



Forget Fears of a Global Trade War and Add This 6% Yield to Your Portfolio

Description

Fears of a full-blown trade war and higher oil have all been weighing heavily on the global economic outlook, including materials and base metals exchange-traded funds such as the **iShares Global Materials ETF** and **SPDR S&P Metals and Mining ETF**, which are both down by 13% since the start of 2018.

While Trump's approach to trade along with firmer crude poses a threat to the global economic upswing that's currently underway, much of the risk appears overbaked. There are signs that the world economy and notably the U.S. will expand at a solid clip for the foreseeable future. This bodes well for commodities, particularly [base metals](#), an important industrial element because they are consumed across a wide range of manufacturing and construction applications.

One raw material that's crucial to many industrial applications is iron ore, as it's the primary element required to fabricate steel, the core material used in the construction of critical infrastructure, energy supply, housing and transportation. One of the best ways to gain exposure to iron ore and hence demand for steel is by investing in **Labrador Iron Ore Royalty Corporation** ([TSX:LIF](#)). Despite reporting a lacklustre performance for the first half of 2018, the company has gained almost 2% year to date.

Now what?

Labrador Iron Ore's woes stem from a labour dispute between Iron Ore Company of Canada and its employees, which saw them go on strike for two months, closing the company's operations. As a result, first-half production deteriorated sharply impacting earnings, cash flows and Labrador Iron Ore's royalty revenue. This is because Labrador Iron Ore does not engage in mining activities; rather, it holds a 15.10% equity interest in Iron Ore Company of Canada and receives a 7% gross overriding royalty and 10 cent per ton commission on all iron ore products produced, sold and shipped by the miner.

That two-month production outage caused second quarter revenue to plunge to \$5.2 million — nearly a seventh compared to a year earlier — while operating cash flow of \$15.5 million was roughly a third. This saw Labrador Iron Ore post a quarterly net loss of \$3.2 million compared to a profit of \$32.3

million for the second quarter 2017.

The sharp decline in earnings can be blamed on Iron Ore Company of Canada's production falling sharply for the second quarter because of the outages caused by the labour dispute. Concentrate production was 69% lower year over year, and pellet output plunged by 78%. Because of the marked decline in earnings, Labrador Iron Ore Royalty didn't pay a special dividend for the second quarter as it had for every quarter since the first quarter 2017. However, it did maintain payment of its standard quarterly dividend of \$0.25 per share.

The [labour dispute ended](#) on 28 May 2018. Since then, Iron Ore Company of Canada has focused on ramping up activities at its facility to make up for lost production. And this, along with an optimistic outlook for iron ore sparked by greater demand for steel and higher replenish demand from Chinese steel mills, is expected to bolster second-half 2018 iron ore prices. Iron Ore Company of Canada's focus on growing second-half 2018 production coupled with a rebound in iron ore prices will give Labrador Iron Ore's earnings a healthy bump.

So what?

The improved outlook allowed Labrador Iron Ore to reinstate payment of its special dividend announcing a third quarter 2018 payment of \$0.25 per share plus a special dividend of \$0.30 to bring the total quarterly dividend to \$0.55 per share. For the aforementioned reasons, it will pay a further special dividend for the fourth quarter if there are no disruptions to operations at Iron Ore Company of Canada's facility and iron ore prices remain firm.

That will give Labrador Iron Ore a very tasty trailing dividend yield of 6%, and there is every likelihood that it will continue to reward investors with additional special dividend payments for the foreseeable future. This makes Labrador Iron Ore an attractive investment for income hungry investors, while improved production coupled with firmer iron ore should cause its stock to appreciate.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:LIF (Labrador Iron Ore Royalty Corporation)

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