



## Fairfax Financial (TSX:FFH): No Alarm Bells, Despite Q2 2022 Loss

### Description

People regard Warren Buffett, the chairman of **Berkshire Hathaway**, as the “GOAT” of investing. Investors are hungry for his insights and follow his investing style in the hope they achieve the same financial success.

In Canada, entrepreneurial titan Prem Watsa is the counterpart of Mr. Buffett. He arrived in the country decades ago with only \$8 in his pocket. Today, Watsa is a self-made billionaire and is the captain of **Fairfax Financial Holdings** ([TSX:FFH](#)).

Fairfax, through several subsidiaries, engages primarily in property & casualty insurance, reinsurance, and associated investment management. Like most companies, the slowdown in global markets and rising interest rates affect the business. However, Watsa sees a very bright future and plenty of opportunities ahead.

### No alarm bells

Fairfax reported a US\$881.4 million net loss in the second quarter (Q2) 2022 compared to the US\$1.2 billion net earnings in Q2 2021. Still, it was a noteworthy quarterly performance. Watsa said, “The company continued its excellent underwriting performance in the second quarter of 2022 with a consolidated combined ratio of 94.1%, with all of our major insurance companies having combined ratios below 95% in the quarter.”

He added, “Our companies continued to achieve significant growth in the second quarter with gross premiums written up 21.4% and net premiums written up 24.9%, primarily reflecting new business and continued favourable underwriting conditions.” Notably, the holding company had approximately \$1.1 billion in cash and investments in the holding company and an unutilized credit facility.

Other highlights during the quarter include a growth in underwriting profit that resulted in a 62.3% year-over-year increase in operating income to US\$645.3 million. As of June 30, 2022, Fairfax's insurance and reinsurance companies had portfolio investments of US\$49 billion, where US\$2 billion comprises the portfolio in India.

In the first six months of 2022, the company used the net proceeds from maturities of short-term investments (US\$10.3 billion) to purchase one- to two-year term Canadian government bonds and U.S. treasuries.

## Building long-term shareholder value

Fairfax's primary objective is to achieve a high rate of return on invested capital and build long-term shareholder value. Management maintains a diversified portfolio of risks across all classes of business, geographic regions, and types of insureds.

On August 9, 2022, Fairfax proposed to buy Canadian restaurant operator Recipe Unlimited for \$1.23 billion to take it private. It also joined the Washington Family, Ocean Network Express Pte. Ltd., and David L. Sokol in proposing to buy all the outstanding common shares of Atlas Consortium that the group does not already own or control.

Lastly, Watsa plans to double Fairfax's investments in the country of his origin in the next four to five years. He believes India is a favourable place for foreign investments, and his empire wants to capitalize on the Indian opportunity.

## Above-average returns

Fairfax outperforms the broader market on a year-to-date basis at +7.24% versus -4.91%. The [large-cap stock](#) trades at \$654.05 per share and pays a modest 1.9% dividend. With the Warren Buffett of the North steering the ship, Fairfax is an interesting investment option. It could live up to its promise of providing above-average returns over the long term.

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