Royalco's regal bearing to withstand market wallop

Barry FitzGerald

May 11, 2011 - 9:23AM

The gold bugs reckon it was some bargain hunting that pushed gold back over $US1500 an ounce over night. Euro-zone debt fears and bubbling inflation no doubt helped.

Either way it is kind of funny to think of bargain hunting when at its current price of $US1516 ($A1399) an ounce, gold is some $US308 an ounce or 25 per cent higher than it was a year ago.

And now that it has gained in the last three trading sessions to recover from last week's short and sharp rout, the metal is some $US41 an ounce or 2.8 per cent higher than it was a month ago.

There hasn't been a matching recovery in the share prices of the gold stocks, particularly in the battered explorers. But they are breathing a little easier now that $US1500 an ounce-plus gold is back in place.

Still, the confidence shock that came with last week's gold tumble means that the juniors are necessarily going to be more cautious in spending what money they have left to continue the exploration hunt.

Equity top-ups are going to be much more dilutionary than they were, reflecting the need to tempt risk-adverse investors back in to the market with heavily discounted offers.

Not all juniors face those problems. Those that don't need a cash injection should get some preferential treatment by the market. They won't, but at least they won't be blowing their capital base in order to refinance.

When it comes to seeking out cashed-up explorers, there are some standouts. But none more so than Melbourne-based **Royalco Resources (ASX:RCO)**.

Royalty income

Its unique mix – in the Australian market anyway – of royalty income funding both exploration and a dividend stream (a 2 cents a share fully franked maiden dividend was paid in February), means that while others are trimming the sails, it can take on new opportunities.

It has just done that by striking some farm-in deals on gold/base metal exploration plays in Ethiopia, a country that is catching up with the rest of Africa in terms of encouraging investment by the global mining and exploration industry.

Recently enacted mining legislation and undoubted mineral prospectivity has attracted the likes of BHP Billiton (potash), AngloGold (precious metals) and a bunch of the most adventurous explorers of all, the Canadians.
Under its deals, Royalco can earn a 60 per cent interest in the Sarkaysa exploration project, and 80 per cent in the Kilaj project. They are typical African grass root exploration plays where historical artisanal workings have led the way to potential modern-day exploration hot spots.

Because in African exploration terms Ethiopia is still off the beaten track, Royalco's earn-in commitments are modest - $US1 million at Sarkaysa and $US750,000 at Kilaj.

Importantly, there is no deadline on spending the money. So Royalco can advance the exploration programs as it sees fit, and as results warrant. Drilling targets should be worked up by the end of the year, giving the Royalco an African leg to its royalties and Philippines exploration story.

It is well funded for the effort. At last count its stream of royalty income from mines operarated by others stood at $14 million or about 26 cents a share. That cash-backing represents 65 per cent of yesterday's closing price for the thinly traded stock of 41 cents a share ($21.6 million market capitalisation).

Ignore the cash-backing for a moment and focus on the group's tight issued capital of 52.71 million shares compared with the junior norm nowadays of hundreds of millions of bits of paper, it not billions. Technically it doesn't matter for share price leverage to exploration success. But it does when it comes to the ability to pay meaningful dividends as Royalco already – uniquely- does.

bfitzgerald@theage.com.au