



## The Number 1 Dividend Stock to Buy in September

### Description

Like the stereotypical Labrador Retriever, **Labrador Iron Ore Royalty** ([TSX:LIF](#)) is loyal to its shareholders. The metals mining corporation consistently issues [generous dividends](#). Unlike many other high-yield dividend stocks, for the past three years, Labrador has also rewarded shareholders with two to three special cash dividends.

### Good

Labrador Iron Ore provides shareholders with a strong return on equity higher than 30%. Return on equity measures how profitable the business is and how efficiently the corporation invests stockholder investments. The more substantial the return on equity, the less risky the investment.

Looking at the stock's levered free cash flow for last year, the company is in the green at \$109 million. Levered free cash flows are the cash left over after the company has paid financial obligations like operating expenses and interest payments. Experienced investors look for positive levered free cash flows to determine suitable investments from risky bets.

### Mediocre

While Labrador's price did not perform horribly in the past 52 weeks, shareholders with a healthy appetite for capital gains won't be satisfied with Labrador's price stability. Over the past year, Labrador's price has only appreciated by around 2.5%. The lack of capital gains was offset by the generous trailing dividend yield of almost four, bringing total returns to about 7% for the past year.

That's not to say that the stock doesn't have the potential to soar based on changes in investor perceptions of relative industry risk. Metals and mining are huge export industries for Canada. When the stock was still arguably young on the Toronto Stock Exchange, the share price experienced some trouble between 2015 to 2017 and picked up after that.

## Bad

Labrador Iron Ore's future earnings growth is not guaranteed. A little over six months into its current fiscal year, the company is on track to report earnings of \$3.21 for the year, more significant than the \$2.01 announced in 2018. Unfortunately, analysts are [not so optimistic](#) for next year with targets set at \$2.80.

Putting too much weight on analyst future earnings estimates too far out from the actual timeframe is not a good idea. The annual \$2.80 view is overly pessimistic, and Canadian investors looking at this stock should undoubtedly take these numbers with a grain of salt.

## Foolish takeaway

The best part about choosing a stock with a relatively stable price history is liquidity. The odds that your initial Tax-Free Savings Account (TFSA) investments will lose value are lower with stocks like Labrador. Stocks that experience fewer and shorter price fluctuations will protect initial investments more than volatile assets. Between 2012 and 2019, the stock's price has stayed around \$30 per share, and earnings have grown.

With a price-to-earnings ratio of 8.46, the market is undervaluing this stock at its current price of just under \$27 per share. If anything, this stock may be on an upward trajectory, especially amid recessionary fears and downward pressure on interest rates.

Investors will be searching for high-yield stocks with reasonable prices to protect their savings, and Labrador Iron Ore will be a top pick. Canadian investors should weigh the benefits and risks of this stock and consider adding it to their portfolio.

### CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks
4. Stocks for Beginners

### TICKERS GLOBAL

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

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1. Business Insider
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