This Canadian Warren Buffett Stock Might Be the Cheapest TSX Index Stock

Description

Prem Watsa, the legendary investor we all know as the Canadian Warren Buffett, looks to have fallen into a bit of a slump in recent years.

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Fairfax Financial Holdings (TSX:FFH) stock touched down with decade lows amid the coronavirus market crash but has since partially recovered to $400, where the stock remains today. Despite the modest relief rally, shares of Fairfax still remain far below its pre-pandemic heights and a country mile (over 48%) down from all-time highs.

The heavily out-of-favour insurer and holding company may be viewed as a perennial underperformer that's not worth your investment dollars. But if you're a contrarian at heart, Fairfax stock looks like a rare opportunity to pick up shares of a wonderful business run by the legendary Canadian Warren Buffett at a heavily discounted multiple.

Of course, Fairfax stock will likely remain volatile for the duration of this pandemic, as commercial activity grinds to a slowdown. But in due time, I think investors will rediscover that Prem Watsa is a man that's worth investing alongside, perhaps at a lofty premium.

I don't care if you're Warren Buffett or Prem Watsa, slumps can happen anyone. Once a legend like Watsa finally rises out of the slump, though, Fairfax stock will likely trade a multitude higher in a correction to the upside.

A tough first quarter that's not as ugly as it seems

Fairfax had its fair share of bad investments for the first quarter. But then again, the same could have been said for almost any firm out there amid one of the worst economic shocks in recent memory. The coronavirus crisis caused Fairfax to take a staggering $1.5 billion loss for the quarter, as the equity markets nosedived off a cliff.

Equity prices fluctuate widely over the short term, though. So, the $1.5 billion hit isn't nearly as detrimental as it sounds on the surface.

Given the V-shaped recovery in the broader equity markets and the possibility of a similar-shaped recovery going into year-end, I'd say that the ugliness that was Fairfax's first quarter ought to be taken with a fine grain of salt. Fairfax stock has since recovered some ground, but the stock ultimately remains well off the $600 levels it started the year at.

There was some good news for Canadian Warren Buffett's firm

On the bright side, Fairfax is seeing subtle improvement to its underwriting track record, which bodes well for the insurer over the long term. I think it's quite remarkable that Fairfax exhibited a resilience with its underwriting results in the face of the coronavirus crisis and believe that underwriting is far more meaningful to long-term investors than equity losses for the quarter, which have since partially recovered and will likely continue doing so, as the economy looks to benefit from the gradual move towards pre-pandemic normalcy.

For now, Fairfax stock will continue to trade at a ridiculously low multiple. Shares trade at 0.7 times book and ought to scooped up by Watsa believers who still think he's worthy of the title "the Canadian Warren Buffett." Based on traditional valuation metrics, Fairfax may not be the "cheapest," but when you weigh the calibre of assets and management you'll get for the price, I think Fairfax stock is one of the cheaper stocks on the **TSX Index**.

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