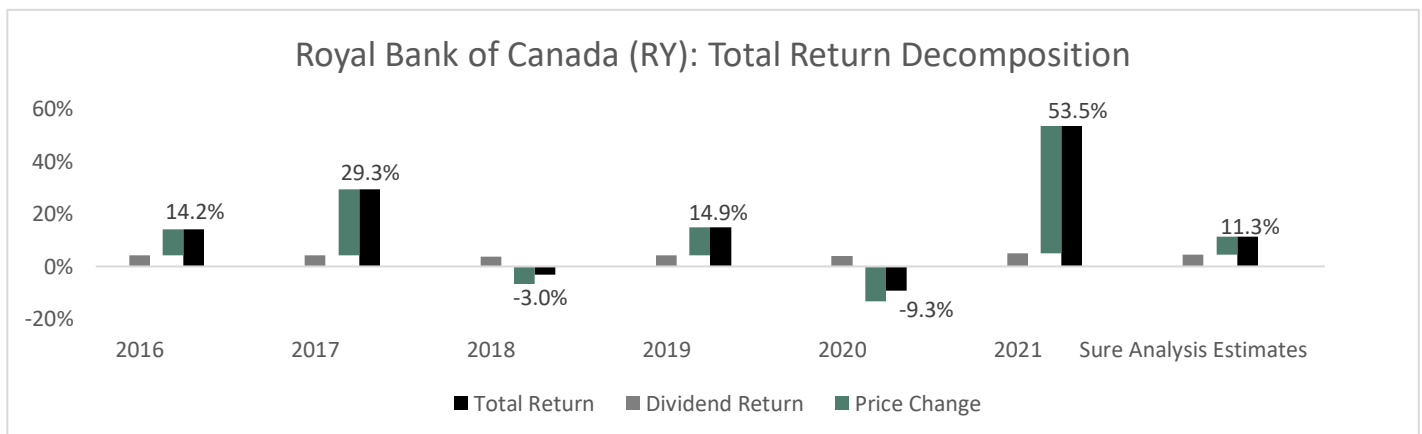
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	45%	48%	49%	49%	48%	45%	47%	46%	53%	40%	44%	46%

During the Great Recession in 2007-2009, the quality stock increased its dividend every year (in the local currency of Canadian dollars), except for fiscal 2009 and 2010 in which it maintained the dividend. During that period, its adjusted EPS remained fairly stable and had a magnificent run from fiscal 2011 to 2019. The quality bank once again showed resilient earnings in fiscal 2020 in the midst of a pandemic. The regulator, Office of the Superintendent of Financial Institutions, once again stepped in to prevent the federally-rated Canadian banks to raise dividends during the pandemic. Investors would be happy to know that the restriction was lifted in November 2021. RBC normally has a payout ratio of under 50% that's more conservative than most other big Canadian banks. The payout ratio was elevated a bit in fiscal 2020 but is expected to come back down to below 50%. Competitive advantages are difficult to come by in banking, but RBC's franchise value, based on its history and scale, is a close substitute. We see RBC's brand as a valuable asset and one that should help it weather this and future economic downturns.

Final Thoughts & Recommendation

We rate RY as a buy. We forecast 11.3% in total returns annually over the next five years, consisting of a yield of 3.8%, 7.0% earnings-per-share growth, and a 1.0% tailwind from valuation expansion.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	25242	27194	27874	25892	26125	28343	30964	31362	32299	36281
SG&A Exp.	9039	10053	10123	9333	9334	10192	10707	10985	11345	13146
D&A Exp.	922	1002	1076	1004	1166	1236	1284	1455	1970	2060
Net Profit	7375	8087	8177	7997	7847	8738	9638	9676	8504	12748
Free Cash Flow	-2953	6036	12799	18382	19306	27802	12043	9032	101306	46783
Income Tax	2018	2065	2483	2093	2143	2449	2587	2290	2196	3641

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	825.3	820.2	839.9	816.1	879.8	945.4	101.7	108.5	121.9	137.7
Cash & Equivalents	23873	23623	23255	26777	32116	48445	51099	49419	120303	157431
Accounts Receivable	5757	5106	4757	3495	3993	4431	5098	5647	5226	5851
Goodwill & Int. Ass.	10173	10598	10199	9194	11780	12069	12061	12083	12050	12366
Total Liabilities	779.2	773.0	791.2	767.5	826.4	887.4	956.4	1021.7	1154.2	1297.2
Accounts Payable	9844	6233	5534	4299	4279	4682	6617	6330	7103	8477
Long-Term Debt	7617	7101	167833	182734	166623	177996	192070	206266	196599	242051
Shareholder's Equity	39462	41084	43411	43338	47932	52549	56061	59099	60587	74191
D/E Ratio	20.91	19.96	19.35	18.83	18.35	17.99	18.15	18.36	20.13	18.56

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.9%	1.0%	1.0%	1.0%	0.9%	1.0%	1.0%	0.9%	0.7%	1.0%
Return on Equity	19.8%	20.1%	19.4%	18.4%	17.2%	17.4%	17.7%	16.8%	14.2%	18.9%
ROIC	14.2%	15.0%	6.0%	3.6%	3.5%	3.8%	3.9%	3.7%	3.2%	4.4%
Shares Out.	1469	1441	1449	1450	1494	1453	1439	1430	1420	1427
Revenue/Share	17.19	18.54	19.20	17.86	17.48	19.22	21.35	21.77	22.61	25.43
FCF/Share	32.79	70.90	6.27	8.30	18.86	12.92	12.68	8.82	4.12	-2.01

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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