Fairfax Financial (TSX:FFH): Should You Buy the Stock Now?

Description

Fairfax (TSX:FFH) founder CEO and chairman Prem Watsa recently revealed he bought an additional US$150 million of his company's stock.

Often called "the Warren Buffet of Canada," Watsa's investment decisions are closely watched by analysts and fans. His annual letter to shareholders is one of the most highly anticipated documents in the Canadian investing arena each year.

Watsa says his purchase of more than 480,000 new shares in the past week is driven by a belief that the move will be an excellent long-term investment. In a news release sent to shareholders for the company's annual meeting, Watsa said the stock is very cheap, trading at the largest discount to the intrinsic value since he formed the company in 1985.

Should value investors follow his lead?

Outlook

Returns for Fairfax investors have certainly been impressive. Fairfax provided a compound annual share price growth rate of 16.6% to the end of 2019. That's pretty good over 35 years.

The firm is primarily a holding company with core investments in insurance companies around the globe. It also takes equity stakes in businesses it believes are undervalued and have the potential to deliver significant long-term gains.

Watsa is known for making contrarian bets. Some of the picks have struggled in recent years. For example, **BlackBerry**, **Resolute**, and **Stelco** have failed to deliver as expected.

Others, focused on retail and hospitality, really took a hit in the past three months. Investments in the sports segment including Golf Town, Sporting Life, Bauer and Easton are having a tough time — as is Recipe, the owner of 1,300 restaurants.

While the long-term impact of the pandemic on these companies is still unknown, a sharp rebound in revenue might not be on the way in the coming months.

Value in value bets?

Watsa mentioned the FAANG stocks in his 2020 letter to shareholders and admitted missing out on the opportunities they presented over the past decade. He continues to maintain his belief that value stocks, which fell out of favour in the last 10 years, will one day be back in vogue.

The strategy served Fairfax well during the dot-com crash when Fairfax saw the value of its portfolio rise 100% while global markets lost 50%. This time, a repeat isn't guaranteed. The FAANG stocks propelled the NASDAQ to a record high in recent weeks. Value stocks remain unloved.

The role of tech companies is very different today than it was 20 years ago. Back then, the internet was still a new thing. Now, people everywhere are connected and managing their lives online.

Dividend

Fairfax pays a $10 per share dividend each year, which translates into a 2.9% yield at the current stock price of $450 per share. The dividend should be safe.

Is Fairfax a buy today?

Patience is required, but investors might want to start nibbling on the stock. Fairfax traded at $630 per share in February. It then hit a low of $325 a month ago and has since rebounded aggressively.

Watsa knows the value of his portfolios, and putting up US$150 million of his own money in recent days suggests he sees strong long-term opportunity in the stock.

Investors get paid a decent yield to wait for the recovery, and it wouldn't be a surprise to see the stock back above $600 in the next five years.

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