

Tidefall Capital LP
Q4 2021
January 25, 2022

	Q4 2021	Year To Date	Since Inception (Jan 21, 2020)
TIDEFALL (after fees)	21.8%	40.6%	160.4%
S&P (total return)	11.0%	28.7%	47.7%
TSX (total return)	6.5%	25.2%	28.0%

In our previous letter, we highlighted Fairfax Financial as potentially being underappreciated by the market. Fairfax management seemed to agree and completed a substantial issuer bid for 7% of the shares outstanding (*this is in addition to the existing 8% swap position*). However, there is another Fairfax security that we believe has favorable long term prospects, yet trades at a significant discount to its net asset value (NAV).

In 2014, Fairfax Financial CEO Prem Watsa met the newly elected Prime Minister of India, Narendra Modi and came away convinced that his administration could “*transform the country*”. Subsequently, Watsa announced Fairfax India, a \$1b investment fund that looked to capitalize on Fairfax’s decades of investment experience in the country. The IPO was oversubscribed and by 2017, investor enthusiasm led to Fairfax India shares trading at more than a 30% premium to its NAV. Fast forward to today and value creation has been solid with the initial NAV more than doubling after fees, easily beating India’s US dollar stock market return of 68%. Yet, the market’s lack of enthusiasm for Fairfax India has followed that of its parent company and we were able to acquire Fairfax India at a 40% discount to NAV.

Fairfax India bears will cite the fee structure (*where Fairfax Financial receives a 1.5% fee on net assets and a 20% performance fee on book value growth above a 5% annual hurdle*) as a reason why a large discount is justified. However, the fees become more acceptable once we look at Fairfax’s ability to gain access to private investments in a country that has historically been heavily regulated and bureaucratic.

The best example is Fairfax India’s purchase of 54% of the Bangalore International Airport which they acquired for \$US653m and is India’s third largest airport. The prospects for growth are near unrivaled due to the rising middle class and Bangalore’s focus on technology, commonly referred to as the ‘*Silicon Valley of India*’. Pre-pandemic, Bangalore airport was listed by the ACI as the fastest growing airport in the world and passenger traffic is expected to rise from 33 million in 2019 to 90 million by 2034. In addition, there’s incredible optionality from their ownership of 460 acres of land adjoining the airport that can be developed as the city continues its rapid expansion.

Bangalore airport represents 40% of Fairfax India’s Investments and with limited external valuations, has been cited as another reason for the discount. However, we believe that it’s very likely that Fairfax’s valuation will prove conservative. Although Airport economic regulations vary, in the two years prior to the pandemic, airports transacted at 22x EBITDA and more recently Sydney’s airport was acquired for US\$17.5b, 25x 2023 EBITDA. Thankfully, regulators require the Bangalore airport to submit a financial forecast every control period as part of their tariff agreement. Based on the 2021 filing, Bangalore airport is valued on Fairfax India’s books at just 12x 2023 EBITDA estimates. Unsurprisingly, Fairfax is on record as saying that the true value of Bangalore is ‘*much higher*’ than the current US\$2.6 billion valuation. In Fairfax India’s Q3 footnotes, they disclosed that they will take the airport public by September 2025 at the latest (*although we expect it will be far earlier*).

India is set to regain its position as the world’s fastest growing major economy this year, with GDP predicted to jump 9.2%. Given China’s increasingly strained relations with the West, renewed focus on Indian equities seems likely and it’s hard to imagine a better positioned management team than Fairfax India. (*Watsa was born in India, left for Canada at 22 with \$8 in his pocket, grew Fairfax from US\$1.52 in NAV per share to US\$562 per share, became a billionaire in the process and recently received India’s fourth highest civilian award*). Fairfax Financial is well aware of the large discount at Fairfax India and in addition to already owning ~1/3rd of the shares, recently completed a substantial issuer bid for 5% of the company.

Fairfax Financial and Fairfax India are both presently highly out of favor with investors, however we believe it’s only a matter of time before Bay Street finally starts paying attention to the significant shareholder growth that is taking place.

Trevor Scott

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