TEEKAY LNG PARTNERS LP

Moderator: Emily Yee
February 22, 2013
10:00 am CT

Operator: Welcome to Teekay LNG Partners Fourth Quarter and Fiscal 2012 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.

(Scott): Before Mr. Evensen begins I would like to direct all participants to our Web site at www.teekaylng.com where you will find a copy of the fourth quarter of 2012 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 of 2012 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, (Scott). Good morning, everyone, and thank you for joining us on our Fourth Quarter and Fiscal Year 2012 Investor conference call. I'm joined today by Teekay Corporation's CFO, Vince Lok, its Chief Strategy Officer, Kenneth Hvid, and its MLP Controller, David Wong.

Turning to slide 3 of the presentation I will review some recent highlights. The partnership generated distributable cash flow of 53.6 million in the fourth quarter of 2012, up 22% from the same quarter last year when we generated $44.1 million of distributable cash flow.

The year-over-year increase highlights the partnership's fleet growth over the past year, which includes newbuilding LNG and LPG carrier deliveries in late 2011 and early 2012, and our accretive acquisition of a 52% interest in the six Maersk LNG carriers in February of 2012.

For the fourth quarter we declared and paid a cash distribution of 67.5 cents per unit which was consistent with the previous quarter. On February 12 we completed our previously announced acquisition of a 50% interest in Exmar LPG, our joint venture with Belgium-based Exmar.

In December 2012 we placed an order for two fuel-saving LNG carrier newbuildings from Daewoo Shipbuilding and Marine Engineering or DSME of South Korea for delivery in the first half of 2016 with options to order an additional three vessels. Over the past several months we've seen a significant increase in the number of new LNG liquefaction projects.

We continue to find the post-2015 fundamentals for LNG shipping and regasification units to be attractive and are bidding on several LNG transportation requirements, floating storage and floating storage and regasification unit, or FSRU projects, as well as opportunities to acquire quality on the water assets with contracts.

With approximately $360 million of available liquidity, the partnership is well-positioned for investment in future growth opportunities.

Finally, despite the solid medium to long-term outlook for LNG shipping in the near term, we do not - we do expect to see a softening in spot LNG shipping rates in 2013 and 2014, as a large number of newbuilding vessels without charters delever - deliver into a weaker near-term demand picture.

This is consistent with our market view last year and our decision to secure charters early at attractive rates for the two Maersk LNG vessels that were previously on short-term charters and which are now fixed on charter until 2015 and 2016, as well as scheduling the delivery window of our two newbuildings to be the first half of 2016.

With the remainder of our LNG carriers operating on long-term, fixed-rate charter contracts, Teekay LNG has no exposure to weakening near-term spot LNG shipping rates.

Turning to slide 4 I'll take a moment to update you on our recent LPG some major venture with Exmar. On February 12, we - Teekay LNG completed the accretive acquisition of a 50% interest in a new joint venture with Exmar, named Exmar LPG BVBA, which controls a fleet of 25 LPG carriers and is primarily focused on midsized gas carriers or MGCs.

The new joint venture fleet consists of 19 on-the-water LPG carriers, including 10 owned MGCs, 2 owned very large gas carriers or VLGCs, and 5 chartered-in LPG carriers.

In addition, the joint ventures has eight newbuilding MGCs on order, including four vessels being constructed at Hyundai in South Korea, scheduled for delivery in 2014.

The joint venture also recently placed an order for four additional MGC newbuildings which are expected to deliver between April 2015 and June 2016. This latest order includes options to order an additional four vessels.

The combination of the 19 on-the-water LPG carriers and 8 firm LPG carrier newbuildings provides our joint venture with control over one of the world's largest MGC fleets.

For our 50% interest in Exmar LPG we made an equity investment of 134 million, which includes approximately 10 million for working capital and newbuilding installments made to-date.

And we assumed a pro rata share of existing debt and capital lease obligations of approximately 108 million, resulting in an enterprise value of 242 million for our 50% interest.

It's important to note that this acquisition is 50% owned and therefore will be equity accounted for in our financial statements. This accretive acquisition is expected to contribute approximately $10 million to Teekay LNG's distributable cash flow in 2013. However, the run rate contribution is expected to increase as newbuildings deliver between 2014 and 2016.

By partnering with Exmar, our strategy is to provide Teekay LNG with immediate access to Exmar's LPG shipping franchise which has well-established commercial, technical and operational operations in the LPG sector, including a sizable contract of affreightment or COA portfolio, which is difficult to replicate by potential new entrants to the space.

In addition, the Exmar LPG joint venture is a natural extension of Teekay LNG's gas shipping business and provides a new channel for distributable cash flow growth.

Turning to slide 5 I wanted to take a look at fundamentals in the midsize LPG carrier market. The midsize LPG segment has historically been one of the best performing sectors in the LPG sector.

It has the attraction of being able to tap into both the LPG market, as well as the market for ammonia, each of which has different demand drivers. LPG is essentially a supply-driven market with LPG gases being a byproduct of oil and liquefied natural gas production.

The supply of LPG is expected to grow in the coming years from both traditional sources such as the Middle East, as well as from the U.S. where the emergence of cheap, rich shale gas is expected to provide additional export volumes.

New liquefied natural gas projects in places like Australia and North America should also provide increasing volumes of LPG as production starts to ramp up post-2015.

Ammonia is a gas which is used in the manufacture of fertilizers and other industrial products. Demand for ammonia is therefore linked to global GDP and industrial production growth, both of which are expected to increase as we move out of the current economic downturn.

In particular, we expect that the Asian markets will be the most important driver for ammonia demand growth in the medium term, with new export projects in North Africa and the Middle East providing the supply.

On the fleet supply side the MGC sector has a relatively concentrated ownership structure, as well as a modest order book with just 14 units on order, including the 8 units contracted by the

Teekay-Exmar joint venture. When combined with the positive demand outlook as previously described, we believe the future for this sector is positive.

Turning to slide 6, in December 2012 the Partnership placed orders for two fuel-saving, 173,000 meter LNG carriers from DSME South Korea for a total cost of approximately $400 million, a favorable price when compared to those of our competitors.

The vessels are expected to deliver in the first half of 2016 and our order comes with options to order three additional vessels. The two newbuildings will be equipped with efficient M-type, electronically controlled gas injection or MEGI twin engines.

The MEGI engine is a revolutionary technology with the ability to reduce fuel consumption by over 30% or $20,000 per day over current DFDE technology, as well as reduced operating cost as the engine has fewer cylinders and a reduction in carbon emissions.

Based on the expected increase in demand for LNG shipping capacity starting in late 2015 when new liquefaction projects begin to come online, we believe our delivery timing is right.

And given the significant fuel savings of the MEGI engines compared to engines currently being used in LNG shipping, we're comfortable that we'll be able to secure long-term employment for both vessels prior to their delivery.

The newbuildings also have a tail-weighted shipyard payment schedule which fits well with our MLP structure as the majority of the purchase price from the shipyard is due on delivery.

The initial installment payments are expected to be financed with existing liquidity. However, we plan to arrange long-term debt financing for both vessels once we have secured long-term contracts.

Turning to slide 7 we take a look at fleet utilization in the LNG shipping market through to 2017. On the fleet supply side there are currently 78 LNG carriers due to deliver by the end of 2015, 33 of which are currently without long-term employment.

With little in the way of new LNG supply growth during this time, fleet utilization is expected to soften to 2015 due to an oversupply of vessels relative to demand.

However, from 2015 onwards we believe that the demand for LNG shipping will ramp up significantly once new LNG liquefaction projects in Australia and North America start production. We estimate that up to 100 additional LNG vessels over and above the current order book will be required in order to satisfy the demand post 2015 to 2020.

The delivery of our newly ordered fuel-saving LNG carriers in the first half of 2016 was strategically timed to coincide with the increased demand for LNG carriers from 2016 onwards.

As I noted at the start of the call, we're already starting to see an increase in tendering activity ahead of these new plants coming online and we expect more LNG shipping tenders to emerge in 2013.

Turning to slide 8, while we expect the recent Exmar LPG transaction to be accretive to the Partnership's distributable cash flow, as well as increase over time as the LPG newbuildings deliver, there are some anticipated changes to our fleet and charter arrangements which will temporarily offset some of this increase in the near term.

Looking at the top of the table, we expect the acquisition of over half of Exmar’s JV fleet to be accretive to our DCF by approximately $10 million for the 10.5 months from the date of closing of the transaction through to the end of this year, increasing to 12 million in 2014, and 17 million in 2015, with the growth in DCF coming primarily from the cash flow generated by the newbuildings.

This long-term DCF growth will temporarily be offset by two reductions. The first temporary reduction relates to an amendment to the charters associated with two of the Partnership's Suezmax tankers, whereby the charter rate was reduced from $26,000 a day to a spot market rate with a minimum floor of $14,000 a day from October 2012 through to September 2014.

After which, the charter will revert back to the original $26,000 a day. Based on our spot market rate assumptions we estimate this will reduce our revenues by 7 million in 2013 and 2.5 million in 2014.

The other temporary reduction expected to impact 2013's DCF results is from a higher than normal dry dock schedule this year. In 2013 we're expecting over 200 days of off-hire due to planned dry docking compared with an average over the past three years of approximately 115 days a year.

We expect this off-hire to result in temporary reduction in DCF of approximately 4 million, which is comprised of a reduction in revenue and slightly higher OpEx costs incurred as - in the vessels as a result of the dry dock.

The last item we expect will impact our DCF has to do with the expected charter termination and sale of two Suezmaxes currently on charter to CEPSA.

While we have not officially been notified that the charters will be terminated, comparing the charter rates being received by us with current spot market rates, we expect that the customer will exercise their rights to prematurely terminate the charters and call for the sale of the vessels later this year.

We do not expect the sale to impact our financial position as the proceeds are expected to match the amount outstanding on the associated capital leases. However, the charter terminations will negatively impact DCF by approximately 5 million per year, commencing in 2014.

All told, we expect run rate DCF accretion from the Exmar transaction to offset these one-off reductions in 2013, and more than offset in 2014 and 2015 as the temporary factors we expect to impact DCF are eliminated. We continue to evaluate third party acquisition opportunities with the goal of increasing DCF and distributions.

Turning to slide 9 I will review our consolidated operating results for the quarter, comparing an adjusted Q4 income statement against an adjusted Q3 income statement, which excludes the items listed in Appendix A of our earnings release and reallocates realized gains and losses from derivatives to their respective income statement line items.

Net voyage revenues were comparable to the prior quarter. Vessel operating expenses increased by $1.7 million as a result of the timing of maintenance, in particular the main engine overhauls on the Tangguh LNG carriers.

Depreciation and amortization increased by $1.4 million as a result of the accelerated amortization for the Suezmax tankers on charter to CEPSA, as we have now assumed a shorter duration on these contracts.

General and administrative expenses increased by $1 million, mainly due to higher business development activities. And equity income decreased by $1.5 million, primarily related to higher-than-usual vessel operating expenses relating to certain joint venture vessels.

Net interest expense decreased by $1.1 million, mainly due to the equity issuance in September of 2012. Other income increased by 0.8 million due to changes in deferred income taxes relative to the prior quarter.

Non-controlling interest remained relatively consistent from Q3. I won't walk through all of slide Number 10 which was included in our recent earnings release.

However, I would like to point out that our coverage ratio of 1.01 times for the fourth quarter was lower than normal, as we issued equity for the Exmar transaction four months before the closing of this transaction.

So we expect our coverage ratio to increase in the first quarter as a result of the Exmar LPG joint venture, which was completed, as I said earlier, in mid-February. Thank you very much.

And, Operator, I'm now available to take questions. Hello?

Operator: Sorry about that. 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 a question.

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

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

Peter Evensen: Fine. How are you, Michael?

Michael Webber: I'm good, I'm good. Long time no speak. A handful of questions here. I wanted to start off talking about the LPG JV. The color is definitely helpful. Just curious, you know, one if you can kind of provide a kind of a full-on kind of a number around that run rate, kind of '14, '15 where you think this thing's going to be kind of fully up to speed?

Maybe some parameters around the spot exposures? It seems pretty - like a pretty minimal impact by our math but maybe a little bit of color there? And then some thoughts around how you think about expanding in that line of business going forward or whether or not we should view this as more or less a kind of a one-off?

Peter Evensen: Sure. Well first of all we're in the smaller LPG or the ethylene sector with long-term contracts. But when we looked at - but - so that's really a fixed rate contract flow.

We're not exposed to the market. But when we started looking at growth in the LPG sector we focused in on the midsize sector because that had the positive demand fundamentals.

In particular, we could see that more supply was going to come out on the market and we saw that there probably would be much more ammonium that was required.

And so we began speaking with Exmar because they had an existing operation with a lot of volume contracts. Rather than this isn't a market where you time charter out ships in particularly, you get volume or COA contracts.

And so they had an existing fleet and they had a need and we could see the need to renew the fleet. And so it was a good transaction from both Exmar and our point of view because we provided the growth - are providing the growth capital in order for the fleet to get renewed.

And it's actually a quite good time to renew the fleet from a asset price point of view. We've been able to order ships at preferential levels and so that's good.

And so what we like about it is depending on, we can adjust supply of ships given that we have newbuildings, we can adjust it up by declaring options if we see that the demand is higher that we anticipate.

Likewise, if the demand is lower than anticipated, we can sell some of our older ships earlier. And so we like the ability to vary the supply and we also like the market dominance that Exmar has.

Michael Webber: Got you. That's helpful. From a capital commitment perspective can you kind of put some context around what you think might be needed beyond what's invested here on an ongoing basis?

Peter Evensen: Well we expect - because these payments are tail-weighted as well we've put in - we are putting in place a new bank facility which we've just syndicated and was oversubscribed that will provide the capital to finance the first four newbuildings.

And because the vessels five through eight in the newbuilding sector are so far out we haven't started to address those newbuildings on whether we'll do that with the retained earnings of the JV or whether we will put in new capital. But our expectation is that - well, it isn't our expectation, we are fully financed on the first four as it stands right now.

And the other thing that we like about the midsize is the market volatility isn't very much. So although we have some multiyear contracts inside of it, the inherent volatility isn't as high as you're used to seeing, certainly, in the crude market and - but also in the very large size.

So we like the lower volatility of the sector which is because you have a set amount of players and - both on the chartering side and on the - and supplying tonnage.

Michael Webber: Got you. That's helpful. Yes, Exmar is also your JV partner for your loan exposure in the FSRU market. Can you maybe give some color around your activities in that market, whether there's any more synergies possible with Exmar in that market or what may or may not be holding you guys back from doing more in that FSRU market?

Peter Evensen: Well actually, although we co-owned one FSRU, which is on long-term charter on new tenders, we're competing by ourselves. We're not teaming up with Exmar.

And I would say we've been more conservative than our competition on FSRUs. And that's because we're not - we don't have to do anything, so we've just been more conservative.

So we've come in number two or number three on some of these tenders but we're confident that we will get some. And our business development guys have targeted certain projects. And so we're not in a situation where we have tonnage that we have to employ as an FSRU, rather it's the opposite way.

And the market is changing a lot. There's a lot of opportunities, particularly in places like India. They're short of energy. And so we think there will be enough for everyone but we're not in a hurry. We - I guess, I would say we perceive there to be more engineering risk than other people do.

Michael Webber: Okay, that's fair. Do you have a sense of how many tenders you guys are involved in right now?

Peter Evensen: Yes. We're working on four serious tenders.

Michael Webber: Okay, that's helpful. One more for me and I'll turn it over. Slide 8 in the deck is really helpful so thank you for including that. The Suezmax rate concessions, it's an interesting kind of charter rearrangement. Not one we see all that often.

Can you talk to who that counterparty is and whether you guys are able to get - kind of get a benefit out of reducing that near-term rate to the lower floor rate?

Peter Evensen: Well, I don't have to tell you that the tanker market has really been - has really gone down. And so in the negotiations going back and forth we judged that this private European-based owner is a quality credit with a long-term relationship with us.

So when we give a little bit for as we're doing on two years, what we've done is rather than have it $26,000 a day, it's floating rate. So if we can generate more money that will come back to us.

But he needed some or that group needed some financial flexibility and we were willing to give it in the short term given the long term relationship that we have on the two vessels.

Michael Webber: Okay. But there is no extension on the charter or anything on the back-end that we should model in?

Peter Evensen: Not that's been negotiated at present.

Michael Webber: Okay. All right. Thank you for the time, Peter.

Peter Evensen: Thank you.

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

Paul Jacob: Good morning.

Peter Evensen: Good morning.

Paul Jacob: I'm just curious, do you guys have any other vessels that you think could experience early termination over the coming years from the conventional tanker segment?

Peter Evensen: No. We're - these are the ones that we have seen right now. So unless something extraordinary happens we're not - what we showed on slide 8 is the ones that we see will have happened and will probably happen. That's why we said it was a potential termination. We haven't have been officially notified of it.

But if you look at the spot rates, as I said in my prepared remarks, compared to the charter rate it seems likely that they'll terminate. So we're anticipating it and so we just wanted to get it out so people could see it.

Paul Jacob: Okay. And do those provisions exist on any of the other conventional tankers in your fleet?

Peter Evensen: Yes. We have it on two more. Isn't that right, David?

David Wong: Yes. We have three more in total.

Peter Evensen: Three more. Three more, yes, sorry. But those are out at 2017?

David Wong: We have one in 2014. And then the other two are further out, 2017, 2018.

Paul Jacob: Okay, okay. That's helpful. And then looking at - turning to the Exmar deal, just crunching through the numbers on the size of that fleet I calculate that based on the original press release if you guys added those 4 newbuilds you'd be at about 27. Did you drop 2 ships there?

Peter Evensen: We...

David Wong: There's two ships that are sort of on short-term in charters. That's the delta between 27 and 25.

Peter Evensen: Yes. So we didn't count those in long-term.

David Wong: Yes.

Paul Jacob: Okay. Yes, that makes sense. That's all that I have. Thank you.

Peter Evensen: Thank you very much.

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

Fotis Giannakoulis: Yes. Hi, Peter.

Peter Evensen: Hey, Fotis.

Fotis Giannakoulis: I want to ask about the slide 7 that you have with the supply demand balance for the LNG market. And it's clear from this slide that we're going to have more vessels coming a little bit ahead of the liquefaction capacity, but what does this mean for the time charter rate, the period rates?

The spot market is pretty much relevant to you and to many of the charter owners. How do you see the period market developing? Do you afraid that this couple of years rates might drop below the current $75,000 to $80,000 threshold that we've seen the period markets?

Peter Evensen: Yes. We think it has two effects. One, we don't think there will be as many time charters available as there have been. A lot of the owners as I said of the 33, 34 vessels that are uncommitted, they're looking out for five- to seven-year charters.

And the charters that are available are much shorter term, one year or two years. And that's a problem because that's hard to get a high percentage of bank financing. So there's a difference between the bid ask.

And then as you've seen the absolute time charter rates have come down. And so the market has - I would say that the market has to get weaker going forward. That's really what we're saying.

And it isn't something that you see immediately now in early 2013 because as you know there aren't that many new ships that are uncommitted coming in 2013. But in 2014 there are a lot. And we just don't see any new vessel demand coming.

I read your piece that I think you came out with this morning. I scanned it where you say that there is the arbitrage available that there's high gas prices in Asia.

But even though that persists, you're seeing a lot of loss of demand. In particular, right now we have the delay of the Angola LNG projects. We have disruptions on the Yemen LNG. We have force majeure in Nigeria. We have unplanned outages on the Snohvit Norwegian plant.

And so - and then in - you haven't seen as much export volumes from places like Indonesia, Egypt and Oman because they've rechanneled some of that gas for domestic gas requirements.

So when we look at it we actually see that while LNG shipping demand went up, the actual amount of volumes decreased. And it was only because we had longer ton miles that we got that increase in shipping demand.

But if you look at the actual amount of LNG shipping volumes, they actually were flat. Well, they were declined by 1% in 2012. So that's why we see a steady weakening.

Fotis Giannakoulis: I understand...

Peter Evensen: But we get excited beyond 2015, Fotis.

Fotis Giannakoulis: Yes, I understand that. But my question is also whether you think that we can see the period rates dropping below where they are today because we've seen a big discrepancy between the short-term rates.

They have been up to 150 or 160 and now they are about 120. But at the same time when we - all the time - the long-term time charters that we have seen they are around $80,000. Do you expect that this $80,000 threshold will be broken this next couple of years?

Peter Evensen: Yes, I do.

Fotis Giannakoulis: Okay. Thank you for that. I think that's my question. Thank you.

Peter Evensen: Good. I just want to stress that we're medium-term bullish. We're just short-term which is why we fixed out most of our fleet - all of our fleet, excuse me.

Fotis Giannakoulis: Thank you. Appreciate.

Operator: Thank you. The next question comes from John Tysseland from Citigroup. Please go ahead.

John Tysseland: Good morning, Peter.

Peter Evensen: Hi, John.

John Tysseland: When you look at the overall LPG market, you know, I think we have a pretty good feeling for the COA market in the shuttle tanker business, but when you look at the overall LPG market what percentage of that market is COA typically?

Peter Evensen: For Exmar it's over 50%.

John Tysseland: And then when you look at that COA market can you go into a little bit more detail on how that actually works for LPGs and who the major players are in that business?

Peter Evensen: I don't want to talk about who the major players are but they're all European-based. But it's a combination. You have some done at - well there's three types, one is where it's fixed, two which - the second which is more prevalent is where you have a minimum and a maximum set around the floating rate and the third is where it's floating but you have - you know you can schedule your ships against it.

So by having the COA, you can schedule your ships and reduce the ballast leg. And that's what helps get you the premium.

John Tysseland: So is that why you kind of focused on the medium-sized carriers just for the flexibility of, you know, I guess the size of the cargoes that you're carrying back and forth? Or, does that not really have anything to do with it?

Peter Evensen: We actually focused on it because we saw that the demand characteristics of the volumes, in particular ammonia, would steadily increase. The market with Iran not being able to export and a prohibition on being able to carry Iranian cargoes, that actually reduced down the amount of LPG that was available in the market.

And so the market is waiting for, you know, U.S. exports to come out. But we saw that in - particularly, we could see that the ammonia market which basically feeds into fertilizer which feeds into the food trade is going to continue to rise.

And as we see more of these plants being put in we should expect to see more of that. So it's a longer-term demand trend. And then it is a more - it isn't as fragmented a market as you find in the big LPG size which traditionally moves on more charters.

John Tysseland: Got you. And then when you see the U.S. actually coming in to - or expanding their LPG export capabilities over the course of the next - over the course of the next year, does that have any impact on the overall market from a miles perspective and the length of haul in the LPG market?

Peter Evensen: Yes. In particular we think the opening of the Panama Canal in 2014 will allow U.S. exports to reach Asian markets on a competitive - on a more competitive basis. And so that's why we're a little bit more positive about that.

And that's the same thing you see in the LNG size as well. And one of the reasons we ordered the 173,000 is that - those are the biggest ships that can go through the Panama Canal.

And so we're trying to find the best ships that can make those trades because we think the opening of the Panama - or the widening of the Panama Canal will open up new markets.

John Tysseland: That's helpful. Thank you.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Michael Webber of Wells Fargo. Please go ahead.

Michael Webber: Hey, Peter, I just wanted to jump back on and ask one follow-up. Along with the LPG JV you guys also placed some newbuild orders directly at the daughter. You got two and three options. Obviously, you know, that kind of predicable growth is - can drive a premium in the MLP space.

Can you talk to how you guys are going to strike the balance between housing those spec orders directly at the MLP and if there's a level at which you would transition to holding more of those newbuilds back up at the parent?

Obviously TGP is big enough to do whatever it wants down at the daughter company level, but just curious about how you think about managing that - the spec aspect of those orders against the MLP backdrop?

Peter Evensen: I think it isn't a question of liquidity for warehousing. I think the question is how much inherent risk we want to put on the MLP. We're very conscious of the volatility of our cash flows in managing to a positive, more than one coverage ratio.

So if we wanted to have more ships we'd probably have to have a higher coverage ratio. And so that's what we're more concentrated on. But as we fix more ships, then that enables us either to run with a lower coverage ratio or possibly order more ships.

But it isn't a question of financial capacity. It's more a question of the inherent risk that we want to take because Teekay LNG is more of a type of fee-based MLP, so we see it and we don't want to put in too much risk to the - our DCF.

Michael Webber: Right. Okay, that's helpful. Thanks, guys.

Peter Evensen: Thank you.

Operator: Thank you. The next question comes from Dan Hynes of Salient Partners. Please go ahead.

Dan Hynes: Yes, you know, you have this near-term weakness from the Suez charter max renegotiations and that has an impact on your DCF. And I heard you just say you want to run 1 times or better on your coverage ratios.

So, in terms of distribution increases, are you pretty fixed to that? In other words, if you have a quarter that drops below 1 would you not do an increase? Or, how flexible are you on your distribution increases concerning your coverage?

Peter Evensen: Well that's - thanks for that question. We - as we said in slide 8, we see these as temporary reductions. So when we're looking to manage the coverage ratio we're looking much more to what the run rate will be. And so the dry dockings for example is something that isn't going to be repeated.

So I don't see that every quarter you would necessarily have to be at 1. But that's a decision the Board will take because we do have an accretive transaction on Exmar.

And so they will look at these temporary reductions and decide whether that's something that has to be figured into it or whether that's something that we would consider a one-off.

Daniel Hynes: Appreciate the color. Thank you.

Peter Evensen: Thank you.

Operator: Thank you. There are no further questions at this time.

Peter Evensen: Thank you, all, very much. We look forward to reporting back to you next quarter. Bye.

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

END