Company: Tanker Investments Ltd

Conference Title: Tanker Investments Ltd. Third Quarter 2016 Earning

Moderator: Scott Gayton

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Operator: Welcome to the Tanker Investments Limited Third Quarter 2016 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 *1 to register for a question. For assistance during the call, please press *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 William Hung, Tanker Investments Limited's President and Chief Executive Officer. Please go ahead sir.

Scott Gayton: Before Mr Hung begins, I would like to direct all participants to our website at www.tankerinvestments.com, where you will find a copy of the third quarter of 2016 earnings presentation. Mr Hung and I will review this presentation during today's conference call. As a reminder, this presentation contains forward-looking statements. Additional information on those forward-looking statements is contained in the third quarter of 2016 earnings release and earnings presentation, available on our website. I will now turn the call over to Mr Hung to begin.

William Hung: Thank you, Scott. Hello everyone, and thank you for joining us today for Tanker Investments Third Quarter 2016 Earnings Call and Presentation, a copy of which can be found on our website. I'm here today with Scott Gayton, Tanker Investments' Chief Financial Officer, and for the Q&A session we also have Elise Nell[?], Director of Group Reporting for Teekay Corporation.

Beginning with our recent highlights on slide 3 of the presentation: we reported a net loss of $2.9 million, or 9¢ per share, and generated cash flow from vessel operations, or CFVO, of $10.2 million; all of which are down from last quarter due to weak tanker rates. And while rates did recover, as some of the temporary third quarter outages in the Atlantic Basin resumed, due to the lag effect between securing charters and recognising the revenue, this uplift is not fully reflected in our Q4 booking to date. We have booked 45% of our fleet at the rates indicated on the chart in slide 3 and, while these rates are down from last quarter, we do expect a stronger winter, which should help bring these rates up.

It should also be noted that, starting towards the end of this quarter, we will be switching the LR2s, the Hovden Spirit and the Trysil Spirit into the crude oil trade, and thus they will earn Aframax rates for the first quarter of 2017 going forward. In order to help us offset some of the volatility we expect after the winter, we secured a 12-month time charter for the Aframax tanker, the Emerald Spirit, at a rate of $17,500 per day. As mentioned on our previous earnings call, it is our intention to continue building a book of time charters, and we are currently active in the market sourcing additional charters.

And finally, as I will discuss in the next couple of slides, we do expect the tanker market to be volatile during the next year. However, we believe Tanker Investments is well positioned to weather any expected downturn.

Turning now to slide 4, we look at developments in the crude tanker spot market. Crude tanker rates fell to a three-year low in the third quarter of 2016, as normal seasonal factors were compounded by production outages and refinery maintenance programmes. In the Atlantic Basin, all supply outages led to a reduction in cargo volumes, most significant of which was a reduction in Nigerian supply. Nigeria suffered a series of attacks on oil infrastructure during the first half of the year, resulting in 800,000 barrels per day of production being offline. This reduction in Atlantic crude exports had a negative impact on tonne mile demand for mid-sized tankers, as Asian buyers turned to shorter-haul Middle East volumes to fill the gap left by lower Atlantic supply.

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Finally, global refining throughput was low during the third quarter, as high crude and product inventories coupled with seasonal maintenance led to reduced demand for crude oil from refiners in both the Atlantic and Pacific Basins. Since August, rates have rebounded in tandem with more positive oil fundamentals, and as we move into the seasonally strong winter months, we believe that rates will continue to firm.

First, rates in the winter are typically the strongest of the year as refiners ramp up imports ahead of peak winter fuel demand, and as bad weather leads to increased delays in the Caribbean, Bosphorus Straits and Chinese ports, thereby dampening fleet supply. In addition, we expect crude oil imports into China to remain high, with Chinese imports reaching a record high of 8.1 million barrels per day in September due to a combination of strong demand from both government and teapot refiners, a reduction in domestic crude production and as China continues to build out its strategic petroleum reserves.

Secondly, the return of Atlantic Basin supply volumes is also helping to boost mid-sized tanker demand. In Nigeria, the past few weeks have seen a gradual return of lost production, with output reaching approximately 2.1 million barrels per day at the beginning of November due to the restart of exports from certain fields. And as shown by the chart on the top of the slide, there is a direct correlation between supply volumes coming out of Nigeria and Suezmax rates. The return of other crude stems by the end of the year should further boost Suezmax earnings in the coming weeks.

In the Mediterranean, mid-sized tankers are finding support from an increase in Libyan exports. Production in Libya, which was averaging just around 300,000 barrels per day during the summer, has recently doubled due to the restart of certain oil fields and key port terminals coming back online. The Libyan government is aiming to reach 900,000 barrels per day of production by the end of the year, which is positive for the Aframax trade in the Mediterranean region.

Similarly, the ramp-up of exports from the Kashagan field via the Black Sea and Baltic Sea ports should also provide some support to mid-sized tanker demand. Initial volumes from Kashagan are relatively

small; however, the operators hope to reach full production of 370,000 barrels per day by the end of 2017.

Finally, we note that the OPEC production is currently at a record high, which is providing support for the crude tanker market. Although there has been discussion recently of OPEC reducing supply, we believe that any cuts in volume could be positive for mid-sized crude tankers as it could lead to more Atlantic barrels in the long haul to Asia.

Turning now to slide 5, we take a look at our outlook for tanker fundamentals in 2017 and beyond. As mentioned in our second quarter earnings, we expect 2017 to be more volatile than 2016 due to the relatively large number of mid-sized new buildings delivering into the fleet. In isolation, this would be a negative event but, as I explained earlier, the whole demand and supply side of the equation could help balance out net fleet growth in 2017.

The key to this demand strength will be the resurgence of oil supply from diverse regions. We estimate that approximately one million barrels per day of either new or returning oil supply will come back online during 2017, led by Brazil, Kashagan, Nigeria and Libya. This will offset the impact of a potential cut in the Middle East OPEC supply, depending on the outcome of the upcoming OPEC meetings by the end of this month. This return to longer-haul Atlantic to Pacific movements, and the resultant increase in the diversity of supply source, is expected to result in longer tonne miles and more volatility in shipping, which is a positive demand driver for the tanker market in 2017. Also on the demand side, the EIA projects continued strong oil demand growth of 1.2 million barrels per day in 2017, which will continue to drive demand for crude tankers.

Looking further ahead, we believe that the tanker market is set for a rebound from 2018 and onwards, due to a much lower fleet growth and continued strong demand fundamentals. As you can see from the chart on the top of the slide, fleet growth in 2018 is expected to be much lower due to a smaller order book and the expected increase in scrappings, as 43 mid-sized tankers reach their fourth special survey

date. New environmental regulations could also lead to an increase in scrapping, which would further reduce fleet supply growth. In sum, we believe that 2017 will be a volatile year for the tanker market, but positive demand drivers may offset the impact of a higher fleet growth.

Wrapping up on slide 6: despite the uncertainty we predict for next year, we believe Tanker Investments equity represents compelling value for investors. Our young, modern fleet trades as part of Teekay's world-leading, cost-effective technical and commercial platform, which provides us with significant economies of scale. We have strong liquidity of over $110 million, with a conservative leverage profile with no near-term debt maturities, which, when combined with our low break-even levels, provides Tanker Investments with the financial strength to weather any tanker market weakness. Furthermore, as the graph on the right illustrates, we have the ability to generate cash flow in virtually any tanker market, as demonstrated in this past quarter. We are expecting tanker rate volatility in 2017, however; due to the dynamics of a fleet profile over the next couple of years, and as new environmental regulations come into force, we anticipate the tanker supply and demand picture will be more balanced in the latter part of next year.

As illustrated by the graph on the bottom right, Tanker Investments equity is currently trading at a significant discount to our steel value and thus represents compelling value. We are currently trading at approximately 50% of NAV which, with roughly 50% leverage, implies tanker values will drop by an additional 25% from today's current price for a five-year-old Aframax of $30 million dollars, to $23.5 million. As can be seen on the chart on the right, we have to go all the way back to 1992 or 1998 when five-year-old Aframaxes sold below $23.5 million.

So, in conclusion, the best way to ride out a market weakness is we focus on the operating costs resulting in low cash break-even levels. Tanker Investments' cash break-even level is below $9,000 per day, which enables the company to generate positive cash flow in nearly any tanker market, and sets up us and our investors up well to prosper during the next tanker market upturn.

Operator, we are now available to take questions. Operator?

Operator: Thank you. If you would like to queue up for a question at this time, please press *1 on your touch-tone phone. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. And once again, that is *1 if you would like to ask a question at this time. We'll pause for just a moment.

And we'll take our first question from Erik Stavseth with Arctic Securities.

Erik Stavseth: Hi guys. Question from me relates to your chartering strategy. You said that you chartered out the Emerald Spirit, and you're looking for more tonnage to charter out. Could you give us some kind of indication of what percentage of your fleet you're looking to – where you're happy with the balance of chartering out versus spot?

William Hung: Sure. Hi Erik, thanks for calling in, and thanks for the question. Well, we're going into the point in the market now where I think we're going to see more opportunities that we think the winter months are going to give us. It's hard for us to sit there and say we're going to do x amount of ships, but we're certainly going to be opportunistic and aggressive on this. So, I think my best guidance for you right now is that we're going to be opportunistic.

Erik Stavseth: In terms of duration, do you have any preference there? Because it seems to be one year; is that to get you through 2017? Is that the target?

William Hung: That's right. We're going to be consistent with what we talked about last quarter. We do think that 2017 is going to be a weaker year, as I've just mentioned; in the latter half of next year and 2018, we think it's going to be stronger. So, we are targeting the 12-month time charter periods, and that is the period that is available right now in the time charter markets.

Erik Stavseth: Finally, could you just give us your all-in cash break-even level for the three separate vessel types here now, or just on a fleet aggregate basis?

Scott Gayton: Hi Erik. Do you mean all including the full debt service? Is that what you're looking for?

Erik Stavseth: Yes.

Scott Gayton: Yes, that's about $17,500 on an Aframax basis and, as Will said, if we strip out debt service and just look at it from cash break-even, it's around $9,000 a day.

Erik Stavseth: Okay, thanks.

Operator: And once again, that is *1 if you do have a question at this time. As a final reminder, that is *1 if you do have a question.

And we'll go next to Lars Ostering[?] with ABG.

Speaker: Yes, hi guys. I was just wondering about share buybacks; you haven't been active for a while.

Scott Gayton: Yes, hi Lars. We have been focusing more, especially as we were heading into the summer periods and when rates were obviously weaker, and wanted to wait to see the way that the winter market shaped up before we were restarting our buybacks. With the amount of weakness that we had in the third quarter, we were right to have waited, and right now it looks like the fourth quarter is off to a slower start. We'll see the way that we shape up towards the end of the year here, and we'll look at that. But I think heading into a 2017 that right now is quite uncertain, we will be favouring using any excess capital to repay our debt position and bring our leverage down. But if we get into a situation where we start to see a bottoming in asset values, and maybe rates are a little higher than some are predicting and we do have excess capital, then we will be looking to return that to shareholders. And

most likely, given where we are trading from a NAV point of view, then that would be done in the form of buybacks. So, we really haven't changed our plans with respect to returning capital; it's just we're on hold a little bit while we're heading into these uncertain times.

Speaker: Okay, thank you.

Operator: And we have no other questions at this time. I'd like to turn things back to our speakers for any closing remarks.

William Hung: Thank you very much everybody for joining us today, and I look forward to talking with you again next quarter. Thank you

Operator: Thank you everyone. That does conclude today's conference. We thank you for your participation.