TEEKAY LNG PARTNERS L.P.

Moderator: Emily Yee
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10:00 am CT

Operator: Welcome to Teekay LNG Partners Fourth Quarter and Fiscal 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 like to turn the call over to Mr. Peter Evensen, Teekay LNG Partners Chief Executive Officer. Please go ahead, sir.

Ryan Hamilton: Before Mr. Evensen begins I'd like to direct all participants to our Web site at www.teekaylng.com where you will find a copy of the fourth quarter and fiscal 2013 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 fourth quarter and fiscal 2013 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, Ryan. Good morning everyone and thank you for joining us on our fourth quarter and fiscal 2013 investor conference call. I'm joined today by Teekay Corporation CFO Vince Lok, Key Strategy Officer Kenneth Hvid, MOP Controller David Wang.

During our call today I will be walking through the fourth quarter and fiscal 2013 earnings presentation which can be found on our Web site. Turning to slide number three of the presentation I would like to review some recent highlights.

The partnership continued on its course of steady growth in the fourth quarter of 2013 generating distributable cash flow of 63.4 million up 18% from the same quarter of the prior year. For the full fiscal year the partnership generated distributable cash flow of 237 million in 2013 up 8% from the prior year.

The year over year increase is mainly due to cash flows from the partnership's 50% investment in the Exmar LPG joint venture and the acquisition and fixed charter back with two LNG carriers with Awilco LNG in late 2013.

In November we completed the accretive acquisition and charter back of the second LNG carrier from Awilco LNG on similar terms as the first vessel that delivered in September.

Based on the additional distributable cash flow resulting from the Awilco transaction the partnership declared and paid a fourth quarter distribution of 69.1 cents per unit an increase of approximately 2 1/2% or 7 cents per annum bringing Teekay LNG's total annualized distribution to $2.77 per unit.

In mid November 2013 we exercised an option with DSME for one additional LNG carrier newbuilding bringing our current LNG order book to five vessels. All of these newbuilding LNG carriers will be equipped with M-type electronically controlled gas injection or MEGI twin engines which are expected to be significantly more fuel efficient and have a lower emission level than other engines currently being utilized in LNG shipping.

We expect to secure long term charters for the partnership's three MEGI LNG carrier newbuildings delivering in 2017 because they should be well positioned to take advantage of the anticipated strong LNG shipping fundamentals to do their scheduled startup of several new LNG liquefaction plants beginning in 2016 and 2017.

These vessels will complement our other two MEGI LNG carrier newbuildings which are chartered to Cheniere and which will deliver in 2016. In addition to our LNG order book we also have 12 midsize LPG carriers on order through our 50% joint venture with Exmar all of which are scheduled to deliver between 2014 and 2018.

In late January 2014 the joint venture secured four new fixed rate charter contracts. Two of the contracts are with Statoil which will employ two of the joint venture's newbuildings LPG carriers for an initial period of five years with extension options up to a maximum of ten years following the delivery of the vessels in 2016.

The other two contracts are with Potash Corporation which will have a duration of ten years to be serviced by two of the joint venture's existing on-the-water LPG carriers. As I reported in previous quarters there continues to be a significant amount of LNG and FSRU project tender activity and our business development group is actively evaluating and bidding on several of these with expected delivery dates in 2016 and beyond.

Turning to slide number four we take a look at developments in the LNG shipping market. LNG shipping spot rates as shown by the chart at the top of the slide are currently on the decline due to a combination of limited cargo availability and fleet growth.

Having peaked at approximately 150,000 per day in the middle of 2012 both spot rates and 12 month time charter rates recently dropped below $80,000 per day and continue to show weakness. Ongoing production outages at various liquefaction plants around the world continue to limit the supply of LNG available for shipping.

In addition no new projects are scheduled to start up until later this year. At the same time more than 30 LNG carriers are due to be delivered into the fleet this year almost half of which are not committed to long term projects.

On this basis we anticipate that short term LNG shipping rates will continue to decline in the near term due to a surplus of vessels compared to demand. Starting in 2016 however we expect that the new LNG supply will soak up available fleet capacity and create new demand for LNG carriers.

This is shown by the chart at the bottom of the slide which shows that expected LNG liquefaction capacity region by region out to 2020. As you can see from the chart the real ramp up in new supply comes from 2016 onwards when new supply is expected to come online from Australia and the United States.

These volumes may be joined later in the decade by new LNG exports from Russia, Western Canada, and East Africa. Turning to slide number five we take a more in depth look at the supply/demand balance for LNG carriers.

As you can see from the chart between now and 2016 we anticipate the market will be oversupplied with vessels as there appears to be insufficient supply of new LNG to absorb the large number of newbuildings coming into the market. This will be particularly problematic for those ships delivering prior to 2016 which are uncommitted to projects and we expect fleet utilization and therefore spot rates will fall during this time as we've witnessed recently.

However from 2016 onward the fundamentals point to a tightening in the market as new LNG liquefaction plants start to come online. And by 2017 we believe the supply and demand balance once again shows that that's a deficit meaning that new LNG carriers will be needed to meet the demand.

As you can see from the chart this timing coincides well with the 2017 deliveries for the partnership's three currently unchartered LNG carrier newbuildings which are under construction. We therefore remain confident that these ships will deliver into a firming market and that we will secure employment at attractive levels.

Turning to slide number six I'd like to highlight that with 100% of Teekay LNG's on-the-water LNG fleet operating under fixed rate contracts with an average remaining duration of 12 years the partnership is largely insulated from the recent declines in spot LNG shipping rates.

Since our IPO in 2005 we've deliberately focused on new business that enhances the stability of the partnership's cash flows and which has minimal exposure to commodity price or volume volatility.

Over the next three years Teekay LNG only has two LNG carriers of which we own 52% rolling off their existing contracts thus the partnership's exposure to potentially weakening LNG shipping rates is minimal.

Turning to slide number seven we take a look at developments in the LPG shipping market. Starting at the top of the slide rates for medium sized gas carriers or MGCs have remained relatively stable in recent months at approximately $835,000 per month or $27,500 per day.

You'll notice that MGC rates show far less volatility compared to the very large gas carriers or VLGCs. We believe this is favorable to Teekay LNG as it means our large fleet of MGCs owned jointly with Exmar should deliver stable cash flows and largely avoid the earning volatility that can occur in the VLGC market.

Looking at the chart you can see the VLGC spot rates have been at very high levels in recent months with rates in the summer of 2013 reaching their highest level since 1990. Rates have since come off but we believe there's a more seasonal swing rather than a worsening in the supply/demand fundamentals.

This uptake in VLGC earnings is largely due to the impact of growing LPG exports from the US as shown by the chart on the bottom of the slide. Rising US shale gas production is leading to a surplus of LPG available for export at prices which are competitive for those from the Middle East.

This increase in US LPG production is expected to continue in the medium term and could add significantly to LPG carrier ton-mile demand in the coming months and years. While these exports primarily benefit the VLGC market we anticipate that there will be positive effects felt in the smaller ranges including the MGC segment.

Moving to the financial results for the quarter on slide number eight and starting at the top of the income statement. Net voyager revenues increased by approximately 3.4 million primarily due to revenues on the Awilco LNG carriers partially offset by a decrease from the Asian Spirit and African Spirit Suezmax tankers being off-hire for a total of 48 days for their scheduled dry docking.

For the first quarter 22 off-hire days are expected as a result of the schedule dry docking of one LNG carrier. Vessel operating expenses increased by half a million dollars primarily due to the timing of repairs and maintenance expenditures.

Depreciation expense was consistent with the prior quarter. General and administrative expenses increased by $600,000 primarily due to higher business development costs incurred to support our growth.

Equity income decreased by approximately $3.6 million primarily due to $2.3 million non-cash charge related to the purchase price allocation adjustment for the Exmar LPG joint venture, higher interest expense in the LNG joint venture we have with Marubeni Corporation following the completion of a debt refinancing in Q3, and higher operating expenses within the Angola joint venture as a result of increased crew and repairs and maintenance expenses.

Now this net interest expense increased by $2 million as a result of a full quarter of interest expense related to Norwegian Kroner bonds issued in September of 2013 and the new debt facility used to fence the delivery of the first Awilco LNG carrier.

Finally income tax recovery increased by $1.1 million mainly due to a tax provision adjustment related to the Tangguh joint venture. I won't walk through all of slide number nine which was included in our recent earnings release however I will note that our coverage ratio of 1.08 times for the fourth quarter is within our target coverage range of between 1.05 and 1.10.

Looking ahead to 2014 as we indicated in previous earnings calls three of our five Suezmax tankers on charter to (Sepsa) are in the process of being sold. In mid December 2013 the Tenerife Spirit Suezmax charter contract was terminated and the vessel was sold.

We expect the same to occur with the Algeciras Spirit Suezmax tanker in late February 2014 and the Huelva Spirit by mid 2014. We anticipate that these contract terminations and vessel sales will negatively impact the 2014 DCF by approximately $7 million.

However this will be more than offset by the full year cash flows from the two Awilco LNG carriers which were acquired in late 2013. In addition we have some additional revenue upside relating to two other Suexmax charters which are on charter to Center Fin whereby our partnership receives 100% of the upside above the base charter rate of $14,000 per day based on spot Suezmax rates.

Given the strengthening of Suezmax rates in late December TGP received an additional 500,000 of revenue from this in the fourth quarter. Suezmax rates spiked further in early 2014 and thus we expect to earn approximately an additional $2 million of revenue in the first quarter from these two charters.

For an overview of the scheduled dry dockings in 2014 please refer to the appendix of this earnings presentation. Wrapping up on slide number ten based on the anticipated strong fundamentals in the LNG shipping market that I talked about earlier on this call we believe the modest build out in our newbuilding order book will provide an attractive pipeline of distributable cash flow growth over the next few years.

In addition to the two MEGI LNG carrier newbuildings chartered to Cheniere starting 2016 we believe the partnership's three currently unchartered MEGI LNG carrier newbuilding delivering in

2017 will be well timed to take advantage of the start up of several new liquefaction projects beginning in 2016.

In addition to securing employment for these unchartered newbuildings the partnership is also engaged in LNG shipping and floating regasification project tender opportunities with expected start up dates in the same timeframe.

Operator, I'm 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 1 again to ensure our equipment has captured your signal. We'll pause for just a moment to allow everyone the opportunity to signal for questions.

Our first question comes from Michael Webber of Wells Fargo Securities. Please go ahead.

Sameed Musvee: Hey guys, good morning. This is actually Sameed on for Mike. How are you?

Peter Evensen: All right, how are you?

Sameed Musvee: Doing well. So really quick first question is the follow-up on the LNG projects and potential FSRU projects out there. I know you guys want comments specifically on any specific projects but given our understanding as a lot of these projects are in various geographies across the world how would you guys think about risk/reward in terms of the potential of return you would need for kind of these projects out there?

Peter Evensen: Every project is a little bit different so we don't classify them really by region. We look at the do-ability of the project and the actual cost prices of the project. We look at what its contracts are like have they presold a lot of the gas?

And then so I would say it's more project dependent than region dependent when we're looking at it. But obviously we're focused in on a lot of the US projects that are coming and receiving for approval right now but there are other regions of the world including Australia and Russia where we're looking at projects.

Sameed Musvee: Got it. And switching from LNG carriers to more FSRUs is there any updates in terms of potential projects - FSRU projects you guys are looking at right now?

Peter Evensen: Not - we aren't commenting specifically on FSRU projects that we're working on, no for competitor reasons.

Sameed Musvee: Got it. And switching gears to your distribution I mean I know you guys recently raised your distribution as of Q4 but in terms of future guidance is there any updates on any changes to the distribution we should expect in the coming quarters?

Peter Evensen: Yes, as you know we don't give guidance on distributions but we have a good track record of raising the distribution every year as we add new projects. The good news about our - is that we - or the good news about the partnership is that we have to add new projects.

And we have some projects coming in 2014 the LPGs which are coming in and then there's a much bigger ramp in 2016 and 2017. And we've tended to supplement that by making on-the-water acquisitions as we did late last year. So but we don't give actual guidance on what the distribution increases will be.

Sameed Musvee: Got it. And one final question to me and then I'll turn it over. My understanding is that you guys still have three options for LNG carriers at DSME potentially for 2017, 2018.

Beyond that as you look at all the different projects out there is there a potential to add to that number in the future in terms of getting more options for 2017, 2018? Or are you finding that slots are already kind of filling up for that time period given the potential of (infuction) point for LNG at that time?

Peter Evensen: We actually find that the yards have capacity probably the biggest competition is that some slots are being reserved out by the actual projects themselves. And so it's a fluid situation I would say. But and as well as some of the slots are taken up by some of the new FLNG facilities that are being planned.

But on the whole the availability is there which is why we get a lot of visibility. In other words the liquefaction project has to be - those contracts have to be placed well in advance of when our shipping has to be placed.

Sameed Musvee: Got it. That's all on mine. I'll turn it over. Thanks for taking my questions.

Peter Evensen: Thank you.

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

Fotis Giannakoulis: Yes, hi Peter. I want to ask you more about the LPG sector. This is a new sector - a relatively new sector for you. We have seen the last few months very steep increase in the order book but more than - is right now more than 30%. Do you feel that the opportunity still there? And how will this order book impact the balance of the next couple of years?

Peter Evensen: Well, so just for everyone's benefit because I know you know this Fotis so our exposure to the LPG market is in the medium size so the MGCs which as I said in my prepared remarks have lower volatility.

You're asking about the VLGCs which where we have one older one in our LPG joint venture that we have with Exmar. We're constructive on the VLGC market but there's a tendency for ship owners to get ahead of themselves. And so what we've seen is that people have been ordering and they've been ordering because they know the prices are going up on VLGCs so they might as well order now.

The actual projects have to materialize but as I said we've been pleased with the amount of new capacity and we continue to watch that market. If we could get medium term contracts you would see us enter into the VLGC market. But I would say that we're seeing normal seasonality. Rates are down below - rates on the VLGCs right now on a spot basis are below the MGCs which is a normal seasonal trend.

But on the whole we're positive on the VLGC market and so the 30% on order isn't truly exceptional. If people continue to order then I think we can have that discussion. But we think that the amount on order now will be comfortable absorbed.

Fotis Giannakoulis: Thank you, Peter. And can you also describe us the LPG market. You sign some long term contracts recently. This - do this contracts exist in this particular sub segment that you are in the mid gas carrier segment? And do you forecast that the market will develop to such a degree that the more long term contracts will be able to be signed in the broader market?

Peter Evensen: I think the VLGC market will always be have shorter term charters just due to the inherent volatility of it. But some of the bigger players can clearly get more COA or volume contracts going forward. But because it's a traders market you're never going to see long term markets whereas our relationship that we have Statoil and Potash those are ammonia and LPG runs where they know they're going always need ships.

So that's why they enter into long term contracts. But where you basically have traders they'll always enter into spot one year, three year contracts and that's the VLGC market which is why as our partnership which wants stable cash flows why we concentrate on the medium term market rather than in the VLGCs.

Fotis Giannakoulis: I understand that you do not disclose the levels of your contracts but given the fact that these are very long term contracts the ones that you signed is there any - how should we think that the discount that you have offered in order to get this long term contracts?

Peter Evensen: I don't think you should think about it as a discount because you should think about it as long term customer relationships where we're renewing our customer relationships which is what we have with Potash and Statoil as well as several other customers.

So these are long term relationships where we're rolling over contracts and the purpose of ordering the 12 newbuildings was to renew the fleet and we have a lot of base customer coverage. And so it's more based upon the customer relationships than it is to point to any single market. We have an extraordinarily high market share in the medium term market. And it's based more on being the shipping arm of our customers in that market.

Fotis Giannakoulis: Thank you. I want to switch over on the LNG space. I understand that there is one vessel if I'm not mistaken the Methane Spirit that comes out of contract in early '15. Have you started any discussions about the renewal of this contract? And how is the chartering environment for 2015?

Peter Evensen: The chartering market is weak and we have started conversations with charterers about whether they're interested in that unit. And so just to be simple the market is weak so I think we'll have to be competing on that.

Luckily we only own 52% of it but we believe rates will be down in the rest of '14 and '15 because there's too many ships. And that's just the plain fact of life because it's not a huge amount of - it doesn't have a huge affect on our DCS we're okay with that.

Fotis Giannakoulis: Okay, thank you very much.

Peter Evensen: Thank you.

Operator: Thank you. Ladies and gentlemen if there are any additional questions please press star 1 at this time.

The next question comes from T.J. Schultz of RBC Capital Markets. Please go ahead.

T.J. Schultz: Morning Peter. Just one question on US exports. Seems like there's been more constructive discussions recently around the potential for ethane exports. If you could just comment on that market what type of vessels would be required and if there's an opportunity for you all as that market develops. Thanks.

Peter Evensen: Yes, so we actually competed on one of the ethane long term contracts because you need a more specialized vessel rather than a VLGC in order to move ethane and we lost. So but that's okay. You know, you have to compete on a whole bunch of them.

But we think that's a very interesting growing market on the ethane side particularly from the US to Europe because it's a good feed stock. And so we think that will continue to build out but you have to get the specific ports and the pipelines to get to the ports and that's taking a little bit longer time. But we have high hopes for that market.

T.J. Schultz: Okay, would you characterize it as saying, you know, more opportunities this year to potentially bid on projects such as that?

Peter Evensen: Yes, we saw the volumes coming out of Marseilles and ultimately I think you'll see volumes coming out of the US gulfs as well. And that was the first export one. And you need more specialized ships in order to move them and what will happen is you'll need bigger ships and so we expect volumes to come from the US to go to places like India as well.

And so the type of ships that have been shipping ethane have been smaller. And when you get to the longer haul just to make things work you need bigger ships so that's a great opportunity for newbuildings and sets up well with our contract mentality.

T.J. Schultz: Okay, thanks.

Peter Evensen: Thank you.

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

Peter Evensen: All right, thank you all very much. And we look forward to reporting back on our progress next quarter. Thank you.

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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