

SOLAR-GRADE SILICON

Timminco fades under market glare

Stock plummets on lower output forecast

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Timminco Ltd., whose promise of a "breakthrough" process to upgrade silicon for use in solar cells made it a market darling, saw its share price unravel yesterday after contamination problems forced the company to sharply reduce its production forecast.

Timminco lost as much as 27 per cent of its value as investors dumped the stock following the release late Monday of disappointing second-quarter results.

The company produced just 221 tonnes of solar-grade silicon in the second quarter, falling well short of the expected 300 tonnes.

"I think people are overreacting a great deal about this. But what can I do?" René Boisvert, the head of Timminco's silicon division, said in an interview.

The quarterly report is serving as a major test of faith for holders of the controversial stock that has divided investors between raging bulls who believe Timminco is poised to revolutionize the solar silicon industry and ardent naysayers who question the viability of its process.

Yet even Timminco's biggest backer, Sprott Asset Management Inc., is now taking some money off the table. At least one portfolio manager at the investment firm, which in May said it owned 17 per cent of Timminco's stock, is reducing his position.

Fund manager Jean-François Tardif, who oversees three funds housed under the Sprott Opportunities Hedge Fund banner, says Timminco once made up 4 per cent of his portfolio but is now down to just 0.6 per cent after he sold the company's shares in June and July.

"I sold most of my stuff on the way up and that's my style," Mr. Tardif said.

"People that understand and know my strategy very well would not be surprised to hear that because my strategy is always to put the most money in my best idea in terms of risk-reward today," Mr. Tardif added.

Iryna Gordiyenko, Sprott's chief financial officer, did not return calls requesting an update on Sprott's total ownership position in the company.

The top-performing stock on the TSX in 2007, Timminco has also become a favourite target of short sellers who question the viability of the company's claims it can produce solar-grade silicon in large quantities at costs well below competitors.

Timminco shares regained some ground to close down just over 24 per cent at \$15.10 on the TSX yesterday on heavy volume of 4.5 million shares.

"They are having a field day. I hope [the short sellers] enjoy themselves because this is very short-term thinking," Mr. Boisvert said.

The market drubbing comes less than three months after Heinz Schimmelbusch, Timminco's jet-setting chief executive officer, warned short sellers that they were playing a perilous game by betting that Timminco's share price would fall. "It is an old, very wise thing, that in commodity markets you shouldn't be short. It's dangerous," Mr. Schimmelbusch said at the company's annual meeting in late May.

The comments helped Timminco's shares, which had traded below a dollar little more than a year before, surge above \$30.

At the time, Mr. Schimmelbusch predicted Timminco would produce some 2,000 tonnes of solar-grade silicon this year that would be sold to customers who make solar cells. "Clearly our production will vary from month to month, but we are targeting to ship 2,000 metric tons in 2008," he said at the meeting.

Timminco now has an annual production target of 1,500 tonnes at most. Production could be as low as 1,200 tonnes, the company said.

It is blaming contamination issues that have seen higher-than-expected levels of phosphorous present in the upgraded silicon. It will take weeks to reline parts of its furnaces and equipment to fix the problem.

The production cut prompted several analysts to lower their share price targets. Cormark Securities' MacMurray Whale slashed his Timminco share price target to \$11.50 from \$19.50. The analyst is particularly concerned with Timminco's inability to reduce its solar silicon production costs during the quarter, which averaged about \$32 a kilogram. The company has been targeting costs of between \$10 and \$15 a kilogram. "So far, management has been unable to provide evidence that high production volume in the 1,000 tonnes range can be achieved concomitant with high purity and low cost," Mr. Whale said.

According to Mr. Boisvert, Timminco elected to hold back 70 tonnes of solar-grade silicon that had higher-than-expected phosphorous levels, even though the material could have been used by some customers. "We've been under such scrutiny I was afraid it might have gotten into the wrong hands," he said, referring to the company's aggressive detractors.

"We took a short-term hit for the long-term health of the business," Mr. Boisvert said.

Timminco expects to reach its full capacity of 3,600 tonnes a year during the fourth quarter. An expansion to 14,400 tonnes of capacity is forecast by the middle of 2009.