TEEKAY TANKERS LTD.

Moderator: Bruce Chan
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12:00 pm CT

Operator: Welcome to Teekay Tankers Ltd. first quarter 2011 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 introduction, I would like to turn the call over to Mr. Bruce Chan, Teekay Tankers' executive officer. Please go ahead, sir.

Kent Alekson: Before Mr. Chan begins, I would like to direct all participants to our website at www.teekaytankers.com, where you will find a copy of the first quarter 2011 earnings presentation. Mr. Chan 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 2011 earnings release and earnings presentation available on our website.

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

Bruce Chan: Thank you, Kent.

Hello, everyone, and thank you for joining us this morning. With me here in Vancouver is Vince Lok, Teekay Tankers' chief financial officer, (Brian Fortier), corporate controller of Teekay Corporation, and Peter Evensen, Teekay Corporation's CEO.

I'd now like to discuss Teekay Tankers' results for the first quarter of 2011. The associated presentation can be found on our website at teekaytankers.com.

I will begin on slide 3 of the presentation with our recent highlights. The company yesterday declared a quarterly dividend for Q1 of 25 cents per share, up from the prior quarter, primarily due to stronger spot tanker rates. This dividend is payable on May 27, 2011, and represents our 14th consecutive quarterly dividend.

During the first quarter, our policy of tactically managing our fleet between spot and short-term charters continued to benefit our shareholders. Roughly 62% of our fleet was booked at an average time charter rates of approximately $24,200 per day, while our spot ships, which represented about 38% of our fleet, earned about $6,200 less, or approximately $18,000 per day.

For the quarter, and excluding the impact of non-cash items that have been summarized in Appendix A to the earnings release, we earned adjusted net income of $5.6 million, 10 cents per share, up from $2.6 million, or 5 cents a share last quarter.

I am pleased to announce that we have entered into a 12-month time charter for the Everest Spirit at $17,000 per day, starting in late June of this year, which is very similar to the vessel's previous time charter rate. With this new charter, we now have approximately 60% fixed coverage for the rest of 2011, up from 56% previously.

Thanks in part to $107.6 million following on offering completed in the first quarter, we have total liquidity of approximately $298 million, some of which will be used to grow our fleet when the right opportunities present themselves.

Turning to slide 4 of the presentation, you will see a diagram of our tactical fleet management with the new time charter on the Everest Spirit highlighted in red. With this charter, for the second quarter and also for the remainder of the year, we see our coverage at a healthy 60%.

The matrix on slide 5 provides our actual Q2 2011 guidance on dividends. For the quarter to date, we have booked approximately 50% of our Aframax and Suezmax spot revenue days at $18,000 and $21,000 per day, respectively, which reflects the relatively strong markets we had earlier in the quarter. However, current spot rates for Aframaxes and Suezmaxes are lower than these levels, indicating that the overall Q2 rates are likely to be lower than what we booked so far in the quarter. However, with approximately 60% fixed coverage for the rest of the year, our dividend is largely insulated from spot market volatility.

Slide 6 takes a look at the current tanker spot rate environment for Aframaxes and Suezmaxes. Tanker spot rates continue to be negatively affected by an oversupply of vessels relative to demand. However, rates did exhibit a spike during the latter part of the first quarter due to a series of one-off events which disrupted normal trading patterns.

In the Atlantic, geopolitical unrest in the Middle East and North Africa, and in particular the loss of Libyan crude oil exports, led to trade disruptions and the movement of oil over longer distances. The loss of Libyan supply also led to other OPEC members increasing their production to cover the shortfall, though recent data indicates that OPEC has since scaled back production due to lower demand, as refineries in Asia entered their planned maintenance season.

In the Pacific, the devastating earthquake in Japan on March 11th gave rise to a short-term increase in fuel oil and crude oil imports for direct-burn and power plants, though the overall impact on Japanese oil demand was negative. Going forward, we do expect that Japan will look to increase imports of oil and LNG for power generation to cover the shortfall from nuclear power plant outages, particularly during the summer months when cooling demand is high.

These one-off events led to short periods of rate volatility through the first quarter, though rates have since pulled back to relatively low levels as a result of vessel over-supply relative to underlying demand, further exacerbated by the lack of floating storage and high bunker prices impacting net voyage revenues.

We expect the market to remain challenging for the remainder of 2011, as tanker fleet growth is expected to match or outweigh demand growth, though recent events have served to remind us that this outlook is far from certain.

Turning to slide 7, we take a look at current dynamics in tanker asset prices. Looking at the chart on the top-left-hand corner of the slide, we can see that secondhand tanker prices have declined at a much more rapid rate than new building prices in recent months.

Since the peak of the market in the summer of 2008, secondhand prices have declined by around 50% compared to a more modest 35% for new buildings. This is making quality on-the-water assets more attractive compared to new buildings.

The chart on the top-right-hand side of the slide shows why we expect stressed and distressed opportunities to emerge later this year. The chart shows by delivery year the average price at which Aframaxes were ordered versus the price at which they could have been resold on the secondhand market.

Between 2005 and 2008, owners with ships on order could have sold their new builds at a large premium to the ordered price, particularly in 2006, when the delta was $31 million. An inflection point occurred in 2008, and over the past 3 years, the resale value has been below the average contract price.

For ships delivering in 2011, the resale price of $50 million is $17 million below what the ship was ordered for 2 years prior. With banks only willing to finance 60% to 70% of the current ship value, owners are having to make up the difference to the contract value with equity or risk not being able to take delivery of the ship from the yard. These out of the money new builds could become potential acquisition targets in the coming months.

Additionally, in a weak spot market, certain owners may be struggling to cover interest and principal payments, and therefore, banks are more apt to arrest ships and sell in order to recover their loan investment.

Finally, the volume of secondhand sales from modern ships has been low in recent months to a large spread between the price at which sellers are willing to sell for and which buyers are willing to pay. We believe that continued weakness in freight rates through the remainder of 2011 will resolve this bid-ask spread in favor of the buyers, which should lead to attractive sale and purchase opportunities later in the year.

In summary, secondhand asset prices appear to be more attractive than new buildings at the moment, and we believe that more stressed and distressed opportunities will emerge as the year unfolds. As such, we believe that it pays to be patient in the current market and that attractive deals will become available to TNK in the coming months.

Looking further ahead, slide 8 shows why we think the tanker market is set for a recovery during 2012 and onwards. The tanker order book, a shown by the green bars on the chart, drops off considerably post-2012, as the avalanche of ships ordered in the middle of the tanker boom are finally delivered.

In addition, the level of new tanker ordering shown by the line on the chart remains very low. This should ensure that the level of tanker deliveries going forward is at a much more manageable level than has been the case in recent years. In fact, if the level of tanker ordering seen during the first part of 2011 is maintained for the rest of the year, it would be the lowest level of tanker orders seen since the 1980s.

Our expectation for the remainder of 2011 is that new tanker orders will remain low due to the weak spot rate environment and the fact that new buildings appear to represent worse value for owners compared to modern on-the-water assets.

Furthermore, new building prices in Korea are now facing upward pressure from escalating input costs, such as steel plate, coupled with high demand for other shipping sectors, including container ships, LNG, and offshore.

On the demand side, we expect that tanker demand will continue to show robust growth in tandem with the growth in global oil demand, led by China. We estimate that tanker demand will grow by around 5% per annum in the medium term, based on oil demand growth of around 1 million to 1.5 million barrels per day per year.

This strong level of tanker demand growth, coupled with lower fleet growth of below 5% from 2013 onwards, is what is expected to drive a recovery in tanker fleet utilization and, therefore, rates.

Lastly, I wanted to take a moment to review Teekay Tankers' strong financial position on slide 9, which we view as a competitive advantage. Due primarily to the contribution from our fixed-rate tanker fleet, our cash flow or dividend breakeven is currently well below zero, and we expect this to be maintained throughout the year. This means that even if our spot ships earned zero dollars per day in cash flow, we would still generate positive cash flow in order to pay a dividend.

At the end of March, we had roughly $300 million of total liquidity, and we have a conservative net debt to capitalization of approximately 38%, with minimal debt repayments through to 2015. We believe this financial strength is a hallmark for Teekay Tankers and will allow us to acquire assets at an optimal point in the cycle, which will give us increased operating leverage to an eventual recovery in tanker rates.

And with a current dividend yield of over 10%, supported by our fixed coverage, we believe our shares represent a compelling investment for investors.

Operator, we are now available to take questions.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question, press star 1 on your touch-tone phone. To withdraw your question, press the pound sign. If you use a speakerphone, lift your handset before entering your request. Please stand by for your first question.

Your first question comes from (Michael Webber). Please go ahead.

(Michael Webber): Hey, good morning, guys. How are you?

Bruce Chan: Good morning, (Michael).

(Michael Webber): Hey, just wanted to touch base on acquisitions. You mentioned the liquidity (in the follow-on) offering, you know, having about $300 million in liquidity here. You also talked about seeing better secondhand value here as opposed to new builds, but potentially some distressed new builds down the line. I mean, how do you prioritize those right now when you're looking to deploy capital?

You also mentioned being patient. I mean, is there a preference at this point? And how do you think about what you're seeing in the market, given the fact that, you know, you're pretty cash rich at this point?

Bruce Chan: Right. Well, good question. Since the follow-on offering, the market for secondhand ships has been fairly illiquid. In fact, for Aframaxes and Suezmaxes, there's only been one modern sale since February, and that was for a distressed asset that was sold at auction. And we did inspect that ship, and it wasn't of the specifications that we were looking for.

So the liquidity isn't there, but as you say, and as we said in our prepared remarks, we believe that there will be better, more opportunities, and as the market continues going forward here, of people looking to sell ships or banks, maybe, arresting ships, and so that's what we're looking for. We're being patient and looking for the right opportunities as they present themselves.

(Michael Webber): Is there a bit of a preference to wait for some of those new build distressed opportunities? Or are you looking a little bit harder at the secondhand?

Bruce Chan: You know, I think, again, it's going to depend on the right price for the right ship. And modern is clearly the preference. With that, anything under 5 years and under is kind of the target area that we're looking for.

(Michael Webber): Got you. That's helpful. You mentioned the charter on the Everest, and, you know, (17 days) is above spot, but on a historical basis, relatively low. When you're out there in the charter market right now, are profit-sharing agreements available? Or do you have that kind of leverage? Or there's just too much tonnage to try to command a profit-sharing agreement right now?

Bruce Chan: Yes, again, just like the (S&P market), the time charter market has been extremely illiquid, as well as there's been a lot of charters looking to really bottom feed out there. One-year rates have been anywhere from $13,000 to $15,000, with charters looking for options to extend. So it's really a charter's market out there for them trying to get options, as opposed to the owners being able to get profit share.

So we feel that the rate is about the current rate. And what has allowed us to find this charter compared to other owners is the Teekay brand and quality of the ships.

(Michael Webber): Fair enough. I mean, when you think about your chartering strategy going forward, you mentioned a potential recovery scenario in 2012. I mean, is there the notion you might hold off on re-chartering from here, you know, given that you've increased the charter coverage up to 60%, and maybe wait for a bit of a recovery in 2012? Or how do you guys approach that?

Bruce Chan: Yes, I think that's – as you look at our portfolio, we've opportunistically renewed charters as the portfolio runs off. We clearly view it on a portfolio basis. Some of our current charters have profit share arrangements in them now, so that will help if the market recovers sooner. And they – our portfolio naturally runs off next year as – which coincides with our view of the market going forward.

(Michael Webber): Got you. All right. That makes sense. That's all I've got. I appreciate the time, guys. Thank you.

Bruce Chan: Thank you.

Operator: Thank you. Your next question comes from (Ken Hoekstra). Please go ahead.

(Scott Webber): Yes, hi, everyone. It's (Scott Webber) in for (Ken).

Bruce Chan: Hi, (Scott).

(Scott Webber): Hi. Just to follow up on the equity raise that you did in February, I know you're continually vetting opportunities, but if we look back at that $108 million, was that purely opportunistic? Or was there a particular transaction that had identified that fell through or is still in the process of materializing?

Bruce Chan: No, the equity raise was not in relation to any particular investment. And we just felt that this was an opportunistic opportunity. We felt that our view of the market going forward was there was going to be opportunities to buy ships at the right price that will be accretive to our shareholders. And so there was no deal that didn't materialize.

(Scott Webber): Yes, I mean, you mentioned that there haven't been many transactions in the marketplace. Are you surprised that you haven't been able to add something in the past few months?

Bruce Chan: No, I think – I mean, we're definitely looking to put that money to work, and we will. It's a matter of the bid-ask spread and the fact that we could have obtained ships if we wanted to by just bidding up and meeting the ask, but we're not in the market to try to drive up asset values here. We're trying to find the right deal for our investors now.

(Scott Webber): Sure. And then, just in talking about the banks getting more active, it seems like something that we really have yet to see in shipping. Can you update us on that specifically? Have you begun to see banks talk about it more or distressed opportunities cross your desk yet?

Bruce Chan: Yes, it's actually happening now. The most recent sale for an Aframax was a bank-arrested ship, owned by Korea Line previously, and so that ship went for auction. And there's at least two, maybe three other ships that banks have currently arrested and the auction process is underway.

So I think that is something that we are seeing now and a trend that is likely to continue for the rest of this year.

(Scott Webber): Okay, great. That's all I had. Thanks, guys.

Bruce Chan: Thanks, man.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press star 1 at this time. Your next question comes (Sandy Goldman). Please go ahead.

(Sandy Goldman): Bruce, how do you balance the likelihood of a drop in the dividend as tanker spot rates go down and your willingness to wait out to find a bottom to buy new vessels? In other words, you could be successful in the latter and you would have a big diminution in the dividend, you know, in that interim periods. I mean, how do you balance the two out?

Bruce Chan: Hey, (Sandy). Good morning.

(Sandy Goldman): Morning.

Bruce Chan: That's a good question. That's something that we definitely look for. I think, obviously, if you had your cake and eat it, too, you would buy your ship and close the day before rates spiked.

(Sandy Goldman): Sure.

Bruce Chan: We manage it on a portfolio basis, so that's why we're continuing to enhance our fixed cover, so that when we put this money to work and we have ships that come in spot, it rebalances the portfolio naturally in the range that we're looking for.

So I think that's how we manage it. We acknowledge that the timing is never going to be perfect from an exact day perspective, but we just think that the period is right to buy assets in the coming months and that when the market recovers we'll take advantage of that.

(Sandy Goldman): Oh, that I agree with. But, you know, you say you're working to increase the fixed rate for next year. And, you know, at this point, unless you buy a vessel fairly quickly, you won't be able to increase the fixed for next year, correct?

Bruce Chan: No, I think we increased the fixed by doing this charter which runs into next year, and there will be other opportunities. And then when we buy the – put the money to work, those assets are spot. It'll bring it back down to kind of back to where we started from, which is a good level.

(Sandy Goldman): Oh, so, in effect, you're going to try to do more chartering as you work through the valley?

Bruce Chan: It's a balance, and that's exactly the plan, to balance out that portfolio without that range.

(Sandy Goldman): Right. Thanks, Bruce.

Bruce Chan: Thanks, (Sandy).

Operator: Thank you. Your next question comes from (Martin Rohr). Please go ahead.

(Martin Rohr): Thank you. What's been the impact so far of the depressed rates on scrapping in the industry? And following on to that, how much of the world fleet still is single-hulled, approximately?

Bruce Chan: Good morning, (Marty). On the first question of scrapping, we've seen some of the – what we call the first-generation double-hulled ships scraps, so before – slightly before age 20. Again, it becomes – the issue with those ships, as they reach those ages, is, in the weak market, they have dockings coming up at age 17.5 and 20 of anywhere from $2 million to $4 million. And it becomes a hard number to make back in the current weak market, so owners obviously compare it to then scrap value.

In terms of your second question, single-hulls, there's only about 3% of the tanker fleet left. Most of it went last year. And the remaining single hulls are primarily trading coastal India, around India. There's very few countries left where you can load – only one country in the Arabian Gulf, and it goes to India, basically.

(Martin Rohr): So what would you – I know it's hard to predict, but what would you think the approximate scrappage number may be for this year, based on the first quarter's activity?

Bruce Chan: Based on the first quarter of activities we're looking at, actually, it's – our research guys think it's about 12 million deadweight. Based on the first 4 months of the blend of deliveries and scrapping, we're on pace this year for an order book increase of about under 6%, if you just annualize the first 4 months, and that's a blend of the new builds and scrapping and slippage. It's kind of a holistic number.

(Martin Rohr): Thank you very much. Thanks for the update, and good luck.

Bruce Chan: Thank you.

Operator: Thank you. There are no further questions at this time. I'll turn the conference back to you.

Bruce Chan: All right. Thank you, everyone, for your support, and we'll speak to you next quarter.

Operator: Ladies and gentlemen, this does conclude the conference call for today. You may now disconnect your line, and have a great day.

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