



# TEEKAY TANKERS LTD.'S SECOND QUARTER 2024 EARNINGS RESULTS CONFERENCE CALL

**Company Name: Teekay Tankers Ltd.**

**Date: Thursday, 1<sup>st</sup> August 2024**

**Conference Time: 11:00 ET**

**Operator:** Please stand by. Welcome to Teekay Tankers Limited's second quarter 2024 earnings conference call.

During this 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 touchtone phone. As a reminder, this call is being recorded. Now for opening remarks and introductions, I would like to turn the call over to the company. Please go ahead.

**Ed:** Before we begin, I would like to direct all participants to our website at [www.teekay.com](http://www.teekay.com), where you will find a copy of the second quarter 2024 earnings presentation. Kevin and Stewart will review this presentation during today's conference call. Please allow me to remind you that our discussion today contains forward-looking statements. Actual results may differ materially from results projected by those forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in the second quarter of 2024 earnings release and earnings presentation available on our website. I will now turn the call over to Kevin Mackay, Teekay Tankers President and CEO, to begin.



**Kevin Mackay:** Thank you, Ed. Hello, everyone, and thank you very much for joining us today for Teekay Tankers' second quarter 2024 Earnings Conference Call. Joining me on the call today are Stewart Andrade, Teekay Tankers CFO and Christian Waldegrave, our Director of Research.

Moving to our recent highlights on slide three of the presentation. Teekay Tankers had another strong quarterly result, generating total adjusted EBITDA of \$124 million, down from the \$151 million we generated last quarter. The company reported adjusted net income of \$107 million, or \$3.11 per share, a decrease from \$132 million, or \$3.86 per share, in the first quarter of 2024. With our fleet of mid-sized tankers trading almost entirely in the strong spot market, Teekay Tankers high operating leverage enabled us to continue generating significant earnings and free cash flow.

As a reminder, for every \$5,000 increase in tanker rates above our free cash flow breakeven of \$15,000 per day, we expect to generate approximately \$2.36 of annual free cash flow per share. Stewart will provide further information on our ability to generate value for shareholders later in the presentation. In line with our capital allocation plan, we have declared a fixed quarterly cash dividend of \$0.25 per share for the second quarter of 2024. Mid-size tanker spot rates remained strong during the second quarter. The start-up and ongoing increase of exports from the Trans Mountain pipeline expansion has been an important source of additional Aframax demand and helped to support rates during the second quarter. I'll give more detail on TMX later in the presentation.

Looking ahead, tanker supply and demand fundamentals continue to look positive and point towards multi-year strength in the tanker market. Since our last earnings call, the company sold two of its oldest ships for a combined firm price of nearly \$65 million and redeployed that capital into the purchase of a 2021-built modern eco-design Aframax for \$70.5 million. And finally, in the time charter market, we extended an existing in-chartered Aframax for a further 12 months at a rate of \$34,000 per day and secured an additional one-



year option period on that charter, while also out-chartering an Aframax for 12 months at \$49,750 per day. The spread between these two charter deals illustrates the value of an active time charter portfolio.

Turning to slide four, we look at recent dynamics in the spot tanker market. As mentioned in the highlights, midsized crude tanker spot rates remained strong and stable during the second quarter. In fact, Q2 marked the third quarter in a row in which mid-sized tanker spot rates averaged above \$40,000 per day, demonstrating both the elevated historical level and stability of Aframax and Suezmax rates over the last nine months. Spot tanker rates were supported by a combination of factors during the second quarter, including the start of crude oil exports in the Trans Mountain pipeline expansion and disruptions in the Red Sea region due to ongoing attacks on merchant shipping.

In addition, a strong product tanker market has led to some LR2s that were previously trading crude oil to switch to clean product trading, increasing tightness in an already firm crude tanker market. With global oil demand set to remain firm and the other factors underpinning ton-mile demand for mid-sized tankers remaining intact, we expect spot tanker rates to remain well supported through the second half of the year.

Turning to slide five, we provide an update on our Suezmax and Aframax size spot rates in the third quarter to-date. Based on approximately 40% and 41% of revenue days booked, Teekay Tanker's third quarter to-date, Suezmax and Aframax size vessel bookings have averaged approximately \$40,800 per day and \$45,300 per day, respectively, well above our spot tanker rates secured in Q3 of last year.

Importantly, I once again highlight the value being created by Teekay Tankers' eight vessel chartered-in fleet, of which seven are trading in the strong spot market. With an average in-charter rate level of \$26,800 per day, the chartered-in fleet has a current mark-to-market value of approximately \$53 million.



Turning to slide six, we look at supply and demand factors, which we believe point towards continued tanker market strength. Looking at the oil market, global oil demand is projected to grow by around 1.5 million barrels per day in both 2024 and 2025, as per the average forecast from the three major energy agencies. A substantial portion of this demand growth is expected to be met by increased oil supply from non-OPEC countries in the Atlantic basin led by the United States, Brazil, Guyana, and Canada, which would be positive for tanker demand. In addition, the OPEC plus group has announced their intention to unwind 2.2 million barrels per day of voluntary production cuts over the course of 12 months starting in October this year, which could give further support to crude tanker demand from the fourth quarter onwards.

Turning to seaborne oil trade, the Aframax market received a boost in the second quarter from the start-up of the TMX pipeline with the first vessel loading from Vancouver in mid-May. As all exports in this terminal are via Aframax tankers, the opening of TMX is a positive for Aframax-specific demand. Exports from the pipeline totaled approximately 300,000 to 350,000 barrels per day in June and July, or approximately 20 Aframax loadings per month.

As shown in the middle graph on the slide, Aframax loading TMX cargos have discharged on the US West Coast, in Asia and at the Pacific Area Lightering zone off the coast of California for ship-to-ship transfer to larger tankers. Volumes are expected to increase towards the full capacity of 550,000 barrels per day in the coming months, or approximately one Aframax loading every day. Further supporting Aframax demand in the Pacific region.

Geopolitical events continue to impact seaborne trade flows. Most prominently, the ongoing attacks on shipping in the Red Sea, which are causing vessels to divert on longer haul voyages via the Cape of Good Hope. This has been particularly evident in the product tanker sector with refined product movements via the Cape of Good Hope increasing from an average of 0.8 million barrels per day in 2023 to 2.7 million barrels per day in 2024 to-date.



Given the long-haul nature of these movements, the LR2 sector has been the primary beneficiary from these diversions with elevated spot rates through the first half of the year in that segment. As a result, a number of LR2s have switched from trading crude oil to clean products with the clean trading LR2 fleet increasing by between 30 to 35 vessels since the start of the year, which has also had a knock-on effect on tightening fleet supply in the crude Aframax sector.

Turning to tanker fleet supply, just 3.5 million deadweight tons of new tankers delivered into the global tanker fleet during the first half of this year, and deliveries this year are on track for the lowest total since the late 1980s. As such, we expect minimal tanker fleet growth this year. Although the pace of new tanker ordering has increased in recent months, the orderbook as a percentage of the existing fleet is still relatively modest at around 11% versus the long-term average of 20%. In addition, shipyard capacity is becoming increasingly scarce as yards fill up with orders, particularly from the container ship and LNG carrier sectors.

We estimate that the main shipyards capable of building tankers of Aframax size or larger are now full through 2026 and are almost 80% full through 2027. As such, the tanker orderbook now stretches out over the next three and a half years with little scope to add meaningfully to the tanker fleet until the second half of 2027 with some yards already taking orders for 2028 delivery. The combination of a modest tanker orderbook, an aging tanker fleet, and a lack of shipyard capacity until the second half of 2027 should ensure that tanker fleet growth remains at low levels over the next two to three years. Combined with positive tanker demand growth, we believe that conditions remain in place for a continuation of firm spot tanker rates.

It is worth noting that our customers also appear to share this view as we are seeing an increase in time charter inquiries and activity from customers to secure vessels for periods of up to three years at firm rates. This increased activity indicates a growing belief that the tanker market should remain strong over the medium term. I'll now turn the call over to Stewart to cover the next slide.



**Stewart Andrade:** Turning to slide seven, we highlight how well Teekay Tankers is positioned to continue creating significant shareholder value in this period of firm spot tanker rates. With 96% of our 52-vessel fleet deployed in the spot market, we continue to generate a significant amount of free cash flow. It is worth taking a moment to put this into context. While our share price has approximately tripled over the last two years, our annualized free cash flow yield at our current share price is expected to be approximately 20% if freight rates remain at the levels achieved in the last 12 months.

With tanker market fundamentals pointing toward an extended period of strength, we are well placed to continue benefiting from the company's high operating leverage that sees our free cash flow yield increase by approximately 3.6% for each \$5,000 per day increase in spot rates above our free cash flow breakeven. I will now turn the call back to Kevin to conclude.

**Kevin Mackay:** Thanks, Stewart. In summary, the fundamentals, which have driven mid-sized tanker outperformance in the past two years remains clear and intact. While we expect normal spot rate volatility and seasonality, we are optimistic about the prospects for continued strength in the tanker market. Meanwhile, Teekay Tankers remains in a great position to continue generating significant free cash flow and building value for our shareholders. With that, operator, we're now available to take questions.

**Operator:** Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star one to ask a question. We'll pause for just a moment. We'll go first to Omar Nokta with Jefferies.



**Omar Nokta:** Thank you. Hi, Kevin and Stewart. Hey, I've got a couple questions from my side. I guess, first congrats, by the way, on your first acquisition in some time. I think it's been at least six to seven years, perhaps longer since Teekay acquired a ship. So just on that front, obviously, you've been very patient throughout the years in terms of deploying that capital. But when we think about going from here, how should we think about given where you are financially, how much cash you have on the balance sheet, the opportunity, as you just highlighted for the market outlook? Are you looking to be a bit more aggressive in terms of acquisitions or more perhaps methodical?

**Kevin Mackay:** Hi, Omar. Yeah, good question. I think I'll tackle it from a couple of angles. First of all, I think it's important to recognize that it's been a while since we've been in a position to be able to deploy capital and have a balanced capital allocation plan. So we're extremely happy with where our fleet is today and to have the ability to look at different options in how we deploy the capital. We're in a business that's cyclical. It's industrial, and over time, our fleet ages. So we do recognize and I think it's important for our investors to recognize that we have to keep reinvesting in our fleet.

Having said that, I think it's important that we do the timing right. And while there is a need to deploy a significant amount of capital towards fleet renewal, given where asset prices are we feel that at this point in time, it would be more prudent to be more selective in how we go about renewing our fleet. So what you've seen us do in the past few quarters and the past few years is to sell down some of our older assets and crystallize some of the value out of the elevated asset prices that we're seeing in the market today.

And then more recently, taking some of that capital and redeploying it into more modern, efficient ships that give us longevity on our fleet and continue the exposure to the spot market that we believe is going to remain strong, as I pointed out in the presentation. So yes, we will deploy capital towards fleet renewal. And I think it's important for investors to understand in this environment, it will be done in a measured and prudent manner. It won't be a wholesale fleet renewal on a mass scale at this point in time.



**Omar Nokta:** Understood. Thank you, Kevin. And I guess, does that mean clearly as you sold those 2005 looks like those proceeds matched up a bit nicely in terms of acquiring the modern ship, the 2021 built? Are you willing to shrink the fleet, I guess perhaps moving forward given you already have a critical mass? I guess it sounds like you're willing to shrink the fleet to modernize. Is that right?

**Kevin Mackay:** Yeah. We're not beholden to a specific fleet size. I think I mentioned on the call last quarter that scale is obviously important. It gives us the ability to deploy assets in different markets and capture the volatility that's inherent in tanker trading. But at the same time, we're not fixated on the number of ships we have. And when we're in an environment where asset prices are elevated, it's important that we keep our eye on value.

And if we can sell off some of the older units who have a limited lifespan left, we'll look at doing that. But on the other hand, we're also generating an awful lot of free cash flow from those older assets. So it's a question of doing the maths and seeing, which one provides us the best value, but we're not scared to sell. And at this point, you've seen us also deploy some of that capital to renew.

**Omar Nokta:** Yep. Got it. Great. And then just a final one from me. The Aframax one-year charter that you announced today, \$49,750 per day, pretty solid. And basically what you captured last year on the spot market for the full year, which was a record year. And so I don't know if you disclosed the vessel specifically that is earning that charter. But was this for the acquisition of the 2021-built Aframax and then is de-risking the investments what drove the entry into this charter, or was it just simply too good of a deal to pass up? Anything you're willing to share on that?

**Kevin Mackay:** Yeah. I mean, we look at our fleet as a portfolio. So it doesn't matter which specific ship gets put out or deployed. We look at the opportunity set that's in front of us. And in this case, we felt that for locking in \$50,000 a day basically for the next 12 months, it was a good hedge. So we decided to deploy a ship to





that business. But it's still \$50,000 a day that's coming in. That's guaranteed over the next 12 months. It doesn't really apply to any specific ship. It's just it's more of how we look at the portfolio.

**Omar Nokta:** Yeah. Understood. Well, thanks, Kevin. And thanks, Stewart. And just real quick would say well done I guess in terms of what you guys have been able to accomplish here the past several years. You've been very methodical, I guess and been very, very patient. You finally got the debt to where you wanted it to be, which is obviously gone. Introduced a dividend last year, and now you're acquiring ships, so it's a very, very nice development. I'll turn it over. Thank you.

**Kevin Mackay:** Thanks, Omar.

**Operator:** We'll go next to Ken Hoexter with Bank of America.

**Adam Roszkowski:** Hi, this is Adam Roszkowski on for Ken Hoexter. Thanks for taking my question. I just wanted to talk about the LR2s shifting to the clean trade. We heard one of your competitors who are on the product side peers talk about seeing this as more of a temporary impact. So the question is, how do you see the sustainability of these trades in some of the tightness that it's creating on the Aframax side?

**Kevin Mackay:** Yeah, it's a good question, and I think I'd refer back to comments we've made in the past, that our view is the LR2 vessel is a fungible asset. It can move between crude and clean depending on earnings and that's certainly how we look at those ships and that's how we've been deploying them. We, in recent months, as the LR2 market has remained strong, we've deployed more than half of our LR2s into that trade rather than fixing crude oil. And I think other owners will look at the same.



I think the interesting thing for the immediate term is that we're sort of at the shoulder of the product tanker sector going forward that market should see some pickup back to some strength. So whether that's a temporary phenomenon of ships moving over in the immediate term, I don't think so. But over a longer period of time, they're fungible assets that come and go between the two trades.

**Adam Roszkowski:** That's helpful. And then on the Trans Mountain pipeline, given what you've seen on the voyages of some of these early movements, has this at all shifted your outlook on the ton-mile impact more long-term or over the next year or so? And how are you thinking of that given what you've seen so far?

**Kevin Mackay:** Yeah, I think with the Trans Mountain pipeline last quarter when we reported, we said that it could create demand for up to 25 to 30 Aframax, depending on where they're going. I think what we've seen in the first couple of months is we're not quite up to full capacity yet. We're loading about 20 Aframax per month, whereas the full capacity is 30 to 35 Aframax or approximately one per day. And in terms of where they're going, it's moved around a little bit. I think the first full month in June, we saw most of the ships go down to the US West coast or to the Pacific area lightering zone.

In July, we saw more ships going direct to Asia, and that's obviously more of a ton-mile driver if they go long haul to Asia. In truth, I think it's going to take several weeks and months for the sort of trade patterns to fully develop. So we certainly think there's more to come from TMX in terms of driving Aframax ton-mile demand. But I think for the first couple of months here, it's been a nice start. And it's definitely added demand for Aframax in the Pacific.

**Adam Roszkowski:** Got it. That's all I have. Thanks.

**Operator:** This does conclude the question and answer session. I would like to turn the call back over to the company for any closing remarks.

**Kevin Mackay:** Thank you for joining us today and we look forward to speaking to you next quarter. Thank you.

**Operator:** This does conclude today's conference call. Thank you for your participation. You may now disconnect.