Timminco shines through media storm, short selling

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by Lee M. Webb

Timminco Ltd., a high-flying Toronto Stock Exchange (TSX) solar silicon player that has been a market darling and at least an indirect cash cow for some insiders over the past year or so, appears to be shining through a recent media storm and gloomy forecasts from short sellers and critics who want more light shed on the company.

Heinz Schimmelbusch, Timminco's chairman and chief executive officer, is the principal architect of the company's recent foray into the production of solar-grade silicon, the key component in photovoltaic cells that convert solar energy into electricity, which triggered the stock's meteoric rise on the TSX.

As recently as January of last year, Timminco's stock price was languishing at approximately 30 cents per share in lacklustre trading that frequently saw only a few thousand shares changing hands per session. Those days are gone.

Over the past 12 months, more than 552.5 million Timminco shares with a staggering market value of more than $8.3-billion have changed hands at an average price of $15.06 per share.

On April 16, Timminco notched an all-time high of $28.50 per share, temporarily giving the company a market capitalization of more than $2.96-billion. The stock price has tailed off somewhat, but Timminco is still actively trading well above $20 per share with millions of shares changing hands each day.

Timminco has certainly been a star performer on Canada's premier exchange, but not everyone is caught up in the hoopla over the solar silicon play or enthralled by the money-losing company that has racked up an accumulated deficit of more than $82-million.

Recently, Timminco has experienced some increased pressure from short sellers, including New York-based Manuel P. Asensio. Stockwatch will revisit Mr. Asensio in a future article, but will offer a brief introduction here.

Short sellers are widely despised, perhaps particularly by gullible investors quick to blame them for falling stock prices, and Mr. Asensio arguably has more than his fair share of detractors.

In the 1990s, Mr. Asensio gained notoriety for his abrasive, confrontational and high-profile attacks on his short-selling targets, many of which subsequently collapsed completely.

Perhaps somewhat chastened by his own brush with regulators and a number of lawsuits launched by companies irked by his attention and tactics, Mr. Asensio has adopted a more reserved approach in recent years. However, some of his more vocal critics claim that he is the point man for unscrupulous hedge funds and has a too-cozy relationship with some journalists.

Diatribes against Mr. Asensio often overlook the quality of his research and his rather impressive record in sniffing out overvalued companies. While his record is not perfect, Mr. Asensio certainly knows the game.

Short sellers complain that it is difficult to borrow the Timminco shares to establish a short position, which may not be surprising given that the company's two largest shareholders control almost 70 per cent of its stock.

AMG Advanced Metallurgical Group N.V., which is also headed by Mr. Schimmelbusch, owns approximately 52.56 million Timminco shares representing 50.5 per cent of the outstanding stock. Sprott Asset Management controls approximately 17.7 million shares or 17 per cent of Timminco's stock.

Notwithstanding the difficulty in locating shares to borrow, there was a reported short position of almost 3.1 million shares as of April 30, an increase of approximately 1.9 million shares since April 15.

Interestingly, the jump in the short position to an all-time high of approximately 3.1 million shares between April 15 and April 30 coincides with a spate of largely unflattering news reports about Timminco.

If there is a causal relationship between the increase in the short position and the unusual media coverage, the directionality is an open question.

In any event, recent news reports have raised questions about some of Timminco's key players and, among other things, made at least passing reference to the company's secret proprietary process for producing solar silicon.

The recent unflattering coverage contrasts sharply with the many boosterish puff pieces dating back to early 2007 served up by the same media outlets now taking a poke at Timminco.

Sunny days

Shortly after Timminco entered the bubbling solar silicon market last year, major Canadian newspapers including The Globe and Mail and the National Post began marking its meteoric rise with upbeat reports.

The Financial Post was out of the gate early with an April 10, 2007, report by Peter Koven noting that two announced Timminco solar silicon deals gave the first indication that the company was capable of producing high-grade silicon. Timminco's share price had quadrupled from 65 cents per share to $2.85 per share in the first 10 days of April and was heading much higher.

On May 10, 2007, The Globe and Mail chimed in with reporter Allan Robinson tagging Timminco as a solar energy play because of its development of a low-cost, proprietary purification process to upgrade its chemical-grade silicon for solar applications.

The Globe's Mr. Robinson noted that Clarus Securities analyst Robert Catellier, who had a $6 target for Timminco, thought there could be "potentially explosive earnings growth." At the time, Timminco was changing hands for $3.75 per share and was headed much higher than Mr. Catellier's early target.

The National Post joined the celebration with a June 22, 2007, report by Sonita Horvitch noting that Marquest Investment Counsel partner Gerry Brockelsby was recommending Timminco.

Ms. Horvitch reported in her Buy & Sell column that the company had a proprietary technology to upgrade commodity-grade silicon to the 99.999-per-cent purity level required for use in solar panels. Timminco was then trading at $5 per share and still heading north.

The Globe's Maureen Darrigo followed up two days later with the report of a bullish recommendation from Leeward Capital Management's chief executive officer Brendan Kyne as Timminco was pushing through $5.50 per share and continuing its upward trajectory.

The enthusiasm continued as the Post's Grant Surridge, writing in Trading Post, reported that participants at a solar-energy conference in Germany predicted a looming shortage in the supply of high-quality silicon wafers used in solar cells and the Globe's Mr. Robinson added a July 18, 2007, report that Timminco should benefit from strong demand for silicon.

The upbeat news reports picked up again in the fall with the Globe's Joanna Smith reporting that Timminco had already sold out the full annual production from the silicon facility it had not even finished building yet.

"These guys are winning business left, right and centre," Paradigm Capital Inc. analyst Marvin Wolff reportedly told Ms. Smith on Sept. 7, 2007.

According to Ms. Smith's report, Mr. Wolff had a target of $13 for Timminco and Clarus Securities Inc.'s Carolina Vargas was beating the drum with a $13.50 target. Timminco was trading at $9.15 per share at the time.

Just a few days later, the Globe's Richard Blackwell reported that Paradigm Capital's bullish Mr. Wolff had upped his target to $18 per share, projecting revenue of $880-million by 2010.

By Sept. 21, 2007, Sprott Growth Fund manager Peter Hodson was reportedly telling the Globe's Ms. Darrigo that Timminco "has the potential to be a $50 stock before 2010."

On Sept. 25, 2007, Ms. Darrigo followed up with a report that Leeward Capital's Mr. Kyne was still recommending Timminco. At the time, the stock was changing hands for $11.50 per share.

The bullish reports continued as Timminco broke through $15 per share in early December of last year and the Globe's Angela Barnes reported that Paul Mesburis of Mavrix Sierra Equity Fund thought the stock could go much higher over the next year.

On Dec. 18, 2007, the Globe's Ms. Darrigo chimed in again with a report that Leeward Capital's Mr. Kyne was just as keen as ever on Timminco.

"Timminco is the top supplier of silicon to the solar industry," Mr. Kyne reportedly told Ms. Darrigo. If Mr. Kyne did make that claim, he is wrong.

Before the end of December of last year, Timminco was trading above $18 per share and, with a few bumps along the way, it continued to move upward in the early part of this year.

On March 27, Timminco's stock price surged past $25 per share on the announcement of a deal to supply solar-grade silicon to Germany's Q-Cells AG, the world's largest supplier of solar cells.

The Globe's David Berman remarked on the price jump in a March 28 article, noting that Timminco had climbed more than 3,900 per cent over the past 12 months.

Mr. Berman went on to report that Cormark Securities analyst MacMurray Whale had a "reduce" recommendation on the stock with a target of $19.50, while National Bank Financial analyst Rupert Merer contented himself with a "sector perform" and target price of $24 per share.

Meanwhile, bullish Clarus Securities analyst Mr. Catellier reportedly still had a buy recommendation on the stock with a new target price of $40 per share.

The largely celebratory puff pieces that traced the trajectory of Timminco's rocketing share price while parroting bullish analysts, offered little, if anything, in the way of probing questions about the company's share structure, insiders, associated companies or the secret proprietary technology that effectively renders its solar-grade silicon production a black-box project.

The tone of the media coverage changed abruptly and dramatically in late April.

Storm clouds

Interestingly, the first significant thunderhead to appear on Timminco's previously sunny horizon formed south of the border in an April 21 Barron's article written by Bill Alpert. Like many Canadian companies, Timminco trades in the so-called "grey market" in the U.S., but the volume is minuscule compared with the trading on the TSX.

The title of Mr. Alpert's two-page Barron's article, "Timminco Generates More Heat Than Light," anticipates the tenor of the piece.

Mr. Alpert opened his article by remarking that a recently announced public offering of Toronto-based Sprott Asset Management could make its founder, Eric Sprott, a billionaire. According to Mr. Alpert, Mr. Sprott owed a lot of that "good fortune to his firm's huge stake in a single stock called Timminco," the TSX's star performer for 2007.

"The justification for Timminco's share appreciation is supposed to be its invention of a low-cost way to purify the silicon needed for the booming solar-cell market," Mr. Alpert wrote. "But so far, the evidence for Timminco's breakthrough appears in PowerPoint slides, not financial reports."

Mr. Alpert also took aim at Timminco's largest shareholder, AMG, which is headed by Mr. Schimmelbusch and founded by his private equity firm Safeguard International Fund.

The Barron's writer reported that, in a clever exit strategy designed by Mr. Schimmelbusch, Safeguard shareholders managed to cash in on Timminco without hurting its share price by unloading shares of AMG, which is listed on Amsterdam's Euronext exchange.

Among other things, Mr. Alpert also raised questions about Timminco's touted proprietary technology.

"Timminco clearly has a lot to prove," Mr. Alpert wrote.

On the same day that Mr. Alpert's Barron's article appeared, the Financial Post's Barry Critchley more blandly reported that Timminco had its share of detractors, too.

According to the Post's April 21 article, National Bank Financial left its target at $24 even as Timminco blew through $28 per share and Cormark Securities had a bearish "reduce" recommendation with a $19.50 target.

On April 22, in a triple-bylined article led by Andy Hoffman, the Globe weighed in with its rather belated peek at how Timminco's former majority shareholder Safeguard International had transferred its holdings to Amsterdam-based AMG and then cashed in through that company's initial public offering and subsequent stock sales to the tune of $390-million.

On the same day, the Globe's Ms. Martin reported in the BNN Market Call column that Lawrence Asset Management president Ravi Sood had taken a short position in Timminco.

"It's not a question of whether or not it's overvalued," Mr. Sood reportedly told the Globe. "Is the stock even worth a dollar or two? Our firm is short Timminco."

The Globe's Andrew Willis also had a few words about Timminco on April 22, noting that it was a tricky short because there were simply no shares to borrow. According to Mr. Willis, that was prompting some muttering in hedge fund circles about long-term investors being unwilling to lend their stock and add fuel to the short sellers' fire.

No matter what the reason for the scarcity of stock, Mr. Willis suggested, a few frustrated short sellers will not influence events.

"Preventing borrowing doesn't change fundamentals that dictate the price of Timminco," one trader reportedly remarked. "It just stops the shorts from profiting on any decline."

On April 23, the Globe's Fabrice Taylor piled in with his examination of the Timminco/Safeguard/AMG controversy.

"Maybe Timminco's revolutionary silicon process will work out and make investors filthy rich," Mr. Taylor wrote. "Maybe it won't.

"One thing is for sure though: The people running the show aren't going to wait around to find out, at least not with all their skin in the game.

"Shareholders would be well served to watch what these people are doing."

Mr. Taylor went on to lament that slack disclosure requirements make it difficult to keep up with what insiders are doing.

"Fact is the people who control the company are highly conflicted and have been liquidating their position furiously," Mr. Taylor stated before going on to offer his sketch of Mr. Schimmelbusch's shrewd exit strategy for Safeguard through AMG.

The storm clouds continued to roll in as the Post's Mr. Critchley drew connections between Mr. Schimmelbusch and the former president of Timminco, John Walsh, and now-struggling Alberta company Ceramic Protection Corp.

In April 25 and April 29 articles, Mr. Critchley reported that Mr. Schimmelbusch was the head of Allied Resource when that company sold Alanx Wear Solutions to Ceramic in 2004. Mr. Walsh, a former senior executive at Alanx, became president of Ceramic before moving on for a stint at Timminco.

Ceramic's stock price rocketed above $25 per share and continued to perform fairly well until September of 2006 when Arizona-based ArmorWorks cancelled a supply agreement with the company, provoking a legal battle. The lawsuits have been settled, but Ceramic is now languishing at approximately $2.35 per share.

Mr. Critchley suggested that Timminco shareholders will want to avoid Ceramic's fate.

Over the next few days, both the Globe and the Post published articles about insider transactions by Timminco executives, including the granting of some very lucrative stock options and some rather timely, perhaps even suspiciously so, stock purchases by the company's former president and chief executive officer, Mr. Walsh.

Lost amid the recent thundering about Timminco in the Canadian media is the fact that much of what is causing all the hand-wringing could have been could have been revealed long ago, if, instead of all the hand-clapping over the TSX's solar darling, an editor or even an inquisitive reporter had paused to take an earlier peek beneath the covers.

For example, while Mr. Schimmelbusch did not take out a full-page ad to explain his very crafty exit strategy for Safeguard, disclosures by Timminco regarding the share movement between Safeguard and AMG, coupled with the latter's initial public offering prospectus and subsequent disclosures, trace it all out rather well.

In other words, if any of the market seers at the Globe or the Post had bothered to take a look while their colleagues were regularly pumping out puff pieces about the TSX's soaring solar play, Mr. Schimmelbusch's clever exit strategy could have been revealed a year ago.

Interestingly, while a number of Canadian journalists have some experience with covering black-box projects, perhaps most notably in connection with mining plays, little more than passing mention has been made about Timminco's secret proprietary process for turning metallurgical-grade silicon into much more valuable solar-grade silicon.

Notwithstanding the fact that there has not been much in the way of very pointed questions about its touted technology, Timminco evidently has some concerns about the investing public's confidence in its secret proprietary process.

Just ahead of releasing its first-quarter results and subsequent conference call on May 8, Timminco tried to dispel some of the gloomy effects of the recent stormy media coverage by announcing that it had received an operational review report from an outside consultant.

Photon rays

On May 8, Timminco announced that it had received an operational review report on its solar-grade business at Becancour based on a one-day visit by a Photon Consulting team led by Michael Rogol.

"Timminco commissioned the report to support due diligence efforts for strategic discussions beyond normal supplier-customer relationships that are continuing with potential partners," the company reported.

In a subsequent conference call to discuss the company's first-quarter results, Mr. Schimmelbusch rather more candidly indicated that the operational review was a response to public questions about Timminco's secret proprietary technology.

According to Mr. Schimmelbusch, some of Timminco's critics were now running for cover. It is not clear whether Timminco's leader was serving up a pun relating to short sellers, but there is little doubt that Mr. Schimmelbusch knows the game.

"The Photon Consulting team was given full access to the solar-grade silicon production facility, and to information relating to accounting procedures, research and development efforts, human resource needs, intellectual property and technical processes that the team requested to prepare its report," Timminco reported in its news release.

During the conference call, Mr. Schimmelbusch remarked that Photon had such open access that some of Timminco's employees were even a bit nervous about the disclosures they were making, though they reportedly co-operated fully with Mr. Rogol and his team.

"Operations and processes have potential for massive growth and, possibly, for reshaping the silicon industry," Mr. Rogol gushed in Timminco's upbeat news release.

"The equipment is very impressive, very low cost, beyond polyscale," Mr. Rogol continued. "In interviews, several customers have reported cell efficiencies above 14 per cent and some above 15 per cent utilizing 100-per-cent (unblended) solar-grade silicon from Becancour."

During the May 8 conference call, Timminco would not disclose just how much it paid Mr. Rogol to conduct the one-day walkabout and prepare the operational review report.

The company has scheduled another conference call for May 14 to discuss the conclusions of boosterish Mr. Rogol's apparently stellar report. An executive summary of the report will be made available prior to the call.

Meanwhile, perhaps basking in the anticipated rays of Photon's report, Timminco continues to be a busy trader on the TSX. With more than 5.27 million shares valued at $127-million changing hands, Timminco gained $1.60 to close at $24.60 on May 13.

Comments regarding this article may be sent to lwebb@stockwatch.com.