



Prem Watsa Doubles Down on the Sea

Description

Earlier this year, I'd [highlighted](#) why Prem Watsa's US\$250 million investment in **Seaspan Corporation's** (NYSE:SSW) unsecured convertible debentures, paying 5.5% interest, was a good investment for his holding company, **Fairfax Financial Holdings Ltd.** ([TSX:FFH](#)).

A month after that, Watsa acquired another US\$250 million tranche of 5.5% unsecured debentures with the January notes maturing in 2025 and the March notes a year later.

At the time, Watsa was very positive about its investment in Seaspan, an owner and manager of 92 containerships with a total capacity of 700,000, 20-foot standard cargo containers.

"We see a long runway here where the U.S. starts moving up. And Europe is picking up significantly," 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."

Both US\$250 million tranches came with warrants that, if exercised, at the exercise price of US\$6.50, would give Fairfax a 25% ownership stake in Seaspan.

It was a pretty sweet deal for Fairfax.

It just got sweeter

On May 31, Fairfax and Seaspan announced that Watsa would exercise the warrants attached to the 2025 notes in July, seven years early, and the warrants attached to the 2026 notes in next January.

Currently, Seaspan's shares trade just below US\$9. If that holds through January, Fairfax is sitting on a US\$189 million unrealized gain, with more profits to come.

To incentivize Watsa to convert the debentures early, it will issue over the next seven years additional debentures on annual basis equivalent to another US\$500 million investment with warrants attached to purchase 25 million shares at US\$8.05 a share.

So, in total, Watsa is investing US\$1 billion — 50% in Class A Seaspan shares and 50% in 5.5% debentures — giving Fairfax the rights to buy 102 million shares of Seaspan stock at an average cost

of US\$4.90 a share.

Should Fairfax exercise all of the warrants, it would become the company's largest shareholder at a bargain-basement price.

"As the global containership industry continues to consolidate, we believe owner-operators like Seaspan, with financially sound balance sheets, will have excellent growth prospects," Watsa stated May 31. "This transaction represents one of Fairfax's largest investments in a public company, which is a clear indication of our respect for David Sokol [chairman] and Dennis Washington [largest shareholder]."

The bottom line on Fairfax stock

It's deals like this one that had Fool contributor Matt Smith [talking up](#) Fairfax stock in early May, suggesting the company's track record of growing its book value each year along with a reasonable dividend yield makes it a very attractive long-term investment.

I couldn't agree more.

Fairfax has a lot of moving parts, but that's what makes it so attractive to me. You'll never grow bored owning Prem Watsa's baby.

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