This Mining Royalty Company Will Perform Strongly Over the Rest of 2018

Description

It has been a tough first half of 2018 for **Labrador Iron Ore Royalty Corp.** (TSX:LIF). A work stoppage combined with a range of geopolitical threats, notably Trump's emerging trade war with China**,** has weighed on its performance and the price of iron ore. However, there are signs that many of the risks are easing, which bodes well for Labrador Iron Ore to start performing strongly during the second half of 2018.

Now what?

For the first half, Labrador Iron Ore reported that net income had fallen to almost a third of what it had been a year earlier. That can be attributed to a work stoppage at Iron Ore Company of Canada, which is responsible for generating all the royalty company's earnings.

Labrador Iron Ore holds a 15.1% equity interest in Iron Ore Company of Canada, which means that it is entitled to a 7% gross overriding royalty as well as a $0.10-per-ton commission on all iron ore products it produces, sells and ships. The labour dispute**,** which shut down Iron Ore Company of Canada's mining operations for two months, caused Labrador Iron Ore's second quarter royalty revenue to fall to almost a seventh of what it was a year earlier.

This is because iron ore production at Iron Ore Company of Canada's fell sharply during the second quarter. Concentrate output of 1.5 million tons was 64% lower quarter over quarter and 69% less year over year, while pellet production plummeted 81% compared to the previous quarter and was 78% lower than a year earlier.

As a result, Labrador Iron Ore reported a quarterly net loss of $3.2 million in contrast to a second quarter 2017 profit of $32 million.

Nonetheless, Iron Ore Company of Canada has been able to successfully establish a new five-year collective agreement with its workforce and is focused on ramping up activity to make up for lost production. This will give Labrador Iron Ore's second-half earnings a solid lift, even more so when it is considered that the outlook for iron ore is positive despite Trump's threats to place tariffs on up to US$500 billion of imports from China.

Beijing's ongoing focus on improving air quality, which saw it place emission restrictions and production constraints on steel mills, is expected to support higher demand for steel.

When combined with the move away from domestically mined iron ore because of the Chinese government's focus on winding down uneconomic state supported enterprises, this should drive an increase in demand from China. Any increase in demand from China, especially for higher quality iron ore such as that produced by the Iron Ore Company of Canada, will help to boost prices.

Greater second-half production and firmer prices will give Labrador Iron Ore's earnings for that period a healthy lift because of greater equity and royalty earnings from Iron Ore Company of Canada.

So what?

Labrador Iron Ore has a long history of rewarding investors with a regular dividend payment as well as special dividends. Despite the impact of the labour dispute on its earnings, Labrador Iron Ore still paid a regular quarterly dividend of $0.25 per share plus a special dividend of $0.30 for the third quarter 2018.

Those amounts combined saw Labrador Iron Ore pay investors a total quarterly dividend of $0.55, giving it an impressive annualized yield of just over 5%. This will grow significantly should the company elect to pay another special dividend for the fourth quarter 2018, which is highly likely if earnings expand as expected.

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