



2 Potential Canadian Acquisitions for Warren Buffett

Description

Last weekend, more than 30,000 investors made the trip to Omaha, Nebraska, to attend **Berkshire Hathaway's** annual shareholders meeting. Dubbed "Woodstock for capitalists," Berkshire's meeting is, without a doubt, the most anticipated annual meeting in the world.

This year's meeting featured a shopping area of Berkshire's many different brands that was the size of three football fields. Attendees gobbled up items made specifically for the meeting's crowd, including Fruit of the Loom underwear that prominently featured the face of Berkshire's two head honchos, CEO Warren Buffett and Vice-Chairman Charlie Munger.

But of course, the highlight of the meeting was the five-hour Q&A session from Buffett and Munger. Not to take anything away from Charlie Munger, but Buffett obviously steals the show. Investors clamor to hear the world's most successful investor's wisdom on everything from investing to philanthropy. Buffett has an exceptional skill of explaining complex issues using simple language, which every investor can appreciate.

One theme that kept coming up during this year's meeting was Buffett's desire to deploy some of Berkshire's massive cash hoard. Buffett figures Berkshire could make an acquisition worth \$50 billion without much of a problem, even stating he'd be willing to take on debt for the right deal.

While I obviously don't have any insight on the Oracle of Omaha's next move, I thought it might be fun to speculate which Canadian companies Buffett might be interested in. These are my two best guesses.

Canadian National Rail

Even though Buffett is known for buying assets when they're a little depressed, you can hardly characterize Buffett's latest acquisitions that way. Buffett is more than willing to pay a premium price for a business that he sees as a leader in its industry.

Which is why it makes sense for Berkshire to make a run at **Canadian National Railroad** ([TSX: CNR](#))([NYSE: CNI](#)), which is not only Canada's largest railroad, but also has a significant business in the United States. Canadian National's position as a leader in its sector means it not only enjoys solid

pricing power, but it also delivers terrific profits. The company has consistently earned 20% net profit margins.

The company's future looks bright, since the movement of both goods and natural resources is more economical by train than by other methods. Pipeline capacity will likely take years to catch up with production, meaning the oil by rail business also looks healthy.

The only problem? CN's market cap is \$53 billion, just over Buffett's self-imposed cap. Looks like he's waiting for a pullback.

Husky Energy

Not only has Berkshire Hathaway been buying up energy companies for years, but the company's stock portfolio has taken a decidedly energy bent lately, as Buffett bought up positions in **Exxon Mobil**, **Chevron**, and **Suncor**. It's obvious that Buffett is a bull on energy.

Which is why he should look at acquiring **Husky** (TSX: HSE), and its portfolio of diversified oil and natural gas properties, located primarily in western Canada, but also in Atlantic Canada and in Asia. The company's Asian operations just started producing natural gas, and is expected to grow production substantially over the next 12-18 months. Since natural gas prices are so much higher in Asia, the company expects margins much higher than its Canadian operations.

Buffett is also a noted bull on the oil sands, where Husky gets approximately a third of its production. Sure, there is the potential of the government blocking a Berkshire bid based on Husky's oil sands exposure, but a bid from Buffett is a huge difference than a bid from a state owned oil giant. Most oil sands product ends up in the United States anyway, so having Buffett own it wouldn't be a huge deal.

Husky is just the right size for Berkshire to gobble up too, with a market cap of \$35.5 billion. Buffett could buy it and still have change left over for other acquisitions.

Unfortunately, I don't have a crystal ball to see which companies the Oracle of Omaha is looking to acquire. I can just make guesses based on his prior behavior. Both Canadian National and Husky are in sectors Buffett has bought before, have attractive businesses with obvious moats, and are big enough that the acquisition of either would be the big splash Buffett is looking for.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BRK.B (Berkshire Hathaway Inc.)
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3. NYSE:CNI (Canadian National Railway Company)
4. TSX:CNR (Canadian National Railway Company)

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