Don’t Miss Out on This Impressive 4% Yield

Description

In a surprise move, iron ore has firmed in recent months, despite the pessimistic outlook that existed earlier this year. The increasingly positive sentiment can be primarily attributed to China, making **Labrador Iron Ore Royalty** (TSX:LIF) an attractive investment and means of gaining exposure to China.

Now what?

The economic outlook for China has improved in recent months. Earlier this year, the International Monetary Fund, or IMF, upgraded its growth forecast for China for 2017 and 2018 because of the positive effect of industrial reforms and growing productivity. Improving global economic growth will also be a boon, because it will trigger an uptick in demand for finished products and, with China being the workshop of the world, that will give its manufacturing industry a solid boost.

Furthermore, Beijing’s success in reining in excess unproductive industrial capacity has sparked a decline in the volume of iron ore being produced domestically. This coupled with falling steel inventories will create higher demand for iron ore imports.

Beijing is also planning to boost infrastructure spending; along with increased property construction, this will cause demand for steel to rise significantly.

After India experienced slower than expected GDP growth because of some policy hiccups, it’s expected to grow at a faster rate than China in 2018 and beyond. The OECD has forecast that India’s GDP growth rate will expand to 7.2% in 2018, placing it well ahead of China and making it the fastest-growing major economy globally. That is a particularly good omen for the demand for steel and iron ore.

You see, India’s stage of development is well behind that of China, meaning that much of that growth will be directed to infrastructure and property construction, which are intensive users of steel.

This is good news for Labrador Iron Ore, because it has been able to steadily grow production**,** meaning that it is well positioned to take advantage of higher iron ore prices. For the third quarter 2017, production grew by 8% year over year, and that growth is expected to continue.

Furthermore, as a royalty company which holds a 15% equity interest in Iron Ore Company of Canada, it receives a 7% gross overriding royalty and $0.10 per tonne commission on all iron ore produced, sold, and shipped by that company. This means that if iron ore prices remain firm, there is a considerable incentive for Iron Ore Company of Canada and its majority owner diversified global mining giant **Rio Tinto Plc.** to boost production.

In addition, Labrador Iron Ore is not directly exposed to the risks associated with weaker iron ore prices. This is because it does not engage in mining; instead, it is paid an off-the-top royalty which Iron Ore Company of Canada is obliged to pay whether it is profitable or not.

While Labrador Iron Ore pays a regular quarterly dividend, which yields 4%, it also has a long history of rewarding loyal investors with special dividends when times are good. Labrador Iron Ore recently announced that on top of its $0.25 quarterly dividend, it will pay a special dividend of $0.30, bringing the total for the latest quarter to $0.55 per share.

Since the start of 2017, it has already paid out $1.35 in special dividends on top of the regular dividend; with it trading at around $27 per share, it has an extremely attractive 10% yield. While there is no guarantee that these special dividends will continue, there is every likelihood that investors will benefit from the increasingly positive outlook for iron ore in 2018.

So what?

Commodities — notably iron ore, coking coal, copper, and zinc — have broken out of their multi-year slump, and while prices, especially for iron ore, have been erratic, the outlook is optimistic. This, coupled with Labrador Iron Ore's policy of paying special dividends and the low level of risk associated with its operations, makes it an extremely attractive investment for income-hungry investors.

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