



Is This 6% Dividend a Safe Investment?

Description

The global economic upswing, which has been underway since late 2016, has been a boon for base metals and miners. This is because of [growing demand](#) for steel, copper, zinc, and nickel, driven by an uptick in manufacturing, [notably in China](#), and rising investment in critical infrastructure in China and India.

Despite this growing optimism, **Labrador Iron Ore Royalty Corporation** ([TSX:LIF](#)) reported a poor result for the first quarter 2018. While that certainly raises some concerns as to whether Labrador Iron Ore is a worthwhile investment, there are signs that its outlook is improving over the long term, and the issues that caused that poor result will eventually be resolved. This makes the dip in its share price — it's down by 16% over the last three months — a risky but worthwhile buying opportunity.

Now what?

For the first quarter, Labrador Iron Ore's revenue, cash flow, and net income plummeted by 21%, 28%, and 29%, respectively. That sharp decline, which saw the company report net income of \$30.3 million, can be blamed on a decline in iron ore prices and production outages as well as a work stoppage, which caused production to decline. For the quarter, iron ore output was reported as 3.89 million tonnes, or a startling 17% lower than a year earlier. The impact of sharply lower production on earnings was magnified by a 13% year-over-year decline in the benchmark iron ore price in China for the quarter.

While the operational problems that impacted production have been dealt with, and iron ore prices have firmed in recent weeks, indicating that Labrador Iron Ore should see an improvement in its bottom line, the key issue is that the labour issues remain unresolved. That means there is no guarantee that production will grow, or that operations at the Iron Ore Company of Canada, in which Labrador Iron Ore owns a 15% interest, will resume.

Nonetheless, once operations recommence, the expectation is that [strong market conditions](#) combined with improved operations mean that Labrador Iron Ore can expect strong royalty income and dividends from Iron Ore Company of Canada. That would give its bottom line a healthy boost and support the

company's plans to pay additional special dividends to shareholders.

However, until the labour issues are resolved, those special dividends remain under threat.

Labrador Iron Ore possesses considerable financial flexibility, ending the first quarter with almost \$26 million in cash on hand and working capital of \$29 million. The company also has a \$50 million revolving credit facility, which, at the end of the quarter, was undrawn and remains debt free. This is always a plus in a cyclical industry like mining, where there are a range of risks and unknowns.

So what?

It is difficult to predict the outlook for Labrador Iron Ore. Should the labour dispute be resolved and iron ore remain firm, then in all likelihood, there is a strong 2018 ahead for the company that would allow it to maintain its dividend and juicy 6% yield as well as pay additional special dividends.

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