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Market Intelligence

Fairfax Financial Holdings Limited
TSX:FFH
FQ1 2019 Earnings Call Transcripts

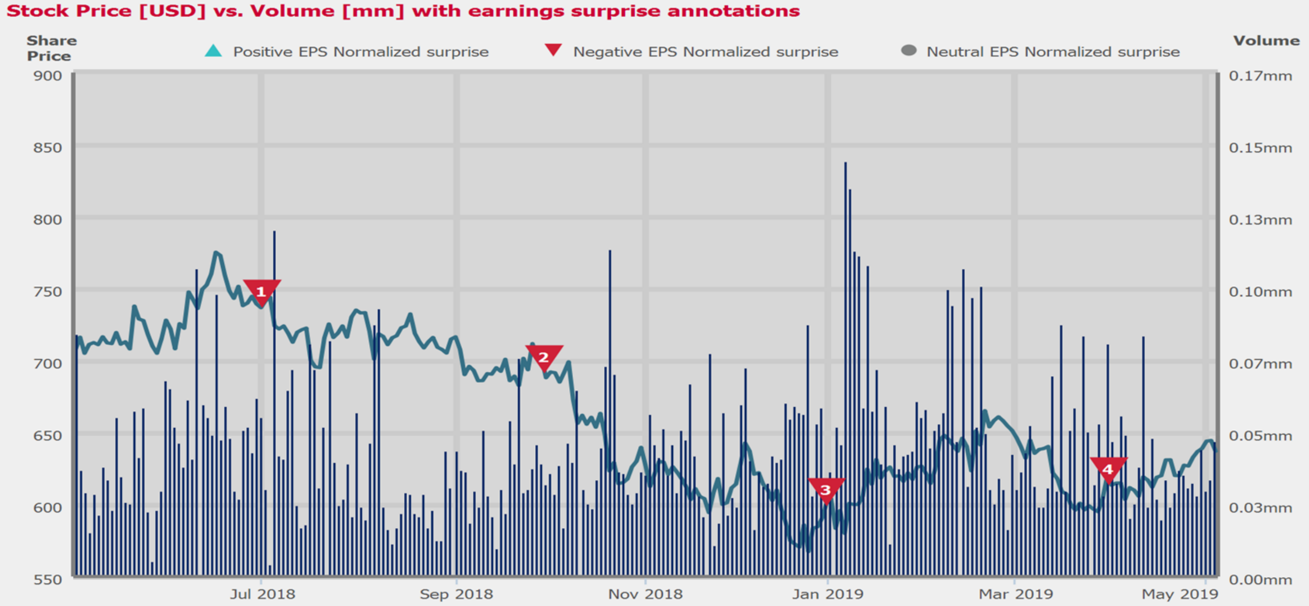
Friday, May 03, 2019 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	8.82	6.59	▼(25.28 %)	8.58	33.24	42.34
Revenue (mm)	5165.50	5632.60	▲9.04	4877.35	19425.83	19990.87

Currency: USD
Consensus as of May-03-2019 12:36 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	5.83	4.07	▼1 (30.19 %)
FQ3 2018	5.90	2.86	▼2 (51.53 %)
FQ4 2018	4.01	2.60	▼3 (35.16 %)
FQ1 2019	8.82	6.59	▼4 (25.28 %)

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Call Participants

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Derek Bulas
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Paul C. Rivett
President

ANALYSTS

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Jaeme Gloyn
National Bank Financial, Inc., Research Division

Jonathan Paul Tredgett
Findlay Park Partners LLP

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Paul David Holden
CIBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

ATTENDEES

Luis Hernandez

Unknown Attendee

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Presentation

Operator

Good morning, and welcome to Fairfax 2019 First Quarter Results Conference Call. [Operator Instructions] Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Your host for today's call is Mr. Paul Rivett, with opening remarks from Mr. Derek Bulas. Mr. Bulas, please begin.

Derek Bulas
Associate Vice President of Legal

Good morning, and welcome to our call to discuss Fairfax' 2019 first quarter results.

This call may include forward-looking statements. Actual results may differ, perhaps materially, from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors, the most foreseeable of which are set out under risk factors in our base shelf prospectus, which has been filed with Canadian securities regulators and is available on SEDAR.

I'll now turn the call over to our President, Paul Rivett.

Paul C. Rivett
President

Thank you, Derek. Good morning, Fairfax shareholders. Welcome to your company's first quarter 2019 conference call, and thanks again to everyone who attended our Annual Meeting just a few weeks ago. On this call, I will discuss some of the first quarter highlights and then pass the call to David Bonham, our Chief Financial Officer, for additional financial and accounting details.

Fairfax' net earnings were $769 million in the first quarter versus $684 million in the first quarter of 2018, which equates to net earnings per share of $26.98 versus $23.60 in 2018. Fairfax' book value per share in the first quarter of 2019 increased by 6.7% adjusted for the $10 per share dividend paid in the first quarter.

We generated another quarter with a combined ratio below 100% with a combined ratio of 97% and strong reserves across the group while producing an underwriting profit of $88 million in the first quarter. All of our major insurance companies, with the exception of Allied World, generated combined ratios less than 100%, with Zenith at 78.3%, Odyssey Group at 94.3%, Northbridge at 99.8%, Brit at 97% and Crum & Forster at 97.8%, while Allied World was at 102.3%. Allied World experienced adverse prior year development of 9.7% primarily from development on the 2017 and 2018 catastrophes.

For the first quarter, operating income was strong at $247 million. Our net gains on investments for the first quarter were also very solid at $724 million, consisting of realized gains in our investment portfolios of $192 million, principally from things like Seaspan and Kweichow Moutai and unrealized gains of $532 million principally BlackBerry, Eurobank and ICICI Lombard, which, as we have said on our year-end call and at our Annual Meeting, our net gains in the first quarter more than offset the net loses on investments that occurred in the fourth quarter of 2018.

Now some key highlights to bring to your attention. First, our -- the companies are starting to see healthy price increases across most lines of business in North America with the exception of workers' compensation. This was demonstrated in the first quarter as our insurance and reinsurance businesses' net written premium increased year-over-year by 5.3% after adjusting for acquisitions primarily due to growth at Northbridge, Odyssey, Crum & Forster and Brit.

By company, the change in net premiums written for the quarter were as follows. Odyssey Group was up 16%, Crum & Forster up 11%, Northbridge up 8%, Brit up 6%, Allied World was roughly flat, and Zenith

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was down 11%. As we've said on prior calls, Kari and team at Zenith are doing what they have done for decades, and that's prudently letting go of business that is inadequately priced.

With an annual run rate of approximately $16 billion in gross premiums, generating growing core operating earnings and a singular focus on underwriting discipline and strong reserving, our companies continue to be well positioned to grow and diversify their books of business while capitalizing on these hardening markets.

At the end of the first quarter, we have approximately $13 billion invested in short-term U.S. treasuries and short-term investment-grade corporate bonds. Given the continued strength of the U.S. economy and a perceived long-term bias towards higher interest rates, we continue to be focused on the shorter end of the Treasury curve for the time being. That said, we are continuing to grow interest and dividend income, which was $236 million in the first quarter versus $211 million in the first quarter of 2018. And we now have an annual run rate of approximately $850 million in interest and dividend income, and we believe $1 billion in run rate is achievable.

In January, Fairfax Africa acquired an additional 41% in Consolidated Infrastructure Group for $45 million, which increased its total ownership to 49%. CIG is a pan-African engineering and construction company listed on the Johannesburg Stock Exchange. In February, Fairfax completed the acquisition of the insurance operations of AXA in the Ukraine for $17 million. And we welcome the AXA Ukraine team to the Fairfax group.

Subsequent to the end of the quarter, AGT Foods completed its previously announced management-led take-private transaction. We now own 59.6% of AGT, and we will consolidate the assets, liabilities and results of operations of AGT in our consolidated financial reporting in the second quarter.

As an update, late last year, Grivalia and Eurobank announced a planned merger of Grivalia into Eurobank. In April, shareholders of both companies unanimously approved the merger, and closing of the transaction is subject to regulatory approvals and is expected to occur in the second quarter of 2019. At March 31, 2019, Fairfax owned approximately 53% and 18% in Grivalia and Eurobank, respectively. And we expect to own approximately 32% of the merged entity upon closing. Eurobank was recently awarded with The Best Bank in Greece designation for the fourth year in a row.

Our net -- our investment team at Hamblin Watsa continues to cautiously observe and monitor global events, such as the upcoming U.S. elections, Indian elections, South African elections, the Venezuelan crisis, Brexit negotiations and, of course, ongoing negotiations on global tariffs, in particular with China. Keeping our eyes keenly focused on these downside risks, we are prudently improving our operating income and our investment performance.

I will now pass the call over to Dave Bonham, our Chief Financial Officer.

David J. Bonham
VP & CFO

Thank you, Paul.

So just to recap, in the first quarter of 2019, we reported net earnings of $769 million or just under $27 per share on a fully diluted basis. That compared to the first quarter of 2018 when we reported net earnings of $684 million or $23.60 per fully diluted share.

Underwriting profit at our insurance and reinsurance operations decreased by $21 million to $88 million in the first quarter at a 97% combined ratio. That compared to an underwriting profit of $109 million last year at a 96% combined ratio. And the decrease was primarily due to lower net favorable prior year reserve development. And that decreased to $50 million, representing 2 combined ratio points in the first quarter of 2019 compared to $86 million or 3 combined ratio points in the first quarter of 2018.

Current period catastrophe losses in the first quarter of 2019, all of which were attritional, totaled $48 million or 2 combined ratio points. And that was slightly lower than the attritional catastrophe losses that we had in the first quarter of 2018, which totaled $53 million, also 2 combined ratio points.

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So turning to our operating companies' results, we can start with Northbridge. Northbridge's underwriting profit of $1 million and a combined ratio of 99.8% in the first quarter of 2019 was comparable to its underwriting profit of $2 million and combined ratio of 99.2% in the same period in 2018.

Net favorable prior year reserve development in the first quarter of $23 million or 8 combined ratio points increased from $13 million or 5 combined ratio points in the first quarter of 2018 and principally reflected better-than-expected emergence across all of their major lines of business.

In Canadian dollar terms, net premiums written by Northbridge increased by 13% in the first quarter. That reflected price increases across the group and strong retention of renewal business.

Turning to Odyssey. In the first quarter of 2019, Odyssey Group reported an underwriting profit of $41 million and a combined ratio of 94% compared to an underwriting profit of $55 million and a combined ratio of 91% in the same period last year.

Catastrophe losses in the first quarter of 2019, all of which were attritional, totaled $36 million, translated into 5 combined ratio points. And that was marginally lower than the attritional catastrophe losses of $38 million last year, translating into 6 combined ratio points.

Net favorable prior year reserve development, principally related to casualty and property catastrophe loss reserves, decreased to $36 million or 5 combined ratio points in the first quarter of 2019 from $41 million or 7 points in the first quarter of 2018.

Odyssey Group's net premium written increased by 16% to $799 million in the first quarter of 2019 from $690 million last year, with the increase principally reflecting higher net premiums written across all divisions, with the U.S. insurance, North America and London market divisions accounting for the majority of the increase.

Moving on to Crum & Forster. Crum & Forster's underwriting profit increased to $11 million and a combined ratio of 98% in the first quarter of 2019 from an underwriting profit of $11 million and combined ratio of 99.7% in the first quarter of 2018.

Current period catastrophe losses were modest at $5 million in the first quarter, adding 1 combined ratio point. That was similar to the catastrophe losses that we experienced last year in the same period.

Crum & Forster's net premiums written increased by 11% in the first quarter of 2019, principally reflecting growth in accident and health, property, fidelity, and surety and umbrella lines of business.

On to Zenith. Zenith's underwriting profit increased to $39 million in the first quarter of 2019 with a combined ratio of 78% compared to an underwriting profit of $27 million and a combined ratio of 86% in the first quarter of 2018. The improvement year-over-year mainly reflected higher net favorable prior year reserve development, which was $37 million in the first quarter of 2019 or 21 combined ratio points. And that reflected net favorable emergence on accident years 2013 through 2018.

Net premiums written by Zenith of $273 million in the first quarter of 2019 decreased by 11% year-over-year, and that was principally reflective of price decreases.

Brit's underwriting profit increased to $12 million with a combined ratio of 97% in the first quarter of 2019 compared to an underwriting profit of $4 million and a combined ratio of 99% last year. There is no net prior year reserve development or nominal current period attritional catastrophe losses in the first quarters of 2019 and '18 at Brit.

Net premiums written of $434 million in the first quarter increased by 6% year-over-year, reflecting the positive impact of underwriting initiatives launched in recent years and price increases.

Allied World reported an underwriting loss of $13 million with a combined ratio of 102% in the first quarter of 2019 compared to an underwriting profit of $27 million and a combined ratio of 95% in the first quarter of 2018. Allied World's underwriting loss in the first quarter was impacted by $55 million or 10 combined ratio points of net adverse prior year reserve development that principally related to prior year

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catastrophe losses. This compared to net favorable development of $4 million or 1 combined ratio point in the first quarter of 2018.

Fairfax Asia reported an underwriting profit of $1 million and combined ratio of 99% in the first quarter compared to an underwriting loss of $2 million last year and a combined ratio of 105%.

Net premiums written by Fairfax Asia decreased by 1% in the first quarter. That reflected lower net premiums retained in the property line of business at AMAG Insurance.

Insurance and Reinsurance - Other. That segment produced an underwriting loss of $3 million and a combined ratio of 101% in the first quarter of 2019 compared to an underwriting loss of $5 million and a combined ratio of 102% same period in 2018. Excluding the impact of placing Advent in the Run-off and the acquisition of AXA Ukraine in the first quarter 2019, net premiums written in that segment increased 2% year-over-year.

The Run-off operating loss of $18 million in the first quarter of 2019 improved when compared to the operating loss of $33 million in the same period in 2018. The decrease in the operating loss reflected the impact of net adverse development that we experienced last year, so in the first quarter of 2018, whereas we had nominal adverse development in Run-off in the first quarter of 2019. Added to that in 2019 was a small profit on our reinsurance transaction and the favorable runoff of Advent's net premiums earned.

Turning to some of our consolidated figures. Consolidated interest and dividends increased from $211 million in the first quarter of 2018 to $236 million in the first quarter of 2019. That reflected the reinvestment of cash and short-term investments into higher-yielding short-dated U.S. Treasury bonds, high-quality U.S. corporate bonds and Canadian government bonds, these things that we did in 2018. And also, the higher interest and dividends reflected higher dividends received on common stocks.

Fairfax recorded an income tax provision of $183 million at an effective tax rate of 18.4% in the first quarter of 2019.

And moving to our financial position. Our total debt-to-total capital ratio increased to 29% at March 31, 2019, from 27% at December 31, 2018. That primarily reflected additional borrowing on our credit facility and partially offset by higher total capital.

We ended the first quarter of 2019 with an investment portfolio which included holding company cash and investments of $40.3 billion, which was increased from $38.8 billion held at December 31, 2018.

And with that, I'll pass it back over to you, Paul.

Paul C. Rivett
President
Thank you, Dave. We now look forward to answering your questions. [Operator Instructions] Okay, Missy, we're ready for questions.

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Question and Answer

Operator

[Operator Instructions] Our first question is from the line of Jaeme Gloyn of National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

My first question is related to some of the comments in the opening remarks. Just wanted to get your take, as you're seeing healthy price increases across most lines of business, should we expect the increase in the underwriting leverage here as well gradually? Or how rapid do you see that taking advantage of these price increases?

Paul C. Rivett
President

Yes. No, so we are very encouraged to see across the board roughly single -- mid-single-digit price increases but relatively flat on leverage. So not much change there, but Dave, I don't know if you want anything to add.

David J. Bonham
VP & CFO

Yes. No, I think that's right, Paul. It's encouraging what we're seeing, but no immediate actions at this point.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. And just a quick second one here. The $850 million run rate growing to a $1 billion run rate in interest and dividend income, can you give us a sense of as to the timing to arrive at that $1 billion run rate? And what's -- what are the requirements and factors that's going to get you there?

Paul C. Rivett
President

Yes. No, we don't like to give a timing, but we are moving some of -- some cash into short-term, higher-yielding. We have moved obviously into the U.S. Treasury short term but also into really good short-term investment-grade credit. So we're, as a result, getting some pickup, and we continue to think we'll be able to pick up more in the coming quarters this year.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

And that's [enough] despite the rally in Treasury yields?

Paul C. Rivett
President

Yes. No, that's exactly right. We've -- Brian Bradstreet and the team have worked their magic for years. We're continuing to find really good opportunities to lift our yield there, so -- and while maintaining the short durations. So we expect more of it in this year and still believe in that run rate.

Operator

Our next question is from the line of Paul Holden of CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

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Just a quick one to start within the -- in the same vein as the last line of questioning on the dividend and interest income, and that's pertaining to the income from associates. So a little bit of noise in the current quarter from, I believe, what was a onetime payment to Seaspan. Maybe help us back that out and get to a better run rate for that line.

Paul C. Rivett
President

Yes. So on Seaspan, I can back that out a little bit, and Dave can add to it. First off, thanks to Dave Sokol and Bing Chen. They're doing a fantastic job there. And if you read their quarterly report, you'll see what they did, basically unwound the contract for 7 ships and were able to pull forward $285 million. We have roughly 35.7% of Seaspan, and therefore take in roughly $100 million of that $285 million. So that's the pull forward there. Dave, I don't know if you want to add anything.

David J. Bonham
VP & CFO

Yes. The share of profit of associate is a function of the whole portfolio of companies. As you know, when it -- there's pluses and minuses in every quarter, so it's a little difficult to predict it long term. Before the one-off Seaspan, as you can probably calculate, we had a share of profit of associates of about $20 million in this quarter. Last quarter, it's about $30 million.

So the best you can probably do is just look back a few quarters, kind of take in an average, and $20 million to $30 million is roughly where we're running right now. But as you can see with the portfolio of companies, you're going to have one-off transactions that's going to skew it higher or lower.

Paul C. Rivett
President

Yes. And it's going to be lumpy. So as David said, trying to do -- pull it forward, we try not to give any projections on that. But it'll be lumpy, and we only generally get the gains when we sell. So...

Paul David Holden
CIBC Capital Markets, Research Division

Understood. No, that context is helpful. And then one more if I could. Just Paul, you made some comments last quarter around doing sort of a deep-dive review of the investment portfolio, if you will, to make sure everything is hurdling. Wondering if there's any thoughts on that -- updated thoughts on that initiative.

Paul C. Rivett
President

No, nothing really to update. We talked about it with our shareholders at the recent Annual Meeting, and there was quite a lot of focus on it there, too, as you can imagine. Just with the -- with our new team, with Wade Burton and Lawrence Chin and the team taking a look at the portfolio as well, we've been looking at things that we can do there, but keeping in mind, we're not going to be selling or doing anything just for the sake of doing it. We're -- obviously have that hurdle that we're trying to get over the long term.

So -- but that said, we are working on a number of projects, working closely with our partners. And we do think that there'll be more to come on that this year.

Operator

Our next question is from the line of Mark Dwelle of RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

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Yes. A couple of questions. I was wondering if you could go into a little bit more detail related to some of the reserve adds at Allied World, not so much the catastrophe-related ones. I think those are pretty well understood. But really some of the ones in the insurance segment, are those primarily related to business that goes -- once that had become a Fairfax company? Or is it older accident years? Maybe some additional color there.

Paul C. Rivett
President

Okay. Sure, I can add a little bit to that. So we reported about $18 million of net adverse development in the insurance segment, primarily in the medical malpractice, primary casualty, health care management. So these are all very long-tail lines of business. So we're going back to the accident years before the acquisition of Allied by Fairfax. And because it's a long tail, we're going to see periodically some late reported claims come in that is going to cause a little bit of volatility there in the reporting of the development.

So I think to summarize that, that's what you're seeing, just some late reported claims that surfaced on older accident years in the long-tail casualty line of business.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

And then let's get into a deep accounting discussion, but the change in the accounting related to leases seems to have added about $17 million of interest expense on that line item. Is it subtracting a corresponding amount from some other line item?

Paul C. Rivett
President

No. Over the whole term of the lease, the total expense will be the same, but all that is, is just recognizing interest on the liability. And in addition to that, we've got the asset side, that's something -- in other assets, sort of right-of-use assets, so we're depreciating those. So it's really the sum of those 2 pieces. The interest and the depreciation more or less add up to that total lease payment over the term of the lease.

So -- but what the lease accounting does is it alters the timing of the recognition of expense. So we'll probably have a little more expense front loaded than we used to where it used to be more straight line. And the reason I say it's front loaded is because you've got the depreciation of the asset, which is straight line flowing through net earnings, but you've got the interest expense, which is on the effective interest rate method, so that declines over time. So you see a little more expense upfront with the new lease accounting, a little less expense later on. But in the total term of the lease, it's a zero-sum game.

Operator

Our next question on queue is from the line of [Junior Roth], private investor.

Unknown Attendee

Hey, how's it going? My question has already been asked. So you could go to the next question. Thank you.

Operator

Our next question on queue is from the line of Tom MacKinnon of BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

Yes. Question is just with respect to the Run-off business here. So you've put another $600 million in premium into Run-off and then about $170 million in capital into the Run-off. Maybe if you can elaborate what's happening here, why that -- how much capital you do have in the Run-off? And what your kind

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of goal is with respect to Run-off? Is it sort of breakeven on an operating level? Or how should we be thinking about that?

Paul C. Rivett
President

Thanks for the question, Tom. So we've got a really good team at RiverStone, as you know it. We opportunistically do deals. That deal you're talking about is a deal with our partner MSI. MS Amlin was the deal that we did there. So we opportunistically look for transactions to work on, and that's one we've done, a number of them over the years, and we think that'll be profitable for us. So that's just one of those things that we get opportunistically and take advantage of it, working with our -- in this case, with a partner. I don't know, Dave, if there's anything else to add on that.

David J. Bonham
VP & CFO

Yes. No, I think that's right. I mean we would like to break even on an operating basis when it comes to Run-off. And what you've seen in the past is just the asbestos development and the latent exposure that's emerging. And that's an industry phenomenon. And we've got to be taking a lot of strategic cost reduction actions to try to mitigate that. So the answer to the question is, yes, breakeven on an operating basis over time.

Tom MacKinnon
BMO Capital Markets Equity Research

You noted the favorable runoff of Advent in terms of net premiums, I think, with your comments, Dave, in terms of helping the runoff in the quarter. Is that something that we should expect to continue?

David J. Bonham
VP & CFO

No. You'll see that premium runoff, so about $70 million of unearned premium transferred in. We recognized, if my memory serves me correctly, about $30 million of that $70 million, so you've only got about $40 million more to go. And out of that $30 million, it added a profit, an operating profit of about $2 million. So you might see a little bit more of that in a few more quarters, but that's going to disappear.

Operator

And our next question is from the line of Christopher Gable with Wells Fargo Advisors.

Christopher Gable

I'm Chris Gable. You spent a lot on some projects. I noticed that you bought back 249,000 shares that you canceled in the first quarter. That's an annual run rate of 1 million a year, and that would -- if continued, that would get -- assuming Mr. Watsa's goal is shrinking the share count to 20 million in '23. You bought warrants. There's also a couple of approved, Board-authorized buyback programs. And I thought they're clearly literally in the neighborhood of 10% of the 28 million shares of the company. And I'm wondering, what kind of progress are you making on those? Are you basically concluding those or having them expire and less renewing? I just wanted to know what your attitude is on stock buybacks basically.

Paul C. Rivett
President

Yes. No, so that's a good question, Chris. And so for the most part, we're constantly watching holding company cash and taking advantage of the stock price. What we have done and we have said we've done is buy back shares to the extent we can but always keeping in mind financial soundness.

But you're absolutely right, the run rate's around 1 million. That's -- we've done about 1.2 million, 1,200,000 in share buyback since the last quarter of 2017. And we will continue to do that. We don't want to project how much we're going to be buying, but it is an important thing we're focusing on, keeping in mind buying back our partners' interests in the various companies. But we are focused, and we will

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continue to be buying back our shares, and we will be opportunistic on that, though. So I don't want to give much guidance, but I think your run rate's right about spot-on.

Operator

Our next question on queue is from the line of Jaeme Gloyn of National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Yes. Sorry, just wanted to quickly follow up on some of the work in progress, I guess, around perhaps monetizing some assets. In the annual report, we kind of talked about IIFL, APR Energy, Farmers Edge, Davos, Peak. Maybe are you able to provide any - a little bit more color around progress on some of those public and private investments and where you view those investments going?

Paul C. Rivett
President

Yes. So you're absolutely right. That was in the annual report. We typically do not like to talk about what we're doing until it's done for a number of reasons, but we are working on a number of those projects, as Prem has stated in the annual report. But we're not going to give guidance on it, but there is a number of things that we're working on. And unfortunately, we just can't give you the -- which ones and when it'll be just for competitive reasons.

Operator

Our next question on queue is from the line of Luis Hernandez, private investor.

Luis Hernandez

My question is related to AGT, the deal you just closed. Just wanted to clarify, the company will have a loan to Fairfax worth $255 million. In addition to that, Fairfax owns 59% plus the warrants. Is that right?

Paul C. Rivett
President

That's correct, yes.

Luis Hernandez

All right. And so I guess obviously, if you were to convert the -- or change the loans, too, then you will have significantly more. All right, so just wanted to have your comments on the prospects for this business and then the upside and all that.

Paul C. Rivett
President

Yes. No, I can give you a little bit. And Murad was at our Annual Meeting. So Murad and his team have done a fantastic job. Really good entrepreneur. He's built that company from scratch with his partner Huseyin. There's a number of really interesting business units. There's an infrastructure piece, obviously the trading and the pulses, but also a growing branded business in nonprotein-based meats, et cetera, much like what we're seeing with Beyond Meat. So there's a number of really interesting, very high-growth businesses there that are global. So we're quite excited about working with Murad and his team. And also, as you know, we do have, within the group, already a number of agriculture-related businesses in Eastern Europe and Africa and India that will be able to work and collaborate with Murad and his team. So it's -- we're very excited about the opportunities there.

Operator

We have one more question on queue, and it's from the line of Jonathan Tredgett of Findlay Park Partners.

Jonathan Paul Tredgett

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Findlay Park Partners LLP

Question is, just on the borrowing, I was a little surprised that borrowing -- it looks like you drew the credit line. Just give us an idea on where you'd expect the ranges again for debt to total cap and how you're thinking about the balance sheet leverage here kind of over the next year or 2.

Paul C. Rivett
President

Yes. Over time, we expect it'll go down, Jonathan. So that's a bit of drawdown there, so we could pull forward some of the sales that basically were early in the process of getting completed. But that -- we expect it will bring that right back down and obviously to bring down the leverage ratio along with it.

Jonathan Paul Tredgett
Findlay Park Partners LLP

Okay. And out of interest, what does that -- the credit line, roughly, what is it costing you?

Paul C. Rivett
President

Drawn versus undrawn? Dave, do you recall? I think it's undrawn. I think it's relatively small or something in the neighborhood of 10 bps or something like that.

David J. Bonham
VP & CFO

Yes, something like that. The rate probably in the quarter is 4% maybe, something like that, 3.5%, 4%.

Paul C. Rivett
President

All in and undrawn?

David J. Bonham
VP & CFO

Yes.

Paul C. Rivett
President

Yes.

Operator

Speakers, we don't have any more questions on queue. You may continue.

Paul C. Rivett
President

All right. Well, seeing that there's no further questions, we thank you very much, everybody, for joining the call. And we look forward to speaking to you on the next quarterly call. Have a great day.

Operator
Thank you so much, speakers. And that concludes today's conference. Thank you all for participating. You may disconnect your lines at this time.

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