



Who's Benefiting From Iron Ore's 20% Rally?

Description

The price of iron ore has risen over 20% since the beginning of 2016 and currently stands at almost \$52.00 per tonne. This compares to lows of approximately \$40 per tonne back in 2015 and, in its heyday, highs of over \$180 per tonne.

As would be expected, **Labrador Iron Ore Royalty Corporation** ([TSX:LIF](#)) is rallying off of the strength in prices as its income is entirely dependent on Iron Ore Company of Canada (IOC). Labrador Iron Ore Royalty owns a 15.1% interest in IOC, owns mining leases and licenses covering 18,200 hectares of land near Labrador City, from which it collects a 7% royalty, and receives a \$0.10 cent per tonne commission on the product sold by IOC.

In its latest results for the fourth quarter of 2015, the company reported lower revenue, lower cash flows, and lower earnings. The price of iron averaged in the \$45 per tonne range compared to the \$75 per tonne range in the fourth quarter of 2014.

The key, however, is that costs continue to come down and production continues to increase in line with expectations.

The cost per tonne of concentrate produced declined by 20% in 2015, and the company is on track to achieve its goal of reducing its unit cash cost of concentrate to US\$30 per tonne. Production capacity was increased to 23.3 million tonnes per year, and the company is well on its way to making use of this extra capacity.

Production in 2015 was 17.88 million tonnes, which increased 25% from 2014. In January 2016 annual production already exceeded 20 million tonnes, and the company is on track to get production up to its goal of 21 million tonnes for 2016.

In addition and just as important is the fact that Labrador Iron Ore continues to receive a premium on its pellets sold, a reflection of its high-quality ore.

The stock has a dividend yield of 7.9%.

Another company benefiting from the strength in iron ore prices is **Rio Tinto plc** ([NYSE:RIO](#)). Rio Tinto owns 59% of IOC, and although it generates revenue from a wide range of other metals, such as aluminum, copper, coal, and diamonds, iron ore currently accounts for over 50% of Rio Tinto's cash flow generated. At the time of writing, Rio Tinto's stock is up almost 6% on the day and over 16% year-to-date.

Final thoughts

In my view, Labrador Iron Ore Royalty Corp. is a relatively low risk to play the recovery in iron ore prices as it derives its revenue from a very high-quality asset and it is a royalty company, which means that the risk in the business model is lower.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:RIO (Rio Tinto plc)
2. TSX:LIF (Labrador Iron Ore Royalty Corporation)

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Author

karenjennifer

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