



Insiders Are Buying This Deeply Discounted Value Stock

Description

Management's confidence in a company is usually a good sign for investors. How can you gauge management's confidence? One of the best ways is to look at insider activity. Often, you'll have the CEO and CFO spout off a positive outlook on quarterly conference calls only to see them sell their shares on the open market. It's important to note, however, that not all insider selling is bad.

You will see insiders sell their shares immediately upon receipt of stock options. This isn't necessarily a warning sign, as many count on this compensation as a part of their annual income.

The best indication of positive sentiment is insider buying on the open market. As the saying goes, this is when management puts their money where their mouth is.

One company whose insiders appear extremely bullish is **Versabank** (TSX:VB). Versabank is Canada's only digital schedule 1 chartered bank. It's also [one of my favourite](#) small-cap growth stocks.

Insider buying

Versabank's insider activity chart is all green. Over the past six months, there hasn't been a single insider who has sold shares on the open market, not even following receipt of options.

Furthermore, there have been dozens of insider buys and by several insiders. In October, two senior officers and two directors purchased common shares on the open market. A third director has been scooping up the company's preferred series 3 shares. Over the past six months, there have been 66 buys on the open market.

One of the most active insiders has been David Taylor, president & CEO of Versabank. Taylor has purchased approximately 73,000 common shares through 15 buys on the open market. On September 25, independent director Patrick George made the largest purchase. He bought 111,800 shares at a cost of \$6.80 per share, which valued the transaction at \$760,240. This is no small chunk of change; he must like what he sees from the company.

Valuation & growth

Why are insiders scooping up shares at such a pace? Two reasons: growth and valuation. Versabank is currently trading at cheap 10.70 forward price-to-earnings (P/E) ratio. Likewise, it is trading at only 0.79 book value. At book value, the company would be trading at \$8.93, which implies 26% upside.

The company currently has one of the lowest PE-to-growth (PEG) ratios on the market. At a PEG of 0.35, the company's share price is dragging behind its expected growth rates. In 2019, the [company is expected to grow](#) earnings by 31% over fiscal 2018. Analysts also agree that the bank is undervalued with a unanimous buy recommendation and a \$10 average one-year price target. This is 41% above today's share price.

Foolish takeaway

Versabank is one of the cheapest growth stocks on the TSX. Insiders are bullish and are actively scooping up shares of the company. Investors should too.

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