The Safer Way to Bet on a Toronto Icon

Description

The November 10th announcement that **Fairfax Financial Holdings Ltd.** (TSX:FFH) had upped its stake in **Torstar Corporation** (TSX:TS.B) to almost 41% of the non-voting shares brought the once-iconic newspaper business's stock to life.

Up ~10% since the news, investors across the country are wondering why one of Canada's greatest investors — that would be Fairfax CEO Prem Watsa, the Canadian version of Warren Buffett — is accumulating shares in a business that has seen better days.

Equally puzzling is the fact that Torstar is controlled by a group of five families who hold 99% of the company's voting shares in a voting trust that ensures the company follows the doctrines and beliefs of the *Toronto Star's* founder Joseph E. Atkinson.

Nothing major happens at Torstar without the approval of these five families.

An acquaintance of mine who owns shares in Fairfax emailed me, concerned about Watsa's "cigar butt" investment.

Why, when there are so many better investments here in Canada and overseas, is the Fairfax CEO wasting his time with something that can't possibly move the needle for FFH stockholders?

It's a fair question.

I responded that Watsa obviously recognizes the iconic nature of the *Toronto Star* and figures his most recent purchase of Torstar class B non-voting shares at $1.25 each gives Fairfax an additional 13% economic interest at a very reasonable price.

Why Torstar?

On two occasions over the past year, I've written bullish arguments about Torstar's stock.

"If you can't look past the doom and gloom, as Prem Watsa has — Fairfax Financial owns almost 28% of Torstar stock — then you probably shouldn't be buying Torstar in the first place," I wrote in March.

I boldly predicted that Torstar stock was going to $5; it was trading at $1.74 at the time. Clearly, it's gone in the other direction. Time will tell if I'm ultimately proven right.

My follow-up came in May after Torstar released its first-quarter results. Although Torstar reported a $24.4 million loss in the quarter on $138.7 million in revenue, I felt it was an improvement over the same quarter a year earlier.

"If you exclude share-based compensation, amortization, depreciation, and one-time charges, Torstar's three segments [Metroland Media Group, Star Media Group and Digital Ventures] delivered $2 million in adjusted EBITDA profit in Q1 2017 compared to a $706,000 loss a year earlier," I wrote May 3. "Add in the $5.3 million in savings from the job cuts, and its cash flow situation improves dramatically."

The Q3 2017 results

Let's forget about revenues and focus on earnings, because, in two years' time, Torstar will be a much different company. Hopefully, it will be one that's delivering profitable revenues, albeit with a smaller top-line number.

In the nine months ended September 30, 2017, Torstar's adjusted EBITDA was $31.2 million, a 9.1% year-over-year increase with the margin on those adjusted EBITDA profits increasing by 100 basis points to 6.2%.

Yes, these are non-GAAP numbers, but it's a step in the right direction. The last time Torstar delivered an operating profit was 2012, almost five years ago.

Fairfax is the better play for most investors

Unless you're a speculative investor who doesn't mind playing in small-cap stocks priced under $2 — Torstar has lost 83% of its market cap since its last operating profit — Fairfax gives you an opportunity to benefit from Prem Watsa's wisdom without putting too much at risk.

Torstar might yet turn around with its digital ventures leading the charge, but should that fail to materialize three to five years from now, chances are good your investment in Fairfax will have grown in value.

Good luck.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)
2. TSX:TS.B (Torstar)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

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