This Growth Stock Is the Cheapest it’s Been in 10 Years

Description

Growth investors should be excited with the buying opportunity presented in **Fairfax Financial Holdings** (TSX:FFH), as it trades at the cheapest valuation it has been in a decade!

Creating long-term shareholder value

Since 1985, Fairfax has been under the same leadership and has delivered phenomenal book-value-per-share (BVPS) growth. From 1985 to 2018, it compounded its BVPS by 18.7% per year. In the same period, its stock price per share appreciated about 17% per year on average.

How Fairfax makes money

Fairfax’s business model is similar to that of **Berkshire Hathaway’s**. Essentially, Fairfax has insurance and reinsurance businesses that operate on a decentralized basis.

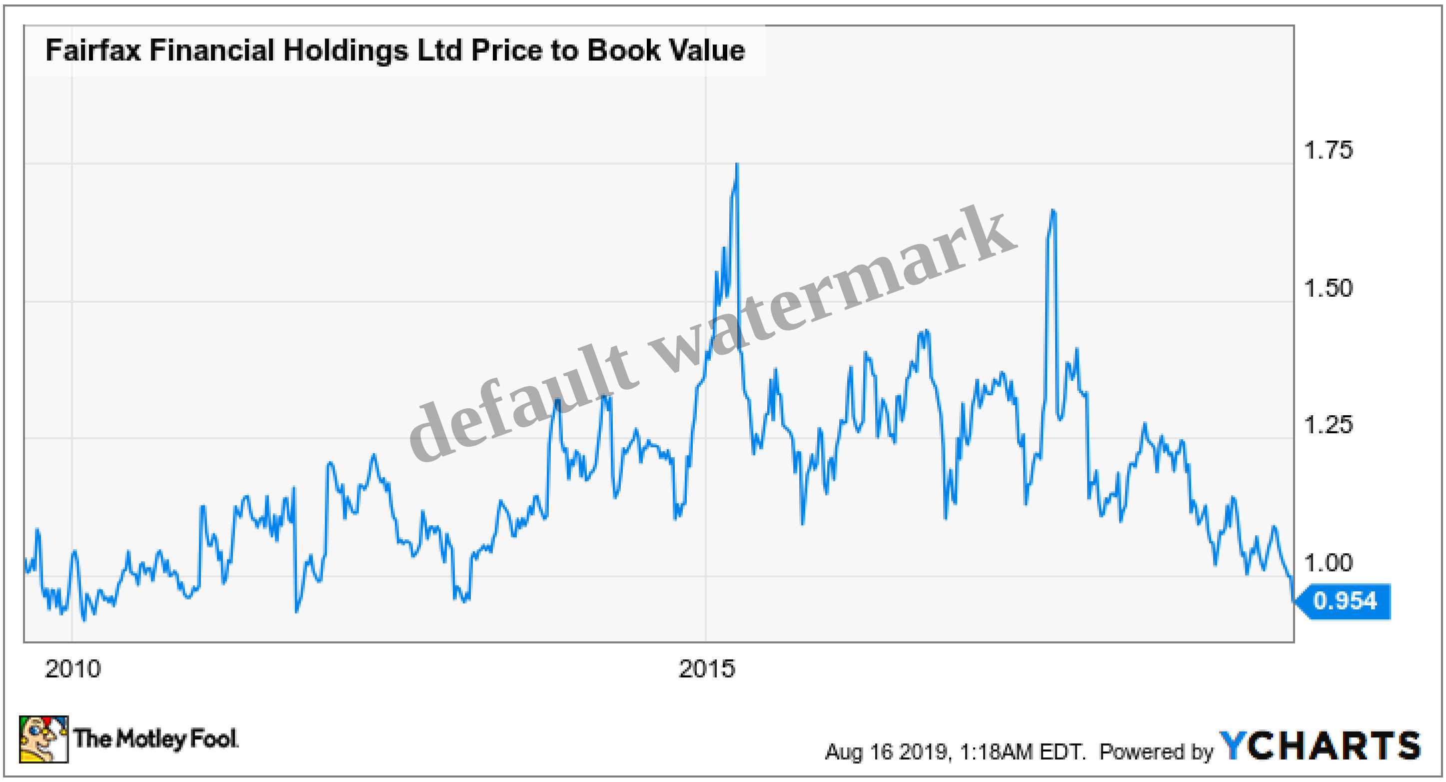
Float arises from the premiums received because losses are paid often years later. In between the time premiums are received and losses are paid out, Fairfax invests the float with the goal to generate lucrative returns in the markets.

In the first half of the year, Fairfax's insurance business had a consolidated combined ratio of 96.9%, which indicates the operations were profitable overall.

At the end of the second quarter, Fairfax had an investment portfolio with a value of close to US$39.6 billion, including 26% in cash and short-term investments, 41% in bonds, 14% in common stocks, and 7% in **Fairfax India** and **Fairfax Africa**.

Worthy of emphasis is the company's nearly US$10.2 billion of cash and short-term investments that can be used to take advantage of market downturns.

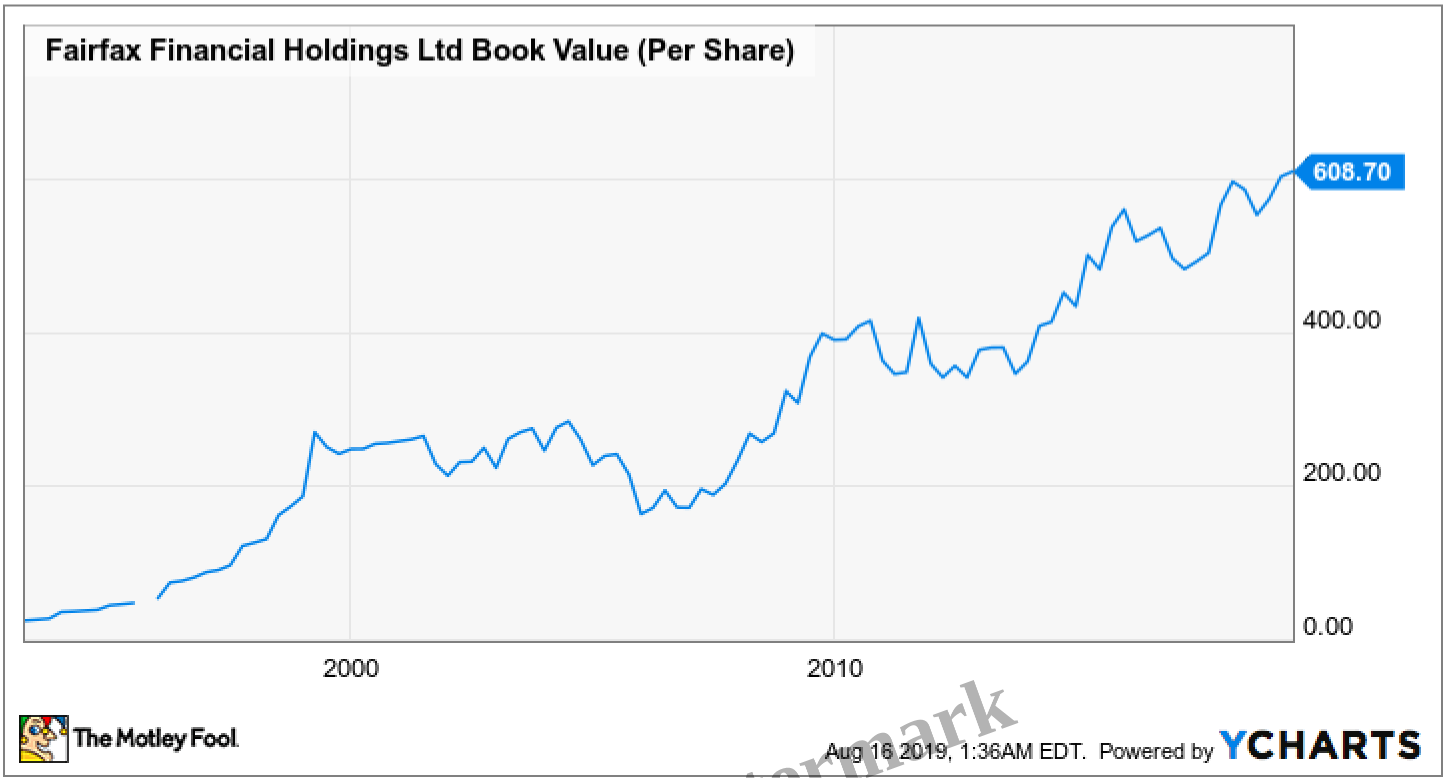
A 10-year cheap valuation



FFH Price-to-Book Value data by YCharts.

Investors should be exhilarated, as the market is gifting Fairfax stock at a 10-year cheap valuation that's below book value. The last time this happened was in 2013.

It's important to emphasize that Fairfax tends to increase its book value per share over the long run, even though there are obvious dips in the interim.



FFH Book Value (Per Share) data by YCharts.

To get a perspective of this incredible opportunity, let me surprise you with the fact that Fairfax's five-year average price to book is 1.26. This means that if the growth stock reverts to this more normalized valuation, it'll imply upside of 32% from current levels.

Foolish takeaway

Fairfax has a foundation of profitable insurance operations that generates float for it to invest for higher returns.

It manages a diversified investment portfolio, which consists of a large portion of cash that allows it to be greedy when the markets turn south.

FFH stock is mispriced, as it trades at a 10-year low valuation. Now is the time for total return investors to be greedy in FFH stock. Let's not forget that the stock also offers a competitive yield of 2.1% while you wait for the price appreciation.

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