



My Top Income Pick for 2019

Description

The recent news that the threat of a full-blown trade war between the world's two largest economies, the U.S. and China, is easing has bolstered the outlook for the global economy. While concerns over an economic slowdown continue to fester, there are signs that the economic slowdown may not be as severe as anticipated by some pundits. That's good news for metals miners such as **Labrador Iron Ore Royalty Corporation** ([TSX:LIF](#)).

The global economic outlook is improving

You see, if the global economy performs better than anticipated, then the consumption of metals including steel will rise, as steel is a core ingredient used in a wide range of manufacturing and construction activities. There are signs that a range of supply and demand fundamentals will support firmer steel prices during 2019.

The Chinese government is focused on shutting down uneconomic enterprises as well as those that are engaged in heavily polluting activities. This has seen many domestic steel mills closed by Beijing as it battles to reduce eye-watering levels of air pollution in many major cities. That means domestic supply could very well not meet demand even after accounting for reduced levels of manufacturing activity in the world's second largest economy.

According to the World Steel Association, the demand for steel will expand by 1.4% year over year during 2019. That figure could be even greater if economic activity picks up because of better-than-expected economic growth and a stronger performance from emerging markets.

Oil's latest price collapse will support firmer global growth because of its key role as a source of energy.

These factors indicate that the world economy could perform better than originally anticipated, which in turn will support greater demand for steel and hence iron ore. While some analysts are bearish on the outlook for iron ore going into 2019, analysts at Australia's largest bank, Commonwealth Bank of Australia, believe that iron ore prices during the year will firm greater than initially projected.

Firmer prices will boost income

Higher than expected iron ore prices bode well for Labrador Iron Ore, which holds a 15.10% equity interest in Iron Ore Company of Canada. Because of that interest, Labrador Iron Ore receives a 7% gross royalty and a \$0.10 per ton commission on all iron ore products that the Iron Ore Company of Canada produces, sells, and ships.

For the third quarter 2018, Iron Ore Company of Canada's sales grew by almost 9% compared to a year earlier, and that, along with higher premiums, gave Labrador Iron Ore's net income a healthy bump, seeing it rise by 33% year over year to \$58 million. Those results were impacted by weaker iron ore prices, which according to Platts, decreased by 6% during the third quarter compared to a year earlier.

The labour stoppage at Iron Ore Company of Canada from March to May 2018 as well as maintenance outages also weighed on third-quarter results.

Labrador Iron Ore's earnings will therefore grow because it is expected that Iron Ore Company of Canada's fourth quarter 2018 and 2019 production will expand significantly. This bodes well for investors, as it will not only will it give Labrador Iron Ore's bottom-line a notable lift, but also because the company has a long history of rewarding shareholders with special dividends.

Regular dividend payments

Since the start of 2018, Labrador Iron Ore has paid \$0.75 per share in special dividends for the year on top of the annual payment of \$1 per share. These special dividend payments were lower than originally anticipated because of the sharp impact of the labour dispute on the company's second quarter earnings, which saw it decide not to pay a special dividend for that quarter.

This means that while Labrador Iron Ore has a nominal forward dividend yield of 4% after accounting for the special dividends paid, it yielded just over 7% for 2018. That is an impressive yield and highlights why Labrador Iron Ore is a must-own stock for investors focused on income.

Based on the outlook for iron ore prices during 2019 and production forecasts from Iron Ore Company of Canada, Labrador Iron Ore will likely earn sufficient net income to pay special dividends for each quarter during the year. If that happened, the stock's dividend payment could very well yield over 8%, a very juicy return for investors that's over and above any appreciation in its value.

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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