TFSA Investors: This Small-Cap Bank Stock Is Too Cheap to Ignore!

Description

In 2019, bank stocks are among the cheapest equities trading on the **TSX.**

With P/E ratios hovering in the 10-12 range, they're far cheaper than the average publicly traded Canadian stock (which trades at approximately 18 times earnings).

However, the big banks' low valuations are, for the most part, fairly justified. With some notable exceptions–like **TD Bank**–they rarely post quarterly earnings growth higher than 2%, and all of them are exposed to what some money managers have called a risky consumer credit market.

That said, not all Canadian banks are created equal. Although they're all fairly similar in terms of valuation, some are growing much faster than others, which may make them bargains.

In this article, I'm going to be looking at a small Canadian bank that is cheaper (based on earnings) than any of the Big Six.. and is posting even better growth numbers than TD.

VersaBank

VersaBank (TSX:VB) is a small chartered bank with a market cap of $137 million. The company is unique for being an online-only financial institution that has no physical branches.

As fool contributor Kris Knutson pointed out, the "no branch" business model frees up capital and allows banks to offer higher interest rates to depositors.

According to VersaBank's website, its SunRise Savings Account offers an interest rate of 1.2%–many times what you'd typically get with one of the Big Six. The Big Six banks do offer some higher interest options, but those accounts don't approach 1.2% interest and you typically need a very high balance to qualify.

So far, I'm not seeing any indication that you need a very high account balance to qualify for VersaBank's 1.2% savings account, but such accounts can have fees and other strings attached that eat into the interest income.

A unique business model

VersaBank's no-branch, high-interest model is fairly unique among Canadian banks.

Equitable Bank's EQ bank has a similar business model, with no branches and high interest rates. Apart from that one competitor, however, VersaBank is unique, and this space is not yet terribly crowded. This is in contrast to the U.S., where many financial institutions are rolling out ultra-high-interest savings accounts.

Strong growth despite its cheap price

One interesting thing about VersaBank is that it's actually a very strong grower despite its low valuation.

Over the last three years, the company managed to grow its revenue from $39 million to $51 million and its net income from $8 million to $18 million. In its most recent quarter, the bank's EPS was up 5%, while the year-to-date increase was 17%. These are pretty strong growth metrics for a bank.

Additionally, VB has averaged 41% dividend growth over the past two years. That's a phenomenal dividend growth rate, and if it continues, the 1.23% yield you'd get on VB today could go much higher.

As a branch-less financial institution, VersaBank occupies an interesting niche that's not seeing a lot of competition in Canada. As a result, it's been able to post impressive growth figures despite its cheap price. This is definitely one to watch going forward.

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