



## **Timminco gets nod from consulting solar booster Rogol**

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by Lee M. Webb

Timminco Ltd., a sizzling Toronto Stock Exchange (TSX) solar play, has received an enthusiastic nod from booster Michael Rogol's PHOTON Consulting following a one-day visit to the company's silicon plant in Becancour, Que.

The bullish Mr. Rogol says Timminco could realistically generate \$1.3-billion in revenue from sales of its solar-grade silicon and ring up an operating profit of \$1-billion by 2010.

Led by chairman and chief executive officer Heinz Schimmelbusch, Timminco piled into the frothy solar silicon market last year on the strength of a secret proprietary metallurgical process to turn the chemical-grade silicon produced by its Becancour plant into the much more valuable 99.999-per-cent pure solar-grade silicon used in the booming solar cell industry.

Timminco is still ramping up its 3,600-metric-ton upgraded metallurgical silicon operation and tweaking its proprietary process, but it has already inked long-term contracts with five customers, including the world's largest supplier of solar cells, German-based Q-Cells AG.

Over the next year, Timminco plans to increase its solar-grade silicon production capacity to 14,400 metric tons per year. The expansion, targeted for completion in the second quarter of 2009, is expected to have a capital cost of \$65-million.

All the hoopla has sent Timminco's stock price soaring from approximately 40 cents per share prior to its emergence as a solar play just over a year ago to more than \$28 per share in recent trading. The company now has a market capitalization in excess of \$2.9-billion.

The rocketing stock price, Timminco's unusual share structure and, among other things, the fact that its secret proprietary process renders its solar-grade silicon operation a black-box project have caught the attention of some critics and short sellers.

In a May 8 news release issued just ahead of releasing its first-quarter results, Timminco announced that it had hired PHOTON to prepare a report to "support due diligence efforts for strategic discussions beyond normal supplier-customer relationships that are continuing with potential partners."

During the May 8 first-quarter conference call, Mr. Schimmelbusch more candidly acknowledged that Mr. Rogol's firm had been engaged in response to public criticisms and questions about Timminco.

The company held another conference call to discuss a summary of PHOTON's glowing report on May 14.

### **PHOTON review**

Interestingly, during the conference call, Mr. Rogol indicated that he had called Timminco to suggest that PHOTON perform an operational review of the company's silicon operation in order to quell some of the growing criticisms.

Mr. Rogol, still in his 30s, has evidently managed to cram a considerable amount of education and experience into his youngish life.

He holds a bachelor of science in engineering systems and an MBA from the Massachusetts Institute of Technology, a bachelor of science in Foreign Service from Georgetown University and was a Henry Luce East Asia Scholar in Korea.

In addition to his educational qualifications, Mr. Rogol claims to have 15 years of experience in the energy sector, including five years experience involving solar energy and silicon.

Mr. Rogol's firm contributes articles to PHOTON Magazine, writes commissioned research reports for solar energy players and organizes and runs solar conferences.

Indeed, Mr. Rogol was the keynote speaker at a Photon International conference in Munich on April 1. Timminco participated in that conference.

It is worth noting that Mr. Rogol's bullish outlook regarding solar silicon pricing was not shared by everyone at the Munich conference, including cautious industry players who warned of a possible oversupply of solar-grade silicon and declining prices.

In the preamble to the May 14 conference call, Mr. Rogol reported that PHOTON has a number of retainer clients including Timminco that pay the firm an undisclosed annual fee.

Mr. Rogol reported that Timminco was also paying PHOTON for the one-hour conference call, but assured listeners that his firm's analysis was not impacted by the compensation.

Accompanying Mr. Rogol on his one-day walkabout at Becancour earlier this month were Hilary Flynn and Martin Meyers.

Ms. Flynn reportedly writes a monthly column, Silicon Space, for PHOTON International magazine and has four years experience in renewable energy with a focus on silicon.

Mr. Meyers, a Canadian with degrees from Concordia University and Queens University, has a more extensive 30 years of experience in the energy sector with a chemical engineering background. He has previously worked for companies like Shell Oil and Irving Oil.

According to Mr. Rogol, his enthusiasm was tempered and balanced by Mr. Meyers's experience, though there was little, if any, evidence of that tempering influence during the May 14 conference call.

### **Sunny forecast**

In the cautionary preface and disclaimer to the operational review report, Timminco warned that while the report was based on information provided by the company, "the expectations or forecasts of future production volumes, future revenues and average selling prices, future variable and other costs of

production, future profitability and operating margins" and so on were the exclusive opinion of PHOTON.

PHOTON offered its own "important disclaimer," noting that the document provided in conjunction with the conference call was "a preliminary assessment" and that there were "significant constraints on the accuracy of the analysis due to limited time of research."

As Mr. Rogol put it, the ballyhooed operational review report was a "preliminary assessment that should be taken as a best-guess."

"Further refinement is strongly suggested," Mr. Rogol stressed, perhaps angling for a return engagement to move his assessment beyond a "best-guess."

As part of his background discussion, the apparently prescient Mr. Rogol claimed that he had been tracking Timminco for two years and had been following upgraded metallurgical silicon developments for several years.

Based on interviews conducted over the past two months with more than 15 unidentified companies using Timminco's solar-grade silicon, Mr. Rogol says that the company's material "works now and will work even better with practice."

According to Mr. Rogol, the most common concern among companies using upgraded metallurgical silicon is not about anything like pricing, but whether they can get "much more material in current spec ranges."

Turning to a discussion of transparency, Mr. Rogol said that management "appeared completely open with all aspects of business ... to the point of discomfort for some on their team."

The solar consultant said that the PHOTON team had access to Timminco's accounting procedures, research and development efforts, contracts for solar-grade silicon, all plant operations and, among other things, intellectual property and technical processes.

Notwithstanding all that transparency, anyone expecting PHOTON's operational review report to provide a few insights into Timminco's black-box process for turning its metallurgical silicon into solar-grade silicon was sorely disappointed.

While Mr. Rogol was clearly impressed, if not awed, by the set-up of the solar silicon operation and experience of the company's managers, his amateurish report offered little in the way of detail about the technical processes.

He did, however, have a good deal to say about the growth prospects for Timminco's upgraded metallurgical silicon.

Mr. Rogol used a bifurcated approach to laying out his bullish outlook for Timminco, offering a "realistic" assessment alongside a "realistic - downside" assessment, both of which look rather balmy.

According to Mr. Rogol, by a realistic downside assessment, Timminco should have an upgraded metallurgical silicon production volume of 12,000 metric tons per year in 2010. His so-called realistic target is 20,000 metric tons per year by 2010.

Assuming average selling prices of \$45 per kilogram to \$65 per kilogram, the boosterish Mr. Rogol pegs Timminco's revenue from solar-grade silicon at \$540-million on the downside calculation and \$1.3-billion by a realistic calculation for 2010.

By Mr. Rogol's account, fully-loaded costs, excluding stock options, will range between \$13 per kilogram and \$22 per kilogram, giving Timminco's solar-grade silicon business an operating profit of between \$270-million and \$1-billion in 2010.

Setting aside the observation that many of Mr. Rogol's bullish predictions seem more reminiscent of the type of drum-beating found in tout sheets than objective operational reviews, it is not even clear why the boosterish solar consultant tosses off calculations based on a projected production volume of 20,000 metric tons per year for 2010.

Timminco is still ramping up production in its recently completed 3,600-metric-ton upgraded metallurgical operation and the company is still in the planning stages of increasing its production capacity to 14,400 metric tons by the middle of 2009, which would leave it 5,600 metric tons short of Mr. Rogol's 2010 forecast.

In any event, Mr. Rogol's upbeat report evidently had some market impact. It also had at least some analysts rethinking their position.

### **James gang**

On May 1, Raymond James Ltd. initiated coverage on Timminco in a 95-page renewable energy report in which analyst Andy Nasr rated the company "underperform," suggesting it should be sold and setting a target of \$15.

Prompted by the May 8 news that PHOTON had conducted an operational review of Timminco and was touting the company as having the potential "for reshaping the silicon industry," Raymond James maintained its underperform rating, but raised its target to \$19.

Following the May 14 conference call, Raymond James's Mr. Nasr revisited his position, this time raising Timminco's rating to "market perform" and boosting his price target to \$27.

While Mr. Rogol's so-called operational review report evidently influenced Mr. Nasr's rather remarkable \$12 swing in price target for Timminco, not everyone was enthralled or swayed by PHOTON's May 14 performance.

### **Whale tale**

Cormark Securities Inc. analyst MacMurray Whale was less than impressed with the upbeat report delivered by the bullish Mr. Rogol.

"Last night's 'operational review' conference call offered far more in terms of forward looking financial projections than critical technical evaluation of operations," Mr. Whale wrote in his May 15 morning meeting notes. "That is disappointing."

According to Mr. Whale, Timminco missed out on an opportunity to quell criticisms about the company's

poor disclosure.

While the Cormark analyst was unimpressed, he opined that PHOTON's financial projections, in spite of being subject to extremely bullish demand assumptions for solar modules, will likely get many investors excited and send Timminco's share price higher in the short term. He certainly had that right, with the stock up sharply in the wake of the report.

Mr. Whale says that despite the potential for upgraded metallurgical silicon, there are significant hurdles to wide adoption in the solar energy sector.

"The use of the material requires very specific technological innovations at the material sorting, ingot casting, wafering and cell processing stages, suggesting that only integrated ingot-wafer-cell manufacturers that have invested significant R&D are likely to use the material unblended in a significant way," Mr. Whale wrote.

The Cormark analyst questioned Mr. Rogol's predictions regarding cost reductions at Timminco, noting that "no discussion was provided as to whether the project cost reduction was consistent with the physics and chemistry of the process itself."

Mr. Whale went on to say that it appeared PHOTON "has relied on past cost reduction achievements in the pilot plant and recent cost reductions made on the commercial plant, without any consideration whether further reductions are even thermodynamically possible."

The skeptical analyst acknowledged that it might be unrealistic to expect such disclosures "given the proprietary nature of the process," but cautioned investors to appropriately discount any analysis using such cost reduction figures until financial results reveal the actual costs.

The bearish Cormark analyst says that PHOTON is "clearly at the very high end of demand expectations in the solar industry" and its predictions are based on very tenuous market assumptions.

"A prediction of a six-fold increase from current demand levels is completely at odds with a tariff cap instituted in Spain, the steeper tariff declines proposed in Germany and the delays to the ITC experience in the US, not to mention a US recession and concerns of its spread globally," Mr. Whale wrote. "It is also a surprisingly suspect outlook for a group that has such wide regard in the industry."

According to Mr. Whale, Mr. Rogol's prediction that Timminco could hit \$1.3-billion in revenue in 2010 "is completely unrealistic" and his forecast of \$1-billion in operating profit representing an 80-per-cent operating margin is "preposterously high."

"Clearly with the industry far above economically competitive system pricing without regulatory tariff structures, a company with an 80-per-cent EBIT margin anywhere in the supply chain would be under significant pressure to reduce pricing," the Cormark analyst wrote.

Mr. Whale acknowledged that recent conference calls, including Timminco customer Q-Cells AG's first-quarter call on May 14, dispel much of the concern about demand for upgraded metallurgical silicon. Nonetheless, he says that the concern now "shifts to the risk and potential of cost reductions over the upcoming ramp period."

"Though the general comments of customers and PHOTON seem encouraging on the surface, we still cannot recommend the stock as it trades significantly above our reasonable evaluation of the UMG-Si opportunity at TIM," Mr. Whale wrote. "As a result, we maintain our Reduce recommendation and \$19.50 target."

At the moment, the market clearly does not share Mr. Whale's bearish sentiment. In the two days since PHOTON delivered its sunny forecast, Timminco has gained \$3.60 and notched a new 52-week high on the way to closing out the week at \$28.50.

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