



Fairfax Financial Holdings Ltd. Launches U.S. Assault: Time to Buy?

Description

The news that **Cara Operations Ltd.** (TSX:CARA) is buying Keg Restaurants Ltd. for \$200 million is a big deal for shareholders of **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)), because it gives the holding company an opportunity to revive its majority investment in Cara.

However, as I scanned the newswires, looking for interesting tidbits from the 31 TSX companies I follow, I happened upon an article that suggests Prem Watsa, who owns a majority of the voting shares at Fairfax, is moving his attention south of the border to the home of Donald Trump.

Up until now, most of Fairfax's [investments](#) have either been in Canada or emerging markets like India and South Africa.

Fairfax announced that it is investing US\$250 million in **Seaspan Corporation** (NYSE:SSW) in the form of 5.5% unsecured debentures. Also, Fairfax receives 38.5 million warrants, giving it the right to purchase Seaspan shares at \$6.50 on a one-for-one basis over the next seven years.

"We are excited about our investment and partnership with Seaspan," said Prem Watsa, chairman and CEO of Fairfax.

And so he should be. Seaspan shares now trade close to \$8, netting Fairfax a paper profit of \$46 million before the investment's March 1st closing.

Seaspan, for those unfamiliar with the company, owns and manages 92 containerships with a total capacity of 700,000 TEUs, which stands for a 20-foot equivalent unit and represents the number of containers Seaspan's fleet can transport at any given time. Currently, 98% of its fleet is being used for short-term and long-term charters.

Two of the major players at Seaspan are familiar to many investors.

First, the chairman is David Sokol, who ran Mid American Energy for Warren Buffett until he resigned in 2011. Sokol bought shares in Lubrizol before recommending the Oracle of Omaha acquire the specialty company, generating a profit for himself in the process.

Though the move was not illegal, Buffett accepted Sokol's resignation because of the appearance of impropriety. Watsa feels Sokol is a man of integrity. Until Watsa feels this isn't the case, I wouldn't be worried about Sokol's presence.

The largest shareholder is Dennis Washington's family, who owns approximately 45% of the Seaspan. Washington is a billionaire from Montana worth US\$5.9 billion who has some Canadian investments.

"I have known both David Sokol and Dennis Washington for many years through the Horatio Alger Association," stated Watsa. "David is a man of the highest integrity and we are proud to partner with him. Dennis, of course, is one of North America's most successful entrepreneurs and a wonderful human being."

Okay, so we know Watsa is happy to do business with these gentlemen, but what's the underlying reason for making this relatively small investment?

Well, if you've followed the container business in the last decade, it hasn't been good for most fleet owners, as overcapacity has hurt shipping rates. Watsa is heading south of the border to buy more ships, using the relationship with Sokol and Washington to pave the way.

"We see a long runway here where the U.S. starts moving up. And Europe is picking up significantly," Mr. Watsa said. "It hasn't been a stock-pickers market — a value market — in five or six years, and perhaps that's in the process of changing."

Should Watsa exercise his warrants, he would own 25% of Seaspan. Between him and Washington, they could go on a significant buying binge, making the U.S. a bigger pie of the Fairfax pie.

It's just another reason to [buy](#) Fairfax stock.

CATEGORY

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Date

2025/08/16

Date Created

2018/01/28

Author

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