



TEEKAY LNG PARTNERS LP

Moderator: Emily Yee
August 10, 2012
10:00 am CT

Operator: Welcome to Teekay LNG Partners second quarter 2012 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.

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 Web site at www.teekaylng.com where you will find a copy of the second quarter of 2012 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 2012 earnings release and earnings presentation available on our Web site. 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 of 2012 investor conference call. I am joined today by Teekay Corporation's CFO Vince Lok; Chief Strategy Officer, Kenneth Bid and MOP Controller, David Wong. This quarter's call will be brief as we recently provided a comprehensive presentation at our mid June investor day in New York.

Turning to slide number 3 of the presentation, I will review some recent highlights. The partnership generated distributable cash flow of \$56.8 million in the second quarter of 2012, up 51 percent from the same quarter last year we generated \$37.6 million of distributable cash flow. The year over year increase highlights the growth our fleet has experienced over the past year, including the recent deliveries of our new building gas carriers and our accretive acquisition in February of this year of a 52 percent interest in the six Maersk LNG carriers.

For the second quarter, we declared and today paid a cash distribution of \$0.675 per unit, which is consistent with last quarter. We entered into a new three-year forward start time charter for the Magellan Spirit, which will commence in September 2013 upon the expiry of the vessel's current time charter. Importantly, this new time charter is at a day rate which is approximately 20 percent higher than the current charter rate. As we discussed at our investor day, we continue to see backwardation in the market where medium-term charters with a forward start are being done closer to the long-term charter level. In that light, we consider this fixture to be strong.

Turning to slide number 4, you can see that the big growth in LNG supply, and therefore LNG transport, will be in 2015 and beyond. There isn't much liquefaction growth until then that does not have dedicated LNG transport. Our customer discussions and tenders for new LNG transport are focused on moving the new LNG supply that will come online from 2015 until the end of the decade as can be seen in the graph at the bottom of the slide. With Australia expected to take the lead with approximately 80 million tons per annum by 2020, but also projects in Russia and Africa.



The ultimate demand for US exports is still an unknown at this point. However, it is encouraging that there are over 100 million tons per annum of planned projects. However, it is an open question how much of this will come online and when. If all the incremental gas does come online by 2020, we anticipate there will be a need for approximately an additional 170 LNG carriers. For this reason, we are bullish on the long-term fundamentals of LNG shipping and believe Teekay LNG is well-positioned to take advantage of this expected growth which will ramp beyond 2015.

Turning to slide number 5, I will review our consolidated operating results for the quarter, comparing an adjusted Q2 income statement against an adjusted Q1 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 statement line items. Net voids revenues decreased by \$2.7 million, mainly as a result of a scheduled dry docking of one of our LNG carriers during the second quarter. For the third quarter of 2012, no off hire days from dry docking are scheduled. Vessel operating expenses decreased slightly as a result of lower crew manning due to foreign exchange fluctuations. We expect higher vessel operating expenses next quarter due to the timing of certain repairs and maintenance.

Depreciation and amortization remained relatively consistent from Q1, as expected. General and administrative expenses decreased by \$600,000 due to the timing of expenses. Net interest expense increased by \$1.1 million, primarily due to interest expense related to the Norwegian kroner bonds that we issued in May 2012. Equity income increased by \$7.6 million, primarily as a result of a full quarter of income from our 52 percent interest in six LNG carriers which were acquired on February 28 as well as an increase in the charter rate on the Methane Spirit, which took effect in April. Non-controlling interest remained relatively consistent from Q1.



I won't walk through all of slide number 6, which was included in our recent earnings release. However, as was communicated last quarter, with the inclusion of a full quarter's contribution from the Maersk LNG vessels, our coverage ratio has increased to 1.15 times from 1.03 last quarter and 0.93 one year ago. I would also like to point out that figures in the red circle. Due to the large number of ships we own jointly with our various joint venture partners, the distributable cash flow from these equity investments is increasing.

However, under GAAP, this cash flow is not reflected in our consolidated revenues, nor the cash flow from vessel operations because they are equity accounted for. As you can see, the distributable cash flow from these equity accounted JVs has almost tripled since the second quarter of 2011. However, we expect it will stabilize at approximately this level, now that we have reached the run rate quarterly contribution levels from the Maersk LNG vessels. Operator, I am now available to take questions.

Operator: Thank you.

At this time we will open up the lines for the Q&A portion of the call. If you would like to pose a question at this time please press star followed by the number one on your telephone keypad now. We will pause for a moment to compile the Q&A roster.

And the first question in the queue comes from the line of Paul Jacob with Raymond James.

Paul Jacob: Good morning. Just curious if you could give us some numbers on what the day rates might be on the Magellan following the re-chartering. And then in terms of the future re-contractings, can you just update us on how that might play out over the next couple of years?

Peter Evensen: Sure. Due to client confidentiality, we are not at liberty to say who the charterer is or what the rate is at this time. So, we're happy – but I can't tell you that we are happy with the rate



that we have been able to achieve. So, you will have to wait as it relates to that. In terms of charter rates, we don't have anything coming off charter at any time soon. So we are in a good position I think, because all of our fleet is contracted out.

Paul Jacob: Okay. And then could you just give us an update on what you're seeing in terms of new build LNG vessels in the back half of 2012 and into 2013?

Peter Evensen: Yes, so there's about 76 new buildings on order, and the existing fleet is about 371.

What we are seeing now is that with the softening in rates, for example, LNG spot prices in Asia have followed from \$18 down to below \$14 over the last month. And so with that decline, we have sort of see in the boil, on LNG rates. And so they are trending down and we are seeing some options that some ship owners had for uncontracted ships that they're letting it lapse. So we expect the market to get a little bit softer as it relates to new builds.

Paul Jacob: Okay. And that is 76 vessels that is up through 2020? I take it?

Peter Evensen: There really is not anything out beyond 2014. There are a couple of ships in 2015. So they're not that many new ships coming in 2012. The bulk of the ships are coming in 2013 and 2014. We don't have any there. And so there is a question in the market about what rate those 2013 and 2014 ships that aren't already contracted, what rate they will receive.

Obviously, with the Fukushima effect, rates were higher, but they seem to be getting lower. And so a lot of the market participants are wondering whether rates will soften when you get that new supply coming on. But Teekay LNG, because we're all contracted out, we're not affected by that.

Paul Jacob: Okay. So, you don't have the re-contractings coming in in 2014?

Peter Evensen: We have – no, we don't.

Paul Jacob: Okay. And then final question is just wondering if you could quantify the magnitude of the increase in the 3Q vessel OpEx that you alluded to earlier?

Peter Evensen: David, you have that?

David Wong: Yes, we're looking at a maybe \$2 million increase relative to the current quarter.

Paul Jacob: Okay. Great, thank you.

Peter Evensen: Thank you.

Operator: The next question that we have comes from the line of TJ Schulz with RBC Capital Markets.

TJ Schultz: Hi, guys, thanks. From your analyst day there were some indications that working on a couple of FSRU projects. Can you just update us on how are you viewing near-term or long-term opportunities within FSRUs? I understand there maybe is a chance to look at more larger new builds here, but what is some of the challenges for you, or how close are you from a return hurdle perspective for some of the smaller conversions near term?

Peter Evensen: Hi, well, the market has actually changed. Because there is not that much new equity gas coming on, people are willing to wait for new buildings rather than go for conversions. And so the market has changed. We've bid on numerous projects, but we have not won any yet. So, I think we are continuing to bid on requirements, but these are all in a 2015 and beyond.

We think that market, along with the point-to-point market, will experience growth, but it has moved to being a new build. Before, there was premium on getting to market quickly and so ships that were 125,000, 145,000 cubic were preferred. Now, because the size of point-to-point

LNG carriers is up to 160,000 to 170,000, people want to receiving terminal to be able to take a full load. And that is why it is moving more toward new builds.

TJ Schultz: Okay, great, thanks. On the Spirit, I understand you're not going to give any day rate out, but as you went through that charter process, was there anything particularly new on the backwardation structures since you contracted the methane, or do you see that narrowing at all?

Peter Evensen: Get a view that we were willing to contract out a, on a forward start basis for September 2013 now, that we felt that now was a better time to enter into a contract rather than to wait a year and contact it near to when the charter would start.

TJ Schultz: Great, thanks.

Peter Evensen: Thank you.

Operator: Our next question in the queue comes from the line of Jeff Lewis with Venture Publishing.

Jeff Lewis: Hi there, just a quick question regarding new LNG supplies. You note that the US is a bit of a wild card moving forward. What is your view of the Canadian LNG markets and opportunities related to liquefaction projects taking shape on the west coast?

Peter Evensen: We definitely believe that the Kitimat projects which, that is the port that will be built at the liquefaction projects, we definitely think that those projects will go through. The economics there are compelling, and it is a short transport to the biggest market, which is Asia. So, we are a big believer in Kitimat.

Jeff Lewis: Okay, and was that Mr. Evensen?



Peter Evensen: Yes.

Jeff Lewis: Okay, thank you.

Operator: Thank you.

Again as a reminder, if you would like to ask a question at this time press star, one on your keypad now.

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.

Operator: Thank you. 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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