

Price plunge rules out extension of minerals tax beyond iron and coal

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Royalco Resources (RCO)

MELBOURNE'S Royalco Resources has an unusual business mix of mining royalties and gold-base metals exploration interests, with the former funding the latter. So there is no need for it to be going back to shareholders for equity funding -- a bear trap that is starting to grip the junior end of the market.

Apart from being self-funding, Royalco is also a dividend payer, which is most unusual in the resources sector.

A little-known fact is that of the 1044 companies on the mining-oil lists, only 35 pay dividends, and of those only 15 pay fully franked dividends.

Royalco is on a yield of 8.5 per cent (half-yearly dividends of 2c a share), which is as good as it gets in the resources sector, or the industrial sector for that matter.

Thanks mainly to its royalty on gold production at Reefton, New Zealand, by OceanaGold, Royalco's bank balance has been building up nicely.

At last count it was holding \$17.5 million in cash. That's about 33.2c a share, which is kind of interesting given the group's last sale price of 47c a share.

So the enterprise value for its portfolio of royalties and the exploration plays is about \$7m, which looks to be on the mean side, even in this market.

Watch out for exploration to become more important in the market's assessment of the stock.

After a few quiet years on the exploration front, the market is looking for news on Royalco dipping its toe into Uganda gold exploration and more activity in The Philippines, where it has a \$US6m sale option with Brazil's Vale.

Cashflows for the second half of this year look to be in good shape ahead of a likely quiet patch next year (subject to corporate activity on the Vale option and more exploration) before the pick-up again in 2014 with new deposits to be mined at Reefton, and a possible start of production at Kingsgate's Bowdens silver mine in NSW, originally a CRA discovery.