

Dr Weeks' vision is a gift that will keep on giving

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Royalco Resources (RCO)

MELBOURNE-based Royalco Resources is the only gold-base metals explorer on the Australian Securities Exchange lists that pays a regular dividend.

That unique ability comes from the fact, while it is involved in potentially high-impact early stage exploration in The Philippines and East Africa, its main undertaking is that of a royalty company.

And its royalty business just got a lot bigger thanks to the acquisition of an interest in the Weeks royalty, named after US geologist Lewis G. Weeks.

It was Dr Weeks who in the early 1960s famously told Broken Hill Proprietary - as BHP Billiton was known then - that he knew where oil could be found within a relatively short distance of its Melbourne head office, but before he would tell, he would want a 2.5 per cent over-riding royalty on any future oil and gas production.

BHP agreed and Dr Lewis is said to have told the BHP men to turn around and look out the window towards Bass Strait, or more particularly the waters offshore from Gippsland. History tells us that Exxon was later brought in by BHP as a 50:50 partner and operator to spearhead what at the time was considered a frontier exploration hunt.

Before the 1960s were out, oil and gas production from the Bass Strait fields was under way, and in the more than 40 years since, four billion barrels of oil and seven trillion cubic feet of gas have been produced. It was the making of BHP and worked wonders for Australia's national accounts as well. All these years later, the Bass Strait fields are still giving, as is the 2.5 per cent Weeks royalty.

Dr Weeks has long gone and the royalty has been broken up in to 39 parts. Royalco's deal is to acquire a 1 per cent interest in the royalty, giving it an equivalent 0.025 per cent over-riding royalty on all of the Exxon-BHP joint venture's oil and gas production.

It does not sound like much when you say it quickly. But the 1 per cent of the royalty acquired by Royalco - from an undisclosed Australian institutional investor - has delivered average annual income in recent years of about \$800,000, paid quarterly.

Royalco is paying \$8.5 million for the interest, valuing the full 2.5 per cent royalty at \$850m. Based on recent history, Royalco has secured itself a long-term income stream with an annual yield of more than 9 per cent.

Payments from the royalty could well improve. While Bass Strait's heyday has passed, Exxon-BHP have been reinvesting in its medium future by developing the Kipper gas project and upgrading the Longford gas treatment plant.

There is also the prospect that with Queensland's liquefied natural gas projects to suck up all of the spare gas on the east coast, gas prices in the domestic market are set to rocket.

And who knows what the new technologies in exploration could uncover in Bass Strait in years to come? Royalco estimates the royalty still will be generating income in 20 years. A call that it could still be giving in 30 years would not be unreasonable either.

Thanks to the cash that its existing non-energy royalty stream has yielded in recent years, Royalco can fund the Weeks royalty acquisition comfortably by drawing on its \$17 million bank balance.

Royalco last traded at 47.5c a share, giving it a market capitalisation of \$25m. There has been a lid on its share price in recent times because of some selling by its biggest shareholder, London-based Anglo Pacific.

The end to the first stage of its royalty on gold production in New Zealand by Oceana Gold has not helped. But the Weeks royalty goes a long way to plugging that hole and comes as other production royalties held by the company are being advanced by their owners to becoming a reality.

Among them is a royalty on Kingsgate's Bowdens silver project in NSW that could generate \$3m-\$5m a year for Royalco in its early years.