



Timminco tells one expansion story, AMG tells another

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Also Street Wire (U-TIMNF) Timminco Ltd

by Lee M. Webb

Timminco Ltd., a controversial solar play trading on the Toronto Stock Exchange (TSX), is telling investors one story about how the planned expansion of its solar silicon operation in Becancour, Que., will be financed. Meanwhile, its majority shareholder, Amsterdam-based AMG Advanced Metallurgical Group N.V., is giving investors a different and conflicting account of where the money is coming from for the Becancour expansion.

Oddly, Timminco's chief financial officer Robert Dietrich, who certified the company's disclosures regarding how it would pay for the Becancour expansion, recently endorsed the conflicting AMG tale.

Some background

As previously reported by Stockwatch, Timminco and AMG are both headed by Heinz Schimmelbusch, a busy cosmopolitan executive with roles in a number of ventures. Among other things, Mr. Schimmelbusch headed German giant Metalgesellschaft AG until he was ignominiously ousted amid a \$1.4-billion scandal in 1993.

Mr. Schimmelbusch folded Becancour Silicon Inc., a company he controlled through Safeguard International Fund L.P., into lacklustre TSX-listed Timminco in September of 2004.

In 2007, under Mr. Schimmelbusch's direction, Timminco launched itself into the frothy solar silicon market on the strength of a secret proprietary process to produce solar-grade silicon at a fraction of the cost of established producers.

With the help of some bullish analysts and boosterish media reports, that move transformed Timminco from a nondescript penny stock to a TSX market darling.

While Timminco's transformation was under way, Mr. Schimmelbusch transferred Safeguard's controlling interest in the company to AMG, which he took public on Amsterdam's Euronext exchange in July of 2007.

To finance its solar metamorphosis, Timminco closed two bought-deal financings for gross proceeds of \$73-million last year and AMG anted up approximately \$43-million in another private placement for total gross proceeds of approximately \$116-million.

Timminco used some of the proceeds of those financings to build a 3,600-metric-ton solar silicon operation at its Becancour plant.

In February of this year, just as it was completing the 3,600-metric-ton facility, Timminco announced that it planned to expand the operation to 14,400 metric tons by the middle of 2009.

According to the company, the expansion will cost approximately \$65-million.

As noted above, there are conflicting stories about just how the company will pay for that expansion.

AMG's tale

Timminco played a significant role as Mr. Schimmelbusch took AMG public last year and it continues to feature prominently in the Amsterdam-based company's promotional literature.

Among other things, Timminco's rather impressive stock chart is displayed alongside AMG's somewhat less striking stock chart in several of the Amsterdam company's investor presentations.

In AMG's 30-page investor presentation for the second quarter, published on May 19, Timminco's planned \$65-million expansion of its solar-grade silicon facility ranks as the largest of the current capital programs highlighted by the Amsterdam company.

"Funded by capital raise at Timminco," a footnote to AMG's promotional material states.

Timminco also features in AMG's bulleted outlook for 2008, which notes that the company's solar silicon expansion is continuing.

"Quadrupling of capacity has commenced -- fully funded and expected to be operational in the second half of 2009," AMG claims.

It is worth noting that the second-quarter investors presentation by AMG, a company headed by Mr. Schimmelbusch, was published after Timminco, also headed by Mr. Schimmelbusch, filed its first-quarter results with Canadian regulators.

Timminco's regulatory filings, certified by both chief executive officer Mr. Schimmelbusch and chief financial officer Mr. Dietrich, tell a remarkably different story about how the company plans to pay for the Becancour solar silicon expansion.

Timminco's story

Timminco's first-quarter results, filed on May 13, show that the planned Becancour expansion is not funded by Timminco's 2007 capital raising activities and, indeed, the \$65-million project is not "fully funded" at all.

"Funding of the project will be from current liquidity, customer deposits under long term supply agreements and expected future cash flows from operations, and will be expended throughout 2008 and the first half of 2009," Timminco discloses in the management discussion and analysis that accompanies its first-quarter financial statements.

A similar disclosure regarding the source of money for Timminco's capital expansion plans is made elsewhere in the May 13 filing.

"Sources of financing include cash on hand, solar grade customer deposits, cash flow from operations and the company's credit facility," the certified filing notes.

Moreover, the company's financial statements reveal that Timminco had cash and cash equivalents of only \$11.3-million and available credit under a bank facility of approximately \$8.6-million (U.S.) at the end of the first quarter, far short of what is required to cover the planned Becancour expansion.

CFO's story

Puzzled by the conflicting accounts regarding the financing for the \$65-million expansion, in particular AMG's claims, Stockwatch raised the matter with Timminco's chief financial officer Mr. Dietrich.

"Would it be accurate to say that, as a result of last year's capital raise, the planned expansion of Timminco's solar-grade silicon operation to 14,400 metric tons is fully funded and expected to be operational in the second half of 2009?" Stockwatch asked in a July 11 e-mail to Mr. Dietrich.

With the notable exception of Rene Boisvert, who heads the Becancour operation, Timminco representatives including Mr. Dietrich have not been very responsive to Stockwatch queries, so receiving a reply of any sort from the chief financial officer was something of a surprise.

Mr. Dietrich's actual answer was even more of a surprise.

"Yes," he wrote. And that is all he wrote.

Even more puzzled, Stockwatch contacted Mr. Dietrich again on July 15.

Summarizing Timminco's reported financial position as of March 31 and quoting the relevant passages from the certified management discussion and analysis reproduced above, Stockwatch asked Mr. Dietrich just how all that could be squared with the claim that the planned expansion is fully funded by last year's capital raise.

Perhaps Mr. Dietrich is still trying to work through that evident conundrum. He has not yet replied.

Inaccurate or false?

AMG's promotional puffery containing the claims regarding the financing for Timminco's \$65-million Becancour expansion still tops the list of presentations available on the company's Dutch website.

Given Timminco's certified Canadian regulatory disclosures, AMG's claims about the funding for the Becancour expansion might, at best, be characterized as inaccurate.

Less charitably, those claims, with which Timminco's Mr. Dietrich strangely agreed, are arguably false and misleading.

Meanwhile, Timminco has lost some ground since notching an all-time high of \$35.69 per share in early June.

With 475,100 shares changing hands in TSX trading, Timminco gained 78 cents to close at \$23.80 on July 30.

Comments regarding this article may be sent to 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; and July 2, 2008.)