



Revealed: Why This Is the Only Mining Stock I Own

Description

I've never been a big fan of mining stocks for what I've always thought as obvious reasons.

I strive to own a portfolio full of excellent businesses with superior moats, certain characteristics that protect them from competition. It's very rare to find that in a mining stock. After all, every gold, silver, or other mineral producer ends up with a product that is the exact same as its competition. There's no way to for a company in the sector to differentiate itself.

Producing a commodity has another major disadvantage. There's nothing an individual producer can do to raise its prices, and producers are therefore stuck accepting whatever market price happens to be. As we've seen countless times before, this is a major disadvantage. All a producer can do during lean times is to cut costs.

Despite this major disadvantage, I still see why investors would put cash to work in the mining sector. Commodities are a well-established way to hedge against inflation. And certain commodities — such as gold — tend to do well as the [stock market falls](#).

Let's take a closer look at the only mining stock in my portfolio, a company that's still an intriguing buy today.

The skinny

Labrador Iron Ore Royalty Corp ([TSX:LIF](#)) is a little different than your normal mining stock.

In exchange for an initial capital infusion to help get the mine going, the company gets the right to purchase a certain amount of production from the Iron Ore Company of Canada's mine in Labrador City, Newfoundland. This is one of the world's largest iron ore mines with supplies that are projected to support current production for decades to come.

The royalty company gets a 7% royalty on every tonne of iron ore produced from the facility, as well as a \$0.10 per tonne surcharge. It also owns a 15% stake in the mine, which means it gets a share of

operating profits, too.

Naturally, the success of this mining stock is tied to the price of iron ore. If the commodity is strong, profits will be higher. But unlike investing in a mine operator, Labrador Iron Ore will generate profits even if the price of iron ore is relatively weak.

After all, the royalty company has virtually zero expenses. It just collects its 7% tax on production and passes on the profits to investors through generous dividends.

Double-edged upside potential

Iron ore prices are weak because of a pretty simple thesis. Remember, iron ore is one of the main parts of steel. Steel demand is way down because of a tepid economy, a phenomenon that will stick around as long as COVID-19 is still a threat.

The interesting thing about this theory is iron ore prices don't really reflect that reality. The current price for the commodity is around US\$100 per tonne, approximately where it was at this time last year. The commodity has rallied some 25% over the last couple of months, yet Labrador Iron Ore shares are still languishing around the \$20 level.

If the price of iron ore keeps rallying, this mining stock should deliver solid capital gains from here.

The company also pays one of the most generous dividends on the entire **Toronto Stock Exchange**. It pays a normal dividend of \$0.25 per quarter, giving it a 4.2% yield today. But that's a little misleading, as this mining stock also pays generous [special dividends](#) on a regular basis.

In 2019, for example, the stock paid a total dividend of \$4 per share. Considering the share price is just over \$20 today, that's a massive yield. And although 2019 was a stellar year, the company still paid dividends of \$1.75 per share in 2018, \$2.65 per share in 2017, and \$1 per share in 2016. That works out to \$9.40 per share in dividends over the last four years alone.

The company continued its history of paying special dividends after the first quarter, paying a \$0.45 per share total dividend. Annualized, that works out to a 7.8% yield.

The bottom line on this mining stock

Labrador Iron Ore offers investors a unique opportunity to get exposure to an important commodity without a lot of operational risk that goes with owning a mine. Add in a succulent dividend and it combines to be a pretty compelling investment.

CATEGORY

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

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

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

Date

2025/06/29

Date Created

2020/06/18

Author

nelsonpsmith

default watermark

default watermark