TEEKAY LNG PARTNERS LP

Moderator: Peter Evenson
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10:00 am CT

Operator: Welcome to Teekay LNG Partners First 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 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 now like to turn over the call to Mr. Peter Evenson, Teekay LNG Partner's Chief Executive Officer. Please go ahead.

Ryan: Before Mr. Evenson begins I'd like to direct all participants to our Web site at www.teekaylng.com where you'll find a copy of the first quarter 2013 earnings presentation.

Mr. Evenson 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 first quarter 2013 earnings release and earnings presentation available on our Web site. I will now turn the call over to Mr. Evenson to begin.

Peter Evenson: Thank you (Ryan). Good morning everyone and thank you for joining us on our first quarter 2013 investor conference call.

I'm joined today by TK Corporation's CFO Vince Lok, its Chief Strategy Officer, Kenneth Hvid and its MLP Controller, David Wong.

If you turn to Slide 3 of the presentation I will review some recent highlights.

The partnership generated distributed cash flow of $53.7 million in the first quarter -- up 6% from the same quarter last year when we generated $50.8 million of distributable cash flow.

The year over year increase is mainly due to the partnership's fleet growth over the past 12 months including our accretive acquisition of a 52% interest in the sixth Maersk LNG carriers at the end of February 2012.

In February 2013 the partnership completed the acquisition of a 50% interest in a new joint venture with EXMAR named EXMAR LPG which controls a fleet of 25 LPG carriers and is primarily focused on the Midsized Gas Carrier or MGC segment.

This accretive acquisition is expected to contribute approximately $10 million to Teekay LNG's distributable cash flow in 2013.

However on a run rate basis the contribution of this fleet is expected to increase as new buildings deliver between 2014 and 2016 partially offset by lower cash flows due to the sale of one of the MGCs in April subsequent to completing the transaction.

As a result the LPG fleet currently stands at 24 vessels including new buildings.

For the first quarter we declared and paid a cash distribution of 67-1/2 cents per unit which was consistent with the previous quarter.

Since the start of 2013 we seen a significant increase in the amount of tendering activity for new LNG carrier and floating storage and re-gas unit or FSRU contract driven by the large number of liquefaction products scheduled to come online starting in 2016.

To provide an indication of the current activity level right now our gas ((inaudible)) is bidding on four LNG projects and three FSRU projects. We look forward to reporting back on these initiatives in future quarters.

Turning to Slide 4 I'll discuss the recent developments in the LNG market.

LNG shipping rates have weakened since the start of the year with spot shipping rates dropping below $100,000 per day for the first time since August 2011.

The decline is primarily due to a reduction in LNG cargoes as results of production outages in Nigeria, Algeria and Indonesia.

In addition inner basin trade between the Atlantic and the Pacific declined by approximately 10% year on year during the first quarter of 2013 due to a narrowing of the arbitrage between European and Asian natural gas prices.

Looking at the remainder of the year LNG supply issues are expected to ease in the coming months which should lead to more cargo availability.

However 21 new LNG carriers are due to be delivered by the end of 2013 with a further 28 delivering 2014. With little in the way of new LNG supply coming online prior to 2016 this could lead to downward pressure on LNG shipping rates in the coming months.

However when we look further ahead the outlook for LNG shipping demand from 2016 onward looks significantly better with a number of liquefaction projects coming on stream primarily from Australia but also from North America, Africa and Russia.

US liquefaction projects have so far been slow to materialize. But we believe that more projects will gain approval in the coming months providing potential upside to our demand estimates.

TGP is well positioned to take advantage of these market dynamics as our LNG fleet is fully fixed through the expected weak market between now and 2015.

In 2016 TGP will take delivery of 273,000 cubic meter vessels with fuel-efficient engine. And in addition we have three option we can use in LNG tender.

These ships are expected to deliver into a strong demand environment as new liquefaction plants come on stream. And the high fuel savings offered by the ships should make them very them very attractive to perspective charters looking for vessels.

Turning to Slide 5 we take a look at recent developments in the LPG market.

As shown on the chart at the top of the slide one year time charter rates for Medium-size Gas Carriers or MGCs have remained steady at just over $800,000 per month through the first quarter of 2013.

The MGC segment which historically has been one of the best performing sectors in the LPG market is typically operated through a mixture of spot time charter and contract of affreightment or COA employment. And earnings are less volatile compared to other sectors of the LPG market.

This trend is highlighted by looking at DLGC spot rates which as the chart shows fluctuates wildly from month to month.

In the early part of 2013 the LGC spot rates have been impacted by a reduction in OPEC crude oil production which has a knock on effect on associated LPG production in the Middle East.

More recently however the LGC rates have started to pick up with earnings currently at approximately $800,000 to $900,000 per month or the same as the MGC one your time charter rate.

Looking further ahead the supply of LPG is expected to grow in the coming years from both traditional sources including the Middle East as well as from the US. Shale gas is expected to provide additional export volume.

The chart at the bottom of the slide which is from the US EIA shows that the US should remain a net exporter of LPG in the long term and in a high oil and gas production scenario could emerge as a significant supplier.

Rising US LPG exports could therefore add to LPG carrier 10 mile demand in the long term. And TGP is well positioned to take advantage of these through the joint venture we have with EXMAR.

Turning to Slide Number 6 I will review our consolidated operating results for the quarter comparing and adjusted Q1 2013 income statement against an adjusted Q4 2012 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.

First of all commencing this quarter we've included the cost of ship management activities and vessel operating expenses.

We previously included these items in general and administrative expenses. This new presentation is more consistent with the presentation utilized by many other shipping companies.

We've reclassified such costs in comparative periods to be consistent with this new presentation.

Starting at the top of the income statement net voyage revenues decreased by $2.1 million primarily due to the scheduled dry docking of the Arctic Spirit carrying Q1.

For the second quarter 66 higher days are expected schedule from dry docking of one Suez Mexican conventional tanker and one LNG carrier.

Vessel operating expenses were comparable to the prior quarter. Depreciation decreased by $2.1 million mainly as a result of the vessel impairments that occurred last quarter.

General and administrative expenses were comparable to the prior quarter. Equity income increased by $1 million primarily due to the income from our new 50% owned LPG joint venture with EXMAR which was acquired in mid-February. And net interest expense is comparable to the prior quarter.

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 our coverage ratio of 1.01 times for the first quarter was lower than normal and we expect it to increase in the second half of the year as we realize the full benefits of the EXMAR LPG joint venture and we work our way through the schedule dry docking.

For an overview of the scheduled dry dockings for 2013 please refer to the appendix for this earnings presentation which is also available on our Web site.

Operator I'm now available to take questions.

Operator: Ladies and gentlemen if you'd 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 your mute function is turned off to allow your signal to reach our equipment.

If you have signaled for a question prior to hearing these instructions on today's call please repeat the process now by pressing star 1 again to ensure our equipment has captured your signal.

We'll pause for a moment to allow everyone an opportunity to signal for questions.

And the first question comes from - I'll apologize for now if I mispronounced this name Fotis Giannakoulis from Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Thank you operator. Peter I would like to ask you - about the FSRU market you mentioned that there is an increase tendering activity for FSRU projects.

Can you name some of the countries and are all these projects scheduled for 2016? And when do you think that the tenders will be decided?

Peter Evenson: I think the - hi Fotis. I think the tenders will be decided by the end of the year and probably in the coming two quarters because you need to get the orders in.

All of these that we're looking at are for new building. So we would order new building FSRUs to meet these requirements.

There are some near term ones but as we don't have any FSRUs on order we don't qualify for them.

But the ones we're looking at are in the Middle East and Asia.

Fotis Giannakoulis: And the two new buildings that you have right now on order are they able to be converted to be upgraded into FSRUs?

Peter Evenson: We don't - we haven't agreed in the contract that they would be FSRU. But we can always go back and ask the shipyard.

But we would probably just add and order new ones because we really like those ships that we've ordered to be for the transportation tenders that we're bidding on. So it would be additive to what we have.

Fotis Giannakoulis: Okay thank you. And regarding the increasing tendering activity for the LNG, these are all again and I assume for post-2016.

And have there been any discussions for this have been passed project? From what I understand this volume has not - doesn't have committed the ships for the moment?

Peter Evenson: Yes, some of the tenders we're looking at includes US export volumes including (sabine) ((inaudible)). Yes.

Fotis Giannakoulis: And then last regarding the spot market I know that you are not active the short term shipping market. But we had a very weak first quarter relative to what we used to be.

Do you see more activity in the second quarter? And also when is the Angola volume is expected to start? And how is this going to impact the short term market?

Peter Evenson: Well you're right as I (past) to what I said in my prepared remarks we actually saw about a 4% fall in LNG volumes in January and February this year.

And a big part of that was the fact that there was less supply available.

As you point out Angola had still not come on. They're saying it'll come on in the next six weeks by the end of Q2. So let's see if that happens.

There was also outages that were unplanned in Nigeria and in Norway.

So I think Nigeria has come back already. Some of it is coming back in Norway. And so there should be more cargoes available to actually move.

And the other negative was of course that there wasn't as much demand for the LNG out of Asia.

So it actually wasn't a question as much of the rates as it was of utilization.

Ships weren't utilized all the time on the spot market. And that led to a lower average TC. So that's what we're seeing.

Fotis Giannakoulis: Thank you Peter. And last on that time ((inaudible)) (Felipe) we had some discussions about that restructuring some of the context last quarter. Has there been anything new on that? How shall we see the tanker contracts?

Peter Evenson: We only restructured two of them. And that's now been reduced from a fixed time chart to a lower minimum rate with 100% of the upside going to Teekay LNG.

So if rates improve we'll get the full benefit of that. But that's only a reduction for two years. Then it'll come back.

So our coverage ratio is lower than it should be because of a little bit lower in the tank rates but also because we have a lot of dry docking's this year. So we see those as short term factors.

Fotis Giannakoulis: But apart from these two vessels that you mentioned in the previous quarter everything else looks pretty solid I assume. Is that correct?

Peter Evenson: Yes. We haven't gotten - nobody has changed around any of their time charter rates. It remains to be seen if people continue to roll them over. But we are fully prepared for that.

Fotis Giannakoulis: Okay thank you very much Peter for your time.

Peter Evenson: Thank you.

Operator: Thank you. And our next question comes from Paul Jacob from Raymond James. Please go ahead.

Paul Jacob: Hi Peter. So in regards to the bidding activity I'm just curious, do you have a preference in terms of what you're bidding on either towards LNG carriers or FSRUs or is it just kind of, you know, what - where you see the demand coming?

Peter Evenson: Hi Paul. We actually have a preference I would say for the LNG transportation. Because we've ordered these new ships which are the biggest that can go through the Panama Canal and they have a lot of fuel savings you really get the fuel savings when they're underway.

So with an FSRU as you know you're tethered to a port so we don't get the benefit of our change in technology as much in the FSRU market.

The FSRUs generally yield a little bit more unlevered IRR so there's a balance.

What we like about the market is with more tenders out we can be more choosy about which ones we want. And we look at what the overall tender is of the contract and people are down as low as five years and then into a ten plus.

So we're weighing up those factors along with the counterparty.

Paul Jacob: Okay that's helpful.

And then there's been a lot of discussion recently about Japan potentially bringing on some nuclear reactors for power demand supply maybe in the fall or beyond the fall.

How do you see that shipping out? What's your opinion on that? And do you think that's going to have any long term implications in terms of, you know, your contracts with - obviously you've got those locked in for the next couple of years at least so, you know, they're not going to roll over in the near term but do you think that that's going to carryover say into the 2015, 2016 timeframe or...

Peter Evenson: Well so this - so first of all I don't think I have an educated opinion on nuclear reactors starting up in Japan. I'm just reading the same thing everybody else is.

But it appears that the government is serious about bringing back nuclear reactors which would mean that ultimately -- but I think there's a lag effect on this -- ultimately it would reduce the amount for LNG which has led to this spike that we got after Fukushima.

But we're much more focused on the long term. And that's that in 2016 you start to get a lot more LNG coming on the market. And that's just going to lead to as we say it another wave of requirements for LNG transportation.

I think the good news is that the overall demand for LNG continues to climb. So we are looking at things like nuclear reactors in Japan as well as the fact that Europe right now is importing coal and preferring it over gas because of their carbon credit situation.

But in the long term these are short term factors and I don't think anyone disputes the fact that you're going to see a lot more LNG being moved on the sea in the 2016 to 2020 timeframe.

Paul Jacob: Okay and just - no go ahead sorry.

Peter Evenson: Sorry. I didn't say anything.

Paul Jacob: Okay. I must be getting some feedback here. Last question I guess is you had that cash flow adjustment on the conventional tankers that was mentioned before.

And I'm just curious if those rates do stay kind of level then should we expect to that that's going to be about the same amount over the next, you know, four or five quarters or is that likely to fluctuate?

Peter Evenson: Yes, we're at the minimums right now so the two mixes that we reduced they can't really get much. They can't go any lower. So that's the situation. So for the balance of '13 I can't see that changing. It can go up.

Paul Jacob: All right great. Thanks Peter.

Peter Evenson: Thank you.

Operator: And we do have another caller. And again I apologize if I mispronounce your name. From Ludovic Aldersley from ICIS. Please go ahead.

Ludovic Aldersley: Hi there. Good morning gentlemen. A few questions, first due to the clarification on it was from the first caller's set of questions towards the end he asked about the renegotiation of two tankers. Just wanted to make sure that was not for LNG tankers.

It seemed as though you had renegotiated something in order to capture 100% of the upside should charter rates go up, wanted to make sure that was LNG or LPG?

Peter Evenson: Yes those were Suez Mex oil tankers.

Ludovic Aldersley: Okay, sorry.

Peter Evenson: So ((inaudible)) reduced.

(Crosstalk)

Ludovic Aldersley: Right. Okay. Okay ((inaudible)). So moving on to the LNG transportation tenders which you mentioned in the presentation you said that I think you said there were four transportation tenders that you were looking at. And you earlier gave a timeline of when you would expect the FSRU tenders to be awarded.

Could you likewise give a timeline to when you would expect those transportation orders to be awarded?

Peter Evenson: Sure. I think we'll see some - I think we'll see two be decided by the third quarter and the other two by the end of the fourth quarter.

Ludovic Aldersley: Okay. Okay and would they be for project-based business or could they be for more trader type entities?

Peter Evenson: No. They're all for define project volume...

Ludovic Aldersley: Okay.

Peter Evenson: ...is what they're booking out for 2016.

Ludovic Aldersley: Twenty-fifteen. Could you give a breakdown of perhaps the regions? I know you mentioned ((inaudible)) to be one of them. But have you got any - I mean are you looking at some of the Australian projects for example?

Peter Evenson: I really don't want to be drawing on it for ((inaudible)).

(Crosstalk)

Ludovic Aldersley: Okay. Okay all right, thank you very much.

Peter Evenson: Thank you.

Operator: Thank you. Our next question comes from Moe Berg from Pareto. Please go ahead.

Moe Berg: Hi Peter.

Peter Evenson: Hi.

Moe Berg: So my question is related to the bridge facility regarding the (Morbini) transaction which took place last year. How's refinancing going with that ((inaudible))?

Peter Evenson: Vince do you want to take that?

Vince Lok: Sure. The refinancing is going very well overall. And we are in the process of finalizing two out of the four ships. And then the remaining four ships are moving along as well. So we should have all those loans refinanced prior to the bridge loan maturing this summer.

Moe Berg: Okay thank you.

Peter Evenson: Thank you.

Operator: Thank you. And we do have one more question from TJ Schultz from RBC Capital. Please go ahead.

TJ Schultz: Hey guys sorry. I missed some of the earlier part of the call so sorry if this was addressed. But last quarter you guys provided the table in the presentation that gave the accretion from the EXMAR transaction over time. I just want to see if you're still comfortable with that kind of outlook through 2015 given some of the offsets on dry dockings this year and then the accretion to EXMAR through 2015?

Peter Evenson: Yes as we pointed out we're comfortable with EXMAR and then we have some dry dockings in the Suez crude oil tanker renegotiations that we said were tailwinds.

TJ Schultz: Okay fair enough. That's all I had. Thanks guys.

Peter Evenson: Thank you.

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

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

Peter Evenson: 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 for your participation. You may now disconnect your line and have a great day.

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