

Tuesday, March 17, 2009

Timminco's stunning fall from grace continues

Peter Koven, Financial Post



Nathan Denette/National Post

Timminco Ltd. announced plans to slash production of high-purity silicon Tuesday due to the crumbling global economy, a move that continues a stunning fall from grace for what was once the hottest story on the Canadian markets.

In 2007, Timminco emerged as an investor darling after it came up with a new process to purify silicon for use in the then-booming solar-power sector. The stock soared from pennies up to a high of \$35.69 a share last June, and the company's biggest problem was just trying to convince doubters and short-sellers that its process really works.

Today, Timminco has a far bigger problem: plummeting demand from the solar industry, which has been hammered by the economic downturn.

"The rapid deterioration of global economic and credit conditions and its profound impact on demand for solar energy installations have caused many of our customers to reduce orders," Heinz Schimmelbusch, Timminco's chief executive, said in a statement.

Timminco is now following the lead of almost every other metals company by slashing production to bring it in line with customer demand, while conserving cash to survive the downturn.

The company said Tuesday that it will curtail production of standard silicon metal in the second quarter of 2009, and fill orders from existing inventories.

More significantly, Timminco will do what would have been unthinkable a year ago: cut production of solar-grade silicon and halt its expansion plans. That is a direct response to reduced orders from customers such as Q-Cells AG, which use Timminco's silicon to make solar cells.

On a conference call Tuesday night, Mr. Schimmelbusch said the company is taking appropriate measures to withstand the downturn, and is working to improve its production process to emerge stronger when demand turns around.

"It is difficult to predict with any precision when market conditions will improve, although some industry observers are anticipating that supply and demand ratios may be in better balance by the end of 2009," he said.

In the fourth quarter, Timminco said it lost \$1.3-million and shipped 424 metric tonnes of solar-grade silicon at an average selling price of US\$65 a kilogram.

The company was trying to ramp up production capacity to 14,400 tonnes a year at its plant in Bécancour, Quebec. But Mr. Schimmelbusch said that expansion plans are on hold until the company receives orders that exceed its existing capacity.

"I have witnessed a number of downturns, some of them severe, in many years in the metal industry. My experience has taught me that minimizing risk through capital preservation, cost reduction and inventory management are essential during those periods," he said on the conference call.

Timminco shares closed at \$2.35 each, down a mind-boggling 93% from last year's high. When the stock was booming, analyst price targets rose as high as \$50 a share, but none are now above \$14. The company was also highly touted by investment firm Sprott Asset Management, which made and lost a fortune on its Timminco investment in a very short period of time.