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STREETWISE: MARKETS

Timminco shares prove tricky to short

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There's a long tradition in Quebec circles of gathering the wagons when short sellers circle.

Several provincial institutions, led by the Caisse de dépôt et placement du Québec, have refused in the past to lend stock to shorts. The pension fund and its colleagues simply don't want to help rival fund managers profit on the misfortunes of local companies.

The same sort of fun and games are now playing out around a high-flying silicon maker named **Timminco**. It was the hottest stock on the TSX last year, up 470 per cent in the past 12 months, and it has recently attracted detractors.

But just try to short-sell Timminco, a company with a $2.3-billion market capitalization and a stock that's fallen to $22.15 yesterday on the TSX from $28.50 last week.

There are simply no Timminco shares to be borrowed. In hedge fund circles, there's muttering that long-term backers simply aren't willing to lend their stock and add fuel to the short sellers' fire. Major owners include Sprott Asset Management, which holds 18 per cent.

A quick lesson in the plumbing of the market that makes it possible to profit on a falling share price: Short sellers make money by borrowing shares from other investors or dealers and selling the stock. The shorts then buy the shares back at a lower price and replace what they borrowed. Institutions such as pension funds are normally willing to lend stock because they take a small fee for the service, which adds to overall performance.

A lack of shares for borrowing may reflect a larger concern: Institutional investors have become more reluctant about lending shares to short sellers in the wake of a takeover offer for Sears Canada two years ago that highlighted the loss of voting power that can come with this activity.

No matter what the reason for the scarcity of stock, a few frustrated short sellers won't actually influence events. As one trader observed yesterday: "Preventing borrowing doesn't change fundamentals that dictate the price of Timminco. It just stops the shorts from profiting on any decline."

Grain handler

looks to bulk up

Over the past year, grain handler **Viterra** has digested a monster merger. With its culture and management team now tested and proven, the company is ready to get back on the acquisition trail.

Viterra, formed from the union of Saskatchewan Wheat Pool and Agricore, did a $400-million bought deal yesterday, with the cash earmarked for acquisitions. Agribusiness stocks are on fire, and Viterra is taking advantage of its strong valuation. Likely targets would include farming co-ops and other privately held ventures.

The Viterra offering was led by TD Securities and Genuity Capital Markets. It came at $14 a share, a 4-per-cent discount to the price that Viterra was trading at on the TSX prior to announcement.

In addition to the equity sale, Viterra updated investors on the debt side of its balance sheet. The company is replacing a bridge loan that had $238-million outstanding at the end of the last quarter with a new syndicated term facility.

Based on the discussions with potential lenders, Viterra said yesterday that the refinancing should be completed prior to the maturity of the bridge loan on May 28, 2008.

BMO makes a move

Bank of Montreal hasn't lost its nerve, despite the problems in structured financing.

BMO's investment banking arm yesterday bought a Chicago-based municipal bond dealer, Griffin Kubik Stephens & Thompson (or GKST). Terms of the deal were not revealed.

The acquisition, which is expected to close in June, will make BMO Nesbitt Burns the No. 6 U.S. municipal bond dealer. GKST has 100 employees. In addition to municipal bonds, GKST has a mortgage-backed securities arm. This branch of the structured products tree has caused all sorts of problems in credit markets.

The long-term prospects of the municipal bond market are strong, as this is the way U.S. communities will finance infrastructure projects.

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