FINANCIAL POST

Wednesday, August 13, 2008

Analysts mixed on Timminco

Barry Critchley, Financial Post Published: Wednesday, August 13, 2008

The market showed yesterday what it thought of surprises when it drove down the share price of Timminco Ltd. by almost 25%. The stock -- which has a beta of 3, which means it is three times more volatile than the overall market --is now trading more than 50% below its record high of $35.69, the price it reached a mere two months ago.

The previous night, in a conference call, Timminco announced that one of the foundries at its plant in Quebec was out of business for much of the second quarter.

"That was news to everyone," said one market participant, who added the production glitches meant the company shipped less high-grade silicon than investors and analysts had been expecting. For the quarter, 221 tonnes were shipped.

The news raises the question of whether Timminco, which has attracted its share of supporters and critics, should have disclosed the production problems to the market. One supporter felt Timminco didn't have an obligation to disclose because the company has started a ramp-up in its production of solar-grade silicon (to a nominal capacity of 14,400 tonnes) and such events typically generate problems.

Timminco made the same point. "As anticipated, we encountered a number of production challenges that are typical during the start-up periods for complex industrial processes, which impacted our output of solar-grade silicon for the quarter," said Heinz Schimmellbusch, chief executive.

Maybe, but the reality is the market didn't know Timminco wasn't operating at full capacity. And there have been other examples (a recent fire at Suncor comes to mind) where an issuer tells the market it has encountered production problems.

The woes at Timminco meant a round of reassessments by the analysts. With one notable exception (Carolina Vargas from Clarus Securities, who maintained her $50 one-year target), all cut their estimates.

MacMurray Whale, an analyst with Cormark Securities, remains the most negative. In a note yesterday, he reduced his target to $11.50 from $19.50 while maintaining his "reduce" rating. He made the change because Timminco's adjusted net income was below his expectation despite better revenue and EBITDA; because the company's efforts to reduce contamination have delayed production and because production costs remain high.

The others: - Rupert Merer of National Bank Financial said investors will focus on the delayed production ramp. "With the high level of scrutiny faced by TIM and with investors focused on execution, the stock could come under pressure." Merer cut his target to $25 but maintained his "sector perform" rating. - Andy Nasr of Raymond James cut his target to $23 from $27 after factoring in lower shipments for 2008. - Michael Willemse of CIBC World Markets reduced his earnings estimates for this year and for the next two and reduced his price target to $25 from$30. - Marvin Wolff of Paradigm Capital was not discouraged, saying Timminco's solar silicon line was "having a bumpy start [but was still] on track."

"We believe it will become a dominant material in the solar market." He reduced the target to $45 from $50 and maintained the "buy" recommendation. Three months back, when Timminco released its first-quarter results, Wolff raised his target to $50 from$43.

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