http://seekingalpha.com/article/3911376-omagines-margin-safety-real

Omagine's Margin Of Safety Is Very Real

Feb.19.16 | About: Omagine, Inc. (OMAG)

Mitchell Mauer
Follow (228 followers)
Long only, value, contrarian, portfolio strategy

Summary

At $1.34/share the stock is trading for just less than 12% of the company’s net current assets.

Investors have good justification for being pessimistic toward Omagine’s future profitability.

The question is not whether investor sentiment should be low, but whether it is too low.

Omagine, Inc. (OTCQB:OMAG), a Delaware-based holding company, is a stock the market has apparently left for dead. In fact, investors are currently declaring that the company is worth more dead than alive. At $1.34/share the stock is trading for just less than 12% of the company's net current assets. This means that not only does the market value the firm's Property, Plant & Equipment at zero, but it is also discounting the net liquid assets by nearly 90%.

Benjamin Graham famously classified stocks such as Omagine as Net Current Asset Value (NCAV) stocks. NCAV is a stock-selection strategy which Graham developed and implemented. The strategy finds stocks trading for less than the difference between current assets minus total liabilities. There is no regard given to the company's long-term assets or future profits. Warren Buffett nicknamed it the "cigar-butt approach" because:

...a cigar-butt found on the street that has only one puff left in it may not offer much of a smoke, but the 'bargain purchase' will make that puff all profit.

Investors have good justification for being pessimistic toward Omagine's future profitability. The company has consistently posted negative earnings and free cash flow in each year for the last decade. The question is not whether investor sentiment should be low, but whether it is too low. The company has reported free cash flow per share of negative $0.064 on average for each of the last five years. If this losing trend continues, it would take 160 years for the company's net current assets to fall to what they are valued at today.