Prem Watsa: “My Stock Is Ridiculously Cheap”

Description

Prem Watsa isn’t known as “Canada’s Warren Buffett” for nothing. Since 1985, his holding company has delivered an 18.5% compounded annual return to shareholders. Watsa’s ability to identify undervalued stocks and make bets with conviction has made him one of the richest men in the country and one of the most respected figures in global finance.

Now, in the midst of a historic crisis, Prem Watsa seems to have discovered yet another undervalued opportunity: his own company. Yesterday, he declared his intention to personally purchase $150 million worth shares of **Fairfax Financial Holdings** (TSX:FFH).

In an earnings call with shareholders and analysts, Watsa said his stock was “ridiculously cheap,” and that he had never seen it trade at a deeper discount to intrinsic value. Here’s a closer look at his underlying investment thesis.

Prem Watsa’s strategy

As an old-school value investor, Prem Watsa tends to focus on beaten-down stocks. Similar to Warren Buffett, his investments are driven by the float from his insurance company. The core operations of Fairfax Financial generate enough free cash flow to allow the team to take meaningful stakes in undervalued companies.

Some of the company’s biggest holdings include **BlackBerry**, Google, **Granite Real Estate Investment Trust**, and **Crescent Capital BDC**. Unlike Buffett, Watsa doesn’t limit his bets to North America. Two Fairfax subsidiaries focus on investment opportunities in Africa and India.

The value investing strategy Prem Watsa subscribes to hasn’t had a fair run for nearly a decade. Value stocks have underperformed growth stocks by a wide margin since the 2008 financial crisis. In this ongoing crisis, the trend seems to have accelerated. That means value investments and investors are historically underappreciated.

Fairfax valuation

Fairfax Financial stock is a reflection of these woes. It has lost 27% of its value since the start of this year. Now, it trades at roughly the same level as it did in March 1999. Even if you'd bought the stock in 2008, your return over the past 12 years would have been just 80%.

However, over that period, the company's earnings and investment returns have surged. Despite a robust track record, the stock now trades at nearly its book value per share. It also offers an attractive 3% dividend yield.

The company's debt is worth nearly half (56%) of its underlying equity. Meanwhile, Prem Watsa's conglomerate has $11.1 billion in cash and cash equivalents on the book. That's plenty of dry powder to execute meaningful deals in this distressed environment.

In other words, Fairfax's underlying value is not fully reflected in the stock price. That's probably why Prem Watsa is publicly buying stocks and the company has an aggressive buyback program in place.

Foolish takeaway

Prem Watsa's success over the past four decades often gets overlooked. Investors haven't been keen on value investment strategies since the 2008 financial crisis. Now, they're doubling down on tech and growth stocks, which leaves stocks like Fairfax Financial undervalued.

For long-term investors who recognize Watsa's investment prowess and are looking for a clear bargain, this is an ideal opportunity.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:FFH (Fairfax Financial Holdings Limited)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
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