



## It's a Good Time to Buy This Premium Stock

### Description

**Fairfax Financial Holdings** ([TSX:FFH](#)) stock has corrected more than 22% from its 52-week high. At about \$604 per share as of writing, Fairfax trades at about 1.07 times its book value, which is a decent valuation to start scaling in to the premium stock.

### A business overview

Fairfax is a holding company of casualty and property insurance businesses from which it generates premiums. It invests those premiums with the goal of aiming for higher returns, similar to what Warren Buffett does with **Berkshire Hathaway**.

### Fairfax's recent results

Fairfax Financial's [insurance business](#) is doing fine. Compared to the first nine months of 2017, the company's gross premiums written and net premiums written increased by about 33% and 29%, respectively, to US\$11,763 million and US\$9,377 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 during 2017.

Net earnings in Q3 of US\$106 million were markedly lower compared to US\$477 million in the same period of 2017, as the company had lower net gains on investments, even though they were partially offset by higher underwriting profit. This indicates that Fairfax's investment returns have a strong correlation to its bottom line.

In the first nine months of the year, Fairfax's investment portfolio delivered net gains of US\$1 billion thanks primarily to long equity exposures, which contributed to realized gains of US\$1,156 million.



## Fairfax has outperformed in the long run

Since 1985, Fairfax has been under the same leadership, and it has delivered phenomenal book-value-per-share growth. From 1985 to 2017, it compounded its book value per share by 19.5% per year. In the same period, its stock price appreciated about 18% per year on average.

Recent returns have been more modest, though. From 2007 to 2017, its book value per share compounded about 7% per year, and its stock price per share climbed about 8.8% per year.

## Fairfax is an attractively valued investment

Since 2015, Fairfax stock has traded in the range of about \$570-770 per share. Now that the stock trades at a decent discount of about 10% below the midpoint of \$670 at just about \$604 per share (and under 1.1 times its book value) as of writing, it's a good time to consider scaling in to the stock with the idea to add more if it falls another 7% or so.

## Investor takeaway

Investors should [consider buying Fairfax](#) on this meaningful correction. Fairfax's insurance operations will continue to do fine. As of the end of Q3, Fairfax's investment portfolio was comprised of 60% bonds, nearly 25% of subsidiary cash and short-term investments, and nearly 13% in common stocks. So, higher interest rates will be a tailwind for Fairfax.

### CATEGORY

1. Dividend Stocks
2. Investing

### POST TAG

1. Editor's Choice

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1. TSX:FFH (Fairfax Financial Holdings Limited)

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