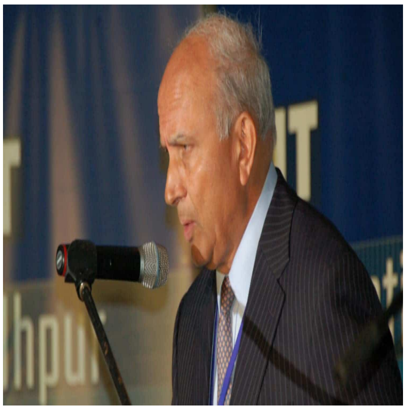

It’s Time to Get Back Into Fairfax Financial Holdings Ltd.

Description

The news that **Fairfax Financial Holdings Ltd.** (TSX:FFH) had sold its 97.7% stake in First Capital, Singapore’s largest property and casualty insurer, had Fool.ca contributor Kay Ng wondering what CEO Prem Watsa was up to given the company’s ongoing interest in Asia.

Was Watsa heading in a different direction?

While it’s never easy to know what a man of Watsa’s considerable brain power is thinking, it’s not hard to see that money had something to do with Fairfax agreeing to sell. After all, how often do you get offered a 25% annual return on a 15-year investment?

Watsa likely had no choice but to accept the offer and work out the best way for Fairfax to benefit once the deal is complete and it no longer owns First Capital. He appears to have done that, establishing a working partnership with buyer Mitsui Sumitomo Insurance.

Now, as Ng suggested, Watsa has US$1.6 billion to invest in hot spots like India, where the company already has significant investments.

It’s a win/win situation for a stock that hasn’t done very much since 2013-2014, when it gained 21.1% and 46.1%, respectively, in those two years.

Fairfax is down 17.0% over the past year, and the First Capital deal might be the tonic that it needs to move higher.

Here’s why.

Non-controlling interests

Although Fairfax has a 6.4% voting interest in **Fairfax India Holdings Corp.** (TSX:FIH.U) and a 1.2% voting interest in **Fairfax India Holdings Corp.** (TSX:FAH.U), its economic interest in each of them is 69.8% and 35.8%, respectively.

In May, I recommended that investors consider both of Fairfax's emerging market spin-offs. Nothing's changed to alter my opinion of both of these investments. At the end of June, these two investments were carried on Fairfax's books at US$1.27 billion — up 70.8% from the end of 2016.

Today, that's up to US$1.5 billion, with Africa coming on like gangbusters. Recently, Fairfax Africa made two announcements that will surely add value for shareholders in the future.

First, on September 4, it announced it was investing US$386 million in AfriSam Group, Africa's second-biggest cement company, so that AfriSam could pay down debt and then buy PPC Ltd., Africa's largest cement company.

Second, through an equity and convertible debt investment of US$159 million, Fairfax now owns 42.4% of **Atlas Mara**, a London Stock Exchange-listed investor in the African financial services market. Although Atlas Mara has had a rough start since its 2014 IPO, the focus on Africa should pay dividends down the road. Fairfax's investment in Atlas Mara would have to considered a true Prem Watsa deal.

Early in the game, Africa is just one of its non-controlling interests that's growing in value. In the first six months of 2017, the carrying value of these investments has grown by 30% to US$2.6 billion with Fairfax India the most valuable at US$1.1 billion followed by **Cara Operations**, **Brit**, a U.K. reinsurance business, and Fairfax Africa.

Bottom line on Fairfax

Between its July 2017 acquisition of Allied World Assurance for US$4.1 billion and the ongoing development of its non-controlling investments, I see a lot of good things happening at Fairfax.

Trading just below $600, it's not quite as cheap as it was in July, but it's definitely cheaper than it was through most of 2016.

If you don't own already own **Berkshire Hathaway Inc.** and want a cheaper version, Fairfax definitely fits the mould.

I say it's time for investors to get back into Fairfax stock.

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Date
2025/08/24
Date Created
2017/09/12
Author
washworth