



## *Atlas Pearls Limited (ASX:ATP) and the IR guy that could*

Posted by [Claude Walker](#) on Wednesday, June 18, 2014 · [Leave a Comment](#)

This post is about a micro-cap company called **Atlas Pearls Limited** (ASX:ATP) that farms pearls and has recently moved into the production of essential oils. It's also about that company's investor relations firm, Bourse Communications, and Bourse's managing director Rod North, who contacted me some time ago.

Rod's point to me was that Atlas Pearls was worth a look at 6.5c per share, and manifestly he was correct. Not only did I look at it, but I also considered buying shares (I didn't, my mistake). Given that it traded yesterday afternoon at 9.6c per share, I can honestly say that I would be smiling if I'd jumped on board (though to be honest, I'd probably also be selling – at least some). I have had a lot of interaction with IR firms in the past and the sum total of my experiences have been very poor. In many instances, the IR firm has damaged my opinion of the company, for example with both **Energy Action Limited** (ASX: EAX) and **Australian Ethical Investments Limited** (ASX:AEF).

I also get contacted from time to time by various IR people or, in one instance, an enterprising CEO himself. Usually, this is a sign that the company is focussed on boosting its share price because it wants to sell shares. I've never written favourably about a company that has been suggested to me by a IR guy or a promotional CEO (well, before this one anyway – I have to say Atlas Pearls certainly seems to have its merits). For better or for worse most of the companies I cover come from my own screens, my own "random walks" or as suggestions from investors I admire.

For good reason. One company that advertised itself to me (replete with promotional puff-pieces in the *AFR* and *The Australian*, from memory) raised capital shortly thereafter, and has seen its share price go from 15c to 4c.

The irony for me is that a promotional CEO or IR consultant **can be** a bearish signal. As I told another client of Mr North's recently, **Global Health Limited** (ASX: GLH) CEO Mathew Cherian, analysts want management focus on the business not the share price. I'm sure that a bit of investor relations has its place, but let me tell you this: 95% of IR firms can't even convince an (intellectually honest) analyst their company is any good.

So far my experience with Bourse Communications is, therefore, quite out of the ordinary. Mr North has, it appears, convinced me that Atlas Pearls has reasonable prospects. If it turns out that the company is about to raise capital from shareholders, I'll return to my cynicism, but for the meantime, I've put Atlas Pearls on my watchlist.

I can't deny that the story is compelling – but it is mostly a story.

The main point is that like many products, pearl prices are somewhat cyclical. I find the inventory values to be a vague guide at best – the realised value could be lower or higher.

The price fetched by Pearls seems to be increasing, since supply has reduced as a result of weak prices 5 years or so ago. Pearling isn't that easy (or profitable, historically) but it is fair to say that Atlas is good at it and probably getting better. They claim to have inventories and biological assets worth almost \$25 million. Using very rough figures we can subtract debt from that and end up with about \$20 million in (eventually) saleable assets. Because I try to be a conservative analyst, I'd take another 20% off that and we're left with around \$16 million in value (at the very least). To me that puts a floor under the share price at around 5c.

At 6.5c, the share price was just a little too high for me to buy simply on the basis of my instant floor price analysis. I do think the risk reward is in favour of a buy around 7.5c but that does not mean I would buy shares at that price. Put simply, I think I can find better options (but, obviously, I have missed many great investments before, and will do in the future).

At any rate, I'd say the company recognises the unpredictable nature of the pearl industry and has chosen to diversify further as a result. As a result, my analysis will benefit from a period of time watching the company expand – simply



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to measure them against expectations. In January 2013, the company bought Essential Oils of Tasmania. Gradually it is building up its biological assets, and has received a grant to assist with the commercialisation of its essential oil technology. If the diversification improves profit stability, then the company **might** be worth buying a little under 9c per share – unfortunately my crystal ball remains stubbornly foggy when it comes to predicting if and when the essential oils venture will pay off.

There is one more pearl auction this year – on the 26th of June. I feel this may mean that more revenue is booked this financial year than if the auction were just 1 week later. Therefore, I think that this is going to be a big year in revenue and probably earnings, especially given pearl prices are rising. Since 2008 the company has averaged a loss of 0.6 cents per share and has expanded the number of shares on issue every single year. Generally, that's not the kind of history that gives me comfort.

There's no way I'd be buying shares at 9 cents right now – the share price is up over 30% in just a couple of days. The MD also appeared on television telling the story of the company recently, so there has definitely been a bit of hype.

Should the price come down, I would be **tempted**. However, given the unusual way in which my attention was drawn to this stock, I think I'll just wait and see what happens. I can definitely vouch for the claim that Bourse Communications has "insight into what analysts and advisers need to hear," but for now I will just sit back and watch how Atlas Pearls develops. Perhaps I will join the register if I still like the company after observing and researching it for a few months or even years, but either way I think it will be an enlightening saga in my micro-cap playground.

*The author does not own shares in Atlas Pearls. Nothing on this blog is advice, ever, The purpose of this blog is to document my thoughts on different companies in an easily accessible way and to make connections with likeminded investors.*

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