2 Cheap Financial Stocks Trading at a Discount to Book Value

Description

One of the most common and accepted ways to value a financial stock is to compare its stock price against book value. In simple terms, a company's book value is what it's worth in terms of equity — that is, all assets minus its liabilities.

In the banking world, there is a phrase investors use: "buy at half of book value and sell at two times book value." This is a very simple strategy, and it's one that has worked. Although it is still important to understand why a stock is trading below book value, it can be a sign of undervaluation.

With that in mind, here are two financial stocks that are trading at a discount to book value.

VersaBank (TSX:VB)

VersaBank has been a little gem of a stock. Over the past couple of years, this little-known bank has returned 60% for a compound annual growth rate of 30%. The company is the first fully digital Schedule I chartered bank. It is on the forefront of innovation, introducing products such as VersaVault, a digital safety deposit box.

Aside from being a growth stock, VersaBank has quietly emerged as a viable income stock. In late 2017, the company declared its first ever dividend. Then it announced a 50% increase to its annual dividend this past year. As of writing, its yield is an immaterial 0.81%, but it has a very low payout ratio of 7.5%. The company is committed to its dividend, and as such, investors can expect hyper dividend-growth rates in the near future.

The company is currently trading at only 0.79 times book value. Not only is this below the company's historical averages, but it is also below the industry average of one times book value. Management has excelled at executing its strategy. In the most recent quarter, the company grew core cash earnings by 15% and net income by 24%. At these growth rates and a price-to-earnings ratio of only 9.65, VersaBank is cheap.

Genworth MI Canada (TSX:MIC)

Another financial stock that is currently trading below book value is Genworth MI Canada. This alternative mortgage lender has been weighed down by a number of factors. For starters, alternative lenders have been under the microscope ever since **Home Capital Group's** mortgage issues in 2016. Secondly, the bears continue to call for a Canadian housing crash.

The Home Capital issue is non-event for Genworth. After several years, no other alternative lender has come forward with similar issues. It appeared to have been isolated to Home Capital. Weakness in the housing market is definitely something to keep an eye on. However, it is also important to remember that bears have been calling for a crash for the past decade. We are still waiting for the bottom to fall out.

In the meantime, Genworth continues to push forward. Over the past two years, it has returned 25%, and after underperforming year to date (+3.3%), it is now trading below book value (0.91). Similar to Versabank, this is below industry averages and its own historical P/B average.

It is important to also note that Genworth is a Canadian Dividend Aristocrat with a 10-year dividend-growth streak. Combined with its attractive yield of 5%, this financial stock is an attractive income stock.

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