TEEKAY LNG PARTNERS' THIRD QUARTER 2020 EARNINGS RESULTS CONFERENCE CALL

Company: Teekay LNG Partners L.P.

Date: Thursday, 12 November 2020

Conference Time: 13:00 ET

Operator: Welcome to the Teekay LNG Partners' Third Quarter 2020 Earnings 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 now like to turn the call over to the company. Please go ahead.

Scott Gayton: Before Mark begins, I would like to direct all participants to our website at, www.teekaylng.com where you'll find a copy of the third quarter of 2020 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 third quarter of 2020 earnings release and earnings presentation, available on our website. I will now turn the call over to Mark Kremin Teekay Gas Group's President and CEO to begin.

Mark Kremin: Thank you, Scott. Good morning everyone. And thank you for joining us on our third quarter of 2020 earnings conference call for Teekay LNG Partners. We hope that you and your families are all safe and healthy. I'm joined today by Scott Gayton, Teekay gas group CFO, before getting into our results. We will take a moment to thank all our seafarers and shore-based staff for the continued dedication to maintain business continuity while COVID 19 is having an unprecedented impact on the world and is clearly a major focus for us. Our long-term contract cover with our high-quality customers has ensured. It has had minimal impact on Teekay LNG operations and cash flows.

Again, this quarter, we are truly proud of how our onshore colleagues and especially our seafarers have continued to respond to COVID-19 while maintaining consistently safe inefficient operations for our customers. We've made good progress with crew transitions over the past few months, as we will discuss in a moment turning to slide three of the presentation, we'll review some of Teekay LNG recent highlights in the blue boxes recorded adjusted net income of $58.9 million for 59 cents per unit, which is down slightly from last quarter, mainly due to heavier than normal, heavier than a normal number of dry docks.

Some of which was delayed from earlier this year, due to COVID related logistical issues. We anticipate fewer dry dock days in the fourth quarter. And as our fourth-quarter outlook slide in the appendix indicates, we expect our fourth-quarter results to increase from these levels. Now that we are over three quarters through the year and given the fixed-rate nature of our business, we have good visibility to where we expect results will come out for 2020. And we're happy to say that we still expect our financial results will be within the financial guidance ranges we provided last year, albeit likely toward the lower end of the ranches.

A few weeks ago, we extended the charter on our 52% owned mirror of spirit to early 2022. With that, our LNG fleet is 100% fixed through the rest of 2020, and 96% fixed for 2021. Importantly, we expect an average LNG time charter equivalent rate of around $80,000 per day for 2021. Despite the COVID-related demand shocks we have been experienced so far in 2020, the strong demand for LNG, particularly in Asia, is having a positive impact on LNG prices. Longer-Term, we and our customers, in gas, and in particular LNG, will be a net beneficiary as the world transitions to a cleaner energy future.

We are building on our strong financial position with meaningful reductions in both debt and interest expense this quarter. With the recent Norwegian bond issuance, we've had a strong liquidity balance of over $430 million, which we believe to help make Teekay LNG, a compelling investment for current and future investors, with a well-covered dividend yield of over 8% based on the current distribution level, and our position as one of the world's largest independent transports of LNG, which is poised to transition to a cleaner future. Our expertise is a key component of the shift. We were very excited to be a part of it. We will finish this slide by acknowledging the excellent work of our Marine HR staff who have made significant progress, relieving a substantial portion of our colleagues at sea. This is no small feat, given the logistical challenges that COVID has brought to worldwide travel. We still have work to do, and we will not stop until everyone has been relieved and returned to the families, but this must be done safely, as it has been completed to date, with no current or past cases of COVID reported on board.

We now look to slides four and five, which we include in nearly all of our corporate presentations because we believe they set us apart from nearly everyone else in our universe. With the recent extension of the 52% owned Marib spirit charter to early 2022, we are now 100% fixed for 2020, and 96% fixed for 2021. And we expect this percentage will increase as we approach the next contract rollover dates, for the remaining LNG carriers we have next year. With the 52% owned Methane spirit and the fully owned Creole Spirit rolling and late February

Before turning from these slides, it's important to reiterate that our take or pay contracts, generally fixed to blue-chip energy names, or government-backed projects, have no unilateral provisions for a change in the terms or charter rates. And each of our fixed-rate contracts continues to perform as expected.

While we don't currently have any direct exposure to the spot LNG market, its current strength still serves as a tailwind to the LNG shipping industry, which is one of the few bright spots in the shipping world today. On slide six, we have provided our views on the strength in the current spot market.

As we indicated on our last earnings call in August, we were seeing some green shoots in the form of strengthening international gas prices, which reopened the arbitrage between buying gas in the US, and selling it for a higher price, after deducting shipping costs in Europe and Asia, This phenomenon has further strengthened over the past few months, as can be seen in the chart to the left. US-Based Henry Hub gas prices have increased from $2 per million BTU to over $3. Whereas prices in Europe have increased to approximately $5 per million BTU. And in Asia, we have seen prices approach $7. This is important because traders have stepped into the LNG carrier market to charter tonnage in order to take advantage of this arbitrage, thereby removing vessels from the market, which leads to higher rates, as can be seen in the chart on the right. And with Asian gas prices exceeding those in Europe, more vessels have been fixed to Asia, which is generally longer-haul than, for example, the US to Europe, further increasing ton-mile demand.

Admittedly, we are not experts on the international pricing of LNG. However, as we see toward the left of the slide, many of these factors are generally seasonal in nature. And therefore, we expect that LNG shipping rates will likely follow their seasonal pattern of declining, as we enter into 2021. Turning to slide seven, we look at the global energy transition, which has already begun, out to 2040, the global energy mix, is expected to go through significant changes in the next two decades at the macro level, and vessel technology will evolve, and the shipping sector will change as we strive to reduce our emissions. But this will take time. It's important to note that shipping is extremely efficient, as it transports 90% of the world's goods, while only being responsible for 3% of global greenhouse gas emissions. But this is not good enough, as we must further reduce our emissions to meet the Paris agreement and IMO 2050 targets. In the IEA's world energy outlook for 2020, they highlight two global energy scenarios projecting out to 2040, both of which show natural gas as a key component of the future energy mix. With cleaner-burning, natural gas as a key transition fuel complementing the growth in renewables.

The graph on the left, highlights the stated policy scenario, which reflects currently announced policies and targets. That has global energy demand growing by almost 20% to 2040, and natural gas providing 35% of the new energy supply out to 2040. The graph on the right side highlights the sustainable development scenario, which puts the world on track to achieve the requirements of the Paris agreement, that has global energy demand declining by 10% and natural gas making up 20% of the energy mix in 2040. Although the future energy mix is not certain, we see gas continuing to be a key resource to meet global energy demand over the coming decades. And if we look specifically, at LNG demand on slide eight, from Shell's 2020 LNG outlook, gas is projected to be the fastest-growing fuel source between now and 2040. And in many applications, as a complement to the growth of renewable solutions, many of which are currently unable to provide cost-effective, uninterrupted services.

Gas is considered to be a bridge to a decarbonized future, in part because gas has 50% of the carbon output of coal, and in many cases, coal will be replaced by gas for the all-important role of generating electricity. And specifically, within the natural gas markets, LNG is predicted to dominate the growth of the global gas trade. As the slide to the right indicates Asia, which is considered to be longer-haul than other areas of the world, is predicted to grow nearly 75% from current levels. Which underpins our long-term expectation, that demand for the services that we will we provide, will remain high in the long-term. I will now turn the call over to Scott, who will discuss the next two slides before we conclude.

Scott Gayton: Thank you, Mark. On slide nine, as Mark mentioned earlier, this quarter, we reduced our proportionate net debt position by nearly $100 million. Building on the long-term trend towards lower leverage, and a stronger balance sheet for Teekay LNG, which benefits all of our stakeholders. This quarter, we have included another leverage metric, net debt to total capitalization, as represented by the gray bar in the top chart. Our net debt to cap peaked in early 2019, as we are taking delivery of a number of new buildings during this time, however, similar to our other key metric, net debt to adjusted EBITDA, our de-leveraging picked up as these newbuildings commenced their contracts and began generating cash flow and earnings. We will continue to monitor both metrics and expect them to decline in the years to come. And we remain on track to reach our target leverage range next year, of four and a half, to five and a half times on a net debt to EBITDA basis.

Looking at the bottom chart, our liquidity increased this quarter after the successful completion of a $112 million unsecured Norwegian bond, at a record low fixed coupon of 5.74%. We have initially used these proceeds to repay our revolvers, thereby building liquidity and not impacting our de-levering plan. However, looking out, we have the financial flexibility to allocate capital, to create shareholder value, including the ability to be opportunistic and repurchasing any of our own securities, if we see any market dislocations, whether it be our bonds, preferreds, or common equity, which could add value for our investors, and be accretive to our free cash flow and earnings. We have no debt facilities maturing this year, and for the two bank facilities, which mature in 2021, we have made good progress since we last spoke with you. The $310 million Exmar LPG joint venture facility is 100% committed. We are looking to close in the next week or two. And we just recently launched tangguh refinancing into the bank market and I'm pleased to report that we are already over 50% committed. And I expect we'll have a fully committed facility in the next few weeks. Importantly, the pricing of this facility has continued to decline, and we are now not far from the pricing we witnessed pre-COVID, after blowing out earlier this year. And while the spread we pay has largely recovered, swap rates are still about 125 basis points below year-ago levels. And this combination leads to significant interest savings for us on this refinancing. I would like to finish on slide 10, with a few comments on why we believe Teekay LNG represents a compelling investment for current and future investors. First, we have strong and stable earnings and expect we will be within our 2020 financial guidance ranges, likely toward the lower-end. And importantly, looking out to 2021, we expect our financial results to be largely in-line with the results we expect to generate in 2020. With interest savings, largely offsetting the potential for contract rollovers to be at lower rates.

And importantly, with 96% of our LNG fleet fixed for 2021, movements and rates next year, whether it be LNG or LPG ethylene, will have only a small impact on our 2021 results. For example, a 10% move in LPG or ethylene rates, off of our base will only impact our total adjusted cash flow and earnings, by roughly $6 million. And a 10% move in LNG rates will only impact our total adjusted cash flow and earnings by $3 million, or looked at together, a 10% move in rates will only impact our fiscal year earnings by around 4%. We continue to build on our equity value through reductions in our total debt levels and interest expense, which declined by 8% and 9%, respectively, this quarter on an annualized basis. And as I mentioned on the previous slide, we are proactively de-risking our debt maturity profile, and by the end of this year, I expect we will have addressed our only two maturing bank facilities.

And we are carrying sufficient liquidity to repay our October 2021 NOK bond should that be the optimal use of capital at that time. And we still believe that TGP is attractively priced. With a yield of 8.3% based on the current distribution level, which importantly is covered 2.4 times by earnings this quarter. We see that Teekay LNG is trading at roughly 5 times earnings, and 7.8 times total adjusted cash flow, which we believe is attractive, given our 10 plus year average remaining contract value. And when compared with the trading levels of other companies today. I would now like to turn the call back to Mark to conclude.

Mark Kremin: Thank you, Scott. This is the last time we planned to speak on earnings call this year, we would like to conclude today's call by reflecting on the year we've had. Since earlier this year, the world at large, the broader energy and equity markets, and the natural gas and LNG shipping markets, have all experienced volatility and bouts of uncertainty. We're pleased that during this time, that people at Teekay LNG, have quietly gone about their business. Our track record and focus on operational excellence remains intact. Our seafarers continued to operate at the top of their game, despite some of them playing into extra innings. And we continue to honor the commitments we have made to our investors, to allocate capital in a balanced manner, with a focus on delevering our balance sheet while sustainably returning capital. Last quarter, we were referred to as boring in a year when a year boring is good, with one analyst referring to us as a Swiss watch. Both names, I think we're happy to be called. Thanks for your time today and Operator, we are now available to take questions.

Operator: And as a reminder, if you'd like to ask a question, please press star one now. We'll take our first question from Omar Nokta of Clarkson's Plateau Securities.

Omar Nokta: Thank you. Hi guys. Good morning. Mark, you went over this a little bit, and Scott also mentioned the sensitivities being a bit minimal for 2021. I wanted to ask about the market as you see it currently, especially in the context of the renewals coming up for the Creole Spirit, and the Methane spirit. We've seen spot rates reach a hundred thousand a day, and, we're quite a bit away from where things were this past summer at the lows, and, you know, time charter rates haven't really responded to having come up with spot rates, and it's quite a bit different than last year, when we saw spot rates bottom in the summer, a spike in the winter, with the time charter markets, following suits. I guess, maybe one, can you give us a sense of why you think this is the case, that we haven't seen the time charter market respond? And then two, any signs that this could be changing here in the near term?

Mark Kremin: Sure. Good morning, Omar. When we talk about the LNG rates now, they're in the, as you've seen, as you're well aware of, they're probably in the hundreds for the second half of December, is what we're seeing get fixed at this point. But as you say, the time charter rates haven't really responded to that. There have been a couple, well, let's talk about why we're up before we talk about why the time charter rates haven't gone down. If you look at, for instance, in 2018 we had prices, in Asia at $7, and they quickly jumped $12, and I wouldn't rule out that prices can jump quickly on demand, obviously. On the other hand, it's all about the hub.

So, the Henry hub has gone from low $2 to high $2, and it seems to be pretty, pretty stable there. Anytime you have a premium of more than $1, you can pull cargoes to Asia quickly, typically. So, they haven't gone to Asia. You've seen some outages. Those have been replaced by some longer-haul, that should probably get corrected. There were some things over the summer that were slowing the market down. You saw Laura had an impact on liquefaction in the United States. We see no more named storms this November, that is going to impact the liquefaction side. So, there's a number of things going for us. And then even on the longer-term, we've seen now that China has signed up for 21 cargoes, that's a big reversal of the trade war things we've been seeing over the last year.

So, we see more, maybe a resumption, of China cargoes. We see Poland not renewing their gas SPA with Gazprom. So, there's a lot of positives, both in the very near term and maybe the bit longer-term. But the bottom line that we see is that over ‘21 and ‘22, there are probably too many ships for the cargo. So, that's one reason you've always seen us, we're not shy about fixing forward. We do it a lot. We do this in direct continuation, we don't necessarily make a call on the market. We don't take a floating rate charter for the most part, because there's a lot of tailwinds happening. And, of course, we've all seen Pfizer and all the rest, but I think there are too many ships over '21 and '22. And that's why we've taken the perhaps more conservative approach to the industry.

Omar Nokta: Thanks, Mark. And, you know, in February, you've got the two vessels coming up for renewal, any sort of dialogue you're having now, in any sense of the types of the term you're looking at getting. Is it's still going to be in this market today, we're looking at maybe a max of 12 months as realistic?

Mark Kremin: Yeah. We're looking at maybe it's too many competitive secrets, but we are always looking at that type of year or more if we can get it. And I say this because, we've had peers in the past who said they don't want to go, it doesn't matter what the rate is, they don't want to go long-term. We're not like that. If there is a good rate that's long-term, we'll go ahead and take it. And what we're in discussions for those two ships is indeed 12 months or longer. If we can't get a good rate at 12 months or longer, no problem. We have enough portfolio to cover that. As Scott mentioned in his prepared remarks, sensitivity is something we can handle. But our preference is longer-term charters. And I think we will hopefully be able to achieve that for one, if not both of these ships.

Omar Nokta: Great. Thank you. And maybe just one quick follow-up for Scott in the slide deck, you went over the debt maturities and the two refinancings that are hopefully, well underway now. Of the 400 million of debt maturities for '21 after these refinancings, do you have a perspective you can give us of what the amortization will be for next year?

Scott Gayton: Yeah. I don't expect it to change a lot really, Omar, I think that we've said in the past, it's on a total basis. So, including all the debt at our joint ventures, it's roughly $300 million per year. And I don't see that changing absent these maturities. So, we tried to normalize it at that $300 for you.

Omar Nokta: Great. Thank you. Thanks, Scott. And thanks, Mark.

Mark Kremin: Thank you.

Operator: We'll take our next question from Randy Givens of Jeffery's.

Randy Givens: Howdy, gentlemen. How's it going?

Mark Kremin: Good morning

Randy Givens: Good morning. Say, I guess, starting with the NOK bonds, just trying to think through the strategy there, what was the reasoning for issuing those five-year notes to kind of repay the revolvers? What were the interest rates on the revolvers, when do they expire, and did you cancel them or just kind of pay off the remaining balance?

Scott Gayton: Sure. So, I think when we looked at the maturity that we had in May we did pay that one off with cash because we didn't like the terms that we were seeing. We didn't like the rates that we saw. And it just wasn't the right time to do it. The Norwegian market, which was not out of the COVID hangover, if you will, by that point. And I think that we also had opportunities that were presented to us in that February, March timeframe when there was obviously the massive dislocations that we had. And I think with these two commercial bank facilities that were maturing, the NOK bond our liquidity level, it's just at a point where we were not able to be maybe as opportunistic as we otherwise could have been.

So, we saw the summer proceed. We saw the US high-yield markets go absolutely crazy. And then that followed off into Norway. And then we decided that we were able to rebuild our liquidity at an extremely competitive rate. The treasury rates were bottoming right around the end of the summer, and so at 5.74$, all in for five years, we thought that's a great price for us to go and rebuild that liquidity balance, such that if we do get some market dislocations, like we had, obviously in some ways, you never want to wish that, but we do think that we're now positioned that we could step in and look at repurchasing securities and really add some long-term value. If we look at the pricing differential, it's relatively small. I think that all in our revolvers are probably in the, call it 3% range.

So, it's costing us a couple of million bucks in order to have that extra flexibility and firepower. And we didn't cancel any of our revolvers. They're still there. And you can see if you look at that slide on page nine one of them is a two-year facility, and so it rolls in 2022. And then the other one is a longer-term facility that we would love to redo. So those are the body of work that we will have for 2021, is to roll those maturities in 2022.

Randy Givens: Got it. Okay. And if you do, would that then be a kind of use of interest rate arb there to roll those revolvers, especially if you can get them at under 4%, draw those down and repay yeah, some of your preferred, or some of your higher-priced securities?

Scott Gayton: Definitely, something that we look at and something that we do analyze, and we can draw those down in a matter of about three days if we were to see some real opportunities. And so, I think what you're going to see is we're going to be patient, as Mark says, it's going to be boring sometimes. And I think right now we're sitting on the sidelines, and we're going to be patient, and having that extra flexibility is one of the hallmarks that we think that is a benefit to investors.

Randy Givens: Great. All right. And then one more question, just looking at your distribution. Do you have any kind of growth target or anything like that for next year, and maybe what are some of the drivers regarding possible distribution growth? Is it just specific leverage metrics, or maybe a certain yield that you're targeting?

Mark Kremin: Well, maybe I'll take a stab at this Randy, and pleased to ask Scott to come in, but I'm not sure we're going to say as much. As you've seen, we haven't said much. We haven't said anything really. We're going to wait until next year, this time before we give guidance for our 2020 distributions, as you know, we've increased it in each of the past years, and sustaining that it's is important to us. We, certainly, learned our lesson in 2015. It's ancient history for a lot, not for Scott, and myself, and others. So, the board will be meeting in December, and we're going to discuss that. As you said, as a broader allocation this time and perhaps in previous years but like we do that every quarter, we're going to do that.

And then we're going to come back to you through our attention in 2021. But I think it's important to say now. And that we are not thinking of a cut in our distribution. We're well covered, and I'm hopeful we can leave it at that, but Scott, if you have anything further to add?

Scott Gayton: No, I think the only word I would put in there is that any increase that we do talk about with the board, I think we want to make sure it's sustainable. We do have an extremely fixed rate business. So, we've got good visibility, and unlike a lot of peers out there, particularly in the energy space, we look at having our dividend covered by earnings. So, as we said this quarter, we're roughly 2.4 covered by earnings. So, it's obviously, well North of that on a DCF basis, but we want to make sure that we're earning our dividend, and never end up in a situation where that relationship is upside down. So, I don't think we have any real target, except for, like Mark said, we'd like to have that track record of increasing it year on year. But in terms of the magnitude at this point, I think that's something that we'll just wait until we come back to talk to you early next year on that.

Randy Givens: Got it. Okay. Sounds good. Well, that's it for me. Thanks again.

Operator: Thank you. We'll take our next question from Ben Nolan of Stifel.

Ben: Hey good morning guys. I wanted to come to something, I think Scott you'd mentioned that the long-term target on net EBITDA is 4.5X to 5X times and that you expect to be there next year. I'm curious what's, sort of the thinking or the calculus as to why that's kind of the magic number? And is it something that you think about is sort of moves over time, or is that just kind of the feel-good spot?

Scott Gayton: Yeah. Thanks, Ben. I think you're right. There's probably more art than science. And so, sometimes it's just where it feels good, you're correct. I think that we all know that where we ended up at around nine times, was way above anybody's comfort zone. And I'd say on the low end of it, to get into the threes or the fours is probably too low for us to be competitive. So, the four and a half to five and a half we did some work on that, and we revisit it yearly. Some of that had to do with the way that the banks look at us, some of that has to do with the way that credit-rating agencies, if we were to be covered, what they would find to be acceptable. And really, something that we do believe is achievable as well, without making any drastic moves over the next couple of years here.

And then, is that the target range that we have to be within? I don't necessarily think it has to be. I think that we've got a trajectory that we're going to go into it despite whatever actions we might take. So, if we were to grow or if we were to go, and buy-back a bunch of securities, or something that would have a momentary, or a short-term increase in our leverage above that range, as long as we had the visibility that would just simply generating cash flow, we could get back into it. I think that that would be just fine. And really, I don't see it really changing a lot, and it's something we focus on. But if we see the right opportunity to invest in ourselves or elsewhere then we can probably look at that as a shaded line, as opposed to a firm-hard ceiling or hard floor.

Ben: Okay. So, and just sort of, from where you sit today and appreciate that this can evolve, but as we move into next year, as you begin to approach the target, the five and a half target, sort of higher-end of that target range where do you think would be, again, based on today, the best use of the incremental dollars to continue to push it down closer to the four and a half range, or are you seeing opportunities in the market? Again, I appreciate that the preferred to whatever got blown out, maybe that'll happen again, but are you being approached by people, or what situations that are attractive, that may be as you began to approach that range, you feel like, well, if we were there today, we'd do it is that materializing yet? Or there's still just not those opportunities that you're seeing.

Scott Gayton: No, absolutely. I'll see if Mark has any follow-ups on the asset side, but on the security side, I'd say, no, we're not seeing anything that is sufficiently attractive that we want to step in, and diverged from that, delivering that we've got going on. And then, I think the first part of your question was asking does that change over time, or what's the feedback been? And I'll tell you when we meet with a lot of our MLP investors, and I think Mark, we've done more phone calls this year than we've ever done in the past which is nice because we can do it from our living rooms, but the vast majority of the particular, to the MLP midstream guys that we've talked to, that come along and say, well, you're four and a half to five and a half is still looking a bit rich why don't you get that into the threes and the low fours?

And so, there is a fairly-wide bid/ask as to what people are accepting. And I think that that's what we're trying to do is to thread that needle, and be thoughtful and make ourselves competitive, but also don't make ourselves something that investors are afraid of.

Mark Kremin: And just on the asset side Scott, you're right. We're not seeing anything this year. Everything has been a little bit delayed, certainly Qatar, we expected to come out by now, at least on a technical, non-commercial basis, which hasn't happened. So, I think that's firmly into next year at some point. But I guess the good thing is that we wouldn't rule out potential investments next year. I think that we're setting ourselves up over the future for being able to act when others can't. The de-levering is happening as you guys have seen, and yard prices are bottoming out pretty well. And so, I wouldn't rule it out next year, but certainly nothing this year.

Ben: Okay. That's great. And I appreciate you guys it, wasn't lost on you, that being boring is a good thing. As we wrote.

Mark Kremin: We still have that from you. So, thanks.

Operator: Thank you. We will take our next question from Liam Burke of B. Riley.

Liam Burke: Thank you. You've laid out the different capital allocation alternatives, but looking at your fleet or potential fleet additions, do you see vessels out there with sufficient contract coverage to be attractive, or do you have a backlog of those potential acquisitions?

Mark Kremin: So, you're talking about acquisitions, other people who have long-term contracts that may be attracted to us?

Liam Burke: Correct.

Mark Kremin: Yeah. Unfortunately, well, I should say fortunately, we have long-term contracts for the most part in this business. So, it is pretty, and with an average remaining around 10 years. To find that, is pretty darn difficult in the space, unfortunately. So, as you say, there should be opportunities with - there could be opportunities with folks who have a lot of spot exposure, that they may want to get rid of a ship or two, but currently, the answers are no, we're not. There's none that we are aware of that are available.

Liam Burke: And who would you with that scarcity, would you consider moving into some adjacencies, smaller vessels or FSRUs?

Mark Kremin: It's possible. Well, so if you talk about both of those adjacencies, we do have two small scale LNG carriers right now, they're 12,000 cubic meters, but we actually trade them with ethylene, because there are just the small-scale projects take a while to develop. So, we see small scale projects. We just haven't been a part of them. It would be difficult for us to, we always use the phrase move the needle, with TGP, when these ships cost on average, maybe $50 million compared to over $200 million LNG carrier, but don't rule out space. And as I say, we're in it. So, if it's small scale LNG we're going to take a look.

On the FSRUs, again, it's good adjacency for us to look at it. It's not that technically difficult. It is very much within our adjacency space, the issue there, as we see it, is that overbuilt currently. So, I wouldn't and for the same reason, as small-scale LNG, these products take some time to develop. And so, there's a fair amount of speculative orders and increasingly some re-lets, which don't have products with them, but, if that market can sort itself out it's certainly something we would look at.

Liam Burke: Great. Thank you.

Operator: Thank you. We will take our next question, Nick Kovich of Beach Investment Counsel.

Mikovic: Good afternoon. Scott, I guess a question I would have is, you didn't include in the slide deck this quarter, the guidance ranges for net income, EPU, consolidated EBITDA, and total EBITDA. You've commented that you expect to be at the low end of the range, and I understand dry docks were one of the reasons, but could you highlight kind of the three reasons relative to budget, why you think you'll be between the mid-point and the low end of the range for 2020 at this point?

Scott Gayton: Yeah. I think you're right. The dry docks are one of them. And I think when we came out with our guidance, I guess this time last year, we did have some ships that were rolling in the early part of 2020. And at that time, we were seeing a pretty rosy market, to be frank. And like Mark's comments earlier, where he was correctly saying that the spot market today is very high, and the time charter market is quite a bit lower than that. If we go back a year ago, we had a high spot market, and we had a fairly high time charter market. So, we had some confidence that we would be able to charter those ships onto longer-term contracts, at fairly healthy rates. And then obviously the bottom fell out as we all know in the earlier part of the year.

And we were forced to fix those ships. I'm glad that we did. We got the high utilization; they were in direct continuation of the existing contracts. So, we didn't have a lot of utilization drain. But, ultimately, they were at lower rates than we had predicted when we were in November of, I guess that would have been 2019. So, I think that's probably the biggest reason. We've had some positive tailwinds in terms of lower interest rates. And I think those are really, the primary reasons that I can think of, that we're probably on the lower end of that guidance range. But I think in today's world, to simply be providing that guidance like we did, and to still be meeting it, is a hallmark as far as we can tell.

Nick Kovis: Yeah, it's definitely been a solid year performance. Now that the election, here in the US is pretty clear, and there's some visibility as to what may happen on the tax front, what is the strategy in terms of consideration to move to a C-Corp? Will that be on the agenda at the December board meeting?

Mark Kremin: It's not on the agenda per se, it's something we're always looking at. I'm not sure the tax issue for us has been the predominant one for a while, but if we can get a broader investor base, certainly something we're looking at. But I wouldn't expect it this year. It's not going to happen this year, but it's something we're always looking at.

Nick Kovich: Okay. By this year, you mean 2020, but possible 2021?

Mark Kremin: 2020. Yeah. We'll take another look at it in 2021, and see how the markets are reacting as we said. If there are some tax shifts that result in MLPs become increasingly favorable, but whatever it is, we'll take another look at that in 2021.

Nick Kovich: Okay. And then I guess the last question I would have is you've talked about, or someone asked the question about acquisition opportunities eventually pegged off on that. Do you envision, given that there's going to be a weakness in possibly these rates in 2021 and 2022, do you envision opportunities where some of your competitors may have problems and do you anticipate possibly having opportunities to buy distressed properties?

Mark Kremin: I do. I do anticipate there's going to be some challenges, more so for our competitors than for us certainly, in my opinion. But what I always say is that I think it doesn't necessarily create opportunities for us to acquire ships on long-term charter because they just aren't available as we've kind of discussed. But, probably, perhaps what it might do, and what I'm hoping is it we're going to be in not necessarily unique, but a good position to bid when others can't. So, if those LNG charters, long-term contracts, if they're not available then for on the water ships, I think we're going to be in a better position to bid for a tender. So, whether it's in, I mentioned Qatar, or whatever it is, and we don't know the time period that Qatar or others will come out with it yet I think we're going to be able to take advantage of competitor weakness in that regard, hopefully, get a better return for new builds that will deliver by the time we will have the de-levered and just get a better return on those.

Nick Kovich: Okay. I guess I do have one last question, as you've de-leveraged the balance sheet, Scott, what do you think your blended cost of capital is when you think about making capital allocation decisions? Where are you with the balance sheet, where you want to be looking into '21? Where do you think your cost of capital is?

Scott Gayton: Well, I think if we look at it, the biggest component is obviously, where the debt is right now. And I'd say that we were at around five and a half all in, and I think that that's going to be coming down as I talked about with some of the new facilities, as well as just the lowering base rates. And so that's going to have likely the biggest impact, just simply given the leverage that we're at today. And so, that does help to make us more competitive and also helps when we look at other acquisition opportunities, and whether that's our own securities or whether that's ships like Mark talks about we can be more competitive than a lot of our peers who are not able to go out and for example, raise NOK bonds in the 5.74% range. So, we're trying to do everything we can to reduce, particularly, that debt cost which will allow everything else to be a little bit more competitive.

Nick Kovich: Okay, great. Thanks so much. Appreciate it.

Operator: Thank you. We will take our next question from Chris of Webber Research.

Chris: Hi guys, how are you?

Mark Kremin: Hi.

Chris: Wanted to just ask about allocation policies, with respect to de-leveraging, and any other projects that are possibly attractive. I know you guys talked to somebody earlier about that and net debt, kind of pushed up, but what about Arctic 2, now that that process kind of coming together? Does that also - is that something that you guys, is there any capacity there that you guys would be interested in participating in?

Mark Kremin: No, we've been saying for quarters that's not for us. And there were a couple of different reasons for it. Number one is, we have a fair amount of exposure already, so we've taken a pass on Arctic 2. We're very happy with the fleet we have but we already have a fair amount and the other thing is the fleet we have, I think we got pretty good risk-adjusted returns because as you know, it was a foreign constructed, and foreign-owned, and operated type of project. I'm not sure that the Arctic 2 will be the same. You might have more local content, which might bring more risks. So, we have enough right now, and the stuff we got we think is on a risk-return risk-adjusted basis what we want.

Chris: Thanks. That makes sense. And what about the longer-term plans for the LPG fleet?

Mark Kremin: So, there are two types of LPG fleets that we have. One, we have a considerable investment in, as you say, LPG, liquified petroleum gas, and to lesser extent ammonia. And that's our JV with Exmar, and it's been a great investment. It's been a great franchise, and it's something that I think we hope we'll continue, to do great. And so, that's something we like. The other one is an ethylene business. It's petrochemicals, it's a much smaller investment. We have the equivalent of less than a half an LNG carrier invested in that. And it's not a business we intended to be in per se, it was financing, which we ended up foreclosing on the charterer. And so that's, non-core we've continued to keep it, we've actually stopped the losses on it. But when the opportunity comes to divest, and we're in no rush and we have no panic, we have no need, but when the opportunity comes to divest, I see that as something we would probably be willing to let go with the right price.

Chris: Yeah, sure. So, for the LPG ships and the BW Tokyo, the charter expirations are happening later this year, are there plans to re-charter?

Mark Kremin: I have to look, you know, on a fleet specific basis. I don't want to say right now, I want to discuss that with Exmar before we say anything about those ships, it's a lot more material to them than us. And so, I'd prefer to just leave that to we'll get back to you on that.

Chris: All right. Okay. That's all for me. Thanks, guys.

Operator: Thank you. We have no further questions in the cue.

Mark Kremin: Well, thank you very much, everyone. And again, stay safe and we look forward to updating you next quarter. So, take care.

Operator: Thank you, ladies and gentlemen, for your participation in today's call, you may now disconnect.