

Invest in this Dividend Stalwart to Profit From the Positive Outlook for Steel

Description

After a prolonged multi-year slump, the international steel industry appears to have finally shaken off the doldrums that saw some pundits claiming that a permanent supply glut would keep prices low forever. Several investment banks and analysts are bullish on the outlook for steel in 2018 through to 2019. Much of this stems from rising demand for steel because of better than expected [global economic growth](#), which is being driven by a sharp uptick in economic activity among emerging markets.

Goldman Sachs believes that the Indian steel industry is in a multi-year up-cycle, as that nation's rapid development and modernization drives ever-greater demand for the key construction material.

Meanwhile, **Deutsche Bank** raised its forecast for steel by 10% and has become bullish on the entire metals complex. A key driver of higher demand and prices is Beijing's moves to curb heavily polluting uneconomic industries such as steel mills, leading to a sharp drop in local supplies.

Beijing's planned investment in transportation infrastructure as well as rising manufacturing activity will drive further demand. Those factors, along with dwindling inventories, have forced China's industrial sector to look offshore for supplies of the vital ingredient used in a vast array of construction and manufacturing applications.

This bodes well for the performance of those companies that provide critical materials used in its fabrication such as iron ore, steel-making or coking coal, and nickel. Iron ore miner **Labrador Iron Ore Royalty Corporation** ([TSX:LIF](#)) is one such company.

Now what?

Labrador Iron Ore holds a 15.1% equity interest in miner Iron Ore Company of Canada, which is majority owned by global diversified mining giant **Rio Tinto Plc**. Iron Ore Company of Canada operates an iron ore mine and processing facilities in Labrador City as well as port facilities in Quebec, which are linked to the mine by rail.

Labrador Iron Ore receives a 7% gross overriding royalty and a 10-cent-per-tonne commission on all iron ore products produced, sold, and shipped by the miner. Because it doesn't engage in mining activities, the risks associated with the company are relatively low.

For the third quarter 2017, its revenue popped by an impressive 46% year over year because of higher iron ore prices. That, along with lower costs, saw net income double to \$43.8 million.

Labrador Iron Ore's share of production continues to grow, as Iron Ore Company of Canada ramps up the tempo of operations at its mine and processing plant to take advantage of the solid outlook for iron ore. Third-quarter production expanded by just over 8% compared to a year earlier, and this trend will continue into 2018.

As production grows and iron ore prices firm, Labrador Iron Ore's earnings will expand, which will be a boon for investors.

You see, over the course of 2017, Labrador Iron Ore Royalty Corporation used the additional profits gained to reward investors by paying special dividends totaling \$1.65 on top of its regular quarterly dividend of \$0.25 per share. That saw its total dividend for 2017 come to \$2.65, giving the company an impressive yield of just under 10%, or more than double the trailing yield for its normal dividend of just under 4%. This was an incredible windfall for investors and will continue into 2018 because of the optimism surrounding steel.

So what?

Labrador Iron Ore is among one the most attractive means of playing the tremendous upside that exists for commodities, [notably metals](#), and firmer global economic growth. That makes now the time for investors to boost their exposure to the company before the positive outlook for iron ore is fully priced in.

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Date

2025/08/19

Date Created

2018/01/20

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