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Latest Chapter In Timminco Saga Set To Unfold Tuesday

By **Stuart Weinberg**
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TORONTO (Dow Jones)--While Timminco Ltd. (TIM.T) remains at the forefront of the race to produce solar-grade silicon using metallurgical refining methods, the Street lost interest in the story after the company cut its 2009 production forecast in August.

To rehabilitate its image, the company will need to reiterate Tuesday that it's on track to meet its year-end production target of 1,200-1,500 metric tons - preferably at the high end of the range. Timminco is scheduled to report its third-quarter results after the close.

"We look for an update on yield, pricing, purity levels, capacity utilization, customer backlog and capacity expansion plans including strategic alliances," Clarus Securities' Carolina Vargas said in a recent note.

Vargas doesn't own Timminco shares, but Clarus has had an investment-banking relationship with Timminco in the last 24 months.

Timminco was a market darling in 2007, rising from 30 Canadian cents at the start of the year to C$21.95 by year end. The massive upswing was fueled by the signing of several contracts for the firm's upgraded metallurgical silicon, or UMG, to solar-cell manufacturers.

Timminco uses a metallurgical-refining process to produce its UMG. It claims it can achieve production costs of C$10-C$15 per kilogram, far cheaper than the chemical-refining process used to produce polysilicon, the most common form of solar-grade silicon.

This year has been less kind to Timminco, as critics have questioned the viability and purported costs of the company's production process. The company added fuel to the fire in August when it cut its year-end production target to 1,200-1,500 tons from 2,000 tons. It attributed the shortfall to "production challenges." Timminco's stock is down 61% since it cut its forecast, and off 65% year to date. In Toronto Tuesday, the stock is down 1.8% to C$7.50.

In all, Timminco has shipped 621 tons of UMG in the first nine months of 2008, meaning it has to ship 580-880 tons in the fourth quarter to meet its full-year production target. The company's expansion plans call for it to increase capacity to 14,400 tons by the end of the second quarter of 2009. It's an ambitious target that many company watchers doubt Timminco can achieve.

May Be Overcoming Production Problems

Still, despite the concerns, Timminco supporters note that it's the only company producing relatively large volumes of commercially viable UMG.

And recent data points from Timminco's customers, which include Q-Cells AG (QCE.XE) and Canadian Solar Inc. (CSIQ), suggest the company is overcoming its production challenges. Timminco will have produced 650 metric tons in the first three quarters of the year, said David Tomljenovic, associate portfolio manager at Sprott Asset Management, which owns about 17.75 million shares of Timminco according to Timminco's most recent management proxy circular. The data also suggest that one of Timminco's main rivals, Elkem Solar, is taking longer than expected to ramp its UMG production.

In particular, Q-Cells affirmed its 2009 growth forecast late last month, saying it will be able to meet its target despite a reduction in UMG supply expected from Elkem. The German solar-cell maker said it was able to maintain its forecast by securing additional supply from other contract partners. The only two UMG partners disclosed by Q-Cells are Timminco and Elkem, Tomljenovic noted. That suggests the additional supply may have been procured from Timminco, he said.

Stefan Dietrich, spokesman at Q-Cells, declined to say where Q-Cells procured the additional supply. He said the company's original contract with Elkem called for the delivery of 2,800 tons of UMG in 2009. Elkem, a unit of Norway's Orkla ASA (ORKLY), said late last month that it's targeting 2009 UMG production of 1,500-2,500 tons.

Early last month, Canadian Solar raised its 2009 UMG production target to 250-300 megawatts from 100-150. Timminco is the only UMG supplier disclosed by Canadian Solar, a Canadian Solar spokesman said. The company, which is headquartered in Toronto but maintains its operations in China, may have a second supplier but it hasn't publicly disclosed that yet, the spokesman said.

In addition to Timminco and Elkem, several companies are attempting to produce commercial quantities of low-cost UMG. Solsil, a unit of Globe Specialty Metals Inc. (GLBM.LN), indicated at a conference in Munich earlier this year that its current annual capacity is 360 metric tons. Solsil officials weren't immediately available for comment.

Dow Corning, which is jointly owned by Dow Chemical Co. (DOW) and Corning Inc. (GLW), expects to produce about 3,000 tons of UMG in 2008. However, its material must be blended with polysilicon to work effectively. According to data presented by Timminco at the Munich conference, the blend ratio of UMG to polysilicon in solar panels containing Dow Corning UMG is about 25% to 75% in favor of polysilicon. A company spokesman said the data in the presentation is still reliable.

Last month Solarvalue AG (SV7.XE), a German based solar-grade silicon manufacturer, said it would not be able to finance initial production of UMG at its facility in Slovenia. The company had been forecasting initial production of 1,000 tons of UMG. It said it's seeking alternative sources of financing.

While companies race to ramp up UMG production, there are questions about whether demand for the largely unproven material will hold up. Some analysts argue that polysilicon supply will flood the market in coming years, meaning its price will fall and become more competitive with UMG. As well, the massive pullback in the price of oil could mute demand for both UMG and polysilicon, analysts say. Finally, the slowing economy could make it more difficult for solar-panel makers to finance projects, a development that could ensnare polysilicon and UMG manufacturers.

Tomljenovic said that, if Timminco is able to produce high-quality material at its projected costs, the company is not only well-positioned to survive a recession, it could thrive. He said the company has already proven it can deliver high quality UMG and, based on information coming from its customers, production volumes appear to be approaching announced capacity.

Timminco is scheduled to report its third-quarter results at 4:30 p.m. EST Tuesday. The Thomson Reuters mean estimate is for net of 5 Canadian cents a share on revenue of C$64 million.

-**Stuart Weinberg**, Dow Jones Newswires; 416-306-2026;
stuart.weinberg@dowjones.com