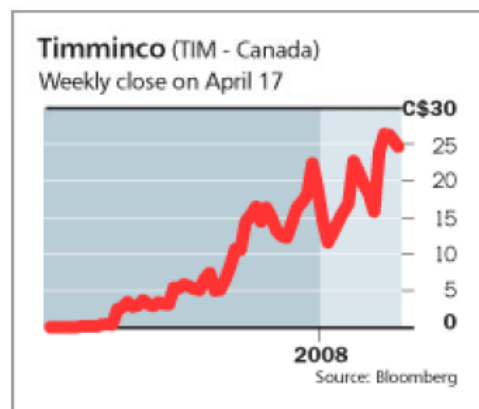


Timminco Generates More Heat Than Light

By BILL ALPERT

ERIC SPROTT JUST FILED FOR A Canadian public offering of his Toronto money-management firm, Sprott Asset Management. The offering could make him a billionaire. What's remarkable is that Sprott owes a lot of this good fortune to his firm's huge stake in a single stock called Timminco, a Canadian metal-smelting company whose shares were the best performers on Toronto's bourse last year, rising from 30 cents to about C\$22 (US\$22). The gains on **Timminco** (ticker: TIM.Canada) contributed more than 25% of all investment returns on Sprott's assets in 2007. A private-equity group associated with **Safeguard Scientifics** (SFE) has benefited even more, controlling just over half of Timminco's shares as its market cap exploded from C\$60 million to C\$2.8 billion, on Friday's price of C\$23.



The justification for Timminco's share appreciation is supposed to be its invention of a low-cost way to purify the silicon needed for the booming solar-cell market. But so far, the evidence for Timminco's breakthrough appears in PowerPoint slides, not financial reports. The Toronto company's sales fell from C\$190 million in 2005 to C\$166 million in 2007, while operating losses grew from C\$8 million in 2005 to C\$16 million in 2007. The stock is far ahead of reality and vulnerable if solar silicon disappoints.

Timminco shares traded below 50 cents for years as it made magnesium and metallurgical-grade silicon that alloy makers would buy for under \$1 a kilogram. Then a little over a year ago, Sprott analyst David Tomljenovic heard Timminco had a process to improve silicon purity from the 98.5% metallurgical grade to the 99.999% solar grade. Timminco could upgrade stuff it had been selling for 83 cents a kilo into purer stuff that sold for over \$35 a kilo.

"That's all I needed to know," says Tomljenovic, who started buying Timminco stock at 40 cents. Sprott Asset now owns 18 million shares—a third of the free float.

Timminco ownership is concentrated, given the 50.5% stake held by parent firm Advanced Metallurgical Group, a conglomeration of businesses assembled by Safeguard International Fund. By listing AMG on **Amsterdam's Euronext exchange** (AMG.Netherlands), Safeguard investors cashed in on Timminco's stock without having their more than


Shares Outshine Financials

Timminco's sales have been declining as its operating losses are growing—but its red-hot shares have produced huge gains for its major shareholders at AMG and Sprott Asset Management.

	2005	2006	2007
Sales (mil)	C\$190	C\$182	C\$166
Operating Profit (mil)	-8	-10	-16

\$380 million in AMG stock sales hurt Timminco's high share price. That clever exit strategy isn't surprising given that the head of the Safeguard fund (and also chief executive of Timminco and AMG) is Heinz Schimmelbusch, a financial wiz who ran Germany's Metallgesellschaft from 1989 to 1993 -- when the company was nearly ruined by a \$1.3 billion oil-futures loss.

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Solar-power demand has driven contract prices above \$80 a kilogram for the 99.999999%-pure silicon that companies like **Dow Chemical** (DOW) and **MEMC** (WFR) make from a superheated-silicon gas. But solar cells don't need that much purity, and companies have tried to use metallurgical processes to make solar-cell silicon. The Elkem unit of **Norway's Orkla** (ORK.Norway) has spent over \$700 million to start a plant. Timminco claims that its simpler approach will allow it to build a bigger plant for less than \$90 million. What's more, Timminco says it can make solar-grade silicon for little more than \$10 a kilogram, compared with \$20 at Elkem and perhaps \$35 at MEMC. Timminco Chief Financial Officer Robert Dietrich says the company's delivered over 90 metric tons of its upgraded silicon to solar customers and adds: "Our customers are very happy with the material."

In the past month, Sprott's Tomljenovic has been encouraged by a Timminco patent filing at the World Intellectual Property Organization (a U.N. registry) and, better still, a contract and hearty endorsement from the world's largest solar-cell maker, **Q-Cells** (QCE.Germany). The company promises profits within 2008. The Sprott analyst thinks Timminco eventually can achieve C\$1.25 billion in revenues and C\$5.25 in earnings per share.

The Bottom Line:

Because of their astronomical price, Timminco shares are vulnerable if solar silicon fails to meet expectations. Given the concentrated ownership, valuing the stock is tricky.

But as Piper Jaffray analyst Jesse Pichel points out in a March 27 report, Q-Cells has invested in many silicon technologies that never yielded useful products. Close inspection reveals that the patent document that cheered Tomljenovic is just an application. A search turns up prior patents with silicon-processing techniques like Timminco's -- one was even tried and rejected by Dow

Chemical. Rivals also criticize Timminco's purity claims. Elkem's impurity levels are half of Timminco's, while **Globe Specialty Metals** (GLBM.U.K.) showed at a recent conference that Timminco samples reveal even higher impurities when alternative analytical tests are used. CFO Dietrich says Timminco's shipments meet specifications.

Timminco clearly has a lot to prove. Investors are unlikely to share in Sprott's good fortune anytime soon.
