



Is Canada's Berkshire Hathaway Undervalued?

Description

In his 33 years as chief executive officer, Indo-Canadian investor Prem Watsa has managed to replicate the success of Warren Buffett in the form of **Fairfax Financial Holdings** ([TSX:FFH](#)).

Like Buffett's **Berkshire Hathaway**, Fairfax is essentially an investment company powered by insurance premiums. The holding company derives a float (money that can be used to invest) from its numerous insurance businesses. At the end of 2017, this float was worth over \$22.7 billion or nearly \$819 per share.

The float also tends to grow at double-digit percentages every year. Last year, it grew by a whopping 13%. The float is also an asset rather than a liability. According to the company's latest shareholder letter, the float has cost nothing over the past 10 years, which is lower than the 2.5% it costs the Canadian government to borrow via 10-year bonds.

However, unlike Berkshire, Fairfax is a lot more global. Investments, insurance operations, and subsidiaries are spread across North America, Africa, Asia, Europe, and Latin America. I appreciate Watsa's ability to avoid the home bias Buffett is known for. Global diversification is essential in an increasingly intertwined economy.

Although the U.S.-China trade war and currency volatility complicate this global strategy, Fairfax has a team of high-caliber local talent managing each subsidiary. Over time, investors should see the benefits of emerging market growth coupled with developed market stability.

In my opinion, this diverse portfolio makes Fairfax one of the most interesting stocks listed in Canada. It's also one of the easiest to value, because the chairman spells it out every year. In his annual letter to shareholders, Watsa explicitly states his estimate for the company's value.

Both Watsa and Buffett use the reported book value as a measure of performance and intrinsic value. For a holding company, the book value is a calculation of shareholders' equity based on the market value of the investments, assets, and marketable securities.

If you assume that all the holdings are either fairly valued or undervalued (otherwise they wouldn't be on the book), it's easy to say the intrinsic value of the entire holding company is far in excess of this accounting number.

At the time of writing, FFH's reported book value is US\$450. Converted to Canadian dollars, the book value is \$603, which is nearly as much as its current stock price of \$610. If the 1:1 price-to-book value ratio wasn't enough of a buy signal, Watsa is currently spending a fair amount of [free cash flow \(\\$2.3 billion\)](#) in buybacks.

FFH stock is beaten down at the moment. Year to date, the stock is down over 6%. While that's better than the -9.7% delivered by the **S&P/TSX Composite Index** over the same period, FFH has a lot more potential for return on equity compared to the average Canadian stock.

Fairfax offers an attractive valuation, a management team with a long track record, exposure to global growth regions, and a simple and lucrative business model. Making an investment decision doesn't get much easier than this.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

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