



Photon Consulting Bullish On Timminco; Debate Continues

By Stuart Weinberg
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TORONTO (Dow Jones)--Shares of Timminco Ltd. (TIM.T) are up 7.4% after Photon Consulting's Michael Rogol offered a glowing review of the company and its prospects on a conference call late Wednesday.

Rogol, managing director of Photon Consulting, a solar-power consulting and research firm, acknowledged that Photon is paid an annual fee by Timminco and that Timminco paid Photon for conducting Wednesday's call. However, he said Timminco accounts for a small portion of Photon's overall revenue and that he doesn't believe his analysis was "deeply impacted" by the financial compensation. "We're really striving for accuracy in our analysis," he said, adding that he doesn't invest in public-traded equities in the solar sector.

Rogol, who recently completed a one-day assessment of Timminco's manufacturing plant in Becancour, Que., said Wednesday that he was given complete access to the facility. "Everything on site was open to us," he said, adding that Timminco also showed him and his team copies of the company's supply contracts and metallurgical-feedstock contracts.

While Rogol didn't share many details about Timminco's process, he said he came away from the visit believing the company is among a select group of companies that have the potential to reshape silicon prices by 2010.

"I can remember walking into the Suntech (Power Holdings Co.'s) plant for the first time...and immediately, within a minute of being there, having this gut reaction, 'Wow this is really different than the other 30, 40...cell-module plants (I visited).' It just immediately struck of a lower cost, a different way, a more flexible way of manufacturing and that instant reaction turned out to be accurate.... I would say that's really the reaction we had at Timminco," he said.

Fierce Bull-Bear Debate

Photon's visit and Wednesday's call come amid a fierce debate between bulls and bears about Timminco's process for upgrading metallurgical silicon to solar-grade level.

Timminco has signed several contracts to provide its upgraded solar-grade silicon to solar-cell manufacturers, including one with Q-Cells AG (QCE.XE), the world's biggest solar-cell maker. The contracts and Timminco's claims about its low-cost structure helped lift the firm's stock from 30 Canadian cents at the end of 2006 to C\$21.95 at the end of 2007. The stock is up C\$1.85 Canadian cents to C\$26.75 in Toronto Thursday, on 3.3 million shares.

In recent months, critics of the company have questioned Timminco's claims, noting that the firm's process has never been independently verified and that rival companies had spent far more trying to upgrade metallurgical silicon to solar-grade level with less success.

Timminco's decision to grant access to Photon Consulting was aimed at allaying investor concerns.

Rogol said he believes Timminco can achieve production costs of C\$13 to C\$22 a kilogram by 2010. That estimate factors in all plant overhead costs, as well as research and development and stock-options expenses, he said. Rogol also said that he believes Timminco can achieve production capacity of 12,000 to 20,000 tons by 2010, as well as an operating profit of C\$270 million to C\$1 billion on revenue of C\$540 million to C\$1.3 billion.

Timminco has indicated it's comfortable with analysts' estimates that it can achieve production costs of C\$10 to C\$15 per kilogram. That's far less than the traditional method of producing solar-grade silicon, which involves a chemical process that produces material known as polysilicon. Polysilicon, which is considered more efficient and durable than upgraded metallurgical silicon, is in short supply due to a lack of capacity. The polysilicon shortage and high price of the material has opened the door for different production methods, such as Timminco's.

Rogol said his assessment isn't just based on his one-day Becancour visit. He said he has followed the company for years and closely monitored industry efforts to upgrade metallurgical silicon. He said he has also talked with Timminco's customers and viewed copies of their contracts with Timminco.

The review wasn't all glowing. Rogol indicated Timminco remains a work in progress and needs to provide more transparency about production yields and adjust its accounting to reflect ongoing changes in its manufacturing process. He said he believes the firm is currently obtaining production costs around mid-US\$40 a kilogram, but that this would fall to the teens by year-end as yields improve, production increases and fixed costs decline.

Cormark Questions Photon Forecasts

Cormark Securities' MacMurray Whale was critical of the report, noting, among other things, that Photon's forecasts for Timminco are based on bullish assumptions.

For instance, in a note Thursday, Whale pointed out that Photon is forecasting a six-fold increase in demand for solar power by 2010, to 26 gigawatts. "A prediction of a six-fold increase from

current demand levels is completely at odds with a tariff cap instituted in Spain, the steeper tariff declines proposed in Germany and the delays to the ITC (investment-tax credit) experience in the U.S., not to mention a U.S. recession and concerns of its spread globally. It is also a surprisingly suspect outlook for a group that has such wide regard in the industry."

Whale described the high end of Photon's 2010 revenue forecast for Timminco as "completely unrealistic." He said the C\$1.3 billion forecast is predicated on an underlying silicon price of C\$65 a kilogram and 20,000 tons of production.

Timminco is forecasting capacity of 14,400 kilograms by 2010, though some company watchers believe it will attempt to increase capacity and fund the initiative by issuing equity. Timminco had C\$11.2 million in cash as of March 31.

Whale was equally skeptical of the upper end of Photon's operating-profit forecast, saying the C\$1 billion estimate is "preposterously high" and represents an operating margin of 80%. "Clearly with the industry far above economically competitive system pricing without regulatory tariff structures, a company with an 80% (operating) margin anywhere in the supply chain would be under significant pressure to reduce pricing," he said.

Photon's review revealed little new information, "unintentionally highlighting the risks rather than dispelling the criticisms, and provided no concrete technical assessment as to the potential for cost reductions," Whale said.

Other analysts arrived at different conclusions. One analyst said that, while Photon has a bullish view of the solar-power industry, its forecasts to date have either been conservative or in line with industry shipments.

Raymond James' Andy Nasr raised his Timminco rating and target Thursday, saying in a note that he was surprised to learn the company "had and could enter supply agreements to sell its" solar-grade silicon at prices of C\$60 a kilogram. He said he previously assumed prices of about C\$45 a kilogram.

Nasr raised his rating to market perform from underperform and increased his target to C\$27 from C\$19. He said Wednesday's call only modestly allayed his concerns regarding execution risk.

Company Web Site: <http://www.timminco.com>

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