Undervalued: This Could Be 1 of the Cheapest Stocks on the TSX Index

Description

The title of the **TSX Index**'s most undervalued stock is up for debate. But I find it hard to match the value proposition offered by **Fairfax Financial Holdings** (TSX:FFH) stock. We're talking about an insurance and holding company run by legendary money manager Prem Watsa, a man who's not called Canada's Warren Buffett for no reason.

Of late, Fairfax and Watsa have fallen into a massive slump.

Fairfax stock found itself trading at decade lows, with an unprecedented valuation that I believe implies a considerable margin of safety. Fairfax does have a history of missing out on big rallies, while suffering from prolonged bouts of underperformance. But I think the stock is a worthwhile hedge for prudent investors.

Severely undervalued

First, Fairfax is absurdly undervalued. The stock trades as though there's something fundamentally wrong with the company. At the time of writing, shares of FFH trade at 0.66 times book, which is the biggest discount to book since the depths of the 2007–08 Financial Crisis.

While Fairfax is known to zig when the markets zag, and vice-versa (the stock made a killing during the Financial Crisis), there was no steering clear of the coronavirus crisis. The socio-economic disaster decimated many sectors of the economy while blindsiding even the smartest money managers (including Warren Buffett).

There's no question that Fairfax stock took a major hit during the crash. However, I think the damage is forgivable. *Nobody* could have predicted the pandemic-induced meltdown in the financial markets. Watsa has a knack for forecasting and reacting to macroeconomic trends, but he doesn't have a crystal ball.

Prem Watsa will get back to his winning ways

This isn’t the first time that Watsa and Fairfax have stumbled, and it’s probably not the last. Fairfax got hit with a $1.3 billion loss in the first quarter. That massive number likely caused many to throw in the towel on what has been seen as a perennial underperformer in recent years.

In due time, Fairfax will recover from this coronavirus typhoon, and I believe Watsa will return to his winning ways. The man makes bold bets, and he has more patience than most other big-league investors out there. Sure, many of his recent stock picks have been stinkers, but it would be foolish (that’s a lower-case ‘f’) to conclude that the man has lost his talents just because of a few tough years.

If anything, now is the time to bet on the man’s comeback while the price of admission is absurdly cheap. Watsa is no slouch, and I think he could post a Bill Ackman-like comeback over the next few years, rewarding those patient enough to stick by his side.

An improving underwriting track record

Finally, Fairfax’s underwriting track record pales in comparison to that of Berkshire Hathaway. However, it is showing signs of meaningful improvement. The company recently clocked in a 10% increase in net written premiums year-over-year, with a combined ratio that has held up well (falling 0.2%) during the coronavirus crisis.

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