TEEKAY LNG PARTNERS LP.

Moderator: Peter Evensen
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10:00 am CT

Operator: Welcome to the Teekay LNG Partners' Second Quarter 2016 Earnings Results conference call. During the call, all participants will be in a 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 1 to register for a question. For assistance during the call, please press star 0 on your touch-tone phone.

As a reminder, this call is being recorded. 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.

Scott Gayton: Before Mr. Evensen begins, I would like to direct all participants to our website at www.teekaylng.com where you all find the copy of the second quarter of 2016 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 2016 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, Scott. Good morning, everyone, and thank you for joining us on our second quarter investor conference call for Teekay LNG Partners. I'm joined today by Vince Lok, Teekay Corporation's CFO; Mark Kremin, President of Teekay Gas; and Teekay LNG's Controller, Brian Fortier.

During our call today, I'll be taking you through the earnings presentation which can be found on our Website.

Turning to Slide 3 of the presentation, I'll review some of the Teekay LNG's recent highlights. For the second quarter of 2016, the partnership generated distributable cash flow, or DCF, of $76 million and cash flow from vessel operations, or CFVO, of $135 million, which were up by 16% and 13% respectively from the same period of the prior year, primarily due to a favorable settlement related to an LNG carrier charter contract termination dispute in our 52%-owned Malt joint venture of which Teekay LNG's proportionate share was $20 million.

We generated DCF per limited partner common unit of 95 cents per unit, resulting in a strong distribution coverage ratio of 6.7 times. With the recent delivery of our second MEGI LNG newbuilding, the Oak Spirit, which commenced its five-year charter contract with Cheniere Energy, the partnership has now delivered both MEGI LNG newbuilding vessels to Cheniere.

During the second quarter, our Exmar LPG joint venture took delivery of the seventh of 12 midsize LPG carrier newbuildings. This vessel will commence its five-year contract charter to Statoil in August, transporting LPG in the North Sea.

Lastly, I'm pleased to report that we continue to make significant progress on the partnership's debt financings related to our committed growth projects. Since May, we have secured lender credit approvals on over $900 million of new debt financings. We'll provide more details on the status of these financings later in this presentation.

Turning to Slide 4, the partnership has now successfully delivered from DSME, the world's first two MEGI LNG carriers, the Creole Spirit, the Oak Spirit. Both vessels are now operating on their respective five-year fee-based charter contracts to Cheniere Energy lifting volumes from Cheniere's Sabine Pass LNG export facility.

The latest delivery, the Oak Spirit, which commenced its contract with Cheniere on August 1, will transit the new expanded Panama Canal on its maiden voyage to the US Gulf to pick up its first cargo from Cheniere. These vessels are expected to generate approximately $50 million in annual CFVO and $30 million in annual DCF and were financed under new long-term lease facilities with ICBC Leasing.

The successful delivery from the yard and commencement of charter contracts of these two vessels is an important milestone for Teekay LNG as we continue to focus on executing on our committed growth projects.

Turning to Slide 5, securing financing for our growth projects remains top priority and overall we're seeing strong interest from commercial banks, export credit agencies, and leasing companies to fund our projects. Most of which are secured on long-term charter contracts with strong counterparties.

As previously mentioned, we've recently completed the financing and delivery of the Oak Spirit which was financed through a long-term lease facility with ICBC Leasing.

Moving down the list, I'm pleased to report that we've now secured lender credit approval for a sale lease-back transaction to finance three of our MEGI LNG carriers delivering in 2017 and 2018 for approximately 90% of the cost of these vessels, including the Torben Spirt, which is currently unchartered and will deliver between February and December 2017 at our option. We're currently tendering this unchartered vessel on various projects.

Financing for three additional MEGI LNG carriers, which are all employed on charter contracts to Shell and deliver in 2017 and 2018, is currently in negotiation and is expected to be completed by the end of the year.

We will evaluate our financing options next year for the two remaining MEGI LNG carrier newbuildings which don't deliver until the first half of 2019. One of the vessels will operate under a 13-year charter contract with BP and the other vessel is currently unchartered but is also being tendered on various opportunities.

The four LNG carrier newbuildings delivering in 2017 through 2019 on long-term charter with Shell, formerly BG, are already fully financed through a long-term nonrecourse debt facility.

And I'm pleased to report that together with our 50/50 joint venture China LNG Shipping, or CLNG, we've now secured lender credit approvals to finance our first two ARC7 LNG carrier newbuilding vessels delivering in 2018. These two vessels will be financed through a long-term lease facility at a leverage ratio of approximately 80% of the delivered cost of the vessels.

Financing of our joint ventures remaining four ARC7 vessels delivering in 2019 and 2020 is currently being negotiated. Together with our joint venture partners, we expect to conclude the financing with commercial banks and export credit agencies for the Bahrain regasification terminal in Q4 2016 in which Teekay LNG owns a 30% interest.

Teekay LNG's 100% owned newbuilding FSU, which will commence a 20-year time charter to this project upon startup in the fourth quarter of 2018, is anticipated to be financed in the first half of 2017.

Finally, the Exmar LPG midsize carriers delivering in 2016 and early 2017 are fully financed through a commercial debt facility and a new leasing facility which was secured in the second quarter, and together with our 50/50 joint venture partners, Exmar, we've agreed terms for the remaining three vessels and expect to conclude these financings by the end of year.

So as you can see at the bottom of the slide, since we have funded a large portion of the initial yard installments of these projects with equity in previous periods, most of the remaining CAPEX payment will be funded with new debt facilities that we are putting in place resulting in minimal impact on TGP’s liquidity.

Together, we expect these projects to make a significant cash flow contribution to the partnership.

Turning to Slide 6, we’ve provided an update on Teekay LNG’s projected run rate, CFVO, including the proportionate share from its equity accounted investments.

Starting with the Q4 2015 run rate CFVO of approximately $470 million we expect this to be relatively stable increasing moderately now that we’ve taken delivery of the Cheniere LNG carriers and begin to take delivery of TGP’s other MEGI LNG carriers in 2017.

Partially offset this year by the deferral of a portion of the charter payments on two 52% owned LNG carriers on charter to the Yemen LNG project, the sale of two Suezmax tankers and the planned sale of one of our conventional tankers over the next year.

Given the backend loaded nature of TGP’s newbuilding deliveries, Teekay LNG’s run rate CFVO will really begin to ramp up in post-2017 when we expect to add an incremental $250 million of annual run rate CFVO by 2020.

Thank you for joining us today and, operator, we’re now available to take questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star 1 to ask a question. We will pause for a moment to allow everybody an opportunity to signal for questions.

We will now take our first question from Michael Webber from Wells Fargo. Please go ahead.

Michael Webber: Good morning guys. How are you?

Peter Evensen: Good thanks.

Michael Webber: Peter, just to start off you mentioned the uncommitted MEGI and participating in a number of tenders. Maybe within the context of that ship can you kind of talk about whether those are - you're looking at kind of a single asset employment or kind of putting it on the Cheniere for those kind of supplemental volumes, or is it part of, you know, a larger multi-vessel tender? So I guess maybe a good way of asking it, can you kind of describe what the tender environment looks like right now maybe within the context of how you guys are approaching that uncommitted MEGI?

Peter Evensen: Sure. Well, for competitive reasons I'm not going to talk about exactly which projects we are tendering it on.

Michael Webber: Sure. Sure.

Peter Evensen: But there are multiple opportunities to charter newbuilding vessels for various periods from five up to 20 years, and that depends upon which volumes you want to take. Obviously we are looking at volumes that are chiefly coming from the US as well as from Australia. And people want to lock up long-term tonnage.

What we have seen is that there has been a delay in people locking up tonnage, which you would expect because the spot market has been relatively cheap so they've been willing to supplement with a spot to tonnage before they ultimately fix long-term.

And I think that as people start to see the fuel savings that you get on the MEGI LNG carriers then people will start to see, you know, more benign oil price environment that they want to go with the MEGI.

Michael Webber: Sure.

Peter Evensen: So that's why we're seeing a lot of interest in these. And we can't fill the multiple vessel tenders but we have two ships and so they are being delivered, one in 2017, one that delivers in 2019. So those are the ones we're putting on to these projects. But a lot of them are after one all the way up to more vessels.

Michael Webber: Right, yes, I guess what I was asking are those kind of - do you view those two ships as kind of like the lead kind of tip of the sphere for a, you know, four or five vessel tenders that you guys are looking at or are they kind of one-off kind of, more kind of one-off employment that's more viable for those two?

Peter Evensen: Right now we're not - right now we're not really focused on booking more growth.

Michael Webber: Okay.

Peter Evensen: Ultimately through 2020 we there's going to be a need for more LNG vessels in 2019 and 2020. There aren't enough ships for all of the existing projects that are being put online. But we are not really focused on growth right now, we're focused on...

(Crosstalk)

Michael Webber: Yes, no, no that makes sense. Just trying to get a sense on what that environment - what was out there for what was available.

(Crosstalk)

Peter Evensen: I would say there are some that are serious tenders and some that are really more price checks, but they don't have to go because there is a slack in the system.

Michael Webber: I got you, okay. That's helpful. Just kind of turning to I guess the spot market in general, you guys don't have much if any real exposure there. But, you know, you do have some assets that are chartered up to the parent better heading to lay up on the LNG side and we've seen rates tick up a little bit here to kind of $35K and maybe just a bit under $40K.

Just curious as to, you know, what you would need to see in the market for those vessels to reenter the spot trading dynamics and in general when you guys look at the next kind of six months, you know, do you think we will get to a point where the average LNG carrier is not burning cash?

Mark Kremin: Hi, Mike. Just to kind of - the two ships that we have at the parent level, just to clarify, they have actually been moving cargo at this point and we expect that to continue into the second half. So that's a good signal for the market as a whole. Obviously those are niche trade ships so they earn a little bit more when they're in the trade and they do different trades, but those are active -- we have active...

(Crosstalk)

Michael Webber: They're active. Okay.

Mark Kremin: But, as a whole that gives an indication that the market is I think improving. As you say, we have limited exposure in it through our joint venture with Marubeni. But we have some and we have two ships, the Nethan and the Magellan, data have been on the spot market. And what we see from half to half and hopefully next year is a gradual improvement not necessarily in rates. We've seen the $20,000s to the $30,000s creep into the $40,000s, but it's more important that time charter equivalent. So the (Dallas) bonus that we're seeing, the time in between fixtures is improving, you know, ever so slowly but surely.

And so it's going to take some time but things seem to have bottom out. And we've also seen recently rumors and we will see more, we are beginning to see some term charters I think are getting fixed. So we were doing voyage by voyage, it's now month by month and we are now hearing about year by year. And that's a good sign of hopefully improvement.

Michael Webber: You're right...

(Crosstalk)

Peter Evensen: Yes, just to clarify, Teekay Corporation charters two ships from Teekay LNG and those ships were idle in the second quarter and one of them is coming out and is being employed on short term voyages. So that's...

Michael Webber: Right, right.

Peter Evensen: ...an indication, as Mark was saying, that the market is improving.

Michael Webber: No, that's helpful and I appreciate that. Just one more and I will turn it over, and this is kind of higher-level, Peter, but, you know, I guess throughout the space, you know, the idea of kind of building out kind of higher specs, marine infrastructure, be it FSRUs or FSUs or FLNG, have been a pretty big focal point the past year, year and a half, and it seems as though maybe most of 2015 and early '16 the economics associated with kind of converted assets seem to be relatively favorable because we are hearing a lot about it as kind of an outlet for LNG tonnage or excess carrier tonnage.

And we certainly saw it on the FLNG side, and I know you guys have been active in that sort of stuff in the past just in terms of converted projects. But I'm just curious as we stand today, you know, with a lot of excess shipyard capacity in and around Korea whether - aware of those relative economics for converted assets be it, FSRUs, FSUs, versus newbuilds, you guys are obviously busy on the FSU side.

But, you know, I know you got a pretty good purview into this. But have we seen any short of meaningful shifts where the Korean yards are getting a bit more competitive in terms of newbuild pricing for higher spec floating LNG infrastructure?

Peter Evensen: Yes, I would say that when you compare - if you're talking about the shipyard prices in general, we expect to see a softening, because obviously the order books are running down. And so that's what we're seeing. And obviously with only four LNG newbuild orders being placed since the start of 2016, you can start to see that there's going to be some slack in the system looking out into 2018 and 2019.

But, as it relates to FSRUs, we've done the studies on conversions and we've looked at various projects. We continue to believe that newbuilds will be preferred because over conversions because the only thing that conversions give is faster time to market whereas on the whole people would rather have newbuilds and the pricing of the newbuilds looks like it's more competitive than maybe doing conversions.

Michael Webber: Okay. That's helpful. I will turn it over but thank you for the time, guys.

Peter Evensen: Thank you.

Operator: If you find that your question has been answered you may remove yourself from the queue by pressing star 2 on your telephone keypad. We're now take our next question from Spiro Dounis from EBS Securities. Please go ahead, sir.

Spiro Dounis: Hey, good morning, everyone. Thanks for taking the question. Just wanted to s tart off with the distribution and, you know, I won't try and draw you on the specific timing or anything. But it seems like if you laid out a pretty clear path to obtaining the committed financing and as far as capital markets go, it seems like NLPs are out there raising capital again. So I guess just relative to when you made the decision to cut back in December to right now, you know, is that pathway to restoring the distribution closer, further or about the same as to where it was before?

Peter Evensen: Well, obviously it is eight months closer because eight months has happened since we unfortunately had to temporarily cut the distributions. So but we continue to believe it was the right thing to do because we've been able to use the money saved on the distributions to as the equity for the down payments.

And as I said in my prepared remarks, that puts us in a position now that we have made the down - we've used that money that we saved to make the down payments and that has saved us from some dilutive equity issues. And so without being drawn on the time, we expect to restore our distributions as we complete the financings that I talked about.

Spiro Dounis: Okay. That's clear. And then second one just sort of housekeeping on the option to I guess defer that LNG carrier. Two parts, and sorry if I missed it, but did that option cost you anything? And then in terms of the CFVO guidance that you provide, is there any sort of run rate baked into that CFVO for the specific vessel?

Peter Evensen: Sure. So the answer is we do have to pay a ticking fee to DSME if we delay the delivery but it is in the low single digits as a percentage so we feel that if we don't get employment for the ship, we would be better off delaying the delivery. But I would emphasize that we are tendering it in for employment that would mean that we would take delivery in early 2017. But if we don't win those, then we'll delay it.

And on the CFVO, Vince, do you want to take that?

Vince Lok: Yes, we did include that on Slide 6. I know it's difficult to see that relative to all the other items but we've conservatively estimated a small amount of CFVO for that ship so the middle way through that slide.

Spiro Dounis: Got it. Okay that's helpful. Appreciate the color. Thanks, guys.

Peter Evensen: Thanks.

Operator: Our next question is from Fotis Giannakoulis from Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes, hello guys. And thank you. Peter and Vince, it seems that you have done a lot of progress on the debt financing. And you're close to finalize all your credit facilities. I see that there is a difference of about $120 million, $130 million that will have to still to be covered by equity. How, you know, what do you think that you will have - when do you think you will have to raise this equity? And what other options does the company have except of common equity in order to create this liquidity?

And if you can also comment on the debt maturities that you have and the refinancings, that they are coming due during the next couple of years.

Peter Evensen: Sure. So the answer is we don't anticipate raising equity to close that hole. The money that we're saving by not - by having reduced the distributions is going toward filling that. So we're continuing to generate excess cash flow because, as you saw, our distribution coverage was over 6. And so we will not be - we do not anticipate accessing the markets with a follow-on offering for that.

And as it relates to the - so we're putting in place the financings for the existing ones going forward. And then we anticipate we can go from cash balances and with a combination of refinancings so for example we have a bond due in May next year of $125 million, and we anticipate that we could pay that off with cash if we can't extend it going forward.

But so we feel relatively comfortable on that side of things. We have some existing loans that are coming due in 2017 and 2018. And we have no reason to think that we won't be able to extend those since those vessels remain on charter contracts longer period with the exception of the four Malt vessels where we expect to just extend that refinancing in 2017.

Fotis Giannakoulis: Thank you, Peter. And one last question about the overall market and the liquefaction projects, earlier this morning Gas Log tried to draw the attention to a couple of developments including the Kinder Morgan Elba Island project that is expected to take (FID) this soon. I remember that you have been a little bit cautious about the projects, the (FID)s of additional projects in the US and worldwide. Has something changed during the last couple of months? Do you see that there are the conditions of seeing new projects taking (FID) going forward?

Peter Evensen: Well obviously I haven't had a chance to hear what Gas Log said so I'll just say what I'm saying. And I'm as optimistic about that. But what we're talking about is projects that'll come in beyond the 2020 timeframe. I'm more concerned with what's happening in 2016 up to 2020.

And there I can say things are actually much better. Last quarter we reported that the LNG trade was flatter, but now when we look at first half of 2016 against first half of 2015, we actually have seen that the LNG trade is about 9% higher. And crucially, we've seen imports into China up 30% first half on first half.

And in India, we've seen imports increase 45%. And that is a function of a renegotiation of prices such that those LNG has - that the LNG has become competitive compared to other prices of other fuels. So I think on the whole, that is good news. There has been some decrease in Japan, but on the whole the growing economies of China and India growing means that we're starting to see that repair.

At the same time, what we're seeing on the newbuilding side is that people aren't placing orders. So we see all the right fundamentals going in toward an improving market. And so I think that's on the whole very good news. And I'm much more focused on that.

If we actually look and see what happened, there's more LNG that is being traded right now as we've had volumes coming in from Australia and volumes from the US. But the reality is, it could be ever better because we've had startup problems on Gorgan in Australia as well as Angola has been delayed a little bit further to late summer.

So when those volumes come up we should actually see more LNG that is available to be traded. And on the whole, that's good news because that'll soak up that and give increased utilization to the spot market. And when the spot market increases then I think we have all the essential ingredients for a slow but gradual recovery in LNG rates as the utilization picks up.

And that's a little bit that we're seeing this summer. So I'm concerned more about that rather than a post-2020. But let's wait and see who takes (FID). I think these brownfield projects, whether it's Lake Charles, Elba Island, when they take (FID), then we'll know. But those won't come online for three or four years.

Fotis Giannakoulis: Thank you very much, Peter.

Peter Evensen: Thank you.

Operator: Once again, if you would like to ask a question please press star 1 on your telephone keypad. We'll take our next question from Nick Raca from Citi. Please go ahead.

Nick Raca: Thanks, guys. Just a couple of quick questions. Peter, thanks for all that color. In terms of the actual slack - or surplus vessel capacity that exists out there, I mean, when do you see that going away?

Peter Evensen: I just see it gradually recovering as more ships are required as more LNG projects ramp up to capacity. And so I see a steady improvement. Yes, will you get some gyration in rates, but that's why we had two ships idle in the second quarter. It didn't effect TGP because they were on charter. But now we start to see that other projects are coming in, we can bring those ships up and get them trading again.

Nick Raca: Got you. So then I guess if we were to sort of talk about some of the tendering activity at you mentioned, is there - and understanding that, you know, a new tender would require new vessels, but are you seeing on the tendering side specifically customers willing to say, you know, sign up for excess capacity or vessel capacity? So, for instance, a project coming online, are they more prone to come out and say, you know, we'll take the older vessels for X number of years and help out with the surplus capacity?

Peter Evensen: That's exactly right. What we saw was the market change as the spot market made sure that there were enough vessels available. There were - so let me give you a little more color. There were about 33 vessels when we talked about 90 days ago. Now there's about 23 vessels. And so one of the chief requirements is that you have the confirmed vessel employment.

But people feel there's enough wiggle room right now and slack capacity that they're okay to be in the spot market. But ultimately, those are going to convert to fixed employment. And that's where Teekay LNG has a chance to put some of its existing ships onto medium term charters and charter our newbuildings for a longer term.

Nick Raca: Okay. And then just switching gears a little bit, in terms of the Exmar JV, is there an end goal to IPO joint venture and monetize it someway or is that something that TGP will hold onto?

Peter Evensen: I don't think so. We're very happy with that joint venture. It has been very successful, generated a lot of cash. And we've been going through a fleet renewal program on that fleet. And that's actually been well received by customers. Because it trades in environmentally sensitive areas like the North Sea, they're very interested in our new modern tonnage that's more fuel friendly.

So that has enabled us to charter out most of that fleet. We've been able to sell the older ships at a premium. And so we've not only reduced the average age of that fleet but we've enhanced it in the eyes of its customers to carry short haul LPG and ammonia.

Nick Raca: That's all I had, guys. Thank you very much.

Peter Evensen: Thank you.

Operator: We'll take our next question from ESPN Landmark, Fernley. Please go ahead.

ESPN Landmark: Yes, hi guys. Just wondering on the 2019 uncontracted, we saw (BW) doing a FSU conversion on that earlier this week. And you mentioned that you're seeing kind of the newbuild side it makes more sense to do FSUs than on conversion. I mean, could you do that on the 2019 deliveries?

Peter Evensen: I actually think it's - we could, I guess, but we actually see enough opportunities for the point to point LNG market that, for us, we would rather be on the point to point LNG. We don't - it isn't part of our investor thesis to have speculative FSRUs. We're much more comfortable waiting until we get a contract before we go into the FSRU market.

And all of these contracts in the FSRU market, from our point of view, usually the counterparties aren't as strong as what you see in the point to point LNG and counterparty risk is one of the things we concentrate on.

ESPN Landmark: All right. And then is there - could you give any more color on the two Yemen vessels, just looking at Page 6, are you assuming those to be starting early next year?

Mark Kremin: We probably don't assume them to start early next year. But the agreement that we have on the deferral does end at the - at this year - the end of this year. So we'll have to have more talks with the Yemen. Right now the plant is certainly ready, it's in good shape and it's been maintained and that's where the cash from the sponsors for the project have gone. So it's ready to start up in a short period of time, weeks or months.

But it's probably - given the news of where the peace talks are, we think it'll probably take a little longer than that. In the meantime, the ships are being sub-chartered out though to I guess multi-month spot type of business.

ESPN Landmark: That's helpful.

(Crosstalk)

Peter Evensen: ...so that's hurt the partnership CFVO by about $20 million. But I would empathize that that contract is still valid and those funds are deferred.

ESPN Landmark: I see. And finally on the (Yamal), is it possible to get any, you know, sort of terms on kind of the amort profile and the interest?

Peter Evensen: Yes, when we finish them we'll give a little bit more color on those.

ESPN Landmark: Thank you.

Peter Evensen: They're not...

(Crosstalk)

Peter Evensen: ...we've agreed terms.

ESPN Landmark: That's it for me. Thanks.

Peter Evensen: Thank you.

Operator: If you would like to ask a question please press star 1 on your telephone keypad. It appears that there are no further questions at this time. Mr. Evensen, I would like to turn the conference back to you for any additional or closing remarks.

Peter Evensen: All right, thank you all very much. As you heard, we've made a lot of progress both in taking delivery of our new MEGI LNGs as well on our top priority of completing the financings, which is a necessary requirement before we can restart distribution. So thank you very much and we look forward to reporting back to you next quarter.

Operator: Ladies and gentlemen, this concludes the conference call for today. We thank you for your participation, you may now disconnect your lines.

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