$4,000 in This Stock Pays More Than $300 Dividends per Year

Description

A high yield income stock flies under the radar because very few investors are familiar with the steel industry, particularly iron ore. Steel can't be produced without pig iron, a main raw material. But you need iron ore to make pig iron. One of North America's largest iron ore producers is the Iron Ore Company of Canada (IOC).

If you want to venture into or gain exposure to this least-known but unique industry, invest in **Labrador Iron Ore Royalty Corporation** (TSX:LIF) or LIORC. The $2.3 billion company's equity stake in IOC is 15.1%. Its subsidiary, Hollinger-Hanna Limited, is the registered stakeholder.

In case you're wondering why LIORC is an attractive investment, the royalty stock pays an ultra-high 8.76% dividend. You don't need much capital to earn hefty dividends. A $4,000 investment will generate $350.40 per year in passive income. Any amount will also double in less than eight-and-a-half years.

Snapshot of revenue generation

Labrador's revenue comes from its investments in IOC. The latter produces and exports premium iron ore pellets and high-grade concentrate. All of IOC's operations are in Canada.

You can find IOC's mining operations, concentrator, and pelletizing plant near Labrador City in Newfoundland and Labrador. Its marine terminal and materials handling facility are in Sept-Îles, Québec. LIORC holds certain mining leases and mining licenses in lands near Labrador City (size is about 18,200 hectares).

IOC leases out some portions of the land where it currently mines iron ore. Meanwhile, LIORC receives a 7% gross overriding royalty and a 10 cent per tonne commission on all iron ore products produced, sold and shipped by IOC. The Government of Newfoundland and Labrador charges a 20% tax on the royalties.

Investment thesis

LIORC is an attractive investment because of noteworthy attributes such as the integrated operations of IOC. The ore producer boasts a significant, high-quality resource with a long mine life, approximately 24 years on reserves (1.2 billion tonnes) alone.

Another compelling reason to invest in LIORC is that the world-class ore producer and exporter operates in a stable jurisdiction. Furthermore, Rio Tinto, one of the world's largest diversified mining companies, is IOC's majority shareholder. IOC produces high-grade, low impurity concentrates and pellets. As market demand is changing, IOC's operational flexibility allows it to shift production between concentrate for sale and pellets.

Regarding value, the 7% top line royalty is already attractive. LIORC receives the off-the-top royalty in cash every quarter. However, it largely depends on the sales volume and IOC's realized price of the iron ore sold. Nonetheless, cash flows as less risky since IOC's capital costs and expenses don't impact the royalty, unlike equity investments.

More positives

While LIORC is obscure, it makes for a quality investment due to the strong dividend yield. The royalty company generally pays cash dividends from the cash flows its investments in IOC generate. Management ensures the payouts are always the maximum, to the extent possible. But it's contingent on the maintenance of appropriate levels of working capital.

Since the commencement of operations, LIORC has paid out 99% of standardized cash flow to shareholders. On year-end 2020, LIORC's positive net working capital position stands at $31.1 million, while the balance sheet is debt-free.

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