This Little-Known Bank Under $10 Will Outperform the TSX Index

Description

One of the best ways to generate above-average returns is to go off the board. Invest in lesser-known companies that have a history of growing revenue and earnings and have higher-than-average expected growth rates.

One such company is **Versabank** (TSX:VB). Over the past two years, I have been accumulating a position in this well-run FinTech bank. It is not the first time I've brought this company to investors' attention, and it certainly won't be the last.

As Canada's first digital-only bank, VersaBank is not bound by the traditional bank model. As such, it has lower costs and higher margins than traditional banks. It has also quietly outperformed the industry. In 2018, VersaBank was one of the few financial stocks to post positive gains. For the year, its share price increase by 13.41%, this is far above the TSX Financial Index's 12.4% loss.

Despite its outperformance, it is still an attractive buy at these price levels.

A top growth stock

Since splitting from PWC in January of 2017, VersaBank has been growing at an impressive pace. Revenue and earnings have grown on average by 15% and 54% annually. Although +50% growth is not sustainable, analysts remain very bullish on the company.

Revenue is expected to grow in the high single digits, while earnings are expected to grow in the high teens through 2020. Considering the bank has beat estimates in four straight quarters by an average of 16%, estimates may be on the low side.

The company is also quietly becoming an income play. Although its 0.8% yield may not seem attractive, it only recently introduced its dividend in late 2017. Last year, the company raised its dividend by 50%!

Considering the company's annual dividend accounts for only 5% of core cash earnings, expect high dividend-growth rates over the next few years. It'll reach industry averages in no time.

A top value stock

Through the first few weeks of 2019, the company has underperformed the TSX Financial Index, losing 0.8% of its value. As such, investors are presented with yet another opportunity to pick up the company on the cheap.

It is currently trading at a price-to-earnings (P/E) of 9.52 and a cheap 8.43 times forward earnings. This is the cheapest among all regional banks, its closest competitors. Likewise, it is trading at a P/E to growth (PEG) of 0.60. A PEG under one signifies that the company's share price is not keeping up with its expected growth rates. As such, it is considered undervalued.

There is a one-year price target of $10 its stock, which implies 40% upside from today's price. Insiders are also on board and keep scooping up shares on the open market. There hasn't been a single insider sell over the past six months and dozens of buys — buying patterns that have continued into 2019.

President and CEO David Taylor has purchase over 122,000 shares in 2019 alone. This is a clear vote of confidence on behalf of management.

Foolish Takeaway

VersaBank is a rare triple threat. It fits the investment criteria for income, growth, and value investors. Expect the company to once again outperform in 2019.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:VBNK (VersaBank)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/10/01
Date Created
2019/01/19
Author
mlitalien