



5 Signs Labrador Iron Ore Royalty Corporation's Best Days Are Ahead

Description

Iron ore futures were on the rise, and then they weren't. China was going to be a healthy source of demand as imports to China increased dramatically. But then China's tightening measures placed a stop on steel production and consequently iron ore demand.

These have pretty much been the headlines since I started following **Labrador Iron Ore Royalty Corporation** ([TSX:LIF](#)) back in the spring of 2015. Well, if we'd stayed away from the stock, we would have missed out on a 7% dividend yield and a special dividend of \$0.35 per share that was paid out after the second quarter of 2017.

Here's why I believe the company's best days are still ahead of it.

Firstly, economic growth in China is showing clear strength. The headlines today are all about China's second-quarter GDP growth, which came in at 6.9% (compared to the second quarter of 2016), and the fact that this is above expectations and bullish for commodities like iron ore.

On top of this, June had record steel production in China. As iron ore is a major ingredient in the making of steel, this is obviously very bullish for the commodity.

Secondly, the price of iron ore has increased nicely since the beginning of 2016 and currently stands at approximately \$65 per tonne. With China's economic news today, we can expect the price to continue to strengthen.

In February, the commodity was trading at almost \$95 per tonne, but it has since come down as fundamentals deteriorated in the form of increasing supply and signs of weakening demand. This compares to lows of approximately \$40 per tonne back in 2015 and, in its heyday, highs of over \$180 per tonne.

Thirdly, production at the Iron Ore Company of Canada (IOC) has been exceeding expectations and costs have been coming down nicely. The company's all-in sustaining costs are currently at US\$36.41 per tonne.

All this is at an operation that produces high-quality iron ore which commands a premium in the marketplace.

Fourthly, Labrador Iron Ore Royalty collects royalties from IOC, so the risk inherent in this royalty model is diminished, while the upside to rising iron ore prices is still strong.

And lastly, the company's dividend yield currently stands at 6%. And this is just the yield on its regular dividend and doesn't include any special dividends that are paid out, which will become more frequent should the price of iron ore continue to strengthen. This should make the shares very attractive to income-seeking investors and thus bid up the stock price.

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