TEEKAY LNG PARTNERS LP

Moderator: Peter Evensen
August 12, 2011
10:00 am CT

Operator: Welcome to Teekay LNG Partners second quarter 2011 earnings result conference call.

During the call, all participants will be in a listen-only mode and 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 touchtone phone. As a reminder, this call is being recorded.

And now for opening remarks and introductions, I would like to turn the call over to Mr. Peter Evensen, Teekay LNG Partners Chief Executive Officer. Please go ahead, sir.

(Kent): Before Mr. Evensen begins, I would like to direct all participants to our website at www.teekaylng.com where you'll find the copy of the second quarter of 2011 earnings presentation.

Mr. Evensen will review this presentation during today's conference call.

Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results 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 the second quarter of the 2011 earnings release and earnings presentation available on our website.

I will now turn the call over to Mr. Evensen to begin.

Peter Evensen: Thank you, (Kent). Good morning everyone and thank you for joining us on our second quarter investor conference call.

I'm joined today by Teekay Corporation's CFO, Vince Lok and MLP Controller, David Wong.

If we turn to slide number three of the presentation, we generated distribute both cash flow in the second quarter of $37.6 million, up 4% from the same quarter last year. This year over year increase is less than we expect on a run rate basis primarily due to a heavier than normal dry-dock schedule in the second quarter of 2011 as I will discuss later.

We declared and have now paid the second quarter distribution of $0.63 per unit. We've taken delivery of the first of two Multigas carriers built in China that will begin service under a 15-year fixed rate charter. Our total liquidity currently sits at approximately $550 million, part of which will be used to fund the equity portion of our existing new building and the remainder gives the partnership the financial flexibility to pursue other growth opportunities in the form of either third-party acquisitions or tenders for LNG shipping or floating storage re-gas project.

And while Teekay LNG doesn't have any exposure to the spot LNG shipping rate, this market is currently very strong, reflecting the lack of fair LNG shipping capacity today and this bodes well for future project growth.

Turning to slide number four, we've provided an overview of some key developments happening in our gas business. Since our last earnings release in early May, LNG shipping spot charter rates have gained a further $10,000 per day and are now approaching the $100,000 per day mark. This is the result of higher demand for LNG in recent months, particularly in the wake of the Fukushima nuclear crisis as well as lower fleet availability as the number of idle units has fallen on the back of increased charter activity.

The long-term fundamentals for LNG ((inaudible)) and the recent question marks over the long-term viability of nuclear power in the wake of Fukushima disaster have only increased these expectations. As a result, approximately 30 new LNG vessels without charters have been ordered since the start of the year in anticipation of future demand in 2014 and 2015.

We believe that the future LNG demand will absorb this additional shipping capacity, particularly from 2015 onwards, when a significant amount of liquefaction capacity is expected to come online in Australia. Based on this outlook, we've accelerated our business development activities as the LNG shipping space returns to a higher level of growth in the next few years.

With our strong operating skill set, Teekay LNG is well positioned to take advantage of the higher demand environment that's emerging in our sector. We continue to see a high level of interest in floating regastification storage units or FRSUs and Teekay LNG is actively pursuing a number of opportunities in this segment in addition to the more traditional LNG transportation projects.

Our team has been active during the last few months, and we expect to hear back on the status of many of our recent bids before the end of the year.

Turning to slide number five, I will review our consolidated operating results for the quarter, comparing to an adjusted second quarter 2011 income statement against an adjusted first quarter 2011 income statement which excludes the items listed in Appendix A of our earnings release and reallocates realized gains and losses from derivatives to their respective income state line items.

Net voyage revenues decreased by $1.3 million as the result of the three vessels being off-hire for 92 days for scheduled dry-docking. For the third quarter, I would note no off hire days due to dry dockings are scheduled.

Vessel operating expenses increased by $2.6 million as the result of repairs and maintenance relating to vessels in the dry dock during the quarter and an increase in crew wages. General and administrative expenses increased by $1.2 million due primarily to the timing of certain expenses and higher management fees.

As expected, depreciation and amortization and net interest expense remained consistent with the first quarter. Equity income increased by $1.1 million primarily due to a slight increase in charter hire rates on the four RASGAS 3 vessels for cost escalation and full quarter worth of earnings for the LNG vessels in the Exmar Joint Venture, whereas, in the first quarter, these vessels were off-hire for 17 days. Non-controlling interest expense remained consistent with the first quarter.

I won't walk through all of slide number six which was included in our recent earnings release, however, I would like to point out that our coverage ratio of 0.93 times for the second quarter was lower than normal and lower than our normal run rate due partially to the heavy dry-docking schedule in the second quarter of three vessels, resulting in the 92 days of off-hire I described.

In addition, as explained last quarter, our coverage ratio was depressed due to the timing of when we raised equity in April and the timing of the delivery of the Skaugen in the Angola projects and when they begin generating cash flow for partnership.

For the third quarter, we project the coverage ratio will increase as no off-hire days for dry dockings are scheduled and we begin to benefit from the first Angola vessel delivering in late August, as well as having the Skaugen Multigas – full quarter in the third quarter.

Finally, turning to slide number seven, Teekay LNG partners continues to be in the strong financial position. We have more than $550 million of liquidity with no requirement to tap the equity market. We have no covenant concerns on any of our debt facilities and we have a favorable debt maturity profile.

In addition, we are close to finalizing the refinancing of the loan maturing in 2012 relating to the Madrid Spirit.

Operator, I'm now available to take questions.

Operator: Perfect. Ladies and gentlemen, if you would like to ask a question, please press star one on your touchtone phone and to withdraw your question, press the pound sign. If you're using a speakerphone, please lift your handset before entering your request. Please standby for the first question.

Our first question comes from Darren Horowitz with Raymond James. Please go ahead.

Darren Horowitz: Peter, I'm just trying to get a sense of the vessel deliveries syncing up with the model. So as it relates to the new built LNG carriers on the Angola project, you said the first one's coming in August, when do you expect the remaining three to be delivered?

Peter Evensen: We expect them to come one every month, so you should model in the end of August, the end of September, end of October, and end of November.

Darren Horowitz: Okay. And when during the second half of '11 are the remaining two MultiGas carriers expected to be delivered?

Peter Evensen: Well, we have the first one. So the first MultiGas I think will – you should model in for October; and the Winter Gas in November.

Darren Horowitz: Okay and then last question, as it relates to the opportunities that you see out there either for new LNG transportation or FSRU projects, can you give us a little bit more color on the type of projects that you're bidding on or where you see the greatest opportunities over the long-term, where you think you'll have the best win rate?

Peter Evensen: It really comprises of two areas. One is near-term acquisitions as we did with Exmar where we buy a vessel with existing contracts. And so, we're looking at some opportunities there on the gas side.

And the second then is the new buildings where we would expect to start to generate cash flows. If it's an FSRU, that would be a conversion, so you would see things from mid-2013 into 2014. If it's an LNG carrier that we have to build new, that would be 2014 or 2015.

Darren Horowitz: Thank you.

Peter Evensen: Thank you.

Operator: Thank you very much. Our next question comes from Martin ((inaudible)) with (Perryville). Please go ahead.

(Martin): All right. I was wondering about the ((inaudible)) FSR used in the prior question, but realistically, how many contract awards do you think we'll see in this space of the next say, 12, to 18 months?

Peter Evensen: I think it's possible you could see up to 10 FSRUs being awarded. There're a lot of various projects out there and the most important – and there're two important things. One is that there's a real customer requirement for FSRUs around the world because there's a shortage of electricity and gas.

But probably the biggest stumbling block is getting competitive gas. And so what we're finding is people are coming to us with various FSRU requirements, but unless they've locked down where they're going to get the gas, that seems to be the biggest stumbling block.

Martin: Okay. And how do you see competition developing? Obviously, the return so far for those add-on conversions have been very lucrative. Do you see a lot ((inaudible)) into this (state)? How do you think we'll manage to keep it at the high-level for a long time going forward?

Peter Evensen: Well, there are certain companies that can do the regas. First of all, we're talking about the conversions here, not the new builds. I think the new builds are outside of the near-term requirement.

But the best argument that you have for the markets staying better is the fact that the spot LNG market is so high. So with spot rates being at $100,000 or more right now, you really need an incentive in order to take your ship offline and convert it. Because you're making a lot of money if you're trading it as a conventional carrier.

So the opportunity cost of having to give up very lucrative charter rates means that I think the FSRU market will stay high from a return point of view.

Martin: Okay. And lastly on LPG space ((inaudible)) in that market, could you (offer) a little bit of your thought on the LPG market and if that segment for you would be looking to expand?

Peter Evensen: The LPG market is a little bit of the opposite of the LNG market because the spot rates are lower than what is sustainable on a term contract basis. So from that point of view, we're not interested in ordering ships and trading them spot and we haven't found contracts in the LPG market that were long enough that they fit our partnership model.

We could get three-year contracts, but that – we're actually looking for longer contracts as it relates to that. And right now, the overcapacity in that market means that – I don't see that we'll have much of an opportunity unless we can find some sale lease-back opportunities.

Martin: Okay. Thanks so much.

Peter Evensen: Thank you.

Operator: Thank you, ladies and gentlemen. As a reminder, if you would like to ask a question, please press star one on your touchtone phone.

Our next question comes from (John Tisland) from Citi. Please go ahead.

(John Tisland): Hi, Peter. How are you doing?

Peter Evensen: Hi. I'm fine.

(John Tisland): Just considering the spot LNG transport vessels are right now going in a – I think that you mentioned $100,000 range. What do you think that means kind of for this winter as the market should theoretically tighten up as we get into the heating season?

Do you expect a large amount of long-term contracting as we move in from the summer to the fall and into the winter or do you think you continue to see the, you know, the spot market trading where it is and not have too much fluctuations from here?

Peter Evensen: Actually, I don't think that we will see as much of the winter seasonal view. The problem – or the opportunity with LNG was really for the big electricity usage in the summer for air-conditioning and things like that.

I'm sure you've read how they've turned up the thermostats in Japan and they're at 85 degrees. So they've done a good job of reducing the power requirement. And so, and in the winter, you get much more hydro power coming in places like Brazil or in Spain assuming ((inaudible)) rought.

So I don't see rates materially peaking from where they are now. You could get them up to $120,000. But they're already pretty high. So I don't see them going higher.

(John Tisland): Do you see customers looking at long-term agreements a lot more today than you did, I guess, over the last six months? Is that – do you think that accelerates or do you think you just kind of continue along the current pace?

Peter Evensen: I think that will accelerate because of the inherent vessel shortage. So, I think that you will get a greater acceleration. And as (Darren) was asking, if you get more ships that get pulled into the FSRU market, then I think that will only feed that, but on the whole, I think rates have gotten to a good point.

And the reason that the LNGs have gotten that way is because of the inherent arbitrage that Asia is – the price of gas there is about $14 per cubic foot. So, all the gases moving a long haul into Asia and where – and if you have spare gas in the Atlantic, you send it to Asia.

(John Tisland): Thanks for the color.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen, as a reminder, star one on your phone to ask a question.

There are no more questions at this time. Please continue.

Peter Evensen: Okay. Thank you very much everyone. We look forward to reporting back to you next quarter. Thank you.

Operator: Thank you very much ladies and gentlemen. This concludes your conference call for today. We thank you for your participation and you may now disconnect your line, and have a great day.

END