Timminco in Veritas spotlight

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Over the years, the gang at Veritas Investment Research have established a reputation for doing high-quality work, in large part because it is an independent research operation with neither a sales and trading nor investment banking arm.

Veritas has now focused its attention on Timminco Ltd. and has produced a report that's unlike any other published by the firm. "Our report highlights the circumstances surrounding Timminco's rise from fame on the investing firmament," it said, adding Timminco's investing merit "boils down to management's credibility, which given the past infractions of Timminco's owners with the law in the United States and in Europe is suspect. It's all about credibility," said the 26-page report written by Neeraj Monga and Chris Silvestre. The two analysts said they see only two possible scenarios: "The first is that management is promising the moon with respect to product specification, cost estimates and production capabilities, and that Safeguard LP [the ultimate parent company] wisely timed the IPO of Timminco and its exit thereof. The second is that the private-equity LP had reached the end of its specified life and management is telling the truth. The stock is either worth $0 or a lot more than where it's trading." Overall the two say: "We advise erring on the side of caution. Sell."

Veritas's report and recommendations differ from that produced by the "sell" side. According to Bloomberg, six analysts cover the company. Two of them, Marvin Wolff and Carolina Vargas, have issued "buy" recommendations and issued a $45 and $50 target respectively on the stock. Andy Nasr from Raymond James has issued a "market perform" with a $23 target; Rupert Merer from National Bank has given the stock a "sector perform" with a $25 target; Michael Willemse from CIBC has a "sector outperform" with a $25 target while MacMurray Whale from Cormark Securities has a "reduce" and a $11.560 target. Timminco Ltd. closed yesterday at $15.90.

A footnote to yesterday's column on the ongoing legal dispute between Great Canadian Gaming Corp. and Andrzej Kepinski, a former consultant to the company. In that legal dispute, GCG has filed a statement of claim against Kepinski. In turn Kepinski, who had an consulting agreement with the company, has filed two affidavits.

Yesterday we noted that in July, 2007, GCG mailed Kepinski a cheque for $1.5-million, an amount it deemed to be what it owed Kepinski. While the cheque was mailed, Kepinski never accepted it because he believes he is owed more than 60 times that.

Shareholders of GCG aren't in a position to ascertain the merits of the legal dispute, because when they go to sedar.com they will find that about one-third of the consulting agreement, has been blacked out. The full version of the agreement has been included in documents filed by Kepinski.

It seemed a good idea at the time given the agriculture/commodity focus of many investors. The idea: create a structured product that would devote its attention to agribusiness by investing in those companies involved in all aspects of the food value chain. The structured product was known as Faircourt Global Agrifood Fund and was formed to give investors a return linked to the performance of the DWS Invest Global Agribusiness Fund, a fund managed by Deutsche Bank. The offering didn't reach the necessary minimum $20-million of so-called expressions of interest and has now been cancelled.