



## **Timminco CFO delivers pitch at CIBC Montreal conference**

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by Lee M. Webb

Timminco Ltd.'s chief financial officer Robert Dietrich delivered a presentation on behalf of the controversial solar play to institutional investors at a CIBC World Markets conference in Montreal on Sept. 24. Approximately 82 per cent of Timminco's stock is already tightly held by three major players, but the company evidently would like other institutional investors to sponge up even more of its shares.

As previously reported by Stockwatch, Amsterdam-based AMG Advanced Metallurgical Group N.V., coincidentally headed by Timminco's chief executive officer Heinz Schimmelbusch, controls approximately 52.6 million shares representing approximately 50.5 per cent of the company's outstanding stock.

Sprott Asset Management, headed by Bay Street veteran Eric Sprott, reportedly holds approximately 17.7 million Timminco shares representing approximately 17 per cent of the outstanding shares.

Rounding out the big three, U.S. mutual fund giant Fidelity Investments has a grip on 15.6 million shares accounting for another 15 per cent of Timminco's outstanding stock.

Notwithstanding the significant holdings of those three major players, bolstered by the smaller stakes of other institutional investors and Timminco insiders, the share price has been under some pressure in recent months.

In early June, Timminco notched an all-time high of \$35.69 per share, giving the former penny stock a market capitalization of more than \$3.5-billion. Since then, however, the stock has faltered and more than \$2-billion has been trimmed from that lofty market capitalization as the share price flounders below \$15.

Last month, after releasing disappointing second-quarter results that took quite a bit of air out of the stock price, Timminco was sideswiped in a Piper Jaffray report on Q-Cells AG and slammed head-on in a report by Toronto-based Veritas Investment Research. Both reports were issued on Aug. 20.

Before turning to Mr. Dietrich's Sept. 24 pitch to institutional investors at the CIBC World Markets conference, Stockwatch will review the Piper Jaffray report and the scathing Veritas research report.

## **Collateral damage**

While Q-Cells is the focus of the Aug. 20 report by Piper Jaffray senior analysts Torben Sommer and Jesse Pichel, their discussion of upgraded metallurgical silicon arguably raises significant questions about Timminco's product and the company's promotional claims.

As previously reported, Q-Cells is the largest customer for Timminco's upgraded metallurgical silicon, which is produced at the company's plant in Becancour, Que., using a secret proprietary process. Timminco's chief executive officer Mr. Schimmelbusch has characterized the association with Q-Cells as "an anchor relationship."

Two of the four risks Piper Jaffray identifies with respect to its 12-month Q-Cells price target of \$111 are related to the company's use of upgraded metallurgical silicon.

Piper Jaffray estimates that upgraded metallurgical silicon from Elkem Solar and Timminco will make up 47 per cent of Q-Cells's contracted supply by 2011. By that time, Piper Jaffray believes that the production of polysilicon, the main source of material for solar cells, will have ramped up enough "to make some significant contribution to global demand."

"The question is whether Q-Cells' supply strategy holds risks as low-cost direct metallurgical purification is not yet proven commercially," Piper Jaffray notes.

According to the Piper Jaffray report, which makes no mention of Timminco's claim that it will produce upgraded metallurgical silicon for all-in costs of between \$10 per kilogram and \$15 per kilogram, manufacturing high purity solar-grade silicon from metallurgical silicon in commercial quantities at less than \$20 per kilogram is currently unrealistic.

The analysts conclude that, in the short term, using upgraded metallurgical silicon will not provide significant production cost gains per kilogram over polysilicon derived from the Siemens process or fluidized bed reactor process, but will remain competitive as long as polysilicon prices remain high.

The Piper Jaffray analysts believe the major challenge to cost-effective production of upgraded metallurgical silicon "is poor ingot yields during the multi-stage purification process."

The report notes that Elkem Solar demonstrated 33-per-cent ingot yield in 2005 and PHOTOSIL project partners managed approximately a 50-per-cent ingot yield in 2007.

Piper Jaffray makes no mention of yields achieved with Timminco's touted upgraded metallurgical silicon, possibly because there is little or no information available about those yields. Indeed, Timminco has danced around questions about ingot yield.

According to an article in the June issue of PHOTON International, however, at a conference in April, the head of Timminco's Becancour solar-grade silicon operation, Rene Boisvert, "reported that only 40 to 50 per cent of the material can be used for cell production and the rest has to be recycled in-house."

According to the Piper Jaffray analysis, a 50-per-cent ingot yield effectively doubles the projected cost per kilogram.

"We conclude that metallurgical silicon ingot yields need to be in excess of 75 per cent to remain cheaper than incumbent technology," the analysts say.

There is no indication that Timminco or any of its upgraded metallurgical silicon competitors is anywhere close to producing material that can achieve 75-per-cent yields.

The senior Piper Jaffray analysts also raise questions about cell efficiency, a measure of how well solar cells convert solar energy into electricity.

The analysts note that solar cell efficiency starts to fall once silicon purity levels fall below 99.99999 per cent (7N), tails off more rapidly below 99.9999 per cent (6N) and plummets below 99.999 per cent (5N). Timminco reportedly produces upgraded metallurgical silicon that is 5N pure.

Based on their research, the two analysts conclude that cell efficiency of approximately 15 per cent "is only achievable through a multi-step process; this is the only way to effectively minimize boron, phosphorous, oxygen, carbon and other metallic impurities that are present in metallurgical silicon."

In a related matter, the Piper Jaffray report raises concerns about the long-term degradation of solar cells made from upgraded metallurgical silicon, noting that there is no published data on the subject.

Q-Cells reports that upgraded metallurgical silicon does not exhibit commercially relevant degradation beyond standard polysilicon power loss and the company guarantees 90-per-cent power output after 10 years for their cells.

The analysts note that long-term degradation is a risk for Q-Cells's module manufacturer customers because they must take warranty responsibility under current customer supply contracts if cells do not perform to standard module terms, which generally guarantee 80-per-cent power output in 20 years to 25 years.

"We conclude that the higher the impurity, the greater the degradation, so expect metallurgical silicon cells to degrade more rapidly," the analysts say. "We flag the lack of data on this subject and cannot be conclusive about long-term performance until test figures become available."

According to Piper Jaffray, Q-Cells provides "a huge endorsement of the metallurgical grade silicon route," but if the purification process is not commercially successful or is not fully integrated during the second half of 2008, "future production ramp-up is under significant risk."

The analysts also note that if Q-Cells has to blend the upgraded metallurgical silicon with polysilicon, potentially procured at spot prices, the production cost per watt will be much higher.

The Piper Jaffray analysts conclude that upgraded metallurgical silicon "is an option on additional cell volume, albeit with lower cell efficiency and higher cell degradation." Their research shows that upgraded metallurgical silicon has no cost advantage over polysilicon, which remains superior in terms of improved efficiency.

They view the upgraded metallurgical silicon solution "as transitional until polysilicon manufacturers have ramped up capacity."

While about one-third of the Piper Jaffray report is devoted to a discussion of upgraded metallurgical silicon and contains several references to Timminco, there is little in the way of direct criticism of the company apart from the observation that it uses a "secretive technology open to scepticism."

Nonetheless, the concerns about upgraded metallurgical silicon ingot yields, cell efficiency, cell degradation and the lack of any cost advantage over polysilicon are certainly relevant to Timminco, which touts its product as a low-cost alternative to polysilicon.

Moreover, many of the significant risks identified by Piper Jaffray bear on Timminco inasmuch as the money-losing company only had \$1-million in cash as of June 30 and is relying in part on deposits from customers like Q-Cells to finance the planned \$65-million expansion at its Becancour plant.

At the very least, the Piper Jaffray report arguably inflicts some collateral damage on Timminco.

### **Direct hit**

In contrast to Piper Jaffray, the Aug. 20 special situations report by Neeraj Monga and Chris Silvestre of Veritas takes direct aim at Timminco.

The two analysts quickly set the tone of the scathing 29-page report that they acknowledge "is unlike any other published by Veritas."

"Our report highlights the circumstances surrounding Timminco's rise from obscurity to fame on the investing firmament," the analysts state. "Along the way bullish owners of the company's shares have attained superstardom while those skeptical of the company's prospects have been threatened with lawsuits."

As previously reported by Stockwatch, not all Timminco skeptics have escaped with just the threat of a lawsuit. On May 2, Timminco filed a \$6-million libel suit against outspoken critic and declared short seller Ravi Sood and Lawrence Asset Management Inc.

The Veritas analysts note that some people think the stock is worthless while others believe the company could earn more than \$500-million in 2010.

"We believe it boils down to management's credibility, which given the past infractions of Timminco's owners with the law in the U.S. and Europe is suspect," the report states.

It should be noted that the blistering report does not identify any owners who allegedly violated the law in the U.S. or Europe, nor does it provide any support at all for the provocative claim.

As part of the introductory barrage, the Veritas report suggests that Timminco has not found the solar-grade silicon nirvana inasmuch as the company's upgraded metallurgical silicon only has a purity level of 5N while solar-grade silicon requires a purity level of at least 6N.

The analysts note that during the second-quarter conference call Timminco claimed that material produced subsequent to the end of the quarter had a much lower boron and phosphorous content than previously produced material.

"However, nothing has been independently verified by an outside agency, nor corroborated by any customers," Veritas says.

Shortly after saying that Timminco does not make solar-grade silicon, the Veritas analysts remark that affirmation of the suitability of the company's solar-grade silicon from users such as Q-Cells "lends credence to Timminco's claims."

"The problem is that the caveats associated with these contracts/assurances seem to be overlooked in the frenzy surrounding the solar energy markets," the analysts state.

In fact, not everyone has overlooked the caveats associated with Timminco's contracts, but the company has been far from transparent with respect to the details of its supply agreements. For example, Stockwatch has put questions to Timminco's senior management including Mr. Schimmelbusch regarding such things as the return provisions of its supply contracts, but those questions have been ignored.

Moreover, in at least two conference calls management has deflected or dodged questions about return provisions by claiming that its customers have not returned any of its product.

It may well be the case that customers have not returned any of the 321 metric tons of upgraded metallurgical silicon produced and shipped during the first six months of the year, but it is clear from Timminco's regulatory filings that its solar silicon supply contracts contain provisions for returned product.

Further, during an Aug. 12 Q-Cells conference call, chief executive officer Anton Milner reported that the use of upgraded metallurgical silicon involved higher recycling requirements at the ingoting stage because of the separation of impurities. He went on to say that the unusable material would be recycled back to the supplier. At some point, then, it appears that Timminco will have to make allowances for returned product.

The Veritas report also questions Timminco's claim that its upgraded metallurgical silicon is a low-cost alternative to polysilicon. While Timminco claims that it can produce the material at a cost of \$10 per kilogram to \$15 per kilogram, the Veritas analysts argue that the full economic costs of Timminco's material is approximately \$57 per kilogram.

The analysts go on to express doubts about the strength of Timminco's patent application for its proprietary process, noting that the language of the patent bears striking similarities to standard reference textbooks. They suggest that the "simplicity is worrisome" and even if such basic equipment as a rotary drum furnace can be patented, a multitude of other upgraded metallurgical silicon players are filing patents with similar claims.

The Veritas analysts believe that equilibrium will return to the solar-grade silicon market by 2010 or 2011 and upgraded metallurgical silicon producers like Timminco will have to absorb what are now stranded costs.

Clearly, they say, upgraded metallurgical silicon is currently a marginal product that will be discarded in a balanced market unless producers can quickly bring their product specifications and volume in line with customer requirements.

Amid all of the hype, Veritas says, "Timminco has failed to deliver tangible results in terms of production and shipments to customers," resulting in a sell-off of the stock after the disappointing second-quarter results.

The analysts claim that Timminco "seems to have used up its goodwill and the market will now only reward the company for tangible results."

According to the Veritas analysts, a review of industry literature, views expressed by various industry participants, lack of progress in volume delivery and a convoluted ownership structure suggest "it will be a miracle if Timminco can deliver on its promises."

"Investing however is about diligence and fortitude and not miracles," the analysts say. "Sell."

Given that the stock had already been hammered in the wake of the disappointing second-quarter results and was changing hands for less than \$12.50 per share the day before Veritas issued the caustic report, that was a rather bold call.

The stock price has since made up some ground, but the earlier market enthusiasm for Timminco has evidently waned as investors adopt a more cautious wait-and-see attitude.

Against that backdrop, Timminco's Mr. Dietrich made his presentation to institutional investors at the CIBC World Markets conference on Sept. 24.

### **The pitch**

The two-day conference featured presentations from 60 companies, each of which was allotted 30 minutes to make their pitch.

"As I'm sure you're aware, Timminco has been one of the most volatile stocks on a volatile stock market over the last year," CIBC analyst Michael Willemse remarked as he introduced Mr. Dietrich.

Timminco provided a 32-page text version of a slide presentation, but in light of the time constraint Mr. Dietrich skipped over many of the slides to focus on some core issues.

After pointing out that Timminco had been in the silicon metal business for 30 years before developing its process to produce upgraded metallurgical silicon for the solar industry, Mr. Dietrich sketched the traditional method for converting silicon metal into extremely pure polysilicon.

"The problem is, in the solar industry, extremely pure silicon doesn't conduct electricity, so people that make ingots and wafers ... have to add impurities into that super-pure silicon in order to use it in solar cells," Mr. Dietrich explained. "And so they basically degrade the product after they refine it."

According to Mr. Dietrich, that process is very expensive because it was initially developed to supply the semiconductor industry, which requires extremely pure silicon.

"Our process, which is rooted in metallurgy, does the exact opposite," he went on. "We make the silicon good enough to make solar panels and that's where we stop and that's where our process stops."

Mr. Dietrich said that Timminco is not capable of producing polysilicon or 7N silicon, but it can produce silicon ranging from 5N to 6N.

"The advantage of a metallurgical approach over a chemical approach and the advantages that we have is that we have a much lower capital investment in our process, much lower production costs and we have the ability to ramp production and build facilities much more quickly than you can with a polysilicon plant," he said.

"That is the reason why we've had such attraction from people in the solar cell industry as customers and why we have an extreme level of interest from these people because there is a shortage of polysilicon," Mr. Dietrich continued. "And while some people might think that shortage is going to be reduced in the future because of announced capacity in the polysilicon industry, what we're experiencing is that our customers and prospective customers don't believe that because we have a very, very long lineup of people that are looking for our material."

Mr. Dietrich went on to say that Timminco's capital expenditures rang in at approximately \$7,000 per metric ton of capacity while polysilicon producers faced capital expenditures of approximately \$100,000 per metric ton.

"It's really, really hard for people in the industry and people in the polysilicon industry to accept the fact that we can compete with them on that level of capital," Mr. Dietrich remarked.

"And hence you've seen a lot of push-back in the last year -- particularly early on when we announced this process -- from the polysilicon industry who cast a lot of doubt on our ability to do this because, of course, they've got a significant problem if they've built a \$1.2-billion plant and we can make the same capacity for significantly less money," he continued.

Mr. Dietrich moved on to provide a bit of an update on Timminco's planned expansion to 14,400 metric tons at its Becancour plant, scheduled for completion by the middle of next year.

"It involves construction of new buildings as well as the purchasing and installation of equipment," he said. "That process is well under way. The buildings are substantially complete and some of the equipment has arrived on site."

Timminco rarely, if ever, misses an opportunity to mention Q-Cells during an investor presentation, and the CIBC conference was no exception.

"I think people that follow our company know well that Q-Cells is our lead customer and Q-Cells is a powerhouse in the solar industry," Mr. Dietrich said, going on to characterize Timminco as being "part of the Q-Cells constellation."

Timminco's chief financial officer remarked that the company has more demand than it can fill, so it does not pick just any customer.

"So what we're looking for are customers that have a commitment to use our material and who are willing to adjust their processes and build their facilities to use our material, hence having a long-term customer relationship," he said.

According to Mr. Dietrich, Timminco has signed five-year contracts with seven customers and is committed to supplying 16,000 metric tons of upgraded metallurgical silicon in 2010.

It is not exactly clear how Timminco will meet that fishes-and-loaves commitment of 16,000 metric tons from a 14,400 metric ton facility that has yet to be completed.

Mr. Dietrich said that Timminco is now in the year of execution.

"We're learning a lot about our process and how to improve the purity level," he said.

"We're quite confident that as this year progresses and into next year that we will see significantly improved financial results because this is a very, very high-margin business as we get our production ramped up," Mr. Dietrich remarked as he came to the end of his presentation.

Meanwhile, cautious investors may be waiting for some solid evidence of improved financial results. With approximately 579,000 shares changing hands, Timminco shed 51 cents to close at \$13.74 on Sept. 25.

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