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RBC hikes dividend as quarterly profit climbs to record $2.4-billion

By TIM KILADZE

Earnings beat analyst estimates by 8 cents per share

The bar is set incredibly high for Royal Bank of Canada's new chief executive officer.

For the fifth straight quarter, RBC has reported earnings of more than $2-billion, and Dave McKay, the new CEO who started Aug. 1, is taking the reins on the heels of a record $2.38-billion profit.

RBC's latest earnings amount to $1.59 per share, up 4 per cent from the year prior. After stripping out one-time items, the bank's profit totalled $2.42-billion, or $1.62 per share. The earnings beat analyst estimates by 8 cents per share.

RBC also increased its quarterly dividend by 6 per cent to 75 cents per share.

The stellar quarter stemmed from strong earnings across multiple business lines, including Canadian banking, wealth management and insurance. But the capital markets unit was particularly strong, with profit up 66 per cent from the same quarter a year ago.

The unit's bottom line is a record one, and its $641-million profit is the result of robust business in almost every area: trading, corporate lending and equity and debt origination.

Because the capital markets division performed so well, the unit ultimately contributed 26 per cent of RBC's total profit – a tad higher than the bank's 25 per cent target. Mr. McKay stressed that this was an exceptional quarter and added that there are no thoughts of rebalancing the earnings expectations.

"We've crossed the 25 per cent [threshold] periodically over the past few years," he said. "It's not a cap. A cap to me connotes drastic action."

As expected, wealth management also reported strong earnings, climbing 22 per cent from the year prior to $285-million. Yet again, the unit benefited from hot markets, which translates into higher fees for managing assets.

However, the profit doesn't look as spectacular when compared to the prior quarter, rising just 3 per cent.

Canadian banking was another bright spot for the lender, reporting a $1.14-billion profit, but the larger personal and commercial banking arm was held back by a new $40-million charge related to the sale of its Jamaican operation.

Since January, charges from this unit amount to $100-million.

On Bay Street, there are some sentiments the capital markets business overshadowed what was otherwise only a decent quarter for RBC. "While we expect the capital markets environment to remain conducive to earnings power in the near term, we would be more excited by the result if it was accompanied by stronger trends in Canadian [personal and commercial banking], or more so in current conditions, wealth management," Scotia Capital analyst Sumit Malhotra wrote in a note to clients.

RBC's latest earnings extend a string of quarterly profits that make the lender look like a powerhouse. During the second quarter, some believed the bank's core earnings weren't as stellar as they first appeared because RBC benefited from big non-cash gains that came from lowering its provisions for credit losses.

However, the latest batch comes in the face of higher provisions.

Over the past year, wealth management has been the shining star.

The market rally has shown it has legs, and RBC is well-positioned because it spent the past decade making acquisitions both at home and abroad. While some rivals are now scrambling to beef up, RBC can sit back without having to worry about buying expensive wealth management assets.

The third quarter, which ended July 31, marks the end of Gordon Nixon's tenure at the bank.

The outgoing CEO has now retired and was replaced by Dave McKay, the former head of personal and commercial banking.