TEEKAY OFFSHORE PARTNERS LP

Moderator: Emily Yee
August 10, 2012
11:00 am CT

Operator: Welcome to the Teekay Offshore 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.

At that time if you had 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 Offshore 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.teekayoffshore.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 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 website.

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

Peter Evensen: Thank you, Scott.

Good afternoon 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 Hvid, and MLP Controller David Wong.

This quarter's call will be shorter as we recently provided a comprehensive presentation at our Investor Day in New York in June.

On Slide Number 3 of the second quarter's presentation, which can also be found on our website, I will briefly review some recent highlights for Teekay Offshore.

We generated distributable cash flow in the second quarter of $54.2 million, up approximately 27% from the $42.6 million of distributable cash flow generated in the same quarter one year ago. This increase is primarily due to higher revenues in our FPSO segment and a termination fee of $14.7 million paid to the partnership by Teekay Corporation relating to the cancellation of a time charter.

For the second quarter, we declared in today paid cash distribution of 51-1/4 cents per unit, which is consistent with the last quarter. As I highlighted last quarter, Teekay Offshore remains in a strong financial position to grow with $373 million of liquidity in the form of cash and undrawn revolving credit facilities, including our $46 million private placements which closed in July.

Also during the second quarter, we received confirmation from Talisman Energy on the extension of the Petrojarl Varg FPSO contract for a further three year period, taking the contract out to mid 2016.

Talisman has another two three-year extension options in addition to the one they just declared. Securing the Varg contract for another three years further enhances the partnership's cash flow stability.

In June 2012, we received an offer from Teekay Corporation for the acquisition of the Voyageur Spirit FPSO which is expected to sail away from the Nemo shipyard later this month.

On Slide Number 4 I will discuss this offer that we received from Teekay corporation to acquire the Voyageur Spirit FPSO.

In November of last year, Teekay and Sevan collaborated to jointly work toward completing the necessarily upgrades on the FPSO. We now expect the FPSO commence its charter with the German power and gas company E.ON upon the startup of the Huntington oil field before the end of this year.

Teekay has offered to sell us the FPSO for a price of $540 million and the offer is currently being reviewed by our conflicts committee. We expect the FPSO will initiate - will initially generate annual cash flow from vessel operations of approximately $70 million to $75 million. We will provide further details on this transaction in due course.

On Slide Number 5 I will review our consolidated operating results for the quarter comparing an adjusted Q2 2012 income statement with an adjusted Q1 2012 income statement which excludes the items listed in Appendix A of our second quarter's earnings release and reallocates realized gains and losses from derivatives to their respective income statement line items.

Net revenues decreased by $9.4 million primarily due to a decrease in time charter revenue in the shuttle segment from the expiration of three-time charter contract and the dry dock of one shuttle tanker which remains on time charter. FPSO revenue also decreased due to a planned shutdown for maintenance on the Petrojarl Varg in the second quarter.

Vessel operating expenses were in line with last quarter. We had increases in the FPSO segment relating to the planned maintenance of the Petrojarl Varg and the cost of repairs on the Piranema Spirit to comply with Brazilian regulations.

This was offset by decreases in the shuttle and conventional tanker segments resulting from the timing of services and repairs, reduced cost of damages, and cost reductions due to lay up of two vessels and the sale of one vessel in the conventional fleet.

Vessel operating expenses are expected to rise by approximately $3 to $4 million in the next quarter given the usual seasonal maintenance period during the summer months.

Time charter higher expenses decreased by $600,000 mainly due to less spot-in chartering by optimizing the capacity of TOO's own fleet, partially offset by a decrease in off hire days in the charter fleet compared to the first quarter.

General and administrative expenses decreased by $1.8 million primarily from a reduction in management fees in the FPSO and conventional tanker segment.

Net interest expense including realized losses on interest rate swaps and cross currency swaps decreased by $600,000 primarily from the termination of one swap in April.

Foreign income tax expense decreased by $700,000 mainly due to lower taxable income in the FPSO entities in the current quarter. Net adjusted income attributable to non-controlling interest decreased $1.3 million due to lower adjusted income generated in some of our joint ventures due to the factors discussed in net revenues.

Looking at the bottom line, adjusted net income decreased to $20.6 million in the second quarter from $26.1 million in the previous quarter.

Turning to Slide Number 6, I won't walk through all of it which was included in our recent earnings release; however, I would like to highlight the information in the box at the bottom of the slide.

We generated approximately $54.2 million in distributable cash flow, which when compared to our total distribution payout resulted in a solid coverage ratio of 1.36 times for the second quarter. If we exclude the impact of the recently completed $46 million private placement and the $14.7 million termination fee received upon cancellation of the Hamani Spirit conventional tanker time charter, our coverage ratio would have been just over one times, which reflects what is usually a seasonally weak period in the offshore business.

Going forward, we expect a slightly weaker coverage ratio in the third quarter due to the seasonal maintenance activities I mentioned earlier. However, we expect our coverage ratio to improve in the fourth quarter and increase even further if the Voyager Spirit FPSO is acquired.

Thank you for listening and operator I'm now available to take questions.

Operator: Thank you.

Ladies and gentlemen if you'd like to ask a question, please press star, 1 on your touch-tone phone.

To withdraw your question, please press the pound sign.

If you are using a speakerphone, please lift your handset before entering your request.

Please stand by while we assemble the queue.

Our first question comes from Edward Rowe from Raymond James. Please go ahead sir.

Edward Rowe: Hi. Good morning guys.

Peter Evensen: Good morning.

Edward Rowe: My first question is could you talk about changes in the FPSO order book given the volatility in crude oil prices and the impact on development plans you know around the globe?

Peter Evensen: Yes. In our two core markets, which are the North Sea and Brazil, we haven't seen any changes in the development plans as a result of the volatility.

I think it isn't the volatility, it’s the absolute prices. And with (Brent) as high as it's been and Brazil having it as basically a country wide goal to develop, I think we are quite comfortable that those development plans won't be interrupted unless there was a steep drop in oil prices.

Edward Rowe: Okay.

My next question is is the Torben Spirit, is that simply moving on spot market shipments? And if you sell this asset, are you going to receive and early termination fee similar, you know, to the (Hamani)?

Peter Evensen: The Torben Spirit's on a lower - or shorter time charter, so I don't think we would receive as higher payment.

Edward Rowe: Okay.

Peter Evensen: And, we haven't computed that yet.

Edward Rowe: Okay.

And just a couple other questions. In terms of the Lady and the Luzon that are laid up right now, I was trying to - what are the lead times for conversion of these vessels to FSO's?

Peter Evensen: Well, we're - what happens is that we tender them in on projects. We actually have three ships that are in layup and that we're looking for floating storage contracts for right now. And the lead time is that we bid them in - you probably start the project so that it would start the cash flow in 2014.

Edward Rowe: Okay, 2014.

And this is my final question. In terms of the financing of Voyager and possibly the Tiro Sidon, do you guys foresee maybe over-equitizing these dropdown and then subsequently finance those four shuttle tankers with mostly debt in 2013? How is your outlook in financing? You know, mostly the four shuttle tankers in '13.

Peter Evensen: Well, we see them differently. First of all on the shuttle tankers, we've already paid $90 million and we've raised that in equity proceeds with the private placements. They cost about $500 million, and we're well into discussions with banks on being able to achieve up to 75% financing on that.

So we feel that we're well - with our financial resources that we have already, we're well in place in order to complete the bank financing. So we are not looking to over-equitize on those in order to complete that going forward.

On the Tiro Sidon, that hasn't been officially offered to the partnership yet by Teekay Corporation, but they must offer it to us as per the omnibus agreement. But, that's already debt financed and so - and that debt can be conveyed, so there isn't any new financing there apart from coming up with the equity portion.

Edward Rowe: Okay. All right, thank you guys.

Peter Evensen: Thank you.

Operator: Thank you.

Our next question comes from Martin Roher from MSR Capital Management. Please go ahead, sir.

Martin Roher: Thank you. Good morning.

I just wanted just to clarify that last question. Have you finalized the financing - the debt financing on the Voyager?

Peter Evensen: We have an existing financing and we are trying to increase it by a $100 million before it is ready to be dropped down in order to reduce the equity component.

Martin Roher: So what would the total debt be if you get that $100 million increment?

Peter Evensen: It will then be $330 million.

Martin Roher: I see. Okay.

The second question I have is on yesterday's Teekay call you spoke briefly about the potential for the floating wind farm projects to be developed, although you carefully said it was early days. Is that - are those assets are intended to be dropped down to Offshore if they become commercial?

Peter Evensen: Those assets that we would use if the wind farm installation vessels went forward are actually already owned by Teekay Offshore. So Teekay Offshore would have to decide if they wanted to go forward with the CAPEX that would be required to convert them to wind farm installation vessels.

Our shuttle tankers are ideally suited to that, given their dynamic positioning, but if they wanted to proceed with that then we would keep them in Teekay Offshore. If they didn't want to proceed with it we would by the vessels and do it up at Teekay, but probably they would want to go forward and they would remain in Teekay Offshore.

Martin Roher: Well, thank you very much and good luck.

Peter Evensen: Thank you.

Operator: Thank you.

Ladies and gentlemen as a reminder, if you'd like to ask a question please press star, 1 on your touch-tone phone.

Our next question comes from Chris Combe from of JPMorgan. Please go ahead, sir.

Chris Combe: Yes. Hi. I just had one follow-up question regarding the wind farm development. Can you give us some idea what the earnings potential would look like and how many assets would be under consideration?

Peter Evensen: We're working on two vessels for the initial conversion and we are talking with potential charters right now that are actually in Europe. And so if we get a contract, then we would go ahead with the conversion into of one or more vessels that are owned by TOO into that. We don't - we haven't given any data yet on what the economics of the project would be because we don't have that contract yet.

Chris Combe: Okay. Thank you.

Peter Evensen: Thank you.

Operator: Thank you.

There are no further questions from the phones line at this time, please continue sir.

Peter Evensen: Alright, thank you all very much. We look forward to reporting back to you next quarter.

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

END