S&P Capital IQ

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Fairfax Financial Holdings Limited TSX:FFH

FQ3 2017 Earnings Call Transcripts

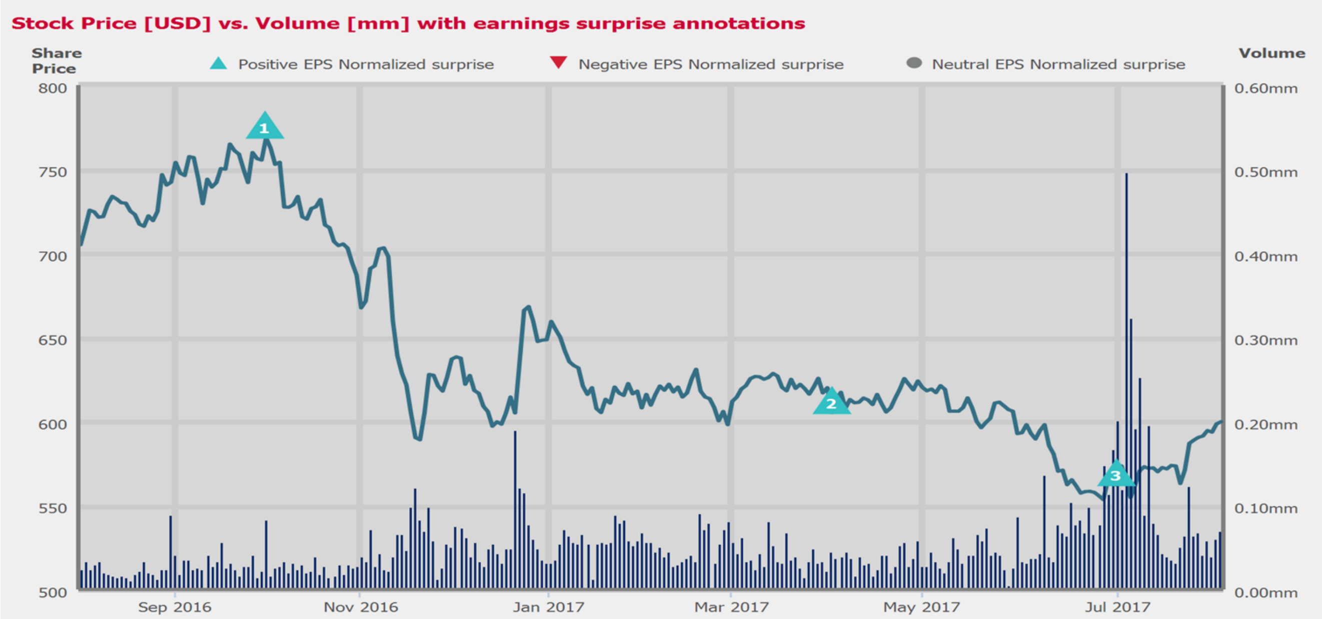
Friday, November 03, 2017 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(20.75)	(26.43)	NM	4.45	15.27	23.52
Revenue (mm)	4840.00	4907.30	▲1.39	4253.40	13988.27	14785.13

Currency: USD

Consensus as of Nov-03-2017 11:27 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	4.06	8.66	▲1 112.78 %
FQ4 2016	-	-	-
FQ1 2017	3.36	4.18	▲2 24.40 %
FQ2 2017	2.78	5.71	▲3 105.40 %

Call Participants

EXECUTIVES

David J. Bonham
Chief Financial Officer and Vice President

Eric P. Salsberg
Vice President of Corporate Affairs and Corporate Secretary

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

ANALYSTS

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

Paul David Holden
CIBC Capital Markets, Research Division

Unknown Attendee

Presentation

Operator

Good morning, and welcome to Fairfax's 2017 Third Quarter Results Conference Call. Your lines have been in a listen-only mode. After the presentation, we will conduct a question-and-answer session. [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 Prem Watsa, with opening remarks from Mr. Eric Salsberg. Mr. Salsberg, please begin.

Eric P. Salsberg
Vice President of Corporate Affairs and Corporate Secretary

Good morning, and welcome to our call to discuss Fairfax's 2017 third 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 the Canadian securities regulators and is available on SEDAR.

I'll now turn the call over to our Chairman and CEO, Prem Watsa.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Thank you, Eric. Good morning, ladies and gentlemen. Welcome to Fairfax's third quarter conference call. I plan to give you some of the highlights and then pass it on, as always, to Dave Bonham, our CFO, for additional financial details.

The third quarter of 2017 reminded us yet again that our industry is a risk business. During the third quarter, the insurance industry experienced some of the largest catastrophe losses in its history as a result of hurricanes Harvey, Irma, Maria and earthquakes in Mexico.

Losses for the property casualty insurance industry from these catastrophes are estimated to be perhaps $100 billion-plus. Our company's share of the losses amounted to $960 million, well within our expectation that in a year of extreme catastrophe losses we expect to break even, but will not suffer any significant loss of capital.

Fortunately, the reduction of our shareholding in ICICI Lombard to about 10% resulted in cash and shares of ICICI Lombard of $1.4 billion and a net after tax gain of $930 million, and our strategic alliance with MSI will on closing result in a net after tax gain of about $900 million.

Fairfax expects to have an excellent year in 2017 in spite of the catastrophe losses, with cash and marketable securities in our holding company at record levels, and we are prepared if a hard market develops in 2018.

For the first 9 months of 2017, book value per share increased by 15.5% adjusted for the $10 per share common dividend paid in the first quarter of 2017. Our insurance companies had a combined ratio of 109% for that 9 months, which included 13.5 points of hurricane losses. Excluding the hurricane losses, our insurance companies had a combined ratio of 95.5% for the 9 months.

In the third quarter, we had an operating loss of $680 million resulting from the hurricane losses, but was more than offset by net investment gains of $1.1 billion which arose primarily from ICICI Lombard and net gains in other equities of $186 million. All in all, we had net earnings of $477 million in the quarter and $871 million in the 9 months.

Our insurance and reinsurance businesses' net premium written was up in the third quarter of 2017 by 41%, primarily due to modest growth of our insurance and reinsurance operations and the acquisitions of

Allied World, Brit Insurance, AIG's operations in 3 Latin American countries and branches in Eastern and Central Europe and also AMAC. Excluding the acquisitions, our net premiums written was up 8.3%.

Net investment gains, as I said earlier, was $1.1 billion in the third quarter, consisted of the following -- please refer to Page 3 of our press release. As I mentioned earlier, we had realized gains of $930 million resulting from the reduction of our shareholdings in ICICI Lombard. Net gains in other equity exposures of $186 million resulted from net gains of $240 million -- $241 million on long equities and $55 million net loss on individual short positions.

We had realized gains of $58 million on equities principally from realized gains on Grivalia Property due to the increase in ownership that resulted in consolidation. We also had gains of $25 million on our bond portfolio, primarily from our municipal bonds.

As we mentioned in our annual meetings, annual reports, quarterly calls with IFRS accounting, stocks and bonds are recorded at market and subject to mark-to-market gains or losses. Quarterly and annual income will fluctuate and investment results will only make sense over the long-term.

As I said at our AGM, we continue to hold our CPI-linked derivatives with a notion value of $116 billion, which produced unrealized losses of $19 million in the third quarter. If some of the unexpected risks come to pass over the next few years, these CPI-linked derivatives could become very valuable. We will hold them as insurance for some time.

When you review our statements, please remember that when we own more than 20% of a company, we equity account, and when we own about 50%, we consolidate. So that mark-to-market gains in these companies are not reflected in our results.

As you can see on Page 13 of our quarterly report, the fair value of our investment in associates is $4.2 billion versus the carrying value of about $3.5 billion and unrealized gain of approximately $600 billion that's not on our balance sheet.

During the third quarter of 2017, Fairfax completed the acquisition of AIG's insurance operations in Chile, Colombia and Argentina and we continue to work through the legal, regulatory and operational requirements to complete the required acquisitions in Uruguay and Venezuela. The acquisitions of AIG's branches in Central and Eastern Europe is now complete, with Romania having just closed.

In August, as you know, the company entered into an agreement with Mitsui Sumitomo to pursue a global strategic alliance. Mitsui Sumitomo will acquire the company's 97.7% interest in First Capital for cash proceeds of $1.6 billion, which will result in a realized net after tax gain of approximately $900 million. Fairfax will retain a 25% quota share exposure to First Capital's insurance portfolio.

The definitive agreement has been signed recently and is now subject to only regulatory approvals. We expect to close by the end of 2017 or early 2018.

In August, Fairfax Africa acquired a 42% equity interest in Atlas Mara for consideration of $156 million. Atlas Mara is a financial services institution listed on the London Stock Exchange that operates in 7 sub-Saharan African countries.

In July, the company increased its equity interest in APR Energy to 68% by acquiring an additional 23% interest for a purchase consideration of $109 million. Also, in July, the company increased its equity interest in Grivalia Properties of 53% to the acquisition of a 10.3% equity interest from Eurobank for purchase considerations of $100 million and commenced consolidating Grivalia in the other reporting segment. Grivalia is a real estate company listed on the Athens Stock Exchange.

As I've said at our annual meeting and in our conference calls, we believe the U.S. administration's proposed policies of reducing corporate tax rates more recently to 20%, rolling back regulation in business like Dodd-Frank, Obamacare and a myriad other regulations and significant infrastructure spending has the potential of boosting economic growth significantly in the United States.

Already sentiment among small businesses has improved dramatically and animal spirits in the United States are alive and well. When the U.S. economy, which is approximately $20 trillion, does well, much of the world does well too. To us this means our concerns of China or Europe precipitating a worldwide recession, depression have been significantly reduced, but not eliminated.

Of course the trade policies of the U.S. could precipitate a collapse in world trade, so these risks will be very much monitored by us, but we continue to think the new administration's policies may make this a stock picker's market and one in which we have thrived over the past 32 years.

In the past few years, we have played defense. We are and continue to play offense now, but always with a long-term value owing to the investment philosophy. We will continue to pick good companies which provide significant downside protection and potential appreciation over the long-term.

As you know, we've invested about $550 million in bonds or preferred shares with warrants recently in Chorus, Altius, Mosaic Capital, Westaim and AGT Foods. We get 5% to 6% plus upside through the warrants.

As of end of September 2017, we have $17 billion in cash and short-term investments in our portfolios, which is 43% of our total investment portfolios to take advantage of opportunities that come our way. But as the result, in the short-term our investment income will be reduced.

Subsequent to the third quarter, we bought back approximately 166,000 shares for $87 million at approximately $524 a share. We recently announced that David Johnston joined us as a global advisor. David was previously an outstanding Fairfax Director and has been a champion for Canadian and Canadian businesses around the world for over 7 years in his role as the Governor General of Canada. We look forward to having such a great Canadian rejoin the Fairfax team to bring his integrity, wisdom and insight in his global advisory role.

Now, I'd like to turn it over to David Bonham, our CFO, so he can give you some more information on the underlying financials. Dave?

David J. Bonham
Chief Financial Officer and Vice President

Thank you, Prem. So in the third quarter of 2007 (sic) [2017], Fairfax reported net earnings of $477 million or about $16 per share on a fully diluted basis and that would compare to the third quarter in 2016 when we had net earnings of just $1 million and that worked out to a net loss of $0.42 per share after taking into account preferred share dividends.

Year-to-date in 2017, Fairfax has produced a net earnings of $871 million or $33 per diluted share. That's an improvement over 2016 when we reported net earnings of $189 billion and that would have been about $6.62 per diluted share.

Underwriting losses at our insurance and reinsurance operations in the third quarter and first 9 months of 2017 were $833 million and $617 million, and those produced combined ratios of 130% and 109% compared to underwriting profits of $175 million and $379 million in the same periods last year.

The decrease in quarter-to-date and year-to-date underwriting profits reflected the impact primarily of the third quarter hurricanes, being Harvey, Irma and Maria, and they totaled $929 million on a pre-tax basis. The lower underwriting profit this year was also reflective of lower net favorable reserve development.

Looking at total current period catastrophe losses in the third quarter of 2017, they totaled $1 billion and added 37 combined ratio points to the combined ratio and year-to-date those losses totaled $1.1 billion, representing 16 combined ratio points. So those -- the total CATs there include the 3 significant hurricanes that we just mentioned, the Mexican earthquake and other attritional losses.

By way of comparison, CAT losses in the third quarter and first 9 months of 2016 were just $59 million and $248 million, just 3 combined ratio points and 4 combined ratio points in those respective periods and last year the year-to-date included $67 million and that was the Fort McMurray wildfires.

Our combined ratios benefited from net favorable prior year reserve development in the third quarter and first 9 months of 2017 of $88 million and $299 million that translated into 3 and 4 combined ratio points respectively, and that compared to the benefit of somewhat higher net favorable prior year reserve development last year of $137 million and $397 million, representing about 7 combined ratio points in each of those respective periods last year.

Turning to net premiums written and excluding recent acquisitions, namely Allied World, Brit Insurance, AMAG, Fairfirst Insurance and the AIG branches in Latin America and Central and Eastern Europe, our net premiums written by our insurance and reinsurance operations increased by 8% in the third quarter, 7% in the first 9 months of 2017 and that primarily reflected growth at OdysseyRe, Northbridge and Crum & Forster.

So just moving through our operating company results, starting with Northbridge, Northridge had an underwriting profit of $2 million in the third quarter, $6 million dollars in the first 9 months and that resulted in a combined ratio of about 99% in each of those periods. Last year same periods, Northbridge had underwriting profits of $24 million and $27 million with combined ratios of 90% and 96%.

The underwriting results in the third quarter and first 9 months of 2017 included $2 million and $7 million of current period catastrophe losses. Current period catastrophe losses in the first 9 months of 2016 were $26 million and mostly related to the Fort McMurray wildfires.

The underwriting results of Northbridge in the third quarter and first 9 months included the benefit of net favorable prior year reserve development of $31 million and $65 million, representing 12 and 9 combined ratio points, and that compared to a net favorable development last year of $42 million and $79 million, representing 17 and 12 combined ratio points.

In Canadian dollar terms, net premiums written by Northbridge in the third quarter and first 9 months of 2017 increased by 8% and 10%, and that reflected increased renewal and new business writings combined with modest price increases across Northbridge.

Looking at OdysseyRe, OdysseyRe reported underwriting losses of $168 million and $64 million, with combined ratios of 126% and 104% in the third quarter and the first 9 months of 2007 (sic) [2017], and that compared to underwriting profits of $59 million and $133 million with combined ratios of 90% and 91% in those respective periods last year.

Current period catastrophe losses mostly related to Harvey, Irma and Maria were the primary reason for the underwriting losses in the third quarter and first 9 months, with total current period catastrophe losses amounting to $262 million and $316 million in the third quarter and first 9 months, translating into 41 combined ratio points on the quarter, 18 combined ratio points year-to-date. And that's a significant increase from the CAT losses of $33 million and $135 million in the prior year third quarter and first 9 months.

Odyssey's combined ratios in the third quarter and the first 9 months included the benefit of $43 million and $110 million of net favorable prior year reserve development, that's 7 and 6 combined ratio points respectively, and that compared to the benefit of favorable development last year of $45 million and $148 million.

Odyssey wrote $662 million and just over $1.9 billion of net premiums in the third quarter and first 9 months respectively, so that's an increase of 33% in the quarter, 16% year-to-date, reflecting increases in almost all of Odyssey's divisions except in the Latin American division.

Crum & Forster, Crum & Forster produced underwriting losses of $18 million and $12 million in the third quarter and first 9 months, combined ratios of 104% and 101% respectively, compared to underwriting profits of $7 million and $23 million last year. Net prior year reserve development was not significant in the third quarters and first 9 months of either 2017 or 2016.

Current period catastrophe losses were $31 million and $41 million in the third quarter and first 9 months principally related to Hurricane Irma in the third quarter, and that compared to current period catastrophe losses of just $1 million and $17 million in the third quarter and first 9 months of 2016.

Crum & Forster's net premiums written increased by 1% and 3% in the third quarter and first 9 months of 2017, and that's reflective of growth in accident and health and commercial transportation lines of business, partially offset by decreases in excess and surplus and marine lines of business.

Zenith National reported underwriting profits in the third quarter and first 9 months of $34 million and $92 million, with combined ratios of 84% and 85%, and that compared to underwriting profits last year of $52 million and $115 million in those same respective periods.

Those combined ratios in 2017 in the quarter and year-to-date included 8 combined ratio points and 10 combined ratio points of net favorable prior year reserve development compared to 15 combined ratio points and 13 combined ratio points in the third quarter and first 9 months of 2016.

Zenith wrote $175 million in the quarter, $677 million in year-to-date net premiums and that compared to $180 million in the quarter last year, $671 million in the 9 months last year and the changes in the net premiums written quarter-over-quarter and year-over-year primarily reflected the interaction between increased exposure and modest price decreases.

Brit, in the third quarter and first 9 months Brit produced underwriting losses of $222 million and $199 million, combined ratios of 158% and 118%, and that was compared to underwriting profits of $12 million and $26 million last year.

Current period catastrophe losses in the third quarter and first 9 months of 2017 at Brit were $244 million and $245 million respectively, representing 64 combined ratio points in the quarter, 22 combined ratio points year to-date, comprised mainly of the impact of the third quarter hurricanes. And that compared to $13 million and $48 million of current period catastrophe losses in the third quarter and first 9 months of last year. Net prior year reserve development in Brit was not significant in either the third quarters of 2017 or 2016.

Brit's net premium written decreased to 5% and 1% in the third quarter and first 9 months of 2017 and that principally reflected the impact of additional reinsurance purchase, reductions in some other core lines of business through active portfolio management, modest price decreases, the unfavorable impact of foreign currency translation, and then that was partially offset by increased contribution from some of the business initiatives that they've launched in more recent years and some measured growth in some other core lines of business.

Looking at Allied World, Allied World was acquired on July 6, 2017 and it contributed $541 million to net premiums written since its date of acquisition. Allied World's underwriting loss of $460 million and its combined ratio of 182% since July 6, 2017 were significantly impacted by $412 million of current period catastrophe losses, representing 82 combined ratio points, and again principally to hurricanes Harvey, Irma and Maria in the third quarter.

Fairfax Asia's underwriting profit of $50 million and $32 million, combined ratios of 82% and 87% were comparable to the same periods in 2016. The combined ratios in the third quarter and first 9 months included $6 million and $32 million of net favorable prior year reserve development, and that compared to $5 million and $35 million in the third quarter and first 9 months of 2016.

Our insurance and reinsurance other segment, it produced underwriting losses of $60 million and $56 million, with combined ratios of 131% and 111% in the third quarter and first 9 months of 2017, whereas underwriting profits of $9 million and $80 million and combined ratios of 92% and 95% were the results in those same period in 2016.

Those underwriting results in 2017 were negatively impacted by the current period catastrophe losses of $67 million for 34 combined ratio points in the third quarter, $81 million for 15 combined ratio points in the first 9 months, again the third quarter hurricanes responsible for a majority of those CAT losses.

Run-off reported operating losses of $15 million and $95 million in the third quarter and first 9 months of 2017 compared to operating losses of $12 million and $28 million in those same periods in 2016. The increase in the year-to-date operating loss reflects higher net adverse prior year reserve development and lower interest and dividends both in 2017.

Looking at some of our consolidated results, interest and dividend income in the quarter increased from $105 million in the third quarter of 2016 to $152 million in the third quarter of 2017. That reflects the contribution from the acquisition of Allied World and lower total return swap expense in 2017, partially offset by lower interest income earned as a result of our sales of U.S. treasuries and municipal bonds late in 2016 and the first quarter of 2017.

Fairfax recorded an income tax recovery of $27 million in the third quarter of 2017 and a provision for income taxes of $42 million in the first 9 months of 2017, and that represented a negative effective tax rate of 8% in the quarter, a positive effective tax rate of 5% year-to-date.

The low effective tax rates relative to the Canadian statutory tax rate reflect the 930 -- primarily reflect the $930 million gain on the sale of ICICI Lombard, which is not taxable in the jurisdiction where its held and that creates a significant benefit to our income tax provision when compared to the Canadian statutory tax rate of 26.5%.

We ended the third quarter with an investment portfolio inclusive of holding company cash of $39 billion compared to $28 billion at the end of 2016 and as of September 30, 2017 Allied World had contributed approximately $8 billion to the year-over-year increase, that being the consolidation of their investment portfolio.

Our total debt to total capital ratio decreased to 26.9% at September 30th from 29% at December 31, 2016, reflecting the increase in our consolidated shareholders' equity and additional non-controlling interest.

So with that, Prem, I'll pass it back to you.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer
Thank you, Dave. Now, we're happy to answer your questions. Please give us your name, your company name. Try to limit your question to only one so that's fair to everyone on the call. Okay, Iris, we're ready for the questions.

Question and Answer

Operator

[Operator Instructions] We have our first question from Jeff Fenwick from Cormark Securities.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

So you mentioned -- you reiterated that Fairfax is back on offense with respect to investments and yet sitting with that very high cash and short-term investment here, balance at 43% of the total. Just wondering if we can get your perspective on what the right level is to work that cash balance down toward -- and what would you expect to be a reasonable timeframe for that balance to be deployed as we look forward here?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, that's a -- Jeff, that's very difficult to say because it's very opportunistic. It's looking at one investment at a time. Our cash positions in the past have gone right down to maybe 10% or so. And so we've got lots of powder. But we did AGT Foods, an investment in -- more recently, where we did a bond plus a warrant. There are many, many investments that we're working on in a similar vein. What we have, Jeff, it's a 32 year reputation for treating people well, friendly investment. So people -- companies are comfortable giving us 30%, 40% of their company because they know we will never do anything hostile. And that gives a huge advantage and that's based on 32 years, as I said, of very friendly investments. And we think -- we like the ones that we've already made, the 5 of them. And we've invested I think, as I said, $550 million. But we keep looking at it. We've got many opportunities ahead of us. And I can't tell you exactly what timeframe because it's very opportunistic, it's value oriented. But we will be looking to invest it. We're playing old friends. This is what we've done for 40 years. This is our -- this is what we're good at for a long period of time. And there's no change in the management teams. And I'm not speaking for myself, but Roger Lace, Brian Bradstreet, Wade Burton. We've got a very good group of people. But behind it all is the fact that our culture is so good that people want to deal with us in Canada, in the United States, in many, many parts of the world, Jeff.

Jeffrey Michael Fenwick
Cormark Securities Inc., Research Division

And I guess the follow-on with that would be, you'll have more cash coming in the door here shortly from the sale of First Capital. You were active on buybacks over the last quarter here and should we expect that to continue to be a part of the equation going forward if you're going to have $1 billion after tax gain coming at the door?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

So that's about $900 million I think you're talking about in terms of First Capital. So we've bought back -- we've said about 166,000 shares. I think it is about $87 million. That's certainly -- and I've said publicly, I've said it in the annual meeting, Jeff, that's very much what we want to do. It's subject to share prices. The point I want to make very clearly to all our shareholders is that our books value today always has been a first step for what the intrinsic value is, but the difference between book value and intrinsic value is pretty significant. I mean just look at ICICI Lombard, for example, $1.4 billion. It was a very insignificant amounts on our balance sheet. We have realized a gain of $930 million. Look at -- you know what we have in First Capital and we've got a terrific partnership with Mitsui. We're working forward on that, Jeff. But it was $400 million of premium and the track record was so good that the price we got was $1.6 billion. I mean $400 million -- the total premiums in our company is about $14 billion. And you look at all the investments we have. Many of them have got tremendous potential that we have yet to realize on. And so when we put all of that together, Jeff, we think the opportunity is very significant. So the link between book value and intrinsic value is -- probably never been more different than in the 32 years that we've had, because we took a loss in 2016 and our book value went down. But the underlying fundamentals of our company are very strong. So I've said, Jeff, that there's a potential of a hard market that might come. And here we have 2 significant sales: one is the ICICI Lombard, the one for First Capital. $1.4 billion in one, that goes to the holding company I might add; and $1.6 billion on the other, that after expenses maybe $1.5 billion, goes to the holding company. So you're talking about very powerful position, financial position as we meet this market. Most companies have taken a loss in the third quarter and most companies will have taken a loss in the year that are exposed to reinsurance particularly and we've got the ability to take advantage of the market. So we're very -- we're really very excited about the possibilities of our company.

Operator

Our next question comes from Paul Holden from CIBC.

Paul David Holden
CIBC Capital Markets, Research Division

Two questions for you. So first is on Allied World. And I recognize that it's only 1 quarter of results that have been included so far. But combined ratio of 101% excluding CAT losses -- and I know you didn't buy this business on an assumption for a combined ratio of 101% going forward. So wondering kind of what the view -- whether it's strategic change you can implement or just simply waiting for the market cycle to turn? What's your kind of view on that 101% improving going forward?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

So the 101% in -- there was a reserve development of approximately $20 million, which, in our system, we just flow it right through. Their reserve redundancies are very significant, Paul. But we'll look at it in the fourth quarter. And you exclude that $20 million and it's more like 96%. The company has a reserve surplus. All our companies are very strongly reserved. And Allied World, as they are a public company, they've given -- publicly they've said they were reserved in excess of what is needed. But in the third quarter, they just flowed that $20 million right into their numbers. And we really don't worry about it quarter by quarter. Scott Carmilani has got one of the best track records in the business and he has got a great team, Andy and Peter spent -- our Chief Risk Officer spent a whole day not only with the top management, but 2 or 3 levels below. And we're really excited. We're facing this market -- these market conditions today, Paul, with Brit that we didn't have, which is a big Lloyd's company; and Allied World, which is a very entrepreneurial company in the United States, which writes Fortune 500, Fortune 1,000 business. And they are separately capitalized. They're run by the same management teams that have built these companies. And I got to tell you, we are very excited about the possibilities for both companies, and of course our OdysseyRe, which has been in our stable for a long time.

Paul David Holden
CIBC Capital Markets, Research Division

And then second question is an accounting one. So on the consolidated statement of changes in equity there's a line called other net changes in capitalization and that number changed significantly from Q2 to Q3 and was a positive benefit to book value per share of roughly $7 a share, so fairly material. So just want to understand that line better and what exactly changed quarter to quarter?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

And, Dave, why don't you address that accounting item?

David J. Bonham
Chief Financial Officer and Vice President

Sure. So what flows through that line is when we consolidate a subsidiary and then there are changes in the amount or the ownership percentage of that subsidiary, any dilution gains or losses get to -- charge directly into our equity through that line item. So that's what you are seeing in there. And in the current period what's contributing to that are the changes in ownership of Quess. Like we've got to note in our financials that talks about additional shares that were issued by Quess that we didn't participate in. And of course there's some activity in there related to Allied World.

Operator

Our next question comes from [Sriduip] Banerjee from Private Investor.

Unknown Attendee

So I have 2 quick questions regarding Fairfax India. So on October 4th, Fairfax India had created an intention to make a normal course issuer bid at TSX to buyback its own share, right? So question is, is Fairfax India buying back its own share at the current price range or is it as insurance when the price goes below book value? And second question would be, can you share some update on Sanmar Chemicals?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

So on the buyback, [Sriduip], that's a normal course issuer buyback that we put in. We always put that in so that it gives us the ability to buy Fairfax India stock. So it will be a function of the stock price. It lasts for a year and it gives us flexibility to buyback whenever we feel like doing it. It doesn't mean we're going to buy it at these prices. We could buy -- we don't say what the price will be, but it gives us the flexibility to do that. And that's one. On Sanmar Chemical, they have an operation in Egypt that will come into full production sometime in the middle of next year and then they'll be well on their way. They are a PVC producer, as you know, in India, second largest, very, very strong, terrific results there. And as Egypt comes into production, we think Sanmar will do very well. We really like Fairfax India investment. There's about approximately 8 companies there. They come out with their own statements, as you know. And it's run by Chandran -- at the annual meeting many of you have met him -- and Harsha, who is in India. Lots of opportunity in India. That's the one country we think there is tremendous possibilities. And we've got now an established company there. The investments are all doing well. We've closed the 48% in Bangalore International Airport, with the third largest city in India, very significant investment for us. And we think the possibilities in the future are very significant for that company.

Operator

We have our next question from [Junior Rah] from Private Investor.

Unknown Attendee

The final universal shelf prospectus that you're doing, what was the plan for that, what was that over? I think that was the news article that was released in October.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

This is the shelf prospectus for Fairfaxâ€¦

Unknown Attendee

Fairfax Financial?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes. Fairfax financial, yes. That's just a regular thing we do on a regular basis. I think that every year you have to refresh it. And it gives us a lot of flexibility, [Junior], so we don't have to -- we can issue stocks, bonds, cash, whatever we want very quickly. But I'll tell you, we have no intention of issuing shares, as I told you. We're just the opposite. We're looking at buying them back. And our financial position it's perhaps the strongest we've been in a long time. And with these big losses -- the other side of these losses, Junior -- I'm talking about the hurricane losses, the catastrophe losses, the California fire losses.

The other side of these losses is the pricing in our business, which has been going down for a long time, might start going up and coming to where you get paid to take risk. And if you get paid to take risk, our management teams are well positioned to do it.

Unknown Attendee

Second question is how is the Torstar investment coming along?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Well, that's an investment we've got. And we don't talk about individual situations, [Junior]. So thank you for your question, but we don't talk about individual situations that we have. Iris, any more questions?

Operator

We show no further questions in the queue right now.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Okay, if there are no more questions, thank you all for joining us on this call. We look forward to presenting to you again in the next quarter. Thank you, Iris.

Operator
You're welcome. That concludes today's conference. Thank you for participating. You may disconnect at this time.