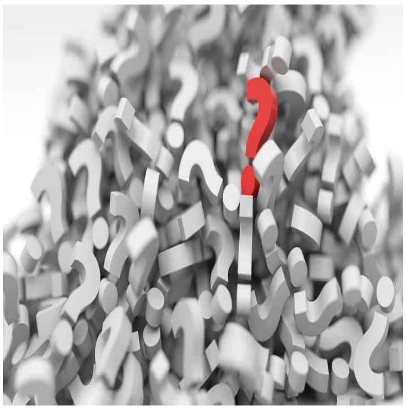

Is AGT Food and Ingredients (TSX:AGT) Management Pulling a Fast One?

Description

I'm a big fan of Prem Watsa, founder and CEO of **Fairfax Financial** (TSX:FFH). In July, I'd recommended that investors buy its stock which was oversold at the time.

Fairfax owns approximately 19% of Regina-based lentil processor **AGT Food and Ingredients** (TSX:AGT) if you include warrants received as part of Fairfax's $190 million, 5.375% convertible debenture investment it made in AGT in July 2017.

AGT CEO Murad Al-Katib and several of his management team own 17% of the company's stock. On July 26, Al-Katib and company announced that they had made an offer to take AGT private for $18 a share — a 37% premium to the closing price the day before the announcement.

Prem Watsa and Point North Capital, its other large investor, are both backing the buyout by management.

Case closed, right? Not so fast.

Why is Watsa so keen to go private?

As part of ensuring the board of directors adequately vets the offer, a special committee of five independent directors has been established to study it. The special committee has retained its own legal counsel and financial advisor to provide independent advice.

The management team and the special committee have agreed to cooperate with each other, including the special committee not accepting other potential offers over the 60-day period.

The buyer group, which includes Fairfax and Point North Capital, is not prepared to accept any other alternative transaction.

My question is, why?

I've looked at the details of the debenture's terms, and the warrants can be exercised anytime between

July 2017 and July 2024 at $33.25 a share. That's considerably higher than the $18 offer.

According to the press release, both Fairfax and Point North will maintain their equity holdings in AGT once it becomes a private company.

At the time of the debenture announcement, several analysts thought Watsa got a sweet deal from AGT, including Sentry Investments portfolio manager Michael Simpson, who thought AGT might have asked for a slightly lower interest rate or higher strike price.

That said, most people, including me, felt that it couldn't have gotten a better partner than Fairfax.

A $40 stock

However, as much as I respect Watsa, I don't understand why AGT needs to go private when as recently as May 2017, analysts had a 12-month price target on AGT stock of $40 — a level it hit less than a year earlier.

Also, a June article written by a Seeking Alpha contributor that hinted AGT might be close to bankruptcy hit the web, Al-Katib appeared anything but worried about its financial situation in an interview with *The Western Producer,* an agriculture industry trade publication.

"Sure, the debt level is high today because earnings have been constrained because of the India situation," said Al-Katib. "I've gotta tell ya, if we were just a pulse processing company today reliant on India, it's tough slogging out there."

That hardly sounds like a man worried about AGT's financial condition, which has me wondering once more why it needs to go private at $18 a share.

I believe the little shareholders are getting snookered by the buying group; they ought to be receiving more than $18 a share for their troubles.

AGT and Prem Watsa might not be pulling a fast one, but it certainly seems like opportunistic timing on their part. If you own AGT shares, I'd wait to see what the special committee has to say before selling your shares.

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