Alert: High Insider Buying at This Canadian Bank

Description

Insider selling can mean anything: execs could be looking to offload excess share bonuses, or they're raising cash for personal reasons or for better portfolio diversification, or maybe there is something fundamentally wrong with the business.

Nobody really knows when it comes to insider selling, but one thing is for sure: insider buying means that execs are bullish and believe that common shares on the public market are undervalued.

After falling into bear market territory on two separate occasions over the past year, it finally appears that **Scotiabank** (TSX:BNS)(NYSE:BNS) is ripe for picking. Insiders have been scooping up shares on the way down over the past year, with the CEO and directors reportedly picking up over $3 million in shares over the past year.

Now that shares have bounced off 52-week lows following the release of some solid third-quarter results, does it make sense to lock in the 5% yield by picking up shares at a better cost basis than most of these bullish insiders?

I think so. Here's why:

First, Scotiabank's exiting from Puerto Rico has likely eased investor fears over the higher risk of impaired loans from the emerging market. Leaving Puerto Rico and the Virgin Islands should help Scotiabank better navigate the rough waters, as we enter the next phase of the credit cycle.

Scotiabank's exit from the Puerto Rican market did come with a $402 million cost, but at this juncture, where everybody is concerned about rising provisions, I'd say such de-risking efforts are more than worthwhile.

Second, provision growth seems to be grinding to a halt, with $713 million for the third quarter, lower than the $873 million witnessed last quarter. Expenses also seem to be stabilizing, which bodes well for investor sentiment.

Third, integrations from prior acquisitions seem to be going smoothly. The high potential for integration risks was a concern of many investors, as Scotiabank had been wheeling and dealing at an inopportune time before macro pressures began to mount.

Fourth, Scotiabank stock remains ridiculously cheap. The stock trades at just 9.7 times next year's expected earnings, 3.1 times sales, and 1.4 times book, all of which are considerably lower than the bank's five-year historical average multiples of 11.6, 3.4, and 1.6, respectively.

Foolish takeaway

Insider buying is high, and for a good reason. Scotiabank looks undervalued after the reveal of better-than-feared results. I still think there's a bit of unwarranted fear baked into the stock right now, and as the bank continues making moves to improve its risk profile, I see investors gradually returning to the market darling over time.

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joefrenette