ALERT! A Market Crash Top Pick

Description

Labrador Iron Ore Royalty Corporation (TSX:LIF), together with the company's wholly owned subsidiary, Hollinger-Hanna Limited, owns a 15.10% equity interest in Iron Ore Company of Canada (IOC) that operates an iron mine near Labrador City, Newfoundland and Labrador.

IOC engages in the production and sale of iron ore pellets and concentrates in North America, Europe, the Middle East, and Asia. Labrador Iron Ore Royalty Corporation was incorporated in 1995 and is based in Toronto, Canada.

Directly and through Hollinger-Hanna, LIORC receives a 7% gross overriding royalty on all iron ore products produced from the leased lands, marketed by IOC and a $0.10 per tonne commission on sales of iron ore by IOC.

LIORC pays cash dividends from net income to the maximum extent possible, subject to the maintenance of appropriate levels of working capital. Currently, the holders of common shares receive quarterly dividends.

The company trades inexpensively with a price to earnings ratio of 7.54, a price to book ratio of 2.71 and market capitalization of 1.54 billion. The company has excellent performance metrics with an operating margin of 74.89% and a return on equity of 35.81%.

Royalty revenue for the second quarter of 2019 amounted to $52.6 million as compared to $5.1 million for the second quarter of 2018. Equity earnings from IOC amounted to $33.9 million or $0.53 per share in the second quarter of 2019 as compared to a loss of $6.1 million or $0.09 per share in the second quarter of 2018.

Cash flow from operations for the second quarter was $47.8 million or $0.75 per share as compared to $15.5 million or $0.24 per share for the same period in 2018.

LIORC received a dividend from IOC in the second quarter of 2019 in the amount of $25.4 million or $0.40 per share, whereas LIORC received no such dividend in the second quarter of 2018. The 2018 production was negatively impacted by a nine-week work stoppage.

As a result of lower than anticipated first half production, **Rio Tinto** lowered the 2019 guidance for IOC's saleable production of pellets on a 100% basis to between 18.2-19.3 million tonnes from between 19.2-20.9 million tonnes.

The company believes that benchmark prices for concentrate and pellet premiums are attractive relative to historical levels despite recent price declines due to softer demand and uncertainty over global tensions.

Supply continues to be constrained, predominantly as a result of mine closures in Brazil, and Vale reaffirmed 2019 iron ore sales guidance of 307-332 million tonnes.

China crude steel production was up 9.9% in the first half of 2019 as compared to the same period in 2018, and the immediate outlook for China steel production continues to be positive despite higher iron ore prices and weaker steel producer margins.

Weaker steel producer margins are expected to persist and to have an effect on iron ore demand outside China. Despite the pullback, higher China import fines prices have made iron ore pellet premiums unaffordable for some producers given prevailing steel, iron ore and raw materials prices.

This is one of Canada's best royalty companies and receives a generous 7% gross overriding royalty on all iron ore products produced from the leased lands. LIROC looks to be a great buy at current prices.

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1. dividend stock

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1. NYSE:RIO (Rio Tinto plc)
2. TSX:LIF (Labrador Iron Ore Royalty Corporation)

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