# TEEKAY LNG PARTNERS' FIRST QUARTER 2019 EARNINGS RESULTS CONFERENCE CALL

**Company:** **Teekay LNG Partners L.P**

**Date:** **Thursday, 23 May 2019**

**Conference Time:** **11:00 ET**

Operator: Welcome to the Teekay LNG Partners' First Quarter 2019 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 one to register for a question. For assistance during the call, please press star zero 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. Mark Kremin, Teekay Gas Groups President and Chief Executive Officer; please go ahead sir.

Scott Gayton: Before Mr. Kremin begins, I would like to direct all participants to our website at www.teekaylng.com, where you'll find a copy of the first quarter of 2019 earnings presentation. We 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 of 2019 earnings release and earnings presentation, available on our website.

I will now turn the call over to Mark to begin.

Mark Kremin: Thank you Scott, good morning everyone. And thank you for joining us on the first quarter 2019 earnings call for Teekay LNG partners. I'm joined today by Scott Gayton, Teekay Gas Group CFO.

Turning to slide three of the presentation, we will review some of Teekay LNG's recent highlights. Similar to last quarter, we continue to improve on our quarter-on-quarter results. We generated total adjusted EBITDA, which is equivalent to what we use to call cash flow from vessel operations or CFVO, of $158.2 million, which was up nearly 5.5% over the last quarter. Adjusted net income of $33.4 million up, 2%, and adjusted EPU of $0.34 per unit, up 6%.

Our first quarter results up primarily due to the delivery of LNG carrier new builds and the commencement of shorter-term charters at higher rates for two of our LNG carriers. Since reporting earnings in February, we've been activate in the term charter market as we will detail on the following slide. Importantly, with these four new charters we have secured over $70 million of total adjusted EBITDA. Because of this increased visibility, we are comfortable with our previously provided adjusted EBITDA and earnings guidance. And, we expect we will likely come in firmly within this ranges, as Scott will discuss later.

We have continued to increase return to shareholders with a 36% increase in our first quarter distribution, such that our units now yield roughly 5.3%. And we intend to continue to opportunistically repurchase units in the open market under our $100 million buyback authorization, of which we have approximately $87 million remaining. We intend to buy when we see the market dips, which will allow us to continue to delever while making attractive returns for investors during times of market dislocation.

We have also been active with the multi-gas vessels we repossessed last year. These seven vessels are now trading within the Lauritzen Kosan ethylene pool and we are confident that they will be able to improve the chartering results from this segment. However, the final vessel only joined this commercial pool a couple of weeks ago. As a result the full benefit of the new pool will not be realised until the third quarter's results

Looking at slide four, we have been actively chartering out our spot vessels, thereby locking in attractive charter rates and further enhancing the stability of our earnings and cash flows. Also, the Russian new buildings are delivering as expected, with some of them delivering even earlier than the previous delivery schedule which was also moved forward.

The four charters in the red-doted box were fixed over the past few months with high quality charters, including Petrobras, Cheniere and Petronas. The 52%-owned Arwa Spirit and Marib Spirit have been chartered for one year around $80,000 per day, to around May of next year.

We were also able to successfully extend the charter for the smaller 1993 built Polar Spirit to Petronas for three years, primarily servicing the needs of re-gas products in China at a charter rate about 20% higher than the previous rate. This charter extension commenced on May 7th. And we were able to extend the in-charter from our multi[?]-JV of the Magellan Spirit to match a new three-year charter at a similar rate to those for the Arwa Spirit and Marib Spirit.

All told, these attractive charters have locked in total adjusted EBITDA of over $70 million. With that, we now have only two LNG carriers, the Will Force and Will Pride, that are scheduled to come off charter over the next year. They are scheduled to leave our fleet later this year pursuant to pre-agreed purchase obligations. All told, our LNG carrier fleet is now 100% fixed for the rest of 2019, 97% fixed for 2020 and 92% fixed for 2021. And for your reference, we have included detailed slides on our charter portfolio in the appendix to this presentation.

We are happy to have locked away our LNG fleet through the middle of next year. And we are confident that our relatively small exposure to the mid-size LPG segment through our direct joint venture with Exmar, and our multi-gas vessels now commercially managed by Lauritzen Kosan, will provide us with some upside to the recovery we are currently seeing in those markets.

And the Yamal project is progressing well. In early June our China LNG joint venture expect to take delivery of the Nikolay Yevgenov ARC7 which will service the Yamal project on a fixed rate contracts through 2045. As can be seen in the chart at the bottom, we expect the other three ARC7s to deliver on time or even a few days earlier than previously expected.

Turning to slide five, we will now look at development in the LNG shipping market in the first quarter of 2019. After a surge in short-term LNG vessel charter rates at the end of 2018, rates returned to lower levels in the first quarter of 2019, due to typical seasonal weakness, and an oversupply of vessels.

LNG demand in Asia was weaker than expected in the first quarter of 2019, due to unseasonably warm weather in Asia and high LNG inventories. This contributed to weaker LNG pricing in Asia, and as a result arbitrage trading was limited with the reduction in European LNG reloads and an increase in Atlantic Basin LNG cargos landing in Europe instead of long haul to Asia.

While global LNG trade growth was minimum in the first quarter of 2019, at the same time, the LNG fleet grew by approximately 2.6% in total cubic meter capacity. This combination of moderate fleet growth and minimal trade growth resulted in LNG vessels spot charter rates of approximately $30,000 per day for a 160,000 cubic meter vessel in the first quarter of 2019. Despite weakness in the spot LNG carrier rates during the quarter, the one-year time charter rate remained firm at approximately $86,000 per day at the beginning of Q2 2018, according to Clarkson's.

Turning to slide six. We will turn our attention to the fundamentals for the remainder of 2019 and 2020. Despite rates softening in the first quarter we have recently seen rates turn the corner with the broker reported rates increasing to $55,000 per day. We anticipate that the second half of 2019 will be good for LNG charter rates. We predict another year of LNG export growth due to the ramp-up of new trends that started in late 2018, such as the Yamal train three. And the start-up of new projects in 2019, including, Cameroon, Corpus Christi, Elba Island, Freeport and Sabine Pass train 5 in the United States.

Overall, we expect Global LNG export growth of approximately 30 million tons per annum in 2019, leading to another year of healthy LNG fleet utilisation on average. We anticipate this balance with continue into 2020 as new export projects continue come online.

With our fleet now fully fixed through 2020, we have secured coverage at attractive rates and utilisation. However, looking ahead we see a potential risk of rates softening starting in the second half of 2020, as the rush of LNG new build orders placed at the start of 2018 will start to deliver in advance of the next phase of strong LNG export growth expected to commence around 2023.

In summary we are starting to see the LNG shipping market come up from the seasonal bottom and we expect an overall positive year for 2019, with an attractive LNG fleet utilisation continuing into 2020.

I will turn the call over to Scott to run through the rest of the slides.

Scott Gayton: Thank you Mark. We presented slides seven last quarter and based on and analyst feedback, we have added select debt details of our joint ventures, which will hopefully allow everyone to more appropriately value the significant part of our business which, based on the book value of our investment in each of our joint ventures, is roughly equivalent to our current enterprise. Our joint ventures are more or less capitalised similar to the consolidated company, and are also expected to delever rapidly as can be seen on slide 9, which increases their capacity to pay dividends up to Teekay LNG.

On slide eight, as Mark mentioned earlier we were made comfortable with the financial guidance we provided last quarter. And with the recent charters completed at firm rates, we are confident that our actual 2019 results will come within the guidance ranges provided last quarter. And while TGP's unit price is up 31% since the start of the year, we still believe TGP is undervalued as illustrated by the trading multiples we've provided on the slide.

I'd like to finish today on Slide 9. This chart is a visual depiction of the scheduled debt reduction we expect over the next few years, decreasing from a total debt balance, including our proportionate share of JV debt of approximately $5 billion currently, down to $4 billion by the end of 2021. Which equates to a net debt to total adjust EBIDTA ratio of approximately 5.5 times or net debt to book cap ratio of around 50%.

This deleveraging profile is important to today's unit holder because debt pay down accretes directly to equity value. We expect to make total amortization payments, including our proportionate share of joint ventures, of approximately $300 million per year or approximately $900 million over the next 3 years. This represents approximately $11 .30 per TGP unit of equity value that will be built just through deleveraging our balance sheet. Importantly, with more than 95% of our LNG fleet locked in over the next few years, we are confident in our delevering plans and excited about the impact this will have on our equity value.

I will now turn the call over to Mark to conclude.

Mark Kremin: Thank you, Scott. We are encouraged by the results we were able to generate this quarter and proud of the team for all the charters we’re able to secure which not only locks in firm rates and cash flow for us, but also allows us to maximize utilization across our fleet.

Operator, we are now available to take questions.

Operator: Thank you. At this time we will open the phone for questions. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are using a speaker phone, please make sure your mute option is turned off to allow your signal to reach our equipment. And again that was star one to ask a question and our first question comes from Michael Webber with Wells Fargo.

Michael Webber: Hey, good morning guys, how are you?

Scott Gayton: Hi, Mike.

Michael Webber: Hey, I just wanted to touch on the charter activity, first and foremost, and just to make sure we’ve got this right. So, you’ve got the deferral agreement with Yemen for three years. That gives you the ability to go out and charter those assets in the market. And then you fixed them out on a one-year basis. I'm trying to rectify that with, I guess, the commentary within your prepared remarks around expecting maybe some weakness in May and the back half of 2020, when those vessel would be redelivering in kind of May of 2020. And I know that they are a bit of a special situation, just given the situation with Yemen, but if you could give a bit more colour and context around why you would choose to put those away for a year versus maybe saying what you did earn in the winter period here.

Mark Kremin: Thanks Mike. I guess, when we look at the overall picture for it, we’re starting right now, so right now the rates are not at the rates we’ve been able to achieve on the time charters here. Which as I just said, it’s around $80,000 per day. So, we’re very focused at TGP on earnings for our charters, which is the time charter equivalent rather than the headline rates. And starting right now when we have that utilization, it's back to back from the charters that are redelivering. We’ll get excellent utilization. Even with a strong charter rate, it’s hard to beat that type of utilization.

And in terms of the strong charter rate, I think you will agree that there’s some uncertainty in the markets. We have – although the trade war between China might not be impactful on short-term charters. There is the arbitrage issue we have; we have low prices in Asia, and we are not quite sure how that works out yet. So, I think we have – we were able to take two birds in a hand here rather than whatever was in the bush over the winter and I think we’re pretty happy with how this is going to look on a time charter equivalent basis.

In terms of redelivering in 2020, I guess, if we could redeliver ten years later, that’d be great. But this is what’s available right now, it’s one year charters and I'm not sure how many available. But we decided to take it and if we can extend those, we will but that's just what was available and that's where we'll end up delivering.

Michael Webber: Yeah, I know that there is a lot of kind of nuance and context for the different ships you have got there, that are available. But if I think about that with the new three-year deals on the Polar Spirit and the Magellan, can you maybe talk about why three-year deals are available there? Versus for the Arwa and Marib, was it basically just there were two deals in the market, there were three years, you could get your hand on those and those are the two vessels they got them?

Scott Gayton: The Polar Spirit is a bit different, that is niche trade that we do there. As we said we deliver to China exclusively, basically. And so that's the term deal because it's not necessarily hidden – it's a 'nichey' business. In terms of the three-year deal, the Petrobras, that was, again, just what was on the table. It's not necessarily that we wanted longer or shorter, whether it's the two we did for the Yemen ships or the one we've done to Petrobras. It's just that was available at the time and that's what we've taken.

Michael Webber: Gotcha, okay, yeah, that's helpful. There's a lot going on there, so the colours, it's helpful. I guess, as it pertains to the market in general, we've obviously seen rates pick up a bit here. To what degree do you think, we started to see seasonal cargo programs starting just get fixed earlier and earlier, or do you think there is something else going on in the market? I mean, obviously, you've had a shifting in destination maybe a bit away from Europe but not really. Just curious to whether you're seeing that – what you're seeing in terms of strength is program-oriented versus maybe something a bit seasonal.

Mark Kremin: I suspect this program oriented as you say. I think things are getting done a bit earlier than they're used to. That was the same last year. As you know a couple of years ago, China got caught up buying LNG too late for instance and they had to pay more as a result. I think a lot of the Asian countries are programming a little earlier. But the uptake – Q2 was not a great quarter for anyone, so, the uptake is taking a little longer than folks might say and I think it'll still be Q3 before we see the program really starting to come into play.

Michael Webber: Gotcha, okay. And then just one more and I'll turn over. In terms of new business, you've been particularly successful with your Yamal exposure, Arctic 2. Despite the Saudis backing out, it does certainly seems like that's moving forward, the Russian ARC7s. Any thoughts on early stage feed work there or any ideas to whether or not you would look to participate there? And then I guess along – within the context of that question, do you buy into the idea that you would need to see more local content associated with those ARC7s for Arctic 2?

Mark Kremin: Well, we've mentioned previously, Mike, we have a fair amount of exposure already to the Arctic project in Yamal. So, for us to participate further, it's lower on our priority list, not just because of the local content issues because of just the general exposure we have. We typically don't like exceed 20% of our revenue on any particular customer, and that would be the case here. So, we'd be focused on more projects elsewhere, whether is the Mozambiques or Qatars or wherever else is going to pop up over the next – hopefully with the next couple of quarters.

Michael Webber: Gotcha, okay, thanks, I'll turn it over.

Operator: And just a reminder, if you do have a question please signal by pressing star one on your telephone keypad now.

And just a reminder, that was the star key followed by the one key for questions and/or comments.

And at this time I currently have no questions in the queue; I'll turn it back to today's speakers.

Mark Kremin: Thank you very much for your continuous support and we look forward to talking next quarter, thank you.

Operator: Thank you ladies and gentlemen, this does