TFSA Investors: Buy This Royalty Star and Hold Until You Retire

Description

Labrador Iron Ore Royalty (TSX:LIF) has been on my watch list since 2016, as it reached a low of $7.17 per share during a time where iron ore prices were struggling at $36 per tonne. After 2016, the iron ore price has skyrocketed, hitting a high of $120 per tonne in 2019! The price of iron ore is important for the company, as it directly correlates the amount of revenue it receives.

While being correlated to iron ore can be good or bad depending on the commodity price. As a royalty company, it is sheltered from having operating expenses such as labour, lodge, processing, equipment and more. This means that revenue translates to profit, which is then paid directly back to its shareholders.

Juicy dividend

The best part about Labrador Iron Ore is its dividend. The company pays out $0.25 per share quarterly, totaling at $1 per share yearly, but it doesn't end there. The icing on the cake is its ability to provide special dividends when a quarter has been particularly good. To put this into perspective, while the normal dividend is $1 per year, the total dividends paid in 2019 amounted to $4 per share, making this Canadian company a dividend machine. Good luck finding a dividend company that pays you that much to simply hold its stock!

To further understand the corporate structure, LIF owns 15.1% of the Iron Ore Company of Canada (IOC) and receives 7% as gross royalty and 10% per tonne commission on all iron ore products produced, sold, and shipped by IOC. Therefore, if iron ore is in high demand, the better LIF's stock will perform.

Iron ore prices are currently sitting at $85 per tonne. Prices have currently been under pressure as the coronavirus plagues China, one of the highest purchasers of iron ore. This in turn creates concerns that there will be less demand from China in the short term, but I believe this creates an opportunity.

It's important to note that despite the coronavirus, China's GDP growth rate is still projected to be 6.9% in 2020, which bodes well for Labrador Iron Ore Royalty. As high-quality iron ore is required as a biproduct to create steel, the increase in GDP can be corelated to higher steel demand, which results in higher demand for iron ore, subsequently increasing the price. We don't foresee iron ore prices being impacted as much as the aviation industry will be.

Brazilian miner **Vale SA**, one of the largest iron ore miners in the world, has reduced its production outlook due to heavy rains on their operations. This reduces the supply and increases the price for iron ore.

The bottom line

This temporary unfavourable situation provides a great entry point to buy low and hold for a long time. As of writing, the price is at $22.30 per share, while shares were trading at $35.48 per share only last July. The implied return of share appreciation and dividends equates to 55%. Buy when others are fearful and sell in euphoria.

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