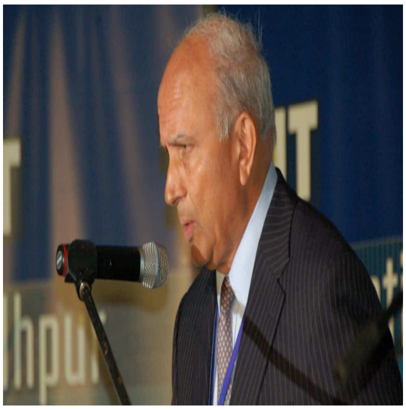

Prem Watsa Nabs a “Steal” With His Latest Canadian Investment

Description

Prem Watsa, the man also known as the Canadian Warren Buffett, recently announced that his firm **Fairfax Financial Holdings** had taken a 14% stake in a relatively under-the-radar Canadian steelmaker **Stelco Holdings** (TSX:STLC) in a deal worth $250.1 million.

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At the time of writing, Stelco stock is down 34% from its high thanks to a combination of tariffs, uncertainties with regards to the newly inked United States-Mexico-Canada Agreement (or NAFTA 2.0) and the recent closing of Oshawa-based **General Motors** plants. There’s no question that it’s been a perfect storm of adverse events for Stelco, and while many question marks still exist, the bar seems low at this juncture.

Fellow Fool contributor Ambrose O’Callaghan appears to be on the same page as Watsa, touting Stelco stock as a top small-cap name to pick up this December due to the company’s reasonably decent performance in spite of the tariffs it’s been slapped with. Stelco suffered $39 million in tariff costs in the latest quarter but still managed to post an applause-worthy 84% in year-over-year top-line growth.

“Higher steel prices have given Stelco a boost in recent months, with the price of steel rising to $1,000 per metric tonne from $700 in January. This has allowed Stelco and other producers to pay the tariff and still make a solid profit,” said O’Callaghan. “The real danger for Stelco may be auto tariffs, which could cut into its growth strategy, which is reliant on expansion into the automotive sector.”

Foolish takeaway

As you’re probably aware, following the moves of investing gurus is seldom a market-beating strategy.

So, if you’re thinking about riding on the coattails of Watsa by making your own big bet on Stelco, a company you’ve likely never heard of, you may want to hold off. Watsa may be a brilliant deep-value investor, but he’s got a ridiculously high loss tolerance and the patience of a saint.

Stelco has had its fair share of challenges, and although the stock appears dirt cheap (trading at just

1.1 times sales), you could find yourself waiting many years before any meaningful upside moves.

With that in mind, I think only investors with a time horizon beyond five years should consider following Watsa's lead into the mid-cap steelmaker.

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