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Missed targets trigger almost 25% drop in Timminco shares

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Timminco Ltd. lost almost one-quarter of its value yesterday as the market punished the company for missing production targets and for posting a second-quarter loss that was larger than expected.

The results at the company -- which says it has found a way to produce high-quality silicon cheaply and is undergoing a ramp-up in production capacity at its plant in Quebec -- showed a quarterly loss of 7¢ a share, or worse than in the first quarter

"The results were below our estimate of 4¢ and [the] consensus," said a report from Michael Willemse, an industrial-products analyst with CIBC World Markets.

But investors were also distressed by the news that during the quarter only 221 tonnes of solar-grade silicon were shipped, much less than what most analysts were expecting.

As a result of the second-quarter glitch -- caused by a contamination issue -- Timminco will ship less silicon than previously expected.

Some analysts were expecting Timminco to ship about 2,000 tonnes this year, but management has now advised investors that shipments will be in the range of 1,200 to 1,500 tonnes. Even though Timminco can generate higher prices for its high-grade silicon, smaller shipments mean a big reduction in revenue.

But the market didn't wait around for that to happen. The stock opened down 20% yesterday and drifted lower all day, hitting a low of \$14.50. By the end of the trading day, the shares had fallen to \$15.10, down \$4.87, or 24.3%. Timminco's market cap is now \$1.57-billion. On June 5, when the shares traded at \$35.69, it had a

market cap of \$3.68-billion. For the year to date, the shares have fallen by 31.2%, but are still up almost 5,500% over the past two years.

Timminco, whose parent is AMG Advanced Metallurgical Group N. V., was a penny stock until a couple of years ago, when it started working on new ways to produce high-grade silicon. After spending minimal amounts on the technology, the company claimed it had made a major breakthrough. Investors, particularly Sprott Asset Management, became early believers. SAM owns about 19% of the company and has a cost base of \$6 to \$7 a share. Recently, Boston-based Fidelity has become a fan and now has a 15% stake.

But the company has also attracted some detractors, including some short sellers, who say they doubt the claims made by Timminco are even possible.