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Sprott's IPO Draws Attention, Some Skepticism

By Christopher Faille, Senior Financial Correspondent
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TORONTO (HedgeWorld.com)—Sprott Asset Management Inc. seemed poised to price its initial public offering on Thursday [May 8], after three weeks of buildup, and in the face of some skepticism about a key technological claim of a company important to the Sprott portfolio—Timminco Ltd.

Some published reports last month indicated that the IPO was scheduled for Friday [May 2], but a spokeswoman for one of the underwriters said in an email exchange on Monday [May 5] that this was a misunderstanding.

The vice president of syndication at Toronto-based Cormark Securities Inc., Susan Samila-Moroz, wrote: "It was always the intention to close books week of May 5 with pricing approximately on May 7. May 2 was never in the cards." Cormark and TD Securities Inc., also of Toronto, are the leading underwriters.

Market analyst Bill Carrigan, in an April 25 column in the *Toronto Star* newspaper with the evocative headline "Why I avoid initial stock offerings," wrote that more than 25% of Sprott's returns in 2007 were the result of a concentrated position in Timminco Ltd., a lightweight metals manufacturer.

Timminco's stock price (TSX: TIM) itself suffered a dramatic fall-off in April, after the publication in *Barron's* of an article that argued that Timminco's claims to the possession of a low-cost way of purifying silicon are exaggerated. As a result, the stock lost nearly 30% of its peak value from the start of the month to the end. It recovered somewhat in the opening days of May, and at the close of trading May 7 it was worth $23.70 a share—about midway between its mid-April peak and its late-April trough.

Mr. Carrigan, in his *Toronto Star* column, praised the *Barron's* story as well-researched, and asked: "In the case of the Sprott Asset IPO, Eric Sprott has proven expertise at buying low and selling high, so why would I buy when he wishes to sell?"

As the question suggests, the proceeds from this financing aren't going to the company. It is the executives, including the firm's founder Eric Sprott, who are selling the shares.

Sprott AM operates seven hedge funds and six long-only mutual funds. Its flagship long-only offering, the Sprott Canadian Equity Fund, has $2.1 billion in assets and has returned 27% on average annually since inception in 1997.

Sprott AM's biggest absolute return offering is the Sprott Hedge Fund LP, with assets of more than $640 million and a 30% average annual return since its launch in 2000 Previous HedgeWorld Story.

Mr. Sprott, who has a well-known predilection for the energy and mining sectors, has achieved a near legendary status in some circles, as reflected for example in the remarks of a columnist for the Toronto *Globe & Mail*, Derek DeCloet. Mr. DeCloet wrote on Tuesday [May 6] that Mr. Sprott's "genius is obvious" so it is safe to infer that he has carefully chosen the moment to bring "his baby" public.

Mr. DeCloet also predicted, though, that there will be a scramble among short sellers to borrow the shares, because the dynamics of the deal look analogous to those of the Tim Horton's IPO of two and a half years ago.

It was late in 2005 that Wendy's, the parent corporation of Horton's, announced it would sell between 15% and 18% of the donut chain's operations. This IPO was completed in March 2006, at an offering price of C$27 a share. The opening price (TSX: THI) was C$33, but over the subsequent days and weeks the stock's value steadily declined back to C$27 in early August.

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