TEEKAY LNG PARTNERS L. P. Q1-2016 EARNINGS RESULTS

Conference Call Transcript

Moderator: Emily Yee
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Operator: Welcome to the Teekay LNG Partners First Quarter 2016 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 sessions.

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 like to turn the call over to Mr. Peter Evensen, Teekay LNG Partners' Chief Executive Officer. Please go ahead, sir.

Cam: Before Mr. Evensen begins, I would like to direct all participants to our Website at www.teekay.com where you will find the copy of the first quarter of 2016 earnings presentation. Mr. Evensen will review this presentation during today's...

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 statement is contained in the first quarter 2016 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, Cam. Good morning, everyone and thank you for joining us on the first quarter investor conference call for Teekay LNG Partners. I'm joined today by Teekay Corporation's CFO, Vince Lok and Mark Kremin, President of Teekay Gas Services.

During our call today, I'll be taking you through the earnings presentation, which can be found on our Web site. Beginning on Slide 3 of the presentation, I will review some of Teekay LNG's recent highlights.

For the first quarter of 2016, the partnership generated distributable cash flow of $54 million and cash flow from vessel operations or CFVO of $114 million, which were both down slightly from the same period of the prior year.

We generated DCF per limited partner common unit of 68 cents per unit resulting in a strong distribution coverage of 4.79 times. During the first quarter, Teekay LNGs first MEGI LNG carrier new building, the Creole Spirit, commenced its five-year charter contract with Cheniere Energy, which delivered in late February and subsequently transported its first US shale gas cargo to Europe and is currently on its second voyage from the US to the Middle East.

Both shipments originated from Cheniere Sabine Pass LNG export facility located in Louisiana. The partnership's second MEGI LNG carrier new building is undergoing sea trials and is on track to commence its five year charter with Cheniere in the third quarter of 2016.

During the first quarter, Centrofin, the charter of the Bermuda Spirit and Hamilton Spirit Suezmax Tankers, exercised its options under the charter contracts to purchase both vessels for a total price of approximately $94 million.

The Bermuda Spirit was sold in mid-April and the Hamilton Spirit was sold in mid-May. And we used the proceeds from these sales to repay existing term loans associated with these vessels.

Lastly, in April, the sponsors of the Yamal LNG project recently announced a significant milestone for the project in securing long-term debt financing, which I will touch on in greater detail in the presentation.

Turning to Slide 4, we provided an update of Teekay LNGs projected run rate CFVO, including the proportionate share from its equity accounted investments.

Starting with the Q4 2015 run rate CFVO of approximately $470 million, we expect this to be relatively stable, increasing moderately as we take delivery of the Cheniere LNG carriers and begin to take delivery of TGPs other MEGI LNG carriers in 2017.

Partially offset this year by the one year deferral of a portion of the charter payments on two 52% owned LGN carriers, which are on charter to the Yemen

LNG project, the sale of the two Suezmax tankers to Centrofin and the planned sale of one of our conventional tankers over the next year.

Given the backend loaded nature of TGPs new building deliveries, Teekay LNGs run rate CFVO will really begin to ramp up post 2017 when we expect to add an incremental $250 million of annual run rate CFVO by 2020.

Turning to Slide 5 as I mentioned in my opening remarks, the Yamal LNG project announced it had achieved a significant milestone in securing all the required financing to complete the construction of the project, which includes the construction of three LNG trades with a total capacity of 16-1/2 million metric tons per annum.

The project will be financed through $16.2 billion of new bank financing from Russian and Chinese lenders, with the remaining funded by the National Welfare Fund of Russia of $2.4 billion and equity contributions totaling $12.8 billion from the projects sponsors including Novatek, Total, CNPC and Silk Road Fund.

The project is progressing with an estimated 51% completed as of March 31, 2016 and the first LNG train is over 65% completed as of March 31. The project is currently scheduled to start up in late 2017.

Teekay LNG through its joint venture with China LNG Shipping have six ARC7 Ice Class LNG carrier newbuildings being constructed in South Korea that will commence charter contracts with the Yamal project through 2045 with extension options. Our vessels remain on-track for delivery in 2018 through 2020.

Our joint venture also achieved significant milestones with steel cutting on our first vessel in April. Together with China LNG, we’re making good progress on securing debt financing for these vessels and we’re currently evaluation multiple attractive offers from Chinese financers which I’ll talk about on the next slide.

Turning to Slide 6, securing financing for our growth project remains the top priority and overall, we’re seeing significant demand from commercial banks, export credit agencies and leasing companies to fund our projects. A majority of which are secured on long-term charter contracts with strong counter parties.

The Exmar LPG carriers delivering in 2016 are already fully financed through a committed debt facility and together with our joint venture partner we expect to conclude financing on the remaining four vessels delivering in 2017 and 2018 by the end of this year 2016.

As previously mentioned on our last earnings call, the financing of our second MEGI LNG carrier new building on charter to Cheniere for five-years has already been secured to a new $179 million leasing facility with ICBC leasing.

Upon delivery, we expect to be reimbursed approximately $35 million of equity from the vessel, which can be used to fund the equity requirements in our other growth projects.

We're looking to finance our six MEGI LNG carrier new buildings delivering in 2017 and 2018 as a package and are currently negotiating a term sheet on a sale lease back transaction for approximately 90% to 95% of the cost of these vessels.

Five of the vessels are on six to eight-year charter contract with SHELL and one is currently unchartered, but is part of a LNG newbuilding contract tender that is outstanding.

The four LNG carrier new buildings delivering in 2017 through 2019 on long-term charter with SHELL which were originally done with BG Group are already fully financed through a long-term non-recourse debt facility.

As mentioned earlier, we're currently reviewing several terms sheets from Chinese financers to finance a portion of our six Yamal LNG carrier new buildings delivering in 2017 to 2020 and currently expect to debt finance approximately 75% to 85% of delivered cost.

Together with our joint venture partners, we expect to conclude the financing with commercial banks and export credit agencies of the Bahrain regasification terminal in the third quarter of 2016 in which Teekay LNG owns a 30% interest.

Teekay LNG is a 100% owned new building FSU which will commence a 20-year time charter contract to this project upon start up in Q3 2018 is anticipated to be financed in the first half of 2017.

Lastly, we will evaluate financing options on our last two MEGI LNG carrier new buildings delivering in the first half of 2019 starting next year. One of the vessels will operate under a 13-year charter contract with BP and the other vessel is currently unchartered.

As you can see since we have funded a large portion of the initial yard installments of these projects with equity in previous periods, most of the remaining CAPEX payment will be funded with new debt facilities that we are putting in place resulting in minimal impact on TGP's liquidity.

Together we expect these projects to make significant cash flow contributions adding over $300 million to TGP's annual CFVO. Thank you for joining us on the call today, and operator we're now available to take questions.

Operator: Thank you. 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 are 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 1again to ensure our equipment has captured your signal.

We will pause for just a moment to allow everyone the opportunity to signal for questions. The first question comes from (Mila Parket) of JP Morgan. Please go ahead.

(Mila Parket): Hi, thanks for taking my questions. I wanted to ask about the follow-up to the Yamal LNG vessels. You know, one of the ships was reported the delivery's been pushed back to January 2017. Is that - have you had any discussions with the shipyard regarding voluntary delays to your vessels?

Peter Evensen: Yes, this is not our vessel, this is owned by ((inaudible)) and that was part of the original plan that the first one was ordered with a lot of room so that you could work out any kinks. Ours are coming later and they're still budgeted on time.

(Mila Parket): Okay. Great. And then regarding your kind of the maturity profile and deleveraging strategy, you know, what is your intention for the refinancing of the NOK bonds that come out - come due over the next few years. You expect to just repay those and deleverage or will you, you know, refinance a portion of it?

Peter Evensen: Yes, we have some unsecured bonds due in 2017 and 2018 and 2020. In terms of TGP's existing bonds, they're actually trading at a decent level. So, there's a good chance that the market even though the Norwegian bond market isn't that active right now, there's a good chance that we can refinance those bonds.

If not, we have the sufficient liquidity given all the financings that we're currently working on to probably just repay at least the 2017 bond with existing liquidity. But, we hope to be with access to bond market starting next year.

(Mila Parket): Okay. And just lastly, the ((inaudible)), that's going to get a full 90-days, 91-days in Q2 for revenue purposes?

Peter Evensen: Yes, that's correct.

(Mila Parket): Okay. Thank you.

Operator: Thank you. The next question comes from Fotis Giannakoulis of Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes, hello and thank you. Peter, I think you mentioned you got financing for four of the SHELL vessels. I saw that the SHELL vessels are five, is the fifth vessel still pending? And is this a leasing financing what you've got for this SHELL vessels?

Peter Evensen: Hi, Fotis. Actually we're going to put five SHELL vessels, you right we have five vessels on to SHELL, and we have one that is currently unchartered. So we're going to finance all six together.

Fotis Giannakoulis: Okay. Thank you, that's very helpful. And then is it going to be bank debt financing or it leasing sale and lease back?

Peter Evensen: It'll probably be with Chinese financing, so we haven't decided if we'll do it with bank financing or lease financing.

Fotis Giannakoulis: Okay. Thank you. And regarding the power project in Bahrain, can you remind us a little bit the economics and what kind of returns this project is looking? And if there are - if you see a number of similar opportunities in the marker right now where you can take advantage of high electricity prices and the low gas prices?

Mark Kremin: Hi Fotis, this is Mark. On the Bahrain, it's not actually a power project. The gas is just is likely to be used for aluminum or other type of industry. But in any event, the economics are that we're investing 100% of the FSU, which will be on 20-year charter to the Chem Co, of which we'll take 30%.

And the Chem Co investment is slightly larger than that we would expect in the FSU, a little over $200 million - around $250 million. So, overall the total investments is over $500 million. The returns we expect are better than we would achieve on certainly and LNG short term or long term chart. They're slightly better than that.

The - for the future, we see - there're a lot of FSRU projects, regasification projects. Most of these are for FSRUs only with perhaps a little bit of infrastructure. But we are seeing some similar build, own, operate and transfer boot projects where we would just provide an FSU and the infrastructure.

And so we're looking at those, but probably none will get FID this year is my guess.

Fotis Giannakoulis: We have seen - recently we have - we are reading about a number of companies interested in converting LNG carriers into FSRUs. And how many of these do you think that they can be converted and how many projects do you expect to see the next two, three years?

We used to expect two, three FSRU or worse every year. Has this number increased and what kind of investment do you estimate that we are going to see in the next few years in the FSRU market?

Peter Evensen: So we're...

(Crosstalk)

Male: Sorry, go ahead.

Peter Evensen: I think I would say that we're probably more conservative than some of our competitors are. I think a lot of people are saying they are going to take their point-to-point conventional LNGs and convert them to FSRUs, because the spot market isn't very good. We of course have well over 95% locked up on long-term charters.

In our view actually, the conversion market will only be actual once the built for purpose FSRUs are taken out. We see significant slack in the FSRUs, seeing a lot of competitors coming out with purpose built FSRUs, which are actually preferred.

The market has changed for people to prefer purpose built FSRUs from the yard rather than conversions because the projects, as Mark was saying, on FSRUs are taking much more time. And therefore you can have a purpose built FSRU rather than a conversion.

Because right now the projects are slowing down so the speed to market you can get with a conversion really doesn't have any value.

Fotis Giannakoulis: Thank you, Peter. And I want to ask about your view on both LNG shipping and the LNG prices you have been correct on your forecasting the downturn. How long do you think that it's going to take until rates, they exceed the breakeven levels? Is this a couple of year estimate or it's going to take a much longer?

And also on the LNG prices, historically they have been driven by oil, oil seems to be moving higher, we haven't seen any meaningful impact on natural gas prices. Is the disconnect definite or is a time lag and when do you expect that the LNG prices will start increasing?

Peter Evensen: Sure. Well, let's start talking about the LNG trade first what goes into all of that. And what we had seen was that LNG trade was flat, because Japan was using importing less and we hadn't really seen the market pick up. What's really nice to see is that the global LNG trade was about 5% higher year-on-year in the first quarter.

And this was because we had more supplies coming, but we also had more growth particularly in Europe, whereas Japan and South America they were flat to down. I think Japan was down about 6%. So it was nice to see Europe picking up.

However, as you pointed out, landed prices for LNG in Asia were not beneficial for the LNG trade, they were trading below $5 and I think they are about $4.20 now. So they're actually below the oil linked price. And so, we really need to see a greater pick up.

I think the good news is we're seeing some terminals come one, and then we are going to see more gas. And all eyes are really on Chevron, because they have two projects, Angola and Gorgon, which are due to startup mid-year. And so there's been a lot of delays in that with Angola, Gorgon. But we have seen short-haul trades moving up.

So what's hurt the LNG market is that we haven't had a lot of ton miles. So what we really need to see is the gas price come up and that really won't happen until people are sure about the supplies that are coming on.

So the answer as it relates to LNG rates is what we're seeing which I think is good for the LNG market is that rather than take long-term contracts and building new

	ships people are saying there's enough spot markets that I can be relying upon them.
	So we can see that sopping up the demand. And so I think we'll start to - I think we'll bottom out now and we'll start to see improvement into '17 and '18.
	Now, what exactly that translates into rates that'll depend upon how much gas is on the market. So, I won't give you a clear forecast accept to say, we see it getting better in '17 and '18 as we have more gas and we sop up the excess demand or excess supply rather of ships.
Fotis Giannakoulis:	Thank you, Peter. That has been very helpful. One last question about the LPG market. Most of the investors they seem to be very concern about the trade of propane and butane, but I understand in your vessels they do a lot of ammonia.
	Can you talk to us about the distinction between the VLGCs and what kind of a cargos do you see and how the supply demand in your segment - the - your LPG segment is developing?
Mark Kremin:	Fotis, this is Mark. We're mostly also on LPG. So although we do carry a fair amount of ammonia to the likes of Potash Corp in Saskatchewan, we do mostly LPG.
	But regardless, the MGC or mid-size sector that we are in is very different from the GLC sector that is taking propane almost exclusively to China. The rates obviously on the VLGC side have been very volatile, they are now less than mid-size rates.
	Our mid-size rates have maintained pretty much the levels that they had for the last few years. We're also - by the way, we're over 85% fixed through this year anyway. But the mid-size sector should stay stable where the VLGC sector will continue to see volatility.
Fotis Giannakoulis:	Thank you very much for sharing all these thoughts.
Peter Evensen:	Thanks Fotis.
Operator:	Thank you. The next question comes from (Nick Raza) of Citigroup. Please go ahead.

(Nick Raza): Good morning guys. Thank you Peter for answering a lot of those questions. I just have a couple of quick questions. First off relating to sort of the floating storage contango play. Are you guys seeing a lot of that right now in your conventional segment?

Peter Evensen: No, we're not.

(Nick Raza): You are not. Okay.

Peter Evensen: Sorry to say that but no.

(Nick Raza): Okay, I guess the second question, in terms of follow-up for the LPG question. Do you sort of see some of that volatility sort of trickle down into the mid-size? And if not, if the answer is no, could you sort of provide a little bit more color around that?

Peter Evensen: Yes, I think it'll influence it, but only if the VLGC market stays low. Where we benefit is that we're in more regional trades. And so the ports will take more MGCs. We sometimes - so we're talking about medium gas carriers LGCs and VLGCs.

The problem seems to be in the VLGCs and we don't see them from a port constriction really entering in and coming into our section, which is more 35,000 cubic rather than 75,000 cubic.

One thing we have seen which I think bodes well for the MGC is that we were concerned that there were a lot of ships being delivered into the MGC. Because of shipyard problems in particular, a couple of shipyards in China, we now see a lot of those MGC is probably won't be delivered. So that's a good news story.

(Nick Raza): Okay, and then little quick to your slide presentation on Page 4. Does the incremental cash flow through 2017 and include the LPG vessels as well - I don't think I see that unless I'm missing something?

Mark Kremin: No, it's not material because we are also assuming that some of the older vessels will be sold in mid-course so we didn't include that on the chart. But in reality incrementally there will be some additional cash flow.

(Nick Raza): I see, and just around CAPEX, I notice that you guys did not provide a lot of detail around it like you had in your previous quarter. Are we to assume that the CAPEX schedule is still sort of the same?

Mark Kremin: Yes, we just aggregated it in one table and this time for ease of reference, but no material changes what you saw other than just passage of one quarter of time.

(Nick Raza): Fair enough. That's all I had. Thank you so much guys.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Spiro Dounis of USB Securities. Please go ahead.

Spiro Dounis: Hey good morning gentlemen. Thanks for taking the question. Just wanted to touch on maybe tendering and chartering and it sounds like you have got one up for tender right now. And without getting into specifics of that tender, just wondering maybe year-over-year what have you seen change if anything in that process, whether it be moiré pressure on the cost to capital, when you're bidding on a rate or maybe you're seeing tenders go longer or shorter?

Peter Evensen: Sure, so let's start with the good news. I don't think anyone's ordered an LNG ships in September of that last year. So that's a good story. And what we are seeing actually is a lot of tenders come out, but they don't get completed and that's because charter are price checking.

But we know that their volumes as Sabine Pass comes on that they haven't filled with long-term contracts. But as I said earlier, it seems like they're contempt to go with short-term contracts with existing ships. And so they would prefer to have new MEGIs that are more fuels efficient, but they're not in a hurry to lock up long-term tonnage.

So that's builds well for the spot market getting better, but it means that there is less long term contracts that Teekay LNG specializes in. So, we feel pretty good that we have two vessels that were available to stick into tenders, one comes in 2017, one comes in 2019. But most of the startups that we are seeing on tenders are for 2018, 2019 startup.

Otherwise, people are content to play the spot market.

Spiro Dounis: Okay, and actually that segues the next question is, I guess just on that first MEGI that delivers in early '17, say for assumption that if you win this tender would that contract be concurrent with the delivery or could we see a delay?

Peter Evensen: We might see a delay. Yes.

(Spiro Dounis): Okay, got it. And then just last one on that tendering activity...

(Crosstalk)

Peter Evensen: And then...

(Spiro Dounis): ...sorry go ahead.

Peter Evensen: ...and then we might in turn adjust the delivery date back.

(Spiro Dounis): I see okay, so you have that option. Okay good. And then just on the 2019 MEGI, just trying to figure out basically it sounds like you said it might almost be worth waiting a little bit longer to tender anything now if this market isn't as hot as you'd like it to be.

So I guess I'm wondering what our expectations should be for chartering that 2019 MEGI, if it's make sense to wait here to see how things I guess evolve in the market or is it your preference to maybe lock that thing up as soon as possible?

Peter Evensen: Well, I wish it was my choice. We're just responding the customer request. But what we have seen, I mean, probably the most public tender was the GAIL tender. That's probably been out three times, it'll come out one more time.

But what we do know is that there's a need for ships for volumes that are coming out of Cameron or Sabine and people haven't locked up the tonnage. So it's either way you either end up with long term fixed rate contracts or you end up sopping up a lot of the tonnage that is free right now.

(Spiro Dounis): Got it. I appreciate the color. Thanks guys.

Peter Evensen: Thank you.

Operator: Thank you. There are no further questions. Mr. Evensen, I'll turn the call back to you.

Peter Evensen: Great, thank you all for listening and have a great weekend and we look forward to reporting back next quarter.

Operator: Thank you. 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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