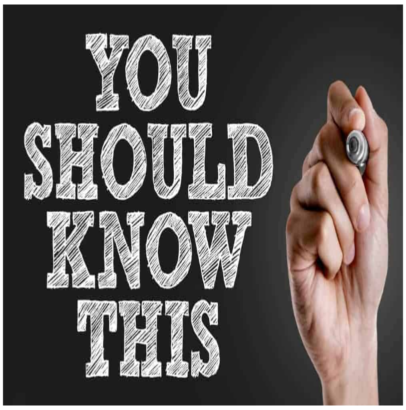

This Little-Known Canadian Stock Should Reward Investors in 2021

Description

If you're not familiar with the steel industry, then you may never have heard of **Labrador Iron Ore Royalty** (TSX:LIF).

Labrador Iron Ore Royalty is a Toronto-based investment company that provides investors exposure to the iron ore market. The company holds a 15.10% equity interest in the Iron Ore Company of Canada (IOC), one of North America's largest iron ore producers and exporters.

Iron ore is the raw material used to make pig iron, one of the main raw materials in steel. In fact, nearly all of the mined iron ore (approximately 98%) is used to make steel.

Labrador Iron Ore holds mining leases and licenses on nearly 45,000 acres of land near Labrador City, Newfoundland and Labrador. IOC leases a portion of this land to mine iron ore.

The investment company receives a 7% gross overriding royalty on all sales of iron ore produced from the lands it holds. Labrador Iron Ore also receives a 10% per tonne commission on all iron ore products produced, sold, and shipped by the IOC.

Labrador Iron Ore rewards dividend investors

The company pays cash dividends from its net income. Since inception, Labrador Iron Ore has paid out 99% of its standardized cash flow.

This stable cash flow is good news for investors looking to build an income portfolio. As of this writing, the dividend yield is almost 7%, with the stock trading at $33.63.

And in good years, the company rewards investors with special dividend payouts.

American upgrades to infrastructure

In a recent article on *The Motley Fool*, Chris MacDonald links the likelihood of increased infrastructure spending in America to upside potential for Labrador Iron Ore. It is expected that infrastructure investment will be a key priority in the first 100 days of President Joe Biden's administration.

According to the American Society of Civil Engineers (ASCE), 80% of Americans support rebuilding the nation's infrastructure more than almost any other issue facing the current administration.

In its report card on the shape of infrastructure in America, the ASCE noted that even prior to the COVID-19 pandemic, the country was already facing an infrastructure crisis. Transit systems reported a backlog of $176 billion for transit investments. Total capital spending on water infrastructure was $81 billion short of the need in 2019.

The need for upgrades to roads and bridges is also staggering. The average commuter in America spends over 40 hours a year stuck in traffic. With almost 50% of America's highways deemed in poor condition, it is estimated that each motorist spends approximately $615 per year in extra vehicle repairs and operating costs.

The increase in severe weather also causes millions of Americans to experience blackouts every year. As we have seen in this past week with the crisis in Texas, blackouts can have a crippling effect on the country.

The new administration's Build Back Better campaign centres on improvements in infrastructure. The plan calls for $2 trillion of infrastructure investment over the next four years.

Biden's plan pushes for a multi-year national effort to modernize schools and provide greater access to clean air and water across the country. The plan also dictates the rebuilding of roads and bridges and the upgrades to electricity grids and broadband infrastructure.

The bottom line

Any upgrades to America's infrastructure will most definitely increase the demand for steel. This should have a profound impact on the mining and exportation of iron ore.

This is good news for investors of Labrador Iron Ore. With cash flows expected to increase based on infrastructure upgrades, investors should realize increased payouts for years to come.

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Date
2025/09/08
Date Created
2021/02/23
Author
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