

Tidefall Capital LP
Q4 2022
January 11, 2023

	Q4 2022	2022	Since Inception (Jan 21, 2020)	Since Inception CAGR
TIDEFALL (after fees)	31.0%	9.8%	186.1%	42.9%
S&P (total return)	7.5%	-18.1%	20.9%	6.7%
TSX (total return)	6.0%	-5.8%	20.6%	6.6%

One year ago [we highlighted](#) that Fairfax India was trading at a substantial discount to its net asset value (NAV), despite strong growth and a history of shareholder-friendly capital allocation decisions. We believed their crown jewel asset of 49% ownership of the Bangalore International Airport (BIAL) which represents nearly [half of the NAV](#), was incredibly well positioned. We noted that the most recent private transaction which valued BIAL at \$2.6bn, was likely quite conservative on both a relative and absolute basis. Today, the investment case for BIAL and Fairfax India continues to gain momentum, yet the discount to NAV remains the same.

Despite India being the fastest-growing economy in the last decade and [Morgan Stanley](#) predicting India will overtake Japan and Germany to become the world's third largest stock market by the end of this decade, India gets little attention from Western investors. With the election of current PM Narendra Modi in 2014, India has undergone a dramatic modernization that has placed the democratic nation on a path well aligned with Western investors' interests. China's increasing anti-free market policies, years of covid lockdowns and heavily strained Taiwan relations have caused manufacturers to diversify their supply chains. Bangalore, the third largest city, known as the 'Silicon Valley of India' is unquestionably well positioned to benefit from international technology firms expanding production. For example, [JP Morgan](#) predicts Apple will move 5% of iPhone 14 production to India by late 2022 and produce 25% of all iPhones in India by 2025; primarily [in Bangalore](#).

Our increasing confidence in the BIAL valuation is due to rapidly recovering passenger levels. For example, passenger traffic for fiscal 2022 was expected to be [15.2mn](#) but was disclosed by BIAL at [16.3mn](#) with revenue topping the forecast by 17%. Monthly passenger volume from the [Airports Authority of India](#) shows that 2022 passenger volumes have moved from 82.6% of pre-covid levels from June to August to 96.3% from the most recent 3 month disclosures. At a \$2.6bn valuation, BIAL is trading at 11x our 2025 EBITDA projections, a shockingly low figure in the context of airport valuations, let alone one as fast growing as BIAL that also has 460 acres of adjoining land.

In Fairfax India's 2021 Annual Report, management wrote that it intended to 'complete an IPO at a valuation of [at least \\$2.9bn](#).' Late last year, numerous financial publications, (including [Bloomberg](#)) reported that Fairfax India was working with an adviser on 'a potential listing that could take place as soon as 2023 at a valuation of \$3.7bn.' (Fairfax later [denied](#) the speculation). Regardless of any potential transactions we believe that Fairfax India's internal \$2.6bn valuation of BIAL dramatically understates the NAV of Fairfax India.

Fairfax India's current discount to NAV is so undemanding that just the value of its non-airport investments (*the majority of which are publicly traded*), net of corporate borrowings is nearly equal to the current market capitalization of the company; meaning investors today are getting the airport for free.

Although not without traditional emerging market risks, Fairfax India represents a unique opportunity for Western investors to leverage Fairfax's network and proven track record in India. We note that with Fairfax Financial stock continuing to hit all time highs, investor sentiment on Fairfax India may similarly improve from a near record discount to NAV to the premium that it once enjoyed in the four years following the IPO. Either way, we are more than happy to patiently hold, due to Fairfax India's strong investment portfolio and future access to private deals as India continues to deregulate.

Trevor Scott

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