TEEKAY TANKERS LTD.

Moderator: Bjorn Moller
May 15, 2008
12:00 p.m. CT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to Teekay Tankers' first quarter 2008 earnings release conference call.

During the call, all participants will be in listen-only mode. Afterwards, you will be invited to participate in a question-and-answer session. At that time if you have a question, participants will be asked to press star one to register for a question. For assistance during the call, please press star zero on your touch-tone phone. As a reminder, this call is being recorded.

Now for opening remarks and introduction, I would like to turn the call over to Mr. Bjorn Moller, Teekay Tankers President and Chief Executive Officer. Please go ahead, sir.

(Dave Drummond): Before Mr. Moller begins, I would like to direct all participants to our Web site at www.teekaytankers.com where you will find a copy of the first quarter 2008 earnings presentation. Mr. Moller will review this presentation during today's conference call.

Please allow me to remind you that our discussion today contains forward-looking statements. Actual result may differ materially from those projected by those forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in our earnings release and the earnings release presentation available on our Web site.

I will now turn it over to Mr. Moller to begin.

Bjorn Moller: Thank you, (Dave), and good morning, ladies and gentlemen. I'm very pleased to report to you the results of our first full quarter as a publicly traded company. With me today from Teekay Tankers is Mr. Vince Lok, Chief Financial Officer, and Mr. Peter Evensen, our Executive VP.

Turning to the presentation and to slide three and reviewing the first quarter highlights, we are pleased to report that the company earned $14 million or 56 cents per share in net income. We also generated $17.6 million of cash available for distribution for the three-month period ended March 31st, 2008. As a result, we declared a cash dividend of 70 cents per share for the quarter. The cash distribution is payable on May 30th to all stock holders of record on May 23rd.

On April 7th, 2008, we acquired two double-hull Suezmax-class oil tankers, the 2002-built Ganges Spirit, and the 2003-build Narmada Spirit from Teekay Corporation for a total cost of $186.9 million. The company financed the acquisition by assuming existing debt related to the vessels and utilizing the company's undrawn revolving credit facility for the remainder of the purchase price. The Ganges Spirit will be employed on its preexisting time charter contract that expires in May 2012, and the Narmada Spirit is currently employed in the spot market trading.

Turning next to slide four, our current fleet mix demonstrates the tactical management of our fleet. Out recent acquisition of two Suezmaxes maintains our balance of spot market exposure and fixed-rate coverage. However, the Ganges Spirit, although employed on a time charter, has a profit share component which allows Teekay Tankers to benefit from high Suezmax spot tanker rates.

The 50/50 profit share on this vessel kicks in at Suezmax rates earned by Teekay's Gemini Pool above $33,500 a day, but is only recognized on an annual basis. So, the upside will not be reflected until the dividend in respect of the fourth quarter each year through 2012.

I would like to spend a little time this morning discussing the spot tanker market, which is predominately strong at the moment. In fact, based on rates so far this quarter, this is shaping up to be the strongest Q2 tanker market on record. We have booked 65 percent of our Aframax days at a TCE of $38,000 a day, and we have booked 60 percent of our Suezmax spot days at an average TCE of $62,000 a day. Current market rates for both segments are well above these levels.

When we look at what's driving tanker rates, it's comforting to realize that the market appears less driven by short-term events and more by solid fundamentals. And on the following slides, I will review the three reasons we see for the current strong market. If any participants on this call who attended the Teekay Corporation call a little bit earlier today – you will find some of these slides to be familiar. But I have some very important points, so it's worth us making these points on this call as well.

So turning to slide five, reason number one for the strong tanker market is strong tanker demand driven by both higher oil volumes and growing average transportation distances. While oil demand growth is flat to slightly negative in the US and Europe, demand is powering ahead in non-OECD. China and developing Asia currently account for 70 percent of global oil demand growth. In Q1, China’s oil imports were up by 15 percent year on year.

Newly published statistics by China highlights the fact the full 35 percent of its imports are now being sourced from the Atlantic basin, which is three times the volumes of five years ago. This highlights the fact that in broad terms, the marginal barrel of oil today is being produced in the Atlantic basin, and it is being consumed in the Pacific basin. There is a related trend of new or growing long-haul trade routes such as Venezuela to China and India, Brazil to California, and Angola to China, and so on. In other words, it takes more tankers to move the same amount of oil today compared to what it used to.

Reason number two – is on slide six – is that the required additional tankers to carry this oil may not actually become available due to limited supply growth in 2008. In Q1, the world tanker fleet grew by only 0.6 percent compared to the end of 2007. Deliveries were almost entirely offset by ships being converted for offshore or dry bulk use, as well as scrapping, which actively reemerge due to high – record high prices for scrap steel.

Many observers have predicted net fleet growth this year based on the published order book. The table on this slide takes a closer look at 2008 fleet numbers. The number of new building deliveries projected by Clarkson is shown in the column marked "2008 Deliveries as per CRS." But based on our first-hand experience of a six-month delay on our own current new building project in China from what is a relatively well-established shipyard, we have adjusted expected 2008 deliveries in the – from the Clarkson numbers in the next column on the basis that half of the scheduled 2008 Chinese new buildings will be delayed by six months.

And so, as an example of the impact of that, if you look at the table, Suezmax deliveries in 2008 are predicted by Clarkson to be 21 ships and our – on our revised modeling, that would be 17 ships due to delays in China. The deletion figures of ships leaving the fleet, Sold for Conversion/Scrap column, includes ships which have already left the fleet this year plus ships mandated out of the fleet this year by the IMO rules plus tankers sold last year for conversion but which have not yet been converted but we expect will be converted this year, plus 50 percent of ships reported for conversion year to date in 2008. So, we have assumed no further conversion sales nor any voluntary scrapping in 2008, which we think is a very conservative assumption. Based on these and our opinion, conservative or realistic assumptions, overall Aframax, Suezmax and VLCC fleet growth could be as little as one percent this year as shown in the column on the right-hand side.

The third reason we are experiencing a strong tanker market – if you turn to page seven – is what we have termed operational constrains; basically a list of factors which, in aggregate, meaningfully reduce the effective utilization of the world fleet. Single-hull discrimination continues to grow. Korea which has been a leading user of single-hull tonnage has set aggressive reduction targets for single-hull use. Twenty percent of the world tanker fleet is feeling the net tighten around it.

A growing a number of ship base are also being lost due to a variety of infrastructure bottlenecks such as ships waiting to unload due to the lack of shore tank capacity in some places, or ships serving a floating storage as we are currently seeing in Iran, where 1.5 percent of the world tanker fleet is tied up temporarily in storage, or in cases where ships are being used as shipping storage by oil traders for tactical reasons.

We're also experiencing stretch repair yards, lengthening the average dry-docking stay for ships. As always, there are a number of temporary factors entrenching the fleet. And finally – and this is probably a factor that's overlooked by many observers – is the issue of high bunker prices. The optimal economical speed of a ship is the function of the price of fuel and the prevailing trade market.

More than one year ago when bunker prices were well below today's levels, container shipping lines began slow steaming their ships due to pressures on operating margins. The result was a significant reduction in their fleet capacity. Based on today's bunker prices of over $600 per ton, a modern Suezmax tanker needs to generate a TCE of more than $50,000 a day to justify maintaining full speed of 15 knots. Otherwise, it is more economical to reduce speeds to 14 knots.

However, doing so would mean taking six percent more days to complete a given voyage. So, this equation represents a major self-regulating factor in tanker supply that should put a flow on the spot rates at a higher TCE level. And it's interesting to note than in 2004, which was the previous peak year for tanker rates, bunker prices were in fact less than one-third of today's levels and therefore did not provide anywhere near the same underpinning to market rates as is the case now.

Slide eight we show the close correlation between global fleet utilization and tanker spot rates. It is generally accepted that for various reasons of inefficiency in the world fleet, 90 percent represents full utilization in the world fleet. And once you get above that level of utilization, spot rates tend to spike dramatically. According to Platou, world tanker fleet utilization is now back above 90 percent, explaining the market strength we are currently enjoying. While it is too early to rule out a degree of seasonal weakness later this summer, fundamentals point to a very tight tanker market overall for 2008.

Turning next to slide nine, I would like to reiterate the significant growth potential for Teekay Tankers, which will allow us to achieve our business objective of increasing dividends per share. Firstly, Teekay is obligated to offer us two additional Suezmaxes no later than July 2009. This is in addition to the two Suezmaxes we acquired in April 2008.

Second, Teekay has over 30 tankers in its fleet, which would be suitable for us to acquire. And thirdly, there are over 1,500 crude oil tankers and over 450 product tankers in the world, with tanker ownership being very highly fragmented in this fleet. This represents a great opportunity for Teekay to consolidate the market.

In closing, we are pleased with Teekay Tankers' first full quarter results, and we look forward to continuing our growth with the objective of maximizing dividends per share. We are now happy to take your questions. Thank you very much.

Operator: Thank you, sir. Ladies and gentlemen, if you would like to ask a question, please press star one on your touch-tone phone. To withdraw your question, please press the pound sign. If you are using a speakerphone, please lift the handset before entering your request. Please stand by for the first question.

The first question comes from Jon Chappell from JP Morgan. Please go ahead.

Jon Chappell: Thanks. Good morning, guys. Bjorn, on the growth opportunities, we know what Teekay has to drop down, but I think the third-party drop downs offer a lot more potential. Can you talk about how the return dynamics have changed just in the last three months since we spoke last? We've seen some players who have been out of the market for several years start to return now. Do the rates now justify kind of current asset prices in your view?

Bjorn Moller: Yes, I think they do. And of course, you have to have the currency to be able to acquire assets. And I think that we would lead positive development in Teekay Tanker's share price. I think we have a good currency. So, the whole theory behind Teekay Tanker's growth strategy is to be able to use its superior currency to consolidate a very fragmented market. And so, there's no question that that strategy is set up for success in light of the various dynamics we see now.

Jon Chappell: When we look at third parties, would you envision trying to remain in the Aframax and Suezmax mid-sized tanker fleet so you can benefit from the pools that you already have established?

Bjorn Moller: That would be the primary growth path as we see it right now. I mean there's clearly opportunity if attractive deals came along elsewhere. But I think that will be the main thrust because there's economy of scale, and Teekay has some strong customer relationships that can be used. And so, I would say that that is the primary growth path. And that's also where I think we have a competitive advantage, through our fleet utilization and our ability to extract additional cash flow per ship per day.

Jon Chappell: Yes. And with Kanata expiring very soon and the Foster in a couple more months, probably for the next call, are you planning to recharter both of these on contracts? You try to balance them out, maybe one-on-one. And has your ideas kind of changed, given the unseasonable strength of the spot markets?

Bjorn Moller: Yes, I think, we kind of – I guess we are going to be actively and tactically managing the fleet. When we took one Suezmax in the spot and one with time charter, that was you know I guess replenishing proportion a little bit more in the time charter side. Then there was sort of an anticipation that we would have some ships running off. So, I suspect we will either not renew either of those ships or at the outside maybe one of those ships, depending on where rates go.

We have also said of course that if there was ever a significant pick up in rates and we could layoff some tonnage, then we would look at that, but it would have to be at rates that are quite a bit higher than where they're expiring, in my view, in light of the strong market.

Jon Chappell: Yes. And then finally, just – is there any scheduled off-hire days for the fleet for the remainder of this year?

Bjorn Moller: Vince?

Vincent Lok: Yes, Bjorn. We do have one vessel that's dry docking in the second quarter, and we have one Suezmax dry docking in the fourth quarter of 2008.

Jon Chappell: OK, thanks Bjorn and Vince.

Bjorn Moller: Oh, thank you, Jon.

Operator: Ladies and gentlemen, if there are any additional questions at this time, please press star one on your touch-tone phone.

The next question comes from Ken Hoexter from Merrill Lynch. Please go ahead.

(Seth Lauer): Hi. This is (Seth Lauer) in for Ken who's traveling. I was wondering if you could dig in a little further on the revenues for 2Q. I know you mention before for both vessels, you've got approximately 60 percent booked or so. I was wondering how long do you expect until you've got 100 percent booked.

And can you quantify, providing further color on how much higher the rates are going to be for that remaining percentage that's unbooked?

Bjorn Moller: I think it's – I mean I think you – we can all look at Clarkson's numbers, which you can see tanker rates for Suezmaxes for Clarkson's 100,000 a day, and at the moment – and I think, depending which route you look at, Aframaxes are ranging from 45,000 to 75,000. But that's using Clarkson. We've you know – in order to be consistent, we stick to the guidance we've given.

I guess I can say that you know our first – our Q2 Aframax number is influenced by the fact that some ships are trading in the East and some in the West, and there was a bit of a slower start and slower ramp-up in tanker rates in the East in April. But that has since caught up, and now tanker rates in the East are actually quite strong. So, I guess typically you fix – the booking for Suezmax is a little further ahead than from Aframax, so you would typically be fixed four weeks – three to four weeks ahead for Suezmax tankers, and two to three weeks ahead for Aframax tankers. This quarter is actually a little bit reversed in that we have further coverage on the Aframax, but it's pretty close.

(Seth Lauer): OK, thank you very much.

Bjorn Moller: Great. Thank you.

Operator: The next question comes from Daniel Burke from Johnson Rice. Please go ahead.

Daniel Burke: Hey, good morning, all.

Bjorn Moller: Hey, Dan.

Daniel Burke: Just one question on the leverage you are comfortable with at Teekay Tankers in light of the Suezmax acquisitions. I was curious what you felt was the most appropriate leverage range particularly in light of your comments that you may be comfortable shifting I guess the Kanata and the Foster towards the spot market?

Vincent Lok: Yes, we started out the IPO at a very conservative leverage level of 25 percent debt to fair market value of assets. With the acquisition of the two Suezmaxes, I think one of things we're benefiting from is the low interest rates. The $119 million that we paid for those two ships, the average interest rate right now on those, on a floating basis, is about three-and-a-half percent all in. So, right now our debt to fair market value is sort of in the mid-40-percent range. I think long term we would like to lower that to strengthen the balance sheet further, but right now, we're benefiting from the low interest rate environment.

Daniel Burke: Sure, thanks, Vincent. And I guess one Teekay Tanker follow-up, just the G&A line. Is that a good run rate? It's a little lower than we thought we would see.

Bjorn Moller: Yes, I think on an average, we're – you should look at about $2,000 per ship per day.

Daniel Burke: OK, great. Thanks.

Operator: Mr. Moller, there are no further questions at this time. Please continue.

Bjorn Moller: OK. Well, thank you very much for attending today. This is our first full quarter, and we're very excited about the results for the quarter. And we're excited about the strong tanker market. So, we appreciate your interest and have the nice day.

Operator: Ladies and gentlemen, this concludes the conference call for today. You many now disconnect your line and have a great day.

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