

From hot stock to target

Timminco defends itself against short seller's allegations

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It was the top performing stock on the TSX last year and a home run for investing guru Eric Sprott, but market darling **Timminco Ltd.** [TIM-T] is facing mounting pressure from one of Wall Street's most feared short sellers to defend claims it has developed a breakthrough method for producing solar grade silicon.

Manuel Asensio, a flamboyant New York-based investor who boasts a trophy case full of corporate hides, is challenging the Toronto-based metals firm's assertion it can cost-efficiently purify metallurgical grade silicon to a level high enough for solar cell use.

By targeting Timminco, the controversial Cuban-born money manager has set a collision course with Mr. Sprott, whose investment firm, Sprott Asset Management Inc., owns more than 19 million Timminco shares.

Over the weekend, an article in financial journal Barron's raised many of the same questions about Timminco that Mr. Asensio has been asking.

Timminco Ltd.



Among them, how the company can claim its unique process allows it to refine silicon at half the cost of its competitors. Timminco's Quebec solar silicon plant began operating in December, but the company has yet to release detailed cost information for the new plant or its pilot trials.

Reached yesterday, chief financial officer Robert Dietrich said Timminco's contracts with several solar cell manufacturers, including the world's largest, Q-Cells AG, offer proof that the technology works.

Timminco has already delivered more than 89 tonnes of solar grade silicon to customers.

"They are very impressed. It meets or exceeds their specifications and it certainly meets their expectations. They're finding it to be material they can use. We haven't had any returned. We haven't had anybody not pay for it. We ship it and they pay for it and they're happy," Mr. Dietrich said.

Once Timminco's new plant is up to full capacity by the end of the second quarter, the company expects to produce 3,600 tonnes of solar grade silicon a year. It plans to expand annual capacity to 14,400 tonnes by mid-2009.

Timminco's claim it had developed a revolutionary way to purify silicon helped its stock skyrocket from 30 cents to more than \$22 last year, generating massive returns for its major investors - including Mr. Sprott's firm, which owns nearly a fifth of the company. In the past 12 months, the stock has gained 490 per cent, giving the company a market value of \$2.4-billion.

Demand for solar grade silicon is soaring. But it is expensive to produce. Attempts by companies such as Dow Chemical to develop cost-efficient ways to convert metallurgical silicon into solar grade silicon, with a grade of 99.9999 per cent, have been largely unsuccessful.

Timminco is spending about \$87-million to construct its plant in Becancour, Que., while a competitor called Elkem AS is spending more than \$700-million to build a plant with less capacity.

Mr. Dietrich says Timminco's costs are so much lower because its "admittedly simple" process is very different than Elkem's.

"There are a number of people who would read our patent applications and nod their heads knowingly and say, 'Yep, that makes sense.' They may not be people that are shorting our stock," he said, presumably referring to Mr. Asensio.

Short sellers such as Mr. Asensio borrow stocks from their owners and then sell the shares on the bet that they can profit by buying them back at lower prices. Last month he went public with his Timminco criticisms in an interview with the Business News Network. He has also spoken frequently with Globe and Mail reporters about Timminco's alleged shortcomings.

Mr. Asensio, nicknamed Demolition Man for his aggressive tactics, won't say when he began to bet against Timminco or how much he is wagering.

He has been chased off company properties by security guards and was once fined by the National Association of Securities Dealers for "misrepresentation" in one of his many lawsuits. He raised early alarms about such high fliers as dotcom darling Winstar Communications and onetime Canadian hot stocks such as Crystallex International Corp. and Biovail Corp.

Mr. Sprott first made his name as a stock spoiler in the 1980s by accurately spotting such troubled companies as Grandma Lee's Inc. and Geac Computer Ltd. He parlayed his short selling successes into his investment firm, which is preparing for an initial public offering that values Mr. Sprott's stake in the company at about \$1-billion.

Timminco Ltd.

Friday's close: \$22.95, down \$3.20

SOURCE: THOMSON DATASTREAM

The Timminco story

The edge

Timminco said last year it had invented a way to affordably refine highly pure silicon for use in solar panels.

The new market

The solar panel business is booming. And the highly purified silicon sells for a higher price than the metallurgical-grade product that has been Timminco's mainstay for years.

The doubter

One short seller, who profits when a stock falls, is questioning Timminco's claim that it can produce solar panel silicon for far less than its competitors do.