TEEKAY TANKERS LTD. Q1-2016 EARNINGS RESULTS

Conference Call Transcript

Moderator: Kevin Mackay
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Operator: Welcome to Teekay Tankers Ltd.'s First Quarter 2016 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. Kevin Mackay, Teekay Tankers Ltd.'s, Chief Executive Officer. Please go ahead, sir.

(Cameron): Before Mr. Mackay begins, I would like to direct all participants to our website at www.teekay.com, where you'll find a copy of the first quarter 2016 earnings presentation. Mr. Mackay will review this presentation during today's conference call. Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements.

Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the first quarter 2016 earnings release and earnings presentation available on our website.

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

Kevin Mackay: Thank you, (Cameron). Hello, everyone and thank you very much for joining us today. With me here in Vancouver is Vince Lok, Teekay Tankers' Chief Financial Officer; and Christian Waldegrave, Head of Research, Teekay Corporation. During today's call, I will be taking you through Teekay Tankers' first quarter 2016 earnings results presentation, which can be found on our website.

Beginning with our recent highlights on Slide 3 of the presentation, Teekay Tankers reported adjusted net income of $46 million or 29 cents per share in the first quarter of 2016 compared to $39 million or 34 cents per share in the same period of 2015. We generated free cash flow of $66.2 million or 42 cents per share during the quarter, versus $53 million or 46 cents per share in the same period of the prior year.

Our first quarter 2016 results were negatively impacted by higher than expected off hire days due to unscheduled repairs in both our owned and in charter fleets as well as various seasonal factors. In the second quarter, we expect our owned fleet to return to near full utilization levels. In accordance with our variable dividend policy, Teekay Tankers declared a dividend of 9 cents per share in the first quarter of 2016 which will be paid on June 3rd to all shareholders of record as of May 30.

In keeping with our focus on creating shareholder value by increasing underlying net asset value, we continue to strengthen our balance sheet by using our cash flow to pay down debt. During the first quarter of 2016, Teekay Tankers net debt was reduced by approximately $50 million. Lastly, we continue to see positive fundamentals in the Tanker market which we expect to remain in place through the balance of 2016.

Turning to slide four, the crude spot tanker market remains well supported by strong oil supply and demand fundamentals even though mid-size tanker earnings were negatively impacted by a number of factors during the first quarter resulting in a decline in Aframax and Suezmax tanker rates as compared to the same period of last year.

Mild weather in northern hemisphere due to a strong El Nino weather pattern led to subdued heating oil demand and fewer weather delays compared to the previous winter, heavier than normal maintenance and weaker margins also led to reduction in refinery throughput during the first quarter particularly in Europe. However, as shown by the chart on the right of the slide, this should start to ease in the next two to three months with much higher refinery throughput expected ahead of the summer driving season.

Finally, regionally all supply disruptions in the Atlantic basin particularly in Venezuela and Nigeria had more of a negative impact on Aframax and Suezmax demand than on VLCC.

While this has affected rates in the Atlantic, the Pacific market continues to be well supported by higher exports in the Middle East and very strong import demand in China and India as is evidenced by the approximate $4000 difference between Pacific and Atlantic Aframax returns earned in Q1.

Turning to slide 5, we take a look at tanker supply and demand fundamentals for the remainder of 2016. Starting with demand, riding all consumptions, ongoing stockpiling programs in China and India are expected to drive both oil and crude tanker demand during 2016. Demand in both countries rose by approximately 400,000 barrels per day year-over-year in the first quarter of this year reflecting 55% of the total increase in global oil demand.

For the year as a whole, global oil demand is expected to increase by 1.2 million barrels per day and create additional demand for tankers. Looking at oil supply, exports from the Middle East continue to be very strong as they ran on sub production following the relaxation sanctions.

OPEC production reached a seven year high of 32.8 million barrels per day in April which is positive for large crude tanker demands. On the flip side, non-OPEC oil production continues to decline led by the United States where production recently did below 9 million barrels per day for the first time since late 2014. This is potentially positive for tanker demand as the US looks to replace loss of domestic barrels with seaborne imports as has been seen in the first four months of this year.

Turning to tanker supply, fleet growth is expected to increase in 2016 and 2017 with deliveries set to increase while scrapping is expected to remain relatively low as rates remain at historically healthy levels. However, the delivery schedule in 2016 is weighted more towards the VLCC segment with the bulk of Suezmax growth due to come in 2017.

Looking further ahead, a lack of access to capital in the industry has resulted in virtually no new tanker orders in 2016 with only 1.1 million deadweight tons placed in the first quarter of this year. If this trend continues, it should result in very low tanker fleet growths beyond 2017 at a time when a significant portion of the midsized tanker fleet approaches the end of its useful trading life potentially setting up for a longer period of balanced tanker supply.

I would now turn the call over to Vince to discuss the financial portion of the presentation.

Vince Lok: Thank you, Kevin and good morning everyone. Beginning on slide 6 I will take you through the high level of financial highlights of the first quarter as compared to the fourth quarter of 2015.

We posted another strong quarter reporting adjusted net income of $46 million in the first quarter compared to $48.5 million in the fourth quarter of 2015. First quarter net revenues decreased by a total of $5.8 million primarily due to lower average realized spot rates in Q1 which were partially offset by an increase in revenue days in Q1 due to our heavy dry docking schedule in Q4.

Looking at the expense side, our first quarter OPEC decreased by $3.5 million due to higher repairs and maintenance activities and transitional cost incurred in Q4 resulting from the acquisition of the 12 Suezmax tankers in the latter part of 2015. Time-charter hire expense decreased by $2.7 million due to the expiry and various in-charter contracts in Q1 of 2016.

Depreciation increased by $1.9 million primarily due to a full quarter of drydock amortization costs related to vessels which completed their drydocks in the prior quarter. For more details on changes in adjusted net income as well as our outlook for Q2, please refer to pages 12 and 13 of the appendix of this presentation.

Turning to slide 7, I will just discuss our outlook for cash flow and financial leverage. Our ability to maintain a low breakeven rate and generate strong cash flows provides Teekay Tankers the ability to both manage our balance sheet and return cash to shareholders through our variable dividend policy.

As Kevin noted earlier, for the first quarter of 2016, Teekay Tankers declared a cash dividend of 9 cents per share which equates to approximately 30% of our adjusted net income for the quarter.

The graph on the left side of the slide shows our projected free cash flow yield and dividend yield generated by our current fleet to a range of Aframax with floating and spot TCEs based on an assumed dividend payouts of 30% of adjusted net income and a share price of $4.

Even based on relatively low TCE rates, the company is expected to generate healthy cash flows over the next 12 months which will provide both an attractive cash dividend and further de-levering of our balance sheet.

The graph on the right of this slide highlights the strengthening of Teekay Tankers balance sheet over the last two years and further potential reductions

in leverage that would result at different projected spot rate assumptions going forward. Assuming we maintain our current 30% of adjusted net income dividend payout ratio, Teekay Tankers leverage is projected to decrease to between 39% and 44% by the end of 2016, assuming spot Aframax fulfilment rates of between $25,000 and $35,000 per day.

Using our cash flows generated to further de-lever our balance sheet remains a top focus as it enhances our net asset value and provides Teekay Tankers with future financial flexibility. I will now turn the call back to Kevin to conclude.

Kevin Mackay: Turning to slide eight, I will wrap up with an update on the spot tanker rates for the second quarter of 2016 to date. Although spot rates have fallen from the 2015 highs, they are expected to remain robust on the back of supportive fundamentals through the balance of this year with market volatility expected to continue as we had just witnessed the sharp increase in European Aframax rates in recent days.

Based on approximately 59% and 57% spot revenue days folks, Teekay Tankers second quarter to date Suezmax and Aframax bookings have so far averaged approximately $33,700 and $24,100 per day respectively, for our LR2 segment with approximately 52% spot revenue days booked second quarter to date bookings have outreached approximately $22,600 per day.

In closing, we expect 2016 overall will be a relatively good year for crude tanker rates driven by the positive fundamentals of high oil supply, strong oil demand, relatively low oil prices, new trade routes and moderate fleet growth. As a result, we expect our fleet to continue to generate healthy cash flows, which will support our dividend and enable further strengthening of our balance sheet.

With that operator, we are now available to take questions.

Operator: Thank you. If you would like to ask a question please signal by pressing star 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. Again press star 1 to ask a question. Please stand by. And the first question will come from the line of Jon Chappell from Evercore. Please go ahead.

Jon Chappell: Thank you, good morning guys.

Kevin Mackay: Good morning.

Jon Chappell: Kevin, first strategic question, it seems like a lot of the charter in fleet expires over the next month or so, you obviously have a lot more operational leverage than you did at this time last year, given the acquisition of the principle fleet. So how do you kind of think about the charter in market going forward given the volatility that we've seen recently. Is that something that you are happy to just kind of let stay that way and let the in-fleet do the work or is it something that you look to potentially re-up at certain points?

Kevin Mackay: Our portfolio - I think, I've said this on past calls Jon. We look at it as a series of leverage that we can pull or push and in-charter portfolio is one I think we've been very successful at as the market strengthened. Those contracts as you said are starting to roll off now.

And looking at where we can access rates on tonnage today, it doesn't look quite as attractive as it did, you know, 12 to 18 months ago. So at the moment we haven't done anything. But it's something that our chartering teams globally sit down and discuss on a weekly basis and bring that information up to management and we review it on a case by case.

It's not something that we switch off permanently because rates turn for a period; it's something that we were continually evaluating so. If a good deal comes up and we think that there's a margin to be made, you could see us take on some more exposure. But we haven't done so to date.

Jon Chappell: Right. Yes, that commentary around how they look to their relative to 12-18 months ago is what I was looking for. Just two more then, one on the dividend, obviously you have this pretty broad range 30%-50% with the initial dividend of the fourth quarter results it was right around 40%, now it's dropped down to 30%, when Vince walked through kind of the sensitivity analysis on the capital structure, it looked like the base case was 30% going forward.

Has something changed as far as maybe access to financing views on the market that we should maybe start thinking about the lower end of that range as opposed to the midpoint which maybe have been where we were looking three months ago?

Vince Lok: Hi Jon, as a reminder the last quarter dividend was declared in December, so it wasn't declared at the same time as we reported earnings for the fourth quarter. So back in December the 12 cents last quarter was, I would say rounded up a little bit and was based on early estimates for the results of the

fourth quarter, so wasn't as scientific, so ended up being about 37%, 38% of adjusted net income.

Well we came up with a range of 30% to 50% and I think our intention is to be on the lower end of that range while our financial leverage is still above the 50% level here. And so that's why for the slide that you see on the slide seven, we are assuming that we are going to stay in the lower end of that 30% to 50% range, probably for the next few quarters. But as our balance sheet further de-levers and further strengthens, I think that allows us more flexibility to move up that range over time.

Jon Chappell: Okay, that makes sense. And then finally, then to a more clarification on something, when you talked about the first quarter you had made mention to kind of alleviate the off-hire days and then so that made it team like that was kind of one time in nature potentially ring fence to the first quarter, but then if we look to this appendix and we look at the second quarter relative to the first, it looks like OpEx will be up another $1.5 million quarter-over-quarter, so is this still kind of the continuation of maybe one time type elevated maintenance or is this kind of a new run rate to think about going forward as the fleets brought in house for technical management.

Vince Lok: Well I guess first of all we did have some unusually higher off-hire days in the first quarter and I would call those more one-offs that are not expected to occur in the second quarter. And we have given some guidance on slide 11 on the number of off-hire days; we do have one vessel that is in extended dry-docking in the second quarter, that's reflected in slide 11.

On the OpEx side, yeah, the guidance for the second quarter is a slight increase from the first quarter and some of that is from the lightering side of things as well which is offset by higher expected revenues. And the rest of it is, it's really just timing of repairs and maintenance activities as well as transitioning further vessels into the in-house technical management, so those are more or less transitional cost that won't be on a run rate basis going forward. So I think it's a combination.

(Crosstalk)

Jon Chappell: When did that transition to technical management come to an end so we can kind of see more of a normalized run rate there?

Kevin Mackay: Yeah we are aiming to get it done Jon by the end of the third quarter and it should be fully completed.

Jon Chappell: All right. Great. That's all I had. Thanks Kevin. Thanks, Vince.

Kevin Mackay: Thanks, Jon.

Vince Lok: Thanks, Jon.

Operator: Thank you. If you find that your question has been answered you may remove yourself from the queue by pressing star 1 - star 2. Again please press star 1 if you have a question. We'll take the next question from the line of Noah Parquette from JPMorgan. Please go ahead.

Noah Parquette: Hi thanks, I wanted to ask a follow up on off-hire days, you talked a little bit about situation in the Atlantic affecting the smaller vessels, is any of the off-hire related to repositioning or is there anything that you've done operationally to optimize how those vessels earned going forward and I guess could you give us some color about where spot vessels operate right now? Thanks.

Kevin Mackay: Yeah I think the first part of your question, Noah, was the off-hire was essentially a large bulk of it was the one vessel that has been in the extended dry dock for most of this year. She should complete by the end of May possibly early June but that made up the bulk of those lost revenue days.

We also lost a couple of ships from the third party owners in our pools. Those ships were off-hired for well over a month. And one individual ship one of our Suezmaxes sustained some damage from an overzealous tug in China, so we had to take her out of service for I think 12 days to do some more shell plate repairs. So it was a combination of a series of things that drove up the off-hire.

Looking at Q2, to date we've only had on our owned vessels aside from the vessel that remains in dry dock we've only had three off-hire days quarters to date. So we don't see that number staying elevated for the rest of this year.

And can you just repeat your second portion of your question?

Noah Parquette: I just wanted maybe some color on where the spot, Suezmaxes and Aframaxes are operating right now, if they are still kind of in the Atlantic or they are in other areas there?

Kevin Mackay: Yeah, the simple answer is they are both global trading ships so we spread them out with offices in London, Singapore and Houston that manages those ships commercially. And depending on where we see forward demand we try and position ships to try and catch those upswings in the market.

At the moment I think our percentage ratio on Aframaxes is roughly 50/50 between Atlantic Pacific. That has been, you know, as different as 70/30 in either region. Suezmaxes are much more fluid because they have longer haul voyages and really they are global traders. They trade West Africa within the Atlantic; they trade AG Far East. The Suezmax has really started to open up some new trade routes. So to assign fleets to certain regions is not something that we try and do.

Noah Parquette: And then on the period coverage side, it looks like you signed one vessel this quarter for a decent charter. Like what's your strategy there, I mean is this a time where you want to increase your period charter coverage or is it sort of opportunistic?

Kevin Mackay: Well as I said to Jon in the previous question, it's something that we monitor, you know, weekly.

(Crosstalk)

Noah Parquette: ...for charter out.

Kevin Mackay: Charter in, charter out it's the same. It depends on our forward view of market and where we think that there's opportunities lie. We also take into consideration our need to maintain relationships with some of our strategic partners. So, when they come to us and ask for some period cover that is one of the criteria that we take into consideration.

At this point, the opportunity that we saw earlier in the quarter, you know, we saw as an opportunity to build the new relationship with the new customer, at some decent rates that we thought we were worth locking in for two-year period.

You know, we also - when we look at our portfolio and how much cover we have, we also have the lightering business, the STS business, the US Gulf and those - that team has been successful in renegotiating some of our existing contracts and adding contracts. So that gives us additional cover on fixed rate business, the employs revenue days equivalent to two or three ships.

Noah Parquette: Okay. And then just lastly, you know, the color on this 30% dividend payout is great. How do we think about in the event, you know, EPS falls to the level, is there a minimum dividend, I mean, it is a 3 cent previous fixed dividend sort of a minimum level that we can think this? Thanks.

Vincent Lok: Yes. That's right. As we announced last quarter, the minimum dividend is 3 cents a quarter.

Noah Parquette: Awesome. Thank you.

Operator: Thank you. And the next question comes from the line of Amit Mehrotra from Deutsche Bank. Please go ahead.

Amit Mehrotra: Yeah. Thank so much. Good morning, guys. First question obviously the cash generation is staggeringly good relative to sort of the overall size of the enterprise. And I think the outlook for that at least through the second quarter is also pretty good. And also with the dividend payout I guess now maybe lower end, you know, with the focus on deleveraging can be accelerated.

So against that backdrop, you know, wondering, you know, what you're thinking about on the growth side of the equation given the decline in asset values or maybe or you just basically, you know, made your move to cycle and announce sort of an harvesting mode, Kevin, just trying understand where you think you are at this point?

Kevin Mackay: I think I articulated it last quarter on the conference call. I think, you know, we've taken on some major growth last year, we're adding 19 modern ships both in the Suez and Afrax segment. So, I think we'll, you know, between that acquisition or those acquisitions in the STS business really our focus this year was always going to be looking at trying to integrate those businesses and maximize the value that we can get out of them.

So, you know, while I don't, you know, obviously rule out growth at some point in the future. I think I'd reiterate our view right now is looking at what we've just bitten off and try and chew it as best we can to maximize shareholder value from those acquisitions.

Amit Mehrotra: Yeah. Okay. That's clear. And then just related to that, you know, would the decline in asset values, I know that you mentioned in the release I think with respect to financing drying up and things like that. And, you know, the market though is I guess, I'm wondering if the market is turning a little bit more

negative and our asset values sort of a precursor to a potential, you know, more significant moderation rates.

And I understand the fundamentals on the supply and demand and things like that. But also at the other end of the spectrum, you know, there are significant stockpiles and there are significant supply coming on next year. So, just wondering how you're taking sort of the year to-date developments in the market and whether you are getting a little bit more - you're tempering your bullishness at all or do you think, you know, we're in for, you know, higher for longer?

Kevin Mackay: No. I think we've been fairly conservative in our view for where the fundamentals lie. They are still strong. You know, but obviously, we acknowledged that there is a new building program coming on mainly for Suezmaxes in 2017, but demand seems to be strong to balance that off. I think the issue around the asset prices and the second-hand values is a lack of access to capital which is drying up liquidity in that market.

There is a few owners out there with older tonnage that needed to get rid of them and, you know, they've decided that rather take a discount to fair market value and sell those assets on. There hasn't - I think there's been one modern vessel of VLCC that was sold this year, but the rest of all been, you know, older than 13, 14 years old. So, I think there has been a decline. The second-hand values based on those transactions that have been done, have been lower.

But I think a lot of owners are looking at and saying, you know, 18 months ago or year ago, yes, they would sell a ship if they wanted to if the price is right, but this year rates are still very strong relative to historic norms. And they have the luxury to not sell. So, you've got this wide bid asl spread, and on the buying side a lack of liquidity reducing the number of potential buyers.

Amit Mehrotra: Yeah. And how do you think - just last question from me, but how do you think TNK is positioned if you do see moderating, you know, obviously with the 100% detrimental margins here and it being essential all rate movements. You know, there's a big difference between having a moderating but healthy market and the moderating market that's, you know, dips dangerously below or close to breakeven levels. And just wondering, you know, there are various options that people and companies use vis-à-vis the chartering strategies to maybe protect some downside and introduce some visibility, just trying to juxtaposition that

with how you guys are looking at positioning your fleet and your vessels in the market?

Kevin Mackay: I think I'll go back to my point that we use our different levers. You know, as you seen us doing last quarter we've put away ship on period cover for a couple of years. We're negotiating lightering contracts that add fixed rate income that are locked in for 12 to 24 month periods. We also in terms of our fleet profile try and optimize and build our business around triangulations that give us an optimized earnings from the spot market, so, I think you'll see us do different things at different points to try and manage that.

But fundamentally underlying all of that is we've got very low breakeven levels. So, you know, if the market does or were to come off significantly I think we're still in a position where we would be generating cash flow to maintain our dividend at the lower end as the range for the policy.

Amit Mehrotra: Right. Okay. That's great. Thank you very much. Appreciate it.

Operator: Thank you. Once again if you would like to ask a question please press star 1. And we'll take the next question from the line of Donald Bogden from Wells Fargo. Please go ahead.

Donald Bogden: Good afternoon guys. Majority of my questions have been answered. So just quick one on the market. You mentioned the adverse impact of Venezuela and Nigerian outages on the Suezmax and Aframax market, but have you seen any positive impact from Canadian average on US Gulf imports either from the Carribs or longer haul from the Arab Gulf?

Kevin Mackay: No. Not immediately. You know, we have seen the recent spike in Europe but that was more fuel-oil based. We have seen an increase generally in US Gulf imports, US Atlantic versus imports. As we every month, this year or so that I don't think is driven by Canadian wildfires, But the immediate impact over the last two weeks we haven't seen in the Aframax or the Suezmax segment yet.

Donald Bogden: Got you. Thanks for that color. And just last question, you had mentioned on the last call that ((inaudible)) two MR is for sales, are those still on the market of sale or have you withdrawn those?

Kevin Mackay: No. We're still looking to dispose those as non-core assets.

Donald Bogden: That's it from me. Thanks for the color gentlemen.

Kevin Mackay: Thanks a lot.

Operator: Thank you. And then the next question comes from the line of Fotis Giannakoulis from Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes. Hello, gentlemen and thank you. Is it possible to give us - to tell us, how much did you earn, what was the EBITDA of the ship-to-ship business in the first quarter? And give us an outlook going forward.

Vince Lok: Hi, Fotis. Yes, I would say, when you look at ship-to-ship lightering support business the EBITDA for the first quarter was little bit light. It was about $1.2 million for the quarter. Now that excludes the full service lightering side of it and include full service lightering, that is close to the $3 million for the quarter. So, I would say we're still ramping up that side of it. Maybe Kevin you want to comment going forward.

Kevin Mackay: Yes. As Vince said, if you look the whole package, full services as well as the global support services, we're actually; we're trending towards where we had guided the market on annual EBITDA around $10 million. And I'm actually quite pleased with that given the first quarter, we're just starting to ramp-up our business. I mentioned earlier we're renewing sort of our existing contracts, but we're also adding and going after new contract, which should increase that volume. So, I'm quite pleased with progress so far.

Fotis Giannakoulis: Okay. Shall we expect that this ramp-up is going to happen in the next couple of quarters and what is the timing?

Kevin Mackay: Yeah, I think contracts generally in the US Gulf lightering industry are varied. Some customers choose to do them at the early part of the year, some customer wait until late summer. So it's something that will - it's partly seasonal but it will also - it will be spread out through the year.

Fotis Giannakoulis: Okay. Thank you. And I want to follow-up on the question about the asset prices. There are some reports from brokers talking about kind of 40 vessels across whole asset classes between crude and product for sale right now. If this number correct then when we expect to see asset values going forward? And if you can comment also on the newbuilding activity and what is - how the shipyards viewing newbuilding prices right now?

Kevin Mackay: I don't think I'm probably the best person to tell you exactly how many vessels are for sale in each segment. I think brokers probably do a more accurate run through for you on that. You know, one of the thing was about the second-hand

market is owners talk about vessels being for sale, but if they don't get the rates, sorry, the price they are looking for, the vessel is no longer for sale, so whether that 20 ships or 40 ships or 50 ships, it's a fluid market depending on price.

I think when the market was strong on the fourth quarter there was a lot of owners asking questions around selling of assets, but without liquidity those assets are moving and those ships are still trading, earning very respectable returns in spot market. In terms of newbuilding, obviously we read like everybody else in the press that the shipyards are looking order books that are diminishing, going into 2018, but I think the positive from a tanker perspective is that with no liquidity - sorry, no credit in the market, owners aren't going out to order.

And as for the public companies with share prices at the levels that they are it's not something that the public companies are looking to leverage offers. So none of the public companies are doing anything, so I think it bodes well for fleet supply in 2018, 2019 through the decade, if this continued low ordering progresses through the rest of this year.

Fotis Giannakoulis: And one last question about the supply and demand in slide five that you have in your presentation. I understand these are IEA numbers, what you saw on the left hand side is that your crude supply staying relatively flat, but at the same time the crude demand is rising at the same time the fleet growth is increasing.

Do you expect these to play out given the fact that Contango has pretty much disappeared right now. What is the risk of even (Torridors). And also if you can comment about the delay that we see, the discharge of a several cargos, if you can comment in which asset classes these delays are more intense between Aframaxes up to VLCCs?

Kevin Mackay: Christian, why don't you take the first part now, and I'll come back into the...

Christian Waldegrave: In terms of supply and demand balance, I mean the positive thing from our point of view is that crude oil demand continue to grow at a pretty healthy rate, especially into India and China I think it's encouraging that oil demand in India grew more than any other country in the first quarter of the year, while Chinese imports continue to stay high as well, both for domestic consumption which has been pretty strong especially for gasoline and also for stockpiling while the oil prices stays relatively low.

You're right to point out that the oil supply has flattening but little bit of diversions to what's happening in OPEC and non-OPEC. OPEC Middle East countries continues to increase, but actually Iran has come back probably a bit quicker than most people thought.

And that obviously supplying a lot of cargo which needs to be transported by sea and long haul as well which is positive to tankers. And it's really some of the Atlantic Basin producers like Nigeria, Venezuela, but also the United States where these price flattening. And in the near term that's been a bit of a negative for the Suezmax because it means less cargoes out of West Africa, but if the advantages continue and as US production decline and it might mean that some of the barrels need replacing.

And so we do think that you might get some of those Middle East barrels coming West in order to fill the shortfall of outages in the Atlantic. So again, in the near term what is a negative for the Suezmax could in the long term be an overall positive to ton miles demand.

In terms of the inventories I think we are expecting and mostly we'll expect a rebalancing at some point, but I think that will come more in 2017. And I think for '16, as Kevin said the fundamental look pretty again.

Vince Lok: With regard Fotis, to your question around delays on the specific asset classes I think the bulk of delays and congestion we're seeing is around the larger crude sector, Suezmaxes and VLCCs predominantly. Out of Iraq there is some delays in for those ships we've heard loading out of Iran. And the bulk is really coming from China. As far as Aframaxes go obviously the Bosporus is down to one day transit in and out. There's nothing - we're in the summer months there is no impact there.

And the US Gulf seems to be moving quite freely which is one of the reason why that market has softened bit; turnaround times have picked up there, because of the lack of fog and bad weather that you get in the winter months.

Fotis Giannakoulis: Thank you very much gentlemen. That has been very helpful.

Kevin Mackay: Thanks Fotis.

Operator: Thank you. We'll take the next question from the line of John Humphreys from Bank of America/Merrill Lynch. Please go ahead.

John Humphreys: Hi, Kevin and Vince. Just wanted to talk about the non-delivery cadence, some carriers have spoken about the order book numbers that are reported by research agencies might be little bit higher than reality given some ships that are on order might not be delivered when people anticipate. I was wondering if you could just sort of go into that a little bit.

Kevin Mackay: Yeah, just give a 50,000 foot answer on that before maybe Christian can dig in a bit more. Generally the order books that are published are based on contract signings. And on an average annual basis we see somewhere between 25% and 30% slippage, whether it's for delays in construction or financing concerns or changes in owners' views asking the shipyards to delay the newbuilding. So, generally we tend to look at the order book with about 30% slip in each segment going through. Christian, you want to add to that.

Christian Waldegrave: No. I just reassure what Kevin said. If you look at the chart on slide five when we are projecting the fleet growth, we are taking into account slippage and anticipating that some of those delivers either don't come in on time or perhaps the small number like you said that delivered to us and we do take that into account and our assumptions when we're looking at fleet growth.

Kevin Mackay: One other factor to take into consideration is the tightness in the credit markets. You know, as these orders start to build and payments are due based on the contracts, if there is a lack of liquidity in the credit markets that could have an impact on the slippage volumes for that order book across all the segments.

John Humphreys: Great. Thank you. That's very helpful. And sort of related to that if you could touch on where you see sort of the fleet, you mentioned you build programs in 2017 with that coming in for Suezmaxes, if you look at the age of fleet in 2017 and 2018, what type of run rate do you think is there? You know, how ready is that fleet to last or do you think scrapping would accelerate with an older fleet?

Kevin Mackay: If you look at there's roughly 70, I think 70 Suezmaxes on the order book through 2018. If you actually look at the age profile of the Suezmax fleet, about 70 of the existing fleet are 16 years - or will be 16 years or older by 2017.

You know, and when you pass the 15 year old mark and start looking at intermediate survey requirements every two years, the potential for ballast water treatment to add an additional $2 million to your docking, as well as restricted trade with oil companies not taking ships, a lot of oil companies not taking ships beyond 15 years, it, you know, as the market ameliorates, owners think twice about putting their ships through that kind of capital expense. So,

we may see some of that older tonnage slipping off as the new ones come in and getting it more balance supply picture.

John Humphreys: Great. Thank you. And then just one last in sort of macro, if we continue to see oil prices rise and they push towards 50 maybe 60, where do you see Teekay's business there where, it looks like you're forecasting in pretty healthy oil demand looking at slide five, if that line tempers where does that put your spot in charter market?

Kevin Mackay: Yeah, I think there is no true correlation between oil price and tanker rates. So, I think you've seen oil prices and good strong tanker rates in the past we've seen the opposite. So it's not something that's tied directly to the price. You know, in terms of demand, automobile consumption or gasoline consumption in China, India, Russia and the US are all up and continue to trend upwards, which I think is positive on the transportation fuel side which should drive oil consumption and therefore tanker demand.

John Humphreys: Great. Thank you.

Kevin Mackay: Thanks.

Operator: Thank you. And the next question comes from the line of Gregory Lewis from Credit Suisse. Please go ahead.

Gregory Lewis: Yes. Thank you and good morning. Just a question on the Suezmax market, at this point, right, I mean, clearly, you know, I think Suezmaxes have always viewed as really a swing vessel that could compete down and with Aframaxes and could compete up against VLCCs.

Just as we look at where the Suezmax rates are versus, you know, the smaller Aframaxes in the large VLCCs, are we seeing ships balance away from basins to try to chase these rates. Is that some Teekay's doing or is it just hey we're going to hold tight and wait for others to chase these rates. It just seems a bit odd that how weak the Suez market is versus the others?

Kevin Mackay: Yeah, good question. I can't speak for other owners but from a Teekay perspective we've never been one to chase the market, because typically we chase it, if you're doing everything else will be doing it and therefore you end up just turning down and this case it would be the specific market.

I think what you're seen is the reason the Suezmaxes have lagged is that there has been a buildup of tonnage in the traditional West Africa trade and with the

Nigerian outage that has impacted with more ships bidding on less cargos. The economics to ballast from there around to the Middle East to try and catch the market there can be severely restrictive.

So I think most owners have held out waiting for a return to some volume. And I think as we see European refineries start to ramp up going into the summer months, we will see more volume come into the market. But traditionally we don't -- we don't try and chase markets, it's -- our experience is that it doesn't pan out in the long run.

Gregory Lewis: Okay, great. And then just another one from me real quick on -- I guess it looks like you might see some French refinery strikes -- do you guys sort of have a view on that, as I mean is there any sort of reference we can think about in the past where we've seen French refinery strikes and what impact that has on the market or is it -- any sort of thoughts or color around that would be helpful?

Kevin Mackay: I think at a high level it's part of the oil industry and the tanker trades. You know, as we've seen with Nigerian outage that is not something that it's huge as Suezmaxes or to tankers in general. We've seen militant's blow up pipelines in the past and oil companies declare a force majeure. These things won't last.

They disrupt, they cause short term pain and reduction in the rates in certain pockets, but they come back online. Similarly we've seen the French go on strike in the past and it's lasted anywhere from, you know, a couple of days to a couple of weeks. But other than that, I wouldn't comment in detail of what's going on in the French refining sector.

Gregory Lewis: Okay, great. Hey guys thank you very much for the time.

Kevin Mackay: Thank you.

Operator: Thank you. Once again please press star 1 if you have a question. And we'll take the next question from the line of Chris Calder from Huber capital. Please go ahead.

Chris Calder: Hi Kevin, you talked today about sort of maximizing shareholder value and like Vince put a curve on there showing the free cash flow yield which is now even higher with today's stock action.

I guess I am wondering, you know, how the board can justify not having a share repurchase program in place and having a continuous offering program in place considering the stock levels. And then how to maximize shareholder

value paying down low cost, well turned out debt versus buying back stock at the current free cash flow yields the best use of capital? Thanks.

Kevin Mackay: Hi, Chris. Yeah, I think the conversation that we've had with the board is around what is the most prudent thing to do with the cash flow that we are generating. And as we compare ourselves with peers we still feel that our balance sheet needs further strengthening. Obviously our Q1 results weren't as strong as we were hoping because of our lack of revenue days or reduced revenue days. So that all plays into the conversation that we've had around, you know, maximizing shareholder value for the long term and using that cash flow as a priority to pay down our debt.

That's not to say that, you know, we look at our other levers to reward shareholder value and we do that through our dividend and possibly at some point we'll look at share buyback as well. It's something that is a lever at our disposal but the board felt that it was prudent given the cyclicality of the tanker for market that long term shareholder value can best be served at this point and in this environment by paying down our debt as a priority.

Chris Calder: Got it. Understood. I guess I just still feel like just to have the lever in place even if you are not pulling it right now would be the most prudent move much like the continuous offering program that you guys have used effectively, you know, at higher share prices, but you know, that's just -- that's our view is as shareholders. Thanks guys.

Kevin Mackay: Thanks, Chris.

Operator: Thank you. There are no further questions at this time. Mr. Mackay, I'd like to turn the conference back to you for any additional or closing remarks.

Kevin Mackay: Okay. Just thank you everybody for the call and we'll speak to you next quarter. Thank you.

Operator: Thank you. And this concludes the conference call for today. Thank you for your participation. You may now disconnect your lines.

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