TEEKAY LNG PARTNERS L.P.

Moderator: Emily Yee
August 6, 2015
10:00 am CT

Operator: Welcome to Teekay LNG Partners' Second Quarter 2015 Earnings Results conference call. During the call, all participants will be in a listen-only mode.

Afterwards, you'll 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.teekay.com, where you'll find a copy of the second quarter 2015 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 second quarter 2015 earnings release and earnings presentation available on our Web site.

I'll 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 the second quarter investor conference call for Teekay LNG Partners. I'm joined today by Teekay Corporation's CFO Vince Lok, and Teekay LNG's controller Brian Fortier. During our call today, I will be taking you through the earnings presentation, which can be found on the web site.

Before I begin you will note today that we changed the order of the Teekay group investor conference calls. Starting with this Teekay LNG Partners earnings call, we have reversed the order from what we've done in the past and today we'll be hosting investor calls for each of the Teekay daughter entities, followed tomorrow by the quarterly investor call for Teekay Corporation.

We made this change going forward due to both the growing scale and operational significance of each of Teekay daughter entities and Teekay Corporation's transition to becoming a pure play general partner, with its cash flows coming predominantly from its ownership interest in each of the three publicly traded daughter entities.

With assets now predominantly owned at the daughter level, we believe it makes greater sense to review the results of the operating businesses with investors first before reviewing those of Teekay Corporation.

Turning now to Slide 3 of the presentation, I'll review some of Teekay LNG's recent highlights. For the second quarter of 2015, the partnership generated distributable cash flow of $65.8 million, an increase of 7% from the same period of the prior year.

We achieved a better than expected average coverage ratio of 1.03 times for the second quarter, primarily due to higher than expected revenues from our EXMAR LPG and Angola joint ventures, which offset the impact of two of our 52% owned LNG carriers, the Magellan Spirit and Methane Spirit coming off the respective medium term charters in the first quarter.

For the second quarter of 2015, the partnership declared a cash distribution of 70 cents per unit, consistent with the previous quarter. We continued to add new organic growth to our diverse portfolio of long-term fee-based charter contracts during the second quarter.

In June we signed a new 13 year time charter contract with BP Shipping, with BP having an option to charter one additional LNG carrier. Despite a weak chartering market, Teekay was able to secure short-term voyage employment for both the 52% owned

Magellan Spirit and the Methane Spirit LNG carriers starting in October. With both vessels commencing respective short-term charters which will keep the vessels earning charter hire through mid-2016 while the chartering team works to secure medium to longer term employment for those vessels.

Finally, the construction of the partnership's new building fleet of 21 LNG carriers remains on track, with our first scheduled MEGI LNG carrier delivering in February of 2016 to commence its five-year charter with Cheniere Energy.

Turning to Slide 4. The long-term fundamentals of the global LNG shipping market remain robust with significant liquefaction capacity constructed and expected to come online starting in 2016, which will increase demand for the most modern fuel efficient tonnage.

Based on anticipated customer demand, we have now begun securing yard capacity in 2019 and beyond as we continue to see multiple contracting opportunities that will require modern fuel efficient LNG tonnage.

In June we placed orders for 274,000 cubic MEGI LNG carriers from Hyundai's shipyard in South Korea and received an option to order one additional LNG new building.

From our dialogue with customers globally we know there is a strong preference for the limited number of fuel efficient MEGI LNG carriers available in the marketplace

As I noted in the opening highlights, in June we were able to concurrently secure a new 13 year time charter with BP for one of the Hyundai new buildings with the option that BP can exercise by the end of September of 2015.

BP will be using this tonnage primarily to service its export volumes from the Freeport LNG project at Quintana Island on the Texas Gulf Coast. This is the second US LNG export term until we will lift volumes from, with the first being Cheniere's Sabine Pass pass project in Louisiana. And provides a tangible illustration of how US LNG export projects are contributing to long-term growth of LNG trade and creating an expanding market for Teekay LNG services.

The new long-term charter with BP adds to Teekay LNG’s already strong and diverse portfolio of fee-based forward revenues which are illustrated on slide five.

This is a slide we’ve shown before. However, with the volatility we have seen in the global energy markets over the past year, it is a strong reminder to investors of the stability and built-in growth of Teekay LNG's cash flows.

Including the new BP charter, Teekay LNG's forward fixed-rate revenue book now stands at almost $11-1/2 billion, with an average remaining contract duration of over 13 years. Although this is already one of the strongest charter portfolios in the industry, we are continuously looking to add to it.

On Slide 6, I'll review our financial results for the second quarter of 2015 as compared to the first quarter of 2015. For a reconciliation of distributable cash flow to net income, please refer to Appendix B of our earnings release.

Distributable cash flow was relatively consistent with Q1, decreasing slightly in Q2 to $65.8 million for a coverage ratio of 1.03 times, compared to $66.2 million and a coverage ratio of 1.04 times the prior quarter.

The main factors contributing to the slight decrease in coverage ratio in the second quarter included increased vessel operating expenses due to crew wage increases and timing of maintenance work and lower equity income from our 52% owned joint venture with Marubeni.

These decreases were partially offset by increased charter rates for the four vessels in our 33% owned Angola joint venture as a result of finalizing the charter amendments to a cost pass through basis retroactive to 2011.

Stronger MGC and VLGC spot rates for our 50% owned LPG fleet in our EXMAR LPG joint venture, and charter rate adjustments which increased the revenue of the Arctic Spirit and Polar Spirit.

In Q3 we are currently expecting TGP's coverage ratio to be temporarily below 1.0 times primarily as a result of more expected off hire days in Q3 compared to Q2 related to scheduled dry dockings in our fleet.

The effect of the one-time cumulative catchup in Q2 upon financial finalization of the amended charter contracts in our Angola joint venture not being there in Q3, and fewer revenue days expected in Q3 for the Methane Spirit and Magellan Spirit. Following the completion of the scheduled Q3 dry dockings, however, we expect coverage to be higher in the fourth quarter.

Turning to Slide 7. Give the volatility experienced in the energy markets in 2015, I wanted to take a moment to highlight that TGP's cash flows remain stable and growing.

Similar to what we saw in the 2008-2009 financial crisis, there currently appears to be a disconnect between the equity yield on our common units and our underlying cash flows as you can see from the chart on this slide.

The stability of the partnership's cash flows are supported by a number of key factors we laid out on this slide.   First, Teekay LNG has one of the strongest fixed rate contract portfolios in the industry, with over $11 billion of forward fee-based revenues across a diverse group of counterparties, and no direct commodity price exposure.

The partnership's fleet of LNG carriers, including the 21 new buildings, on order is one of the largest and most modern in industry. Despite current low bunker costs, our customers are taking a longer view when deciding who to partner with on long-term time charters, and fuel efficiency is a key differentiator.

Teekay LNG continues to benefit from access to low cost, long tender debt financing from a diverse and competitive group of relationship bank and credit export agencies.

Despite the current weakness in the short-term spot LNG shipping rates, long-term fundamentals for the LNG market remain favorable with the current fleet and existing having order book well short of the tonnage that will be required once future liquefaction projects come online. And lastly, Teekay LNG has a robust pipeline of contracted growth projects that will provide distributable cash flow growth until 2020.

Turning to Slide 8, I wanted to address investor concerns about Teekay LNG needing to raise significant equity capital at today's depressed unit price. In fact, this is not the case. Our capital expenditure financing is well on track and we are not as reliant upon raising equity capital at today's depressed unit price than some might think.

In the table on this slide, we have laid out the remaining CAPEX requirements for our existing growth projects, along with the related committed or anticipated debt financing.

As you can see, the majority of the remaining CAPEX is able to be funded with attractively priced debt financing. While not all of our required debt financing is currently in place, this is normal and planned.

With our CAPEX spread out over multiple years and typically tail-weighted, such that the bulk of the CAPEX is made just prior to delivery, we generally secure debt financing closer to vessel delivery to minimize bank commitment fees but we start the discussions years in advance.

As far as the equity component goes a large portion of the equity financing is paid through installments at signing, with yard, and during construction, meaning that there's a lower equity requirement at delivery.

Turning to Slide 9. Teekay LNG continues to enjoy access to competitively priced capital to fund our strong pipeline of growth projects should equity capital not be competitively priced.

Lenders are attracted to Teekay LNG by the same cash flow stability attributes that are favored by our MLP investors , $11-plus billion of fee-based accounts, an average contract duration of 13 years, and a diverse customer base. As a result, we continue to see strong appetite from banks and export ready agencies to finance our growth projects.

In addition, a general downward trend in benchmark interest rates and healthy competition among banks and export credit agencies for financings has led to reduction in margins and total cost of debt financing over the past couple of years, which has helped offset recent increases in TGP's cost of equity capital.

We estimate that the margin reduction on our loans is approximately 100 basis points, which at a two to one leverage would balance out a 200 basis point increase in the dividend of our unit price. In other words, our overall coverage ratio of capital has not increased significantly even though our unit price has temporarily dropped.

Strategically, over the past several years, we have also been diversifying Teekay LNG's source of capital and now enjoy access to multiple capital markets.

In recent years, we have been active in project bonds, US and Norwegian unsecured bond markets, and completed significant issuances in the private and public equity markets, in addition to implementing a continuous offering program.

While at any given time not all of these capital markets are favorable to access, having a range of options to choose from has enabled us to tap into different pools of competitively priced capital to support Teekay LNG's continued growth.

Wrapping up on slide ten, we provided a summary of Teekay LNG existing built-in growth projects including the new BP contract commencing in 2019. Based only on the anticipated cash flows from our growth projects shown here we currently expect these vessels to contribute annual cash flow growth of approximately 12% between the end of the second quarter of 2015 and 2020.

In the meantime, we also continue to bid on new growth projects to supplement TGP's cash flow growth profile in future years. And despite the current volatility in the energy and equity markets, the long-term fundamentals of LNG and LPG shipping markets remain strong, and we believe our strategy of preordering optimally sized MEGI LNG carriers also continue to serve us we as these vessels are attractive to a wide range of potential LNG and FSRU projects.

Thank you for joining us on the call today. And operator, I'm now available to take questions.

Operator: Thank you. Ladies and gentlemen, if you'd like to ask a question please signal by pressing star 1 on your telephone keypad. If you're using a speakerphone today please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star 1 to ask a question.

We'll now take the first question from (Michael Webber) with Wells Fargo. Please go ahead.

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

Peter Evensen: Good, thanks.

(Michael Webber): Peter I wanted to I guess first dig in on growth opportunities and I know you already touched on the availability of capital and the different sources you all have. I wanted to dig in on a couple of possibilities.

First I was hoping to maybe get you to kind of prioritize what you're looking at right now in terms of maybe traditional carriers, LPG, regas and then maybe throw M&A in there in general. Just this terms of what's occupying your all's time and where you think there's probably the most traction right now. If you could prioritize those it'd be helpful.

Peter Evensen: Sure. Well, actually, since the last quarter we've actually been surprised about the amount of contracts that we see for LNG carriers that are still there. A lot of people think it's just dropped off the map but in fact it hasn't.

With the low LNG prices we're actually seeing an uptick in requests for FSRUs, and we're seeing that on existing liquefaction projects like Sabine volumes, people haven't contracted tonnage.

And what is surprisingly and I think benefits us is that they're asking for MEGI tonnage rather than, say, existing DFDE tonnage at a reduced rate. So, the DFDEs aren't being preferred even if they carry a lower rate. So this sets us up.

We can see 15 to 20 opportunities to charter on a point to point LNG tonnage and there is numerous FSRU opportunities that we continue to work on. Because at these lower oil prices which translates into lower oil-linked gas prices, there's places all around the world but in particular India where you're seeing that they can afford energy. So there's a greater demand for electricity.

(Michael Webber): Got you. Okay. That makes sense. Now, I kind of wanted to zero in again on - I guess, you didn't include in your rankings but around LPG. And if I think about where the entry and multiples are right now and where returns are for carriers versus what we are seeing right now in the LPG space in terms of low single digit multiples.

And actually some public companies trading at or around NAV, I'm just curious as to how significantly you would consider I guess more moves in that space either M&A with existing companies or acquiring assets on the VLGC tide so put in a new JV with EXMAR?

Just considering the better valuation and the fact it is a much wider window from a dropdown perspective and from a financing perspective within the LPG space right now. Just curious where that falls specifically?

Peter Evensen: Sure. Well, as you know, we are always evaluating M&A opportunities and Teekay was very busy on the tanker side this quarter with two acquisitions.

(Michael Webber): Yes.

Peter Evensen: But what I'm really pleased about the Teekay team is they can look at multiple transactions at any given time. And so we're looking at it and I think we've done some of our better deals at times when others couldn't. And I think we're kind of moving into that time right now.

I don't think we're going to expand outside of the segments we are in given the nature of the competition so I think we're going to stay inside of LPG and LNG. But we think with the exception of the VLGC market we like the mid-sized and the smaller LPG sizes. But we think the VLGC market is well covered now and so we are looking at various opportunities.

The only caveat I would add to that is that it's reliant upon having contracts. And there's a lot of LNG people out there that don't have contracts and those aren't - that isn't what our MLP is set up for.

So you watched us buy on the water units with contracts and there are in fact opportunities out there in both LPG and LNG. So those are things we're evaluating.

(Michael Webber): Okay. That's very helpful. Just one more for me and I'll turn it over. Within the freight press the last couple weeks and heard in circles earlier, around Yamal, that some of the ice breaking assets looked like they were potentially getting remarketed.

I was curious whether-- what that said to you around if anything around the risk profile of the projects? And then secondly, if additional icebreaking sets associated Yamal were to become available, is that something you all would be interested in or do you feel you have enough exposure to that particular project?

Peter Evensen: We'll let's - thanks for asking about Yamal because I think that's also a better sorry. But let's start with the actual project. There I think the project sponsors have announced that they've signed letters of intent with Chinese and Russian banks for almost $20 billion which they hope to finalize.

And that is a very important part in order to keep that project moving forward. The second part we like about that project is that it is competitively priced LNG. So they can make money even in today's low prices.

And then, finally as it relates to the shipping , as you know, we have six of the 15 LNG carriers and we know that there was the opportunity to take more. We've elected not to because we can see that there is going to be a tender coming on for conventional LNG carriers.

So as part of our portfolio building and building a diverse portfolio, we have limits on how much we can take in any one name and we didn't want to use up anymore of our exposure on Yamal. We would rather save that for the conventional tender that will come later this year.

(Michael Webber): Okay. That's helpful. I appreciate the time, guys. Thank you.

Peter Evensen: Thank you.

Operator: Your next question from (Noah Parquette) is JPMorgan. Please go ahead.

(Noah Parquette): Thanks, good morning. I was curious about your discussion with charterers, specifically oil majors. Are they still looking to take ships on a project by project basis or taking more of a portfolio approach to how you know they are securing tonnage?

Peter Evensen: I think in particular we've seen that numerous charterers haven't filled - they have agreed to take contracts from for example, Sabine Pass and Corpus Christi as it relates that Cheniere. And they haven't filled that up. So they're already planning as you see BP was planning for 2019. And we can see for 2018, 2019, 2020 that they haven't secured the tonnage.

And what I was trying to say in my prepared remarks was that we see a changeover where they are going for the MEGIs and we feel good about that since we were a pioneer on the MEGI side of things. And so, even without any new liquefaction coming on we think there still is or we've been surprised that there still is a lot going on. Just to fulfill the liquefaction projects being constructed.

Obviously, you saw Cheniere took final investment on Corpus Christi and the fifth train at Sabine Pass and that will add to the volumes that are needed in 2019 and 2020 going forward. We saw Kinder Morgan make a move in to Elba Island and we think that accelerates it.

Then there continues to be - so we're more bullish I would say on the brownfield projects, in other words, turning them around than we are in the greenfield projects. But there continues to be even in Vancouver and BC, there continues to be progress made in Canada. Although I would have to say we are more conservative about the ultimate amount of projects you'll see in places like Canada.

Unlike what people are saying, we're seeing that the industry is continuing to invest but they're trying to do it in a way that you are seeing lower cost. For example, in Australia, you're seeing that Woodside and Shell look like they are going to go to floating LNG similar to what Shell did on Prelude.

And that ultimately ends up - sets us up for as I said in my prepared remarks we need at least 100 to 150 new LNG carriers to fulfill the projects that we see taking FID and in construction.

(Noah Parquette): Okay. And then in that vein, what is your - how do you guys model out expectations for east Africa and what kind of timeframe do you look at there?

Peter Evensen: I wouldn't say I have a nuanced view on whether East Africa goes forward. We talked to the charterers but it isn't at a point where they are valuing the transportation requirements.

(Noah Parquette): And then lastly on the Methane Spirit and Magellan Spirit. You know, rates out there are in the range of $30,000 to $35,000 with 50% utilization. You know, that's what we hear. Can you give some guidance relative to that on what you secured there?

Peter Evensen: Yes, we've secured - well, first of all, we've secured charters, so we don't - we aren't hurt by the 50% utilization on. On the charterers that we put in, we get 100% utilization. But you're absolutely right, rates are around $25,000 to $35,000 on a short-term basis.

We elected, because we're an MLP and we like the stability of the cash flows, to secure those cash flows. And so what I like is that our chartering teams with Teekay operating backing them up, they've been able to charter them short term and secure the short-term charters that they have going forward.

So, I think hats off to our guys but I'm very well aware that if you are trading spot it isn't just the charter rate, it is the utilization. So that is why we elected to put them on charters even though it is not a great rate.

But it doesn't affect with our - with our , you know, diverse portfolio you don't see one reduction and obviously with two 52% owned ships it is like having one at a low rate. So it has an effect but it isn't a very significant effect.

(Noah Parquette): Okay. That's all I had. Thank you.

Peter Evensen: Thank you.

Operator: Your next question comes from (Spiro Dounis) with UBS Securities. Please go ahead.

(Spiro Dounis): Hey good morning, Peter and Vince. Thanks for taking the question. Peter your prepared comments just I guess addressing investor concerns I think we’re pretty spot on and definitely went a long way there. I just wanted to maybe go pack to those to get a little bit more color specifically on the anticipated debt financing.

Can you remind us again maybe what percentage has been committed so far, what bucket has been committed so far? And would it be fair to say that all anticipated financing I guess at this point has at least commenced negotiations?

Vince Lok: Yes. It's Vince here. As Peter mentioned, we typically arrange the debt financing closer to the delivery dates of the vessels given that the payments for the shipyards are fairly tail weighted.

If you look at list of debt financing on slide eight, the ones that have already been completed are the BG LNG carriers, the 183 and about 50% of the EXMAR LPG have been committed already.

The next ones are the two Cheniere vessels delivering in the first half of 2016 and we are close to finalizing terms on those ones. The total debts on those two vessels is $340 million to $350 million.

As with the rest of them they will in progress according to our plans. We have vessels, of course, on charter to Shell, BP, et cetera. So these are all very quality counterparties with medium and long-term contracts so they will be financed as the progress payments get closer towards the delivery dates.

(Spiro Dounis): Got it. That is helpful. And just sticking with the debt theme for now. I believe you have some debt coming due or a big payment in 2017 or 2018 time frame, which I guess coincides with the lion's share of the CAPEX that way. I guess first is that accurate?

And second, would it be safe to assume that you will probably be looking to refinance that at some point?

Vince Lok: I think you are referring to the refinancing of existing debt as opposed to new CAPEX, is that correct?

(Spiro Dounis): That's right, yes.

Vince Lok: Those are related mainly to the vessels that are already on long-term charters and so we will just be refinancing those as they get closer to those maturity dates. And I think most of them are 2018.

(Spiro Dounis): Got it. And then just a last one from me. I know the conventional tanker segment is not a big part of your business, but I think three charters come up over the next six months or so.

Would it be the plan to recharter those given how strong rates are or could we maybe see move to sell those give than they are I think a little over ten years old mow?

Peter Evensen: There are options there held by the charterer on those projects and given where the strength of the tanker market, we expect the charters -- we expect those options to be exercised and therefore will continue with the existing contracts.

Should they not be exercised, in fact, we'll make more money because we could actually recharter them at a higher rate. We are not expecting that windfall.

(Spiro Dounis): Got it. Great position to be in. I appreciate the color, guys, thank you.

Peter Evensen: Thank you.

Operator: Your next question from (Nick Raza) with Citigroup. Please go ahead.

(Nick Raza): Thanks, guys and thanks so much for all of the color. So, just a couple of questions on the - on Slide 8, your CAPEX projection. Is the thought still that some of the debt to equity finance is going to be 65/35 or somewhere around that area?

First question. Secondly, you said that you are seeing a lot of contracts for LNG vessels come up, and even though the spot prices are in the $30,000 to $40,000 range. When do you think that spot market sort of balances out? And then I will ask follow-up questions based on that.

Vince Lok: Sure. So you are absolutely right that here on slide eight we are showing the maximum amount of financing we can raise and therefore we show what the minimum equity requirement would be.

If our share price or unit price stays low, then we could go with this minimum equity requirement - in fact, getting back money on some of the first MEGI LNG carriers.

However, we do try to use more equity and less debt. So if you saw our equity price recover he we probably would use more equity because that has been our plan all along. But if - we have to change as things dictate. So here we wanted to show what the minimum is but that isn't our target.

(Nick Raza): Okay. Just along those lines, what do you think -- I mean -- we understand that the debt and equity breakdown here but in terms of covenants, do your current covenants allow you to essentially go that low in equity? Question number one. Question number two is what are the maximum covenants in terms of debt to EBITDA right now?

Vince Lok: The first point a lot of the equity on the CAPEX projects have already been put in. We already put that in. So, we are only looking at the remaining payments here.

And in terms of our debt covenants, the main covenant is really maintaining a certain minimum liquidity. So we don't really have any other sort of leverage covenants we are restricted to. So that gives us a lot of financial flexibility.

(Nick Raza): What is that number then?

Vince Lok: The minimum liquidity is typically about 5% of our debt. It is a little bit over $100 million or so.

(Nick Raza): Okay. Fair enough. Fair enough. Great color, guys.

Peter Evensen: And then you asked when the spot LNG market will recover? That is a great question. What I like is that with the exception of our two 52% owned vessels we are not really exposed to it.

So it’s something we monitor, but the fact that we chartered out our ships into mid-2016 says that we don't think it will recover before late 2016 into 2017.

(Nick Raza): Okay. And now just a last question for me, guys and thank you so much for sort of providing all this color again. That you mentioned FSRU demand is sort of going up in places like India.

We spoke to some other folks and the thought is that a lot of these new regions my not be able to sort of afford on the FSRUs or essentially good signed contacts or force contracts to be signed, the margins of which are significantly lower.

And eventually the low margins would sort of trickle down into the charter market or the LNG vessel market. And understanding that you guys aren't playing in the spot, could there sort of be a spillover effect into the charter market as you sort of see new opportunities and try to get charters signed?

Peter Evensen: Okay. Well, let's first look at the logic pattern of what you are saying. What you are saying is that end users for FSRUs aren't -- need lower prices. Well, those lower prices are actually on the commodity which is the LNG actual price. And there they have seen it. The cost of the FSRU is not huge as you look at the end user's cost of electricity. So there really isn't that linkage.

(Nick Raza): Okay.

Peter Evensen: The competitively priced capital of FSRUs is because of the competitive nature of the LNG market. And what you are seeing is that there are more entrants coming into the FSRU market.

We have a different attitude than other people. When we saw in the FSRU market that was people were initially doing conversion of existing units. Then it switch switched over to new buildings, and with new buildings they were able to drive coverage ratios a little lower and get greater standardization.

And so Teekay has not been speculatively ordering FSRUs because there still a bespoke nature to FSRUs. There's closed loop, open loop, various requirements that each project had. So we thought it isn't - the market hasn't really standardized.

So instead what we do is what we traditionally do which is we go on a build-to-suit basis. We go out and tell people we will only bid on projects where we can contract a ship following the securing the contract. So that means for projects that start up in 2016 and 2017 we don't qualify but for 2018, 2019 and 2020, we are very competitive.

And so that's been - that has been our strategy. What it has men is that we don't -- is a lower risk. I would call it a safer return type of mentality but that is what our investors want out of the stability that we have.

So, I think our claim to fame is that we can get contracts and then order against the tonnage. And I think that is what our investors are rewarding us for our stability and our long contract duration - and we also go for contracts that will give us the long duration and stable returns.

So that puts us into a very defined niche of FSRU projects. But having said all that, we certainly see that with the almost halving the spot LNG rates that there is a lot of opportunity in the developing world for FSRUs.

(Nick Raza): Thanks a lot, guys. That is all I had.

Peter Evensen: Thank you.

Operator: You next question comes from (Fotis Ginakoulis) with Morgan Stanley. Please go ahead.

(Fotis Ginakoulis): Yes, hi, Peter and thank you. I want to go back to your investor's day and follow up on the previous questions about the funding of your new building program.

You had mentioned about a year ago that listed an example that you are expecting to have an increase over 5% over your unit growth this year, 6% in 2016 and from 10% in 2017 and 2018. I understand that the stock price is much lower right now, it is a different on market. You haven't raised any money this year, as you had presented this example. How does this unit growth change this based on the new environment?

Vince Lok: Hi, (Fotis). We did present those illustrative not only the distribution increase but also the unit growth that you were referring to. And I think as Peter mentioned, as our unit price in TGP and TOL normalizes back to more normal levels I think you will probably see us return more to those sort of levels of debt to equity.

And so what we are presenting here in the slide here is minimum equity that we can raise so fund the remaining CAPEX. So the reason why we are presenting this is because the point is that a lot of the equity for the CAPEX projects have been raised already.

And given that we typically put 20% to 30% equity up front, and so this gives us the time tore the unit price to recover and gives us the flexibility to temporarily use a little more debt to fund the CAPEX payments.

The long-term, of course, is we are also managing our balance sheet to make sure that our leverage metrics stay within our targets and so you would - if you are looking out for 2020, then in terms of unit count I think we will probably be back to those levels as we indicated in investor day.

(Fotis Ginakoulis): So in between I understand that obviously the bank that is the most obvious option. Are there any other alternatives like preferred or high yield that you might be looking at? And does the distribution or the timing of the distribution growth change as compared to what you guided about a year ago?

Vince Lok: Absolutely. As we indicated in slide nine we have other sources of capital. Both of our MLPs are active in the Norwegian bond market and in some cases the US unsecured bond market as well. We have done preferred equity offerings and we also have a continuous offering program in place.

We do have other sources of financing available to us -- not only that the bank financing is laid out here. And overall as Peter indicated, even though the equity yield is high right now temporarily, given that the reduction in debt costs our overall WAC hasn't materially changed so therefore it doesn't have a material impact on our distribution expectations.

Peter Evensen: And I would just add, (Fotis), that when we looked at the illustrative targets we laid out at investor day we were saying that we would see zero distribution growth in 2015, 2.5% in 2016 and 4% in 2017.

And so while the unit growth may not be exactly the same for the reasons that Vince articulated, we still see with the contracted cash flow of those contracts starting in February 2016 that he would can meet that distribution growth.

(Fotis Ginakoulis): Thank you very much, Vince and thank you, Peter. One last question for me. Peter you mentioned earlier about the preference of the customers for the MEGI vessels and seems that this is where the market is going.

How should we think about the existing type fuel vessels in terms of charter rate or ability to find long-term contracts? And also how should we think of your spin turbine vessels?

I understand your vessels may have very long-term contracts but I'm trying to think a little bit longer term or for other companies that have - what is the useful life these vessels and the ability of both spin-turbine vessels and high-fuel vessels given the competition from the MEGIs to find contracts and understand that there is risk here?

Peter Evensen: Okay, so (Fotis), what you really asking me to do isn't to comment on my own fleet since I don't have spot steam or spot DFDs other than the two ones. You are wanting me to ask how are my competitors going to cope with these challenges?

(Fotis Ginakoulis): That is one thing and I also want to try to think about ten years from now or whenever your contracts expire how shall we think the ability of the cash flow capacity of these assets?

Peter Evensen: I'm glad to hear equity analysts are thinking about five years and ten years and not this quarter. That is a side comment, (Fotis). But, yes, I think it is -- I think it is a double edged sword because, on the one hand, people are saying they like the 174,000 MEGI so without going too technical it has two benefits.

One, you can carry 10% more cargo capacity, the biggest can go through the Panama Canal and two, you can save money on fuel. And that is meaning that in their requirements they are actually setting up so that they always want 174,000. So even if you come with 155,000 or 160,000 or even 145,000 that isn't preferred because it doesn't fit into their loading programs.

And that is significant because we were waiting to see whether people could discount the existing on the water tonnage in order to become competitive. And the answer is that they are actually not preferred. So what will happen is these will go into the trading fleet.

But it isn't all dire because we are seeing there is a short-term trading fleet, and while people like BP and Shell who have taken the MEGIs are going to prefer the MEGIs for their contracted volumes. We can see there are other charterers particularly traders who are coming in who will take our DSD and PFD that other of our competitors have. And so I think you will a two-tier market as it relates to that.

But it isn't all bad news because there is more spot LNG tonnage being traded. And we continue to see that for example in places like Argentina that is sourcing from multiple places. I wouldn't say that you should count them out.

What we are just trying to say is that if you have an on the water asset here in 2015-2016 you actually probably don't want to put it in for a contract starting up in 2019.

You don't want to lock yourself in on that, and that is why you will see people stay spot and they would rather have their vessel at anchor rather than tender it into a contract. It is the ship owners as well 80s charterers but it starts with the charterers' requirements.

(Fotis Ginakoulis): Thank you very much, Peter. Thank you, Vince.

Peter Evensen: Thank you.

Operator: Your next question from (TJ Schultz) with RBC Capital. Please go ahead.

(TJ Schultz): Hi, guys. You’ve covered a lot. I’ll just keep it brief. Just one follow-up I guess on the distribution. I think the comment was that coverage should be improving into the fourth quarter. And I certainly understand the difficulty with the unit price and this MLP market.

So, I'm just trying to think through all you all view the ability to get more credit in the equity market. Do you think you would be better off as projects kind of roll on showing more coverage and leverage improvements or as I hear it right now is the base case to kind of restart some of the distribution growth and then ramping in to 4% by 2018 even if this keeps coverage a bit tighter? And, you know, I guess keeping that in the context of some of these shorter term contracts rolling off next year? So just any comments there.

Peter Evensen: Thanks, TJ. I would say there is a positive and a negative to the stability. The stability we have means that we can't actually influence things that much. But as - so what our basic view here is at Teekay LNG is that we will stay the course and we think people will come back to the stability.

There is - what I'm seeing is a macro event as I tried to say in my prepared remarks, this is liquidations coming out and being part of an index with a negative effect rather than a positive effect.

But I think investors as they did in 2009 will come back to the story, see the stability, see that we are not directly affected by LNG prices as some other MLPs are, and NGL pricing. And then I think people will come back to story.

So following this week of earnings then we will go back out on the road and tell our story to investors. And I think it is a good story. It is a stable story. And right now what we are hearing in the risk-off environment is people want the stability that Teekay has with its 13-year contracts.

So I think ultimately we will see investors come back to story. We are not planning to do anything radical. We are just going to tell our story and wait for investors to come back to it.

(TJ Schultz): Okay. Thanks for the color, Peter.

Operator: Once again ladies and gentlemen if you'd like to ask a question please press the star followed by the 1. We'll now take the next question from (Sunil Sibal) with Global Hunter Securities. Please go ahead.

(Sunil Sibal): Hi. Good morning, guys. Just a quick clarification from me. I think in the opening remarks you mentioned from India their fleet a 12% cash flow growth. Is that correct and if so does that reference to the DCF kind of growth or overall cash flow or EBITDA kind of growth?

Vince Lok: That is an EBITDA growth, CAGR.

(Sunil Sibal): Okay. That's all I had. Thanks.

Operator: Ladies and gentlemen if there are any additional questions please press the star followed by the 1. As a reminder, if you're using a speakerphone please make sure mute is turned off to all your signal to reach our equipment.

There doesn't appear to be any questions at this time. Please continue.

Peter Evensen: All right. Thank you all very much and we look forward to going out and telling our story about the stability of the cash flows and thank you for all your good questions.

Operator: Ladies and gentlemen, this does conclude the conference call for today. Thank you for participating. You may now disconnect your lines.

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