



## **Timminco dumped by Fidelity, Sprott stays faithful**

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Also Street Wire (U-TIMNF) Timminco Ltd

by Lee M. Webb

Timminco Ltd., a former market darling trading on the Toronto Stock Exchange (TSX), has evidently fallen from grace with Boston-headquartered Fidelity Management & Research Company. The U.S. mutual fund giant has quietly unloaded 9.1 million Timminco shares, reducing its stake in the wobbly solar player to 6.5 million shares as of April 30.

Under the leadership of Heinz Schimmelbusch and amidst much hoopla about a secret proprietary process to produce low-cost solar-grade silicon, Timminco rocketed from 30 cents per share in early 2007 to an all-time high of \$35.69 per share in June of last year. Along the way, the nascent solar player attracted a number of institutional investors, chief among them some of Toronto-based Eric Sprott's eponymous funds and Fidelity.

At last report, Sprott Asset Management controlled approximately 17.7 million Timminco shares, making it the second-largest stakeholder behind majority shareholder AMG Advanced Metallurgical Group N.V., an Amsterdam-based company headed by Mr. Schimmelbusch. Prior to its recent sales, Fidelity held down third spot with approximately 15.6 million shares.

According to media reports of information volunteered by Mr. Sprott, his funds picked up their Timminco stock at an average cost of \$6 per share. It is not clear exactly how much Fidelity paid for its stake, but disclosures under the far from onerous Canadian rules suggest that it was certainly far more than what the stock is worth now.

### **The rules**

As noted in an Aug. 20, 2008, Stockwatch article, institutional investors such as Fidelity or Sprott operate under different disclosure rules than "insiders" who are required to report any acquisitions or dispositions and the applicable price per share within 10 days of the transaction.

Under the provisions of National Instrument 62-103, eligible institutional investors like Fidelity and Sprott are first required to disclose their holdings within 10 days of the end of the month in which the position exceeds 10 per cent of an issuer's outstanding shares. Once that reporting requirement is triggered, the institutional investor only has to report a change in its holdings that exceeds 2.5 per cent of the issuer's outstanding shares. That disclosure does not have to be made until 10 days after the end of the month in which it occurs.

At no point is the eligible institutional investor required to disclose the share price involved in any of its transactions. In the event its holdings drop below the 10-per-cent threshold, the reporting obligations, such as they are, vanish.

### **Fidelity's stake**

Mr. Sprott's funds had already acquired 17.7 million Timminco shares then representing 17 per cent of the company's stock by the time Fidelity crossed the 10-per-cent threshold last year. On June 10, 2008, Fidelity disclosed that it had sponged up 12.7 million Timminco shares as of May 31, 2008.

While there is no way of knowing how much Fidelity paid for those shares, during May of last year when the reporting requirement was triggered, Timminco traded at an average price of \$25.16 per share.

As it turned out, Fidelity went on to increase its stake in the solar player. On Aug. 11, 2008, Fidelity disclosed that it had purchased another 2.9 million Timminco shares, bumping its holdings to more than 15.6 million shares. Once again, it is not clear how much Fidelity paid for those additional 2.9 million shares, but during June and July of last year Timminco traded at an average price of \$29 per share.

Fidelity filed its second report under National Instrument 62-103 on the same day that Timminco released its disappointing results for the second quarter of last year. The company's share price, already caught in a downdraft, went into a nosedive. By the end of last August, Timminco was fighting a losing battle to stay above \$15 per share and before the end of the year it had tumbled below \$4 per share.

On May 11, Fidelity disclosed that it had unloaded 9.1 million Timminco shares as of April 30. Given the reporting obligations, specifically the requirement to disclose a change exceeding 2.5 per cent of an issuer's stock within 10 days of the end of the month in which it occurs, it is clear that most, if not all, of those shares were dumped in April when the stock was changing hands for an average price of \$2.31 per share.

Given the lack of detail required by Canadian regulators, exact calculations are impossible, but Fidelity clearly took a drubbing when it dumped almost 60 per cent of its Timminco shares. How Fidelity will fare with its remaining 6.5 million shares is an open question that will likely remain unanswered inasmuch as its stake has dropped below the 10-per-cent reporting threshold.

### **Sprott's stake**

While Fidelity may have decided to cut its Timminco losses, Mr. Sprott's funds are apparently keeping the faith and their shares, notwithstanding the fact that the solar player's stock price has dropped well below their reported average acquisition cost of \$6 per share.

As Timminco's share price reached its zenith of \$35.69 last June, Sprott's stake in the heavily promoted company carried a value of approximately \$632-million. That same stake, acquired at a cost of approximately \$106-million, is now worth less than \$34-million.

Timminco, currently changing hands at less than \$2 per share, will have to make up some ground to justify Spratt's apparent faith in the company and buttress Bay Street veteran Mr. Spratt's reputation as a sharp stock picker.

### **AMG's stake**

Perhaps as much by necessity as choice, Timminco's parent AMG has added to its holdings over the past few months.

On Feb. 3, Timminco completed a \$25-million offering of 7.04 million shares at a price of \$3.55 per share. As originally proposed, AMG agreed to subscribe for a minimum of 3.55 million shares or 50.4 per cent of the financing. As it turned out, Mr. Schimmelbusch's Amsterdam-based company ended up buying 3.94 million shares representing 55.9 per cent of the offering at a cost of \$14-million. That bumped AMG's holdings to 56.5 million shares of Timminco.

On April 20, Timminco announced that it was going back to the well, looking for another \$15-million. Once again, AMG proposed to pick up at least half of the offering. This time, however, there was even less interest in the financing.

On April 27, Timminco reported that it believed "there would be insufficient interest from other investors" to participate in the financing and, consequently, AMG would acquire the full 7.4 million shares at a price of \$2.02 per share for proceeds of \$15-million. After doling out another \$15-million, AMG now holds 63.9 million Timminco shares representing 53.8 per cent of the company's outstanding stock.

Meanwhile, Timminco will be releasing its first-quarter results shortly after the market closes and holding a conference call at 5 p.m. today.

With 939,800 shares changing hands in TSX trading, Timminco shed seven cents to close at \$1.84 on May 12.

Comments regarding this article may be sent to [lwebb@stockwatch.com](mailto:lwebb@stockwatch.com).

(More information regarding Timminco Ltd. is available in Stockwatch articles published on May 14, 16 and 27; June 4, 20, 27 and 30; July 2 and 31; Aug. 14, 20 and 22; Sept. 25; Oct. 9; Nov. 11, 19, 20 and 26, 2008; March 19 and 26; and April 21, 2009.)