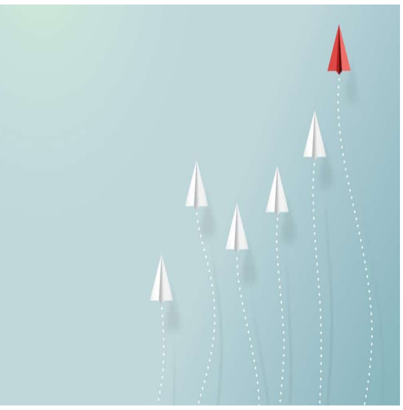

Long-Term Investors: This Fintech Is 1 of the Top Stocks to Buy in December

Description

Canadian bank stocks have historically been a great investment over the long term, and the industry hasn't changed much over the years. Of course, competition drives innovation and new products are created, but for a long time, the core operations of banks stayed the same, even as regulations changed.

That all began to change with the improvement in technology, when banks began to build their digital infrastructure and go online.

Creating digital banks serves two key purposes: it makes banking easier and more convenient for customers as well as being a much cheaper way of operating the business, especially once the company has large scale.

One of the top fintech companies to invest in today is Canada's first digital bank, **VersaBank** (TSX:VB).

VersaBank is a Canadian domestic bank that has its Schedule 1 Canadian chartered bank licence and offers numerous products to consumers to meet their ever-evolving needs.

It's one of the leading fintech companies in an era where almost all new developments in banking are being driven by financial technology.

Its stock is up nearly 50% the last two years, and its growth isn't slowing. It just reported its fourth-quarter and fiscal 2019 earnings, and the company posted record numbers.

Its fourth-quarter net income grew by 5% year over year, while its earnings per share grew by 10%. Its net interest margins were 3.04% in the fourth quarter — a four-basis-point increase from the prior year.

The gain in income was due to lower non-interest expenses as well as lower provisions for credit losses.

For the year, it grew its e-commerce purchase receivable program to over $1 billion for the first time and achieved record earnings per share of $0.85.

Its loan portfolio, which is worth close to $1.6 billion, is heavily weighted to Ontario, with more than half the loans outstanding. 63% of the loans come from e-commerce versus 37% from commercial banking.

It also made a new partnership with an insolvency administrator, launched three new e-commerce lending channels, and launched VersaVault and DRT Cyber Inc.

VersaVault was designed by the bank to provide cybersecurity to commercial entities and has already signed an agreement to licence the product to companies in Europe.

DRT Cyber is VersaBank's next step and building block from VersaVault. DRT is focused on continuing to build its technology and build a full range of security options for the digital world, which only continues to grow each day.

It is continuously evaluating both companies' and countries' cybersecurity challenges to address them and build its own encrypted technology to protect its clients.

In 2020, VersaBank has a number of strategic goals to continue to grow its business. It plans to launch its **MasterCard** co-branded credit card, increase its e-commerce business, grow the capabilities of DRT Cyber, and expand its commercial deposit base.

It believes all of these strategic priorities will help lead it to continued growth in its earnings per share.

As a bank its crucial to have a strong financial position, which VersaBank does, with a common equity Tier 1 capital ratio of 13.4% and a leverage ratio of roughly 12%.

It's also returning cash to shareholders through a small dividend that yields roughly 1.35%, which is only an 11.7% payout ratio.

The stock is definitely undervalued. It has a roughly 9% return on equity the last few years, yet trades at just a 0.7 times price-to-book ratio. Even from a price-to-earnings perspective, it's cheap at just 8.6 times.

This discount can't last, and the stock has been gaining momentum lately, so adding a position today could be prove to be very profitable.

CATEGORY

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