



This Premium Stock Is Approaching Bargain Territory

Description

Fairfax Financial Holdings ([TSX:FFH](#)) is a holding company of casualty and property insurance businesses, from which it generates premiums. It invests those premiums for higher returns, similar to what Warren Buffett does with **Berkshire Hathaway**. This has worked out well in the first half of the year.

Long-term outperformance

The company has been under the same leadership since 1985, and it has delivered phenomenal book value per share growth over the long run. From 1985 to 2017, it compounded its book value per share by 19.5% per year. In the same period, its stock price per share averaged about 18% per year!

What about more recent returns? From 2007 to 2017, the growth has been much more modest. Its book value per share compounded nearly 7% per year, and its stock price per share grew about 8.8% per year.

The stock is getting cheap

Since 2015, Fairfax Financial stock has traded in the range of roughly \$570 to \$770 per share. Now that the stock trades at a decent discount of about 7% below the midpoint of \$670 at just under \$624 per share (and under 1.2 times its book value) as of writing, it's a good time to review the idea.



Results of the first half of 2018

Fairfax Financial's insurance business is doing well. Compared to the first half of 2017, the company's gross premiums written and net premiums written increased by almost 49% and 43%, respectively, to US\$7,999 million and US\$6,416 million.

The strong growth had largely to do with several acquisitions, including Allied World, certain insurance operations of **AIG**, and First Capital, which it acquired in 2017.

There was a modest growth of 4.3% in its underwriting profit to US\$224.9 million. Fairfax Financial earned interest and dividends of US\$250 million. These combined to operating income of US\$474.9 million, an increase of almost 21%.

Its investment portfolio delivered net gains of US\$876 million thanks primarily to long equity exposures, which contributed to realized gains of US\$1,083 million. The end result was net earnings of US\$747.4 million for the period, which was 90% higher from the previous year.

Investor takeaway

Fairfax Financial's insurance businesses have been doing fine, and its operating income and net earnings were strong in the first half of the year. However, the equity markets have declined in the last few months.

[Fairfax Financial](#) is therefore expected to have poor returns for its investment portfolio in the upcoming quarter, which is the stock has retreated to a relatively discounted level and is trading at just under 1.2 times its book value.

[Fairfax Financial](#) will report its Q3 results after the market closes on November 1. Interested investors should consider buying the stock after that date, as the shares could be cheaper by then.

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