Why Fairfax Financial Holdings (TSX:FFH) Is a Top Growth Stock

Description

Fairfax Financial Holdings's (TSX:FFH) stock price appreciation over the years has been impressive. Since the company was created back in the mid-80s, Fairfax has lived up to its explicitly stated goal: to "achieve a high rate of return on invested capital and build long-term shareholder value." The company's book value per share has increased at an annual rate of 19.5%.

Fairfax pays little by way of dividends, and the company's earnings tend to be volatile. Thus, Fairfax is not the best investment option for income-oriented investors. But those looking for a steady growth stock should keep an eye on Fairfax. Let's consider why Fairfax is an attractive stock for growth investors.

Growth through acquisitions

Fairfax engages in property and casualty insurance through its subsidiaries. The acquisition of smaller insurance firms is FFH's main growth engine. Over the years, the company has acquired dozens of insurance providers.

The company's latest acquisition came in late 2017 when it bought Allied World Insurance. The $4.9 billion acquisition was Fairfax's biggest to date. Fairfax currently has more than 40 subsidiaries scattered in four continents.

This much geographical diversification is an asset for Fairfax. Not only does the company have a strong position in primary markets such as North America and Europe, but it also owns subsidiaries in markets in which the insurance business still has much room for growth.

In 2016, Fairfax acquired 100% of Zurich Insurance Company's South African and Botswana operations. Prem Watsa, chairman and CEO of Fairfax, highlighted the important growth opportunities present in Africa; the acquisition helped Fairfax strengthen its position in this region.

Despite being headquartered in Toronto and owning subsidiaries all over the world, Fairfax operates on a decentralized basis. Each company under the umbrella of Fairfax is, for all practical purposes, an independent firm.

The decentralized aspect of Fairfax allows each of its subsidiaries to adapt to its market while making decisions quickly without needing to involve a long chain of command. In other words, this saves the company time and money.

Risk factor for Fairfax

One of the major risk factors for Fairfax is one that plagues much of the insurance industry. The company is susceptible to substantial losses due to adverse economic conditions. In 2017, the company’s operations in North America were negatively affected due to several catastrophes, including three hurricanes and a major wildfire.

These events cost the company a combined $1.3 billion, according to its letter to its shareholders released in March of 2018. Despite these losses, Fairfax reported record net income applicable to common shares, and its book value increased by 24.7% during that year.

While investors should consider the potential risks adverse weather conditions and other catastrophes pose to Fairfax, the company has proven its ability to handle risk.

The bottom line

There is no reason to think Fairfax is done growing. The company will likely continue to acquire other investment firms and will keep implementing its proven strategy that has led to strong capital appreciation. There will be hiccups along the way, but for the financial services giant, the sky is the limit.

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Date
2025/08/02
Date Created

2019/02/02

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