3 Reasons to Buy This Oversold Financial Stock

Description

Globe and Mail market strategist Scott Barlow recently highlighted the fact that **Fairfax Financial Holdings Ltd.** (TSX:FFH) was closing in on 30 — the relative strength index's sign a stock is entering oversold territory.

Barlow must have a large following, because in the two or three trading days since his June 20th article, Fairfax stock has rebounded by 10%.

Here are three reasons I think it's only just getting started.

Lentils, India, and tariffs

Donald Trump isn't the only one playing the tariff game. India is in on the action, and it's seriously affecting Regina-based **AGT Food and Ingredients**' business.

At the end of last year, India slapped a 30% tariff on lentil and chickpea imports to protect its farmers. AGT just happens to sell a lot of lentils and chickpeas to India, one of its biggest markets. The company's stock fell into the mid-teens as India slapped on more duties — 33% on lentils and 66% on chickpeas — forcing the company to get creative about its business.

"They've basically just stopped the (pulse) trade around the world," CEO Murad Al-Katib told the *Financial Post* recently. "They're doing it to protect their domestic farmers and to increase local prices before next year's elections."

It's gotten so bad that the volume of lentils exported to India dropped by 85% in April compared to a year earlier. Imagine if your business or income dropped by 85%. For most people it would be devastating.

However, Al-Katib reached out to Fairfax founder and CEO Prem Watsa in January 2017 before the tariffs were announced in anticipation of the Indian government's move.

Watsa, who was born in India, decided to invest $190 million in AGT. The investment in preferred shares paid 5.375% interest with a 99-year maturity. In addition, Fairfax got 5.7 million warrants to buy AGT stock at $33.25 a share (approximately 19% of its stock) any time before August 2024.

At the moment, those shares are heavily underwater. However, like most tariffs, they're generally not intended to last indefinitely.

A lot can change in seven years, making this investment very much a diamond in the rough.

Book value per share

In the company's first quarter ended March 31, 2018, Fairfax generated a book value per share of $461.18 — 4.9% higher than at the end of December, the company's financial year-end.

In May, I'd highlighted the fact that Fairfax has done a better job increasing its book value per share since 1985 on an annual basis than **Berkshire Hathaway Inc.** — 19.5% versus 18.7% for Warren Buffett's Class B shares — which is no small feat.

Now that Watsa is unwinding many of his equity hedges, believing the downside on the company's investment portfolio isn't nearly as great, he's in a growth mode, planning to increase its book value per share by 15% annually.

If the Q1 2018 growth rate of 4.9% is any indication, Fairfax is going to smash through that 15% goal, sending its stock into the $800s and beyond.

Share repurchases speeding up

In the first quarter, Fairfax repurchased $73 million of its stock, more than three times what it bought back in the same quarter a year earlier.

Between 1985 and 2017, Fairfax repurchased an average of 21,000 of its shares on an annual basis; in the first quarter, it bought back 143,000 of its shares — almost six times as many in just three months.

I'm generally not a fan of share repurchases. However, in the first three months of the year, Fairfax paid an average of $509.79 a share for its stock — a 30% return on its investment over four months.

Annualized, that's a 90% return. If Watsa can continue this kind of return on its share repurchases, I say buy away.

The bottom line on Fairfax stock

After coming close to an RSI of 30, Fairfax has bounced back to around 50, the midway point between oversold and overbought. At least, that's the case if you take stock in technical analysis.

As we move toward 2019, Fairfax is entering some interesting non-insurance investments in the U.S., including **Seaspan Corporation**, a company controlled by billionaire Dennis Washington.

Seaspan, which owns 92 ocean-going container ships, is likely the beginning of Fairfax's U.S. expansion outside the insurance industry.

I look forward to more investment announcements in the near future. In the meantime, enjoy the fact that Fairfax stock is neither oversold or overbought, but rather fairly priced and at a good entry point.

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