Why I Invested $3,000 on This Little-Known Emerging Market Stock

Description

Last year, I invested $1,000 in a little-known emerging market stock. During this crisis, the stock was severely beaten down. So, I doubled down and plunged another $2,000 into it. The stock is **Fairfax India Holdings** (TSX:FIH.U), and it's probably one of the safest bets in my portfolio. Here's why.

Emerging market growth

Although the economy has hit a rough patch, India's long-term growth prospects remain as bright as ever. Much like the U.S., India's growth is driven by the consumer. Domestic consumption has been growing at a relentless pace and is likely to hit warp speed over the next few years.

The key driver is India's favourable demographics. Half of the nation's population is younger than 27 year today. Only 3% of the population qualifies as "middle class." Coupled with the fact that the population is tech savvy, well educated, and cheaper to higher than most counterparts, average income is expected to quadruple by 2030.

India's gross domestic product, meanwhile, could surge from US$2.8 trillion today to $5 trillion by the end of the decade.

Portfolio

Veteran investor Prem Watsa got involved in India's growth story in 2015. Since then, he has created a portfolio of Indian stocks that are at the apex of this consumption growth story. Fairfax India holds major stakes in India's largest stock exchange, banks, and airports.

Over the past five years, Watsa has deployed US$5 billion into Indian stocks through Fairfax India. Over the next five years, he intends to double that investment. He's probably seeking out distressed assets and undervalued stocks listed in Mumbai right now.

However, Canadian investors seem to have overlooked this intriguing story.

Valuation

As with any investment holding company, it's easy to figure out Fairfax's intrinsic value. The company's book value per share is US$14.38, while the stock trades at US$7.46. In other words, the market price of this emerging market stock is *half of book value.*

It's worth noting that this book value is probably understated as well. For example, Fairfax India holds a majority stake in the National Stock Exchange company, which is private. When the company is eventually listed, it could unlock a lot more value and be marked up on Fairfax's books.

Similar, private holdings such as Bangalore International Airport could be worth a lot more than their marked-to-market price on the company's books.

In short, Fairfax India is probably one of the most undervalued opportunities on the Canadian market right now. In fact, there's an ongoing buyback program that signals this undervaluation.

Bottom line

Emerging markets like India have been battered by the ongoing global economic crisis. Unlike their developed counterparts, India can't shore up the stock market by printing money. That's why emerging market stocks are more fairly priced.

Canada-based Fairfax India is probably the best way for local investors to bet on this emerging market's long-term trajectory. The stock is trading for less than half of book value and has a robust balance sheet to survive the ongoing crisis. Keep an eye on it.

I've been buying the stock since last year, and my blended cost average is $8.5. You can buy the stock cheaper than that right now and reach out to me to gloat about it if you like.

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vraisinghani