TEEKAY LNG PARTNERS L.P.

Moderator: Peter Evensen
November 08, 2013
10:00 am CT

Operator: Welcome to Teekay LNG Partners Third Quarter 2013 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 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.

Ryan: Before Mr. Evensen begins, I'd like to direct all participants to our Website at www.teekaylng.com were you'll find a copy of the third quarter 2013 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 contained in third quarter 2013 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, Ryan. Good morning, everyone, and thank you for joining us on our third quarter of 2013 investor conference call. I'm joined today by Teekay Corporation CFO, Vincent Lok, Chief Strategy Officer, Kenneth Hvid, and MOP Controller, David Wang.

During our call today, I'll be walking through our third quarter of 2013 earnings presentation, which can be found on our Website. Turning to Slide number 3 of the presentation, I will review some recent highlights.

The partnership generated distributable cash flow of $64.6 million in the third quarter, up 12% from the same quarter last year. The year over year increase is mainly due to cash flows from the partnerships 50% investment in ((inaudible)) LPG.

And the acquisition of an LNG carrier from Awilco LNG, with an associated fixed rate charter back contract. For the third quarter, we declared and paid a cash distribution of 67-1/2 cents per unit, which was consistent with the previous quarter.

In the third quarter, we entered into a second accretive vessel purchase and charter back transaction with Awilco LNG on similar terms as the first vessel that delivered in September, which will provide additional near term distributable cash flow growth.

The charter for the second vessel is for four years, plus a one year extension option, commencing upon the vessel's delivery from the shipyard, which is expected to occur in late November.

And while the tenure of the contract has been reduced by one year compared to our first Awilco LNG acquisition, the returns for the two vessels for the partnership will be equivalent. Both vessels are expected to generate incremental distributable cash flow of approximately $7.5 million for the partnership or $15 million per annum for both vessels.

On the back of these two accretive LNG acquisitions, we intend to increase the partnerships quarterly distribution by approximately 2-1/2% or 7 cents per annum, bringing Teekay LNG total annual distribution to $2.70 per unit - $2.77 per unit.

Based on Wednesday's posted price, this represents a yield of approximately 6.6%. Based on partnerships growing LNG and LPG new building order book, we expect further increases to Teekay LNG's distributable cash flows as we take delivery of these vessels.

We currently have four LNG newbuildings on order. And our 50% owned Exmar LPG joint venture exercised options for two additional LPG newbuildings, bringing the joint venture's total LPG order book to 12 mid-size LPG carriers, which are scheduled to deliver between 2014 and 2018.

While we expect the joint venture will sell some older vessels, on a net basis, the LPG fleet will grow. As I reported last quarter, there continues to be a significant amount of LNG and FSRU project tender activity and our business development group is actively evaluating and bidding on several of these with expected delivery dates in 2016 and beyond.

When a significant amount of new liquefaction capacity is expected to come on line, which will increase the demand for LNG carriers. On Slide number 4, we've updated our forward fixed rate revenue projections to include our recent growth activities.

This slide has been a hallmark of Teekay LNG since the partnership first went public in 2005. And I'm pleased to report that it keeps getting stronger. The nature of our contracts is that we have no commodity price or volume exposure and therefore are essentially ((inaudible)) in nature.

As you can see in the left hand column, our LNG franchise is by far the greatest contributor to our forward revenue portfolio, with approximately $5.9 billion of forward revenues, with an average remaining contract term of 13 years.

This number is expected to increase when we secure fixed rate charters for our two currently uncontracted LNG newbuildings. Our LPG carrier segment has also been growing, primarily through investment in our 50% LPG joint venture with Exmar.

This joint venture has been operating well and our decision to partner with one of the world leaders in the mid-size LPG space has been the right one. Lastly, while we do not expect our conventional tanker fixed rate revenues to increase materially, this segment still contributes over half a billion dollars towards our fixed rate revenue portfolio.

With over $6.9 billion of forward fixed rate revenues, the partnerships existing portfolio of long term fixed rate contracts will continue to provide our unit holders with a strong foundation of stable cash flows for many years to come.

Turning to Slide number 5, I will review the long term supply of liquefied natural gas and the expected implications for LNG shipping. Based on our review of LNG export projects currently under construction or in development, we expect more than 200 million tons per annum of new LNG export capacity will come online between the start of this year and the end of 2020.

More than 90 million tons of export capacity is currently under construction or has already been completed since the start of this year, with the majority of this expansion in Australia.

Most of the remaining approximately 110 million tons of capacity is expected to be built in North America. Delivering this LNG to customers will require a significant expansion of the current LNG carrier fleet.

Based on the current order book, 116 new LNG carriers will deliver between the start of 2014 and the end of 2017, including Teekay's four ((inaudible)) powered LNG carriers delivering in 2016 shown in red.

As highlighted in the table above the graph on this slide, LNG carrier demands depend on the voyage distance. Based on an average of the existing global LNG shipping routes, to transport 1 million tons per year of LNG requires approximately one standard size LNG carrier.

While the LNG market appears well supplied with vessels for the next two years, from 2016 onwards, the market is expected to tighten again, as shown on the graph. And further, LNG carrier orders will be needed to match the significant growth of the LNG export market from 2017 onwards.

To put this growth in context, the amount of LNG export capacity we expect will be added in the four years from 2017 to 2020 is almost twice the export capacity added in the previous four years.

With our four new LNGs delivering in 2016, two of which are already fixed on time charter contracts with Cheniere, we believe Teekay LNG will be well positioned to take advantage of further growth in the global LNG export ((inaudible)).

The largest LNG carriers that will be capable of transiting the widened Panama Canal starting in 2015. So these vessels will be ideally suited to the growing long haul U.S. to Asia trade.

Moving now to the financial results for the quarter on Slide number 6 and starting at the top of the income statement. Net voyage revenues increased by approximately $5.8 million, primarily due to operating and dry dock expense recoveries in Q3 and more off-hire days this quarter due to fewer dry dockings.

For the fourth quarter, 60 off-hire days are expected due to scheduled dry dockings of two Suezmax conventional tankers. Vessel operating expenses, depreciation expense, and G&A were in line with the previous quarter.

Equity income increased by approximately $1.6 million, primarily due to the positive impact of higher rates earned in Q3 in the Exmar LPG joint venture. Partially off-set by higher interest expense within the LNG joint venture with Marubeni, as a result of the new debt facilities that replaced our acquisition bridge loan.

Net interest expense increased by approximately $1 million, primarily due to interest expense related to some bonds we issued in September 2013. I won't walk through all of Slide number 7, which was included in our recent earnings release.

However, I would like to point out that the Q3 coverage ratio was very strong at 1.15 times, despite the fact that includes the impact of new LP units issued in October in connection with the Awilco LNG carrier acquisitions.

For the fourth quarter, even with an expected 2-1/2% distribution increase, we expect the Q4 coverage ratio to remain relatively strong, as well generate more distributable cash flow from the two Awilco LNG vessels.

Partially off-set by the full quarter of interest expense from the recently issued bonds and scheduled dry dockings on two of our conventional tankers in Q4. For an overview of the scheduled dry dockings for the remainder of 2013 and 2014, please refer to the Appendix of this earnings presentation.

On Slide number 8, we've updated Teekay LNG's illustrative future growth chart based on the current and potential opportunities we see over the next few years. While highlighting the 2-1/2% increase, we intend to make Teekay LNG's distribution as a result of the Awilco transaction.

From 2014 to 2017, our Exmar LPG joint venture is scheduled to take delivery of 12 LPG newbuildings, with the latest two announced yesterday, delivering in 2017 and 2018. In 2016, our first two MEGI LNG newbuildings will commence their charters with Cheniere upon their delivery.

And once we secure charters for the other two recently ordered newbuildings, our distributable cash flow will increase meaningfully again. Looking to 2017 and beyond, the partnership also has options to order up to an additional six LNG carriers, which can be employed to service new LNG growth projects, which could provide future distributable cash flow growth.

And this chart does not take into account any acquisitions we may make in the meantime. Wrapping up, the medium term fundamentals in the LNG shipping market remains strong. Supported by the increasing potential for LNG exports from the U.S. and with Teekay LNG partners scale and access to an increasingly diversified base of growth capital, the partnership is well positioned for future growth.

Operator, I'm now available to take questions.

Operator: Thank you, Mr. Evensen. Can you please adjust your headset as the sound was coming a little bit choppy?

Peter Evensen: Okay.

Operator: Okay. We'll now move to question and answer. Ladies and gentlemen, if you would like to ask a question, please signal by pressing the star key followed by the digit 1 on your telephone keypad.

If you're using a speakerphone, please make sure that your mute function is turned off to allow your signal to reach our equipment. If you have signaled for a question before these instructions on today's call, please repeat the process now again by pressing star 1 to ensure our equipment has captured your signal.

Please stand by as we assemble the queue. The first question is from Michael Webber of Wells Fargo Securities. Please go ahead.

Male: Hey, guys. This is actually ((inaudible)) from Michael Webber. I guess my first question, really, is regarding the options for the six MEGI LNG carrier newbuildings you have. In terms of - in Q2 earnings, you guys mentioned you're still in discussion with a real potential charters for those vessels.

Just wondering if there was any updates on that?

Peter Evensen: Hi. No, we don't have any new contracts to announce. And we don't give any specificity on which projects we're going after. But we've had several, and continue to have several discussions with charters on those.

Male: Got you. And in terms of expectations, if those are exercised, would you say those would be potentially similar timing in terms of 2017, 2018, or something beyond that given the majority of the LNG projects coming online are going to be more on the later half of that timeline?

Peter Evensen: We have options for defined slots and those would come in 2016 and more in 2017.

Male: Got you. And those options would expire in - if you could give me some color in terms of, like -

Peter Evensen: Roughly at the end of the year.

Male: Got you. Okay, and in terms of growth projects going on right now, obviously, there's Australia, Papua New Guinea, and the U.S. in terms of LNG exports, but in terms of specific geographies where you see the next stage of LNG growth, would you say there's some other geographies out there where you're actively looking at in terms of bidding on projects?

Peter Evensen: It's mostly volumes that are coming out of the U.S. and Australia where we're seeing projects. And we're talking with a lot of the people who will be importing those volumes to various countries, including India and China.

Male: Got you. So I think that's the kind of quick questions that are in mind. I'll turn it over to the next person.

Peter Evensen: Thank you.

Operator: Thank you. And the next question is from Fotis Giannakoulis of Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes. Good morning, Peter.

Peter Evensen: Hi, Fotis.

Fotis Giannakoulis: Can you please give us your estimates about how many vessels of - newbuilding vessels currently on order? They do not have a contracts - what is the mismatch of the next couple of years?

And also, given your estimates on liquefaction capacity that comes on line in 2016, how many vessels will need to be built for the projects?

Peter Evensen: Sure. We, by our count, there's 106 newbuildings on order. And that doesn't include re-gas vessels or small LNG carriers. And a total of 31 of those LNGs are uncommitted. And that's down from about 34 that there was in May last year.

And so when we look at that, we're seeing that there's probably about 13 more vessels scheduled to deliver by the end of the year, but we see that the uncommitted vessels will probably get deferred into 2014 for some of these orders.

And so that's why we think that with some of these uncommitted vessels coming in, it'll put some downward pressure on spot rates of - for the remainder of 2013 and into 2014. And you have 30 vessels of those delivering in 2014, of which 14 are uncommitted.

And then in 2015, you have 29 vessels, of which eight are uncommitted. And it's difficult to figure out exactly when projects are going to come on. And so, obviously, most of the volumes that you see right now are coming in from Sabine Pass, but most of - not all but most of that tonnage has been locked up.

We have our Cheniere vessels and BG, who has a significant amount of those volumes has already secured their capacity for those. There's a few more volumes that'll come on. And looking out, when we look in 2014, we see that there's four projects but two of them won't start until later in the year.

That's the Papua New Guinea LNG and a small project in Indonesia. And so then we're starting to look at the big projects in Australia coming on in 2015 into 2016. And the hard part with knowing exactly when the projects will come is because sometimes they get delayed a little as - for example, we saw with Angola LNG, which was two years late.

However, we have four of the seven vessels on that run and we've been paid because we have ((inaudible)) that capacity.

Fotis Giannakoulis: Does this mean that the sufficient newbuildings for 2016 or there is a need for some of the options to be exercised? Can the existing order books serve a set of the projects that they have scheduled for 2015 and until when do we have a vessel ((inaudible)) and the owners will have to start thinking again or letting more ships?

Peter Evensen: As the Slide number 5 shows, we think there are sufficient newbuildings to take the capacity into 2016 and it tightens into 2017. The more interesting question is the type of ship.

The reason we have stressed our MEGIs is that they're more fuel efficient than a lot of the first generation DFDEs. They're about 30 tons more efficient. If you times that up by $700 a ton, that's $20,000 a day.

They're 60 tons more efficient than the steam. So that's why we were able to charter our MEGIs earlier than some of the existing tonnage that was out there, even the modern existing tonnage.

And that's why we anticipate that our MEGIs will move to the head of the line when you have charter opportunities. But there's really two kinds of markets. There's the spot market and then there's the charter market for medium term.

And the type of ships we're building are ideal for medium term charters. And that's what we're targeting. Other people may just find that their ships trade spot.

Fotis Giannakoulis: Can you enlighten us a little bit about the vessel that you ordered? We've been hearing that the seven vessels - they do not - they do not have access to all the ports or they are not optimal for each cargo.

Can you tell us what does this mean - other vessels that they have characteristics that they cannot serve trade ((inaudible)) needs versus others?

Peter Evensen: Well, so some people have ordered 155 and 160,000. For example, the two ships we bought from Awilco are 155,000. These are what we call ideal trading vessels because the cargo sizes that you take are good for 155 and 160,000.

So they can trade spot and get into all the ports. Our 173,000s are optimally sized for the Panama Canal and so they're for long haul routes. But there are very few ports that can't take 173,000 versus 160,000.

And we anticipate that that won't be an issue as port capacity is increased. It was the same question, by the way, that you had when (Katar) ordered up some very big ships, Flex LNG that we had.

And these were over 200,000. We have three of them in our fleet. But we're able to find that the ports expand over time in order to take them.

Fotis Giannakoulis: Okay. Thank you for your answer. I want to go to the LPG market. It seems that it is - this very strong expansion of U.S. export capacity from ((inaudible)) enterprise.

Can you tell us if there are any risks in these expansion projects? And also, given the volume that is going to be exported, how will the - this volume be distributed among different vessel classes and different sizes?

Peter Evensen: Well, so I'm not sure I'm the expert to tell you about the timing of some of the export projects. Of course we follow them very closely. They're for propane to be exported. So pretty much they'll go on VLGCs.

But ship owners are really good at anticipating demand and a lot of VLGCs have been ordered. So we expect there to be volatility - rates go up and down. That's traditionally a very volatile market, with rates being high and rates begin low.

And there's the seasonality to it. I think the big question isn't whether there will be export capacity, it's a question of where will that LPG go? And nobody has really answered that question.

But we decided to target the mid-size, as well as the ethylene capacity because that - those markets are niche markets. They carry ammonia. They carry smaller LPG on regional trades around Europe.

And that's where you don't find VLGCs. So there really are different markets when it comes to LPG. Everyone's talking about the LP - the VLGCs because people have ordered a lot of them.

And people have targeted the U.S. export capacity. But where we are targeting the mid-size and the Ethylene, we find less competition and we don't find as much volatility. So that's why it's more suited to our partnership rather than to be more of a spot player as the VLGC market is.

And these vessels that you have ordered, what routes do you think they will be optimal for? Is it going to be South America, Europe? And also, if you can comment on the expansion of a petro chemical projects in China, in particular that I assume is the long haul voyage for LPG vessels.

Yes. But we are not targeting as much the long haul trade. We're more targeting ammonia trades and we're targeting - so those are inside the ocean basins. We also target the LPG trade that goes into India and Bangladesh and Pakistan.

And then we have the ammonia trades and LPG trades around Europe and then, of course, around North America.

Fotis Giannakoulis: And my last question - you have a pretty sizeable presence in this segment of mid-size LPG vessels. How hard it is for a new comer - we've been hearing private equities entering the product tanker market, the dry dock market.

How hard it is for some new venturer or ship owner that is not involved in this segment to buy this type of vessels and operate them successfully?

Peter Evensen: Well I would love to say that there's a barrier to entry in our market, but I don't think that there is. What we do have in our joint venture is we have very good customer relationships and we have volume contracts.

So rather than charter an individual ship, we contract with a customer in order to move x amounts of cargos a month. And therefore, you need a certain base load capacity in order to be able to have those contracts of a freightment, as we call them, which are volume specific contracts.

And so I think it's hard for people to build that up one vessel, two vessels at a time. But having said that, in 30 years in shipping, it's amazing, as I said earlier, how ship - how people can get enthusiastic and over order ships.

So in these small markets, and I would call LPG a small market, you have to be careful that you don't get too many ships. And I personally think there is a risk on the large sizes - that too many ships have been ordered if that export capacity doesn't come on line as people have anticipated.

Fotis Giannakoulis: Thank you very much, Peter.

Peter Evensen: Thank you, Fotis.

Operator: Thank you. And the next question is from Darren Horowitz of Raymond James. Please go ahead.

Darren Horowitz: Morning, Peter. I just have a quick question. Thinking about the cash flows for '14 and '15, I know that there were a few things that you had alluded to in previous conference calls in terms of plusses and minuses.

And I'm curious, you know, with the Exmar transaction obviously being accretive DCF, are you still expecting about a $2.5 million negative impact next year for the Suezmax charter renegotiations and possible the termination of, specifically, those two boats impacting '14 and '15 cash flows by $5 million respectively?

Peter Evensen: Yes. I think we will go ahead and sell some of our Suezmax, older Suezmax tonnage in '14 and '15. And so that will decrease the DCF. But we're confident we'll be able to make it up with acquisitions.

Darren Horowitz: Okay. So any point - or at this point is there any timing as to when you think you might reach a point where you'd sell those?

Peter Evensen: We're continuing to talk with the charter - they are on charter, so we're talking with the charter about what's the optimal time to sell some of them?

Darren Horowitz: Okay.

Peter Evensen: It's not all of them. It's just some of them.

Darren Horowitz: Sure. Yes, I recognize that. I think it's just the Hamilton Spirit and the Bermuda Spirit. But I'm curious -

Peter Evensen: Well the Hamilton and the - the Hamilton and Bermuda we agreed with the charter to reduce time charter and, I believe, next September it reverts back to the original charter.

Darren Horowitz: Okay.

Peter Evensen: So then - then we produced it for two years and it'll - then it'll increase. David, how much is that that it'll increase on each ship?

David Wang: About another $13,000 today.

Darren Horowtitz: Okay.

Peter Evensen: Sorry. I think my phone isn't...

Darren Horowitz: That's okay. I can hear you coming through. That's helpful. So outside of that and the additional dry dockings, are there any other variances in 2014 cash flow that we should be looking out for?

Peter Evensen: David, you want to take that?

David Wang: Yes. What Peter alluded to there is three vessels that we have on charter with (Sepsa) and (Sepsa) has the option to terminate those charter contracts. Two of them are looking to be, well they've agreed, or told us they're going to terminate.

So we'll expect those to happen mid to early 2014. And there's a third one that we expect maybe later in the year.

Darren Horowitz: Okay. Thank you very much.

Operator: Thank you. And the next question is from Dan Hinds of Salient Partners. Please go ahead.

Dan Hinds: Congratulations on the quarter, gentlemen. I was wondering if you could discuss the Exmar joint venture. How the DCF flows into Teekay - Teekay LNG - is there a delay? Are we going to see Accounts Receivable increase or your investment advances to the joint venture increase over time because of some kind of delay that might be in the DCF?

Or is it pretty immediate?

Peter Evensen: David, do you want to take that?

David Wang: As the newbuildings develop, we will be getting debt associated with that, but also - I don't see the advances increasing.

Male: Yes. The DCF that you see reported from the joint venture is on an accrual basis as opposed to a cash basis. So you see it immediately in the DCF. And in terms of the cash flow coming out of the joint ventures, that's - depending on how much cash is available in the joint ventures and then come up, you know, they get paid to shareholders from time to time.

But the DCF number you see is on an accrual basis.

Darren Horowitz: Okay. So how do I adjust for that or handicap for that and what might come out?

Male: I don't think you need to adjust or handicap for it. I think, you know, sometimes it'll be - sometimes it's more of just how we manage the working capital and how we fund for newbuilding installments and things like that.

And so I don't think you really need to adjust for that.

Darren Horowitz: Okay. And, if I'm mistaken, it seems like on the Teekay call you alluded to some kind of distribution growth target for TGP for the next couple of years. Am I mistaken on that?

Peter Evensen: Well, our target is to aim for mid single digits on both of our MLPs.

Darren Horowitz: Okay. And then you talked about making acquisitions...

Peter Evensen: We talked about with this extra 2-1/2% then you'll have had 2-1/2% and then that's what we aim for and that's why we're - of course, there will be more in 2016 because we have more ships coming that are larger.

Darren Horowitz: Of course. I would hope anyway. You mentioned making acquisitions. What kind of acquisitions are you looking at? Do you plan on just trying to buy just individual vessels from, maybe, other distress companies or could you give me some color behind your acquisition plans?

Peter Evensen: Yes. We have - since we started the partnership, we've made acquisitions. For example, we bought two LNGs with contracts from ((inaudible)). We bought two LNGs with contracts from Exmar.

Now we've bought two from Awilco with contracts. So we're looking for gas ships that have contracts. We're not targeting - whatever you want to call it, distressed - those usually don't have contracts.

So we're lower risk, lower return. We're not aiming to take more risk and therefore look at distressed type place.

Darren Horowitz: That seems like that'd be - are there plenty of vessels out there or what's that kind of market like that you're targeting? I mean, it seems like that would - there wouldn't be a whole lot of those available.

Peter Evensen: I think there will be weakness in the short term, as I pointed out. There's 30 some odd ships that are uncommitted. But we would - in our mentality, we go and look at them with - and make sure we can get contracts for them.

So we're not the kind of shipping company that'll buy things unchartered and then wait on them. That's not what our investors are set up for. They want long term contracts or medium term contracts.

And so that's what we target first of all - the contract before we target the ship.

Darren Horowitz: All right. That's all the questions I have. Thank you.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen, as a reminder, if you have a question, please press star 1 at this time. There are no further questions at this time. Please continue.

Peter Evensen: All right. Thank you all very much. We look forward to reporting back to you next quarter. Thank you.

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

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