Teekay LNG Partners L.P. (TGP)

Updated July 11th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$14.9	**5 Year CAGR Estimate:**	14.2%	**Market Cap:**	$1.29B
Fair Value Price:	$18.5	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	07/30/2021[1]
% Fair Value:	81%	**5 Year Valuation Multiple Estimate:**	4.4%	**Dividend Payment Date:**	08/14/2021
Dividend Yield:	7.7%	**5 Year Price Target**	$22.5	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	15%

Overview & Current Events

Teekay LNG Partners L.P. provides marine transportation services focusing on liquefied natural gas (LNG) and liquefied petroleum gas (LPG) worldwide. The company's fleet carries liquid petroleum gases, including propane, butane, and ethane, as well as petrochemical gases, such as ethylene, propylene, and butadiene, and ammonia. TGP's fleet comprises 47 LNG carriers and 30 LPG/multi-gas carriers. Around 38% of TGP's common units are owned by the parent company, Teekay Corporation (NYSE: TK). Teekay LNG Partners generates around $600 million in annual revenues and is headquartered in Hamilton, Bermuda.

On May 13th, Teekay LNG Partners reported its Q1 results for the quarter ended March 31st, 2021. Revenues grew by 9.23% to $152.8 million, reflecting the strength of its fixed-rate contract portfolio, which saw higher average rates and enhanced utilization YoY. The company managed to capitalize on the rebound in LNG demand in late March, taking advantage of the favorable market environment by chartering three of its LNG vessels, including one on a 12-month spot market-linked contract that allowed it to achieve almost full utilization. The company, consequently, enjoyed increased profitability, posting adjusted net income of $60.4 million or $0.61/share, compared to $52.23 or $0.58/share in the comparable period last year. Distributable cash flows landed at $0.94, vs. $0.97 in Q1-2020 amid various adjustments, nonetheless. As a result of these recent charters, TGP's fleet is now 98% fixed for the remainder of 2021 and 89% fixed for 2022, providing the company with a great deal of forward visibility in terms of its future cash flows. Simultaneously, the company refinanced its Tangu LNG joint venture's $190 million from approximately 6% to just below 3%, taking advantage of advantageous lending markets. This is on top of TGP reducing its total net debt by over $200 million. Due to an improving financial profile amid these advancements, management felt confident enough to hike its quarterly distributions by 15% to an annualized rate of $1.15. Based on Q1 results and the company's current chartering profile, we forecast FY2021 distributable cash flows per share of $3.70.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCF/unit[2]	$2.78	$3.30	$3.34	$2.95	$2.89	$2.94	$2.20	$1.98	$3.22	$3.85	***$3.70***	***$4.50***
DPS	$2.52	$2.70	$2.72	$2.78	$2.24	$0.56	$0.56	$0.56	$0.76	$1.00	***$1.15***	***$1.40***
Shares[3]	59.1	66.3	71.0	75.7	78.9	79.6	79.6	79.7	78.2	83.3	***85.8***	***90.0***

The company's overall performance, and hence, distributable cash flows, has been relatively stable over the past decade, considering the wild fluctuations that LNG spot rates see in the open market. This is due to the company employing a fixed-rate chartering strategy, which provides great cash flow visibility, as mentioned earlier. Specifically, the company features a remaining contract tenor of 10+ years, which along with the critical infrastructure role of its assets we expect to result in resilient cash flows going forward. DCF/share growth ahead is not improbable as well, driven by a few catalysts. First, the slight exposure in spot rates is likely to lead to potentially stronger rates/revenues in

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[1] Estimated dates based on past dividend dates

[2] The company measures its performance by deriving distributable cash flows (a non-GAAP metric), adjusting net income for depreciation and amortization expense, deferred income tax, and various other extraordinary, usually one-off variables.

[3] Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

the medium term following a favorable LNG outlook ahead. Financial expenses should also keep dropping amid debt pay downs and lower preferred stock dividends after their fixed-to-floating rates hit. Finally, fleet expansion could also be a positive catalyst. Hence, we expect DCF/share growth of 4% going forward. Distributions were cut in 2015 amid approaching unsustainable levels but have only grown since. We estimate DPS growth of around 4% as well, amid higher pay-out affordability.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/DCF	12.9	12.0	12.6	14.2	11.1	4.4	7.0	8.7	4.5	3.0	***4.0***	***5.0***
Avg. Yld.	7.0%	6.8%	6.5%	6.6%	7.0%	4.3%	3.6%	3.2%	5.2%	8.6%	***7.7%***	***6.2%***

Following the plunge of oil in 2015-2016, TGP suffered a severe valuation compression that has yet to reverse despite the company retaining a resilient performance and growing its capital returns since. We believe units are undervalued and forecast a prudent valuation multiple expansion to around 5X its DCF. The yield should remain quite juicy as well.

Safety, Quality, Competitive Advantage, & Recession Resiliency

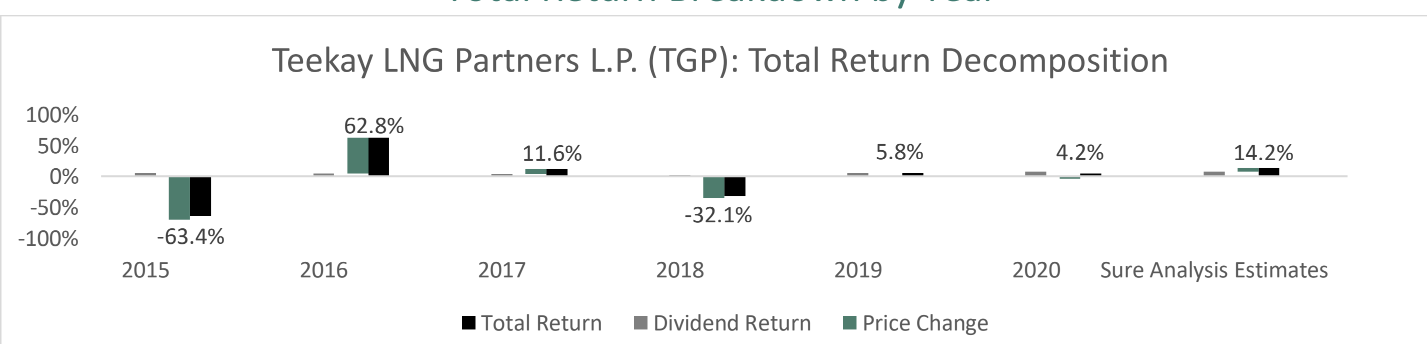
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	91%	82%	81%	94%	78%	19%	25%	28%	24%	26%	***31%***	***31%***

Considering TGP retained a prudent payout ratio following the 2015 cut and the strong DPS hikes over the past couple of years, we consider the current DPS relatively safe. DPS should remain well-covered by the fixed charter contracts. We believe the company is one of the highest quality operators, showcasing an excellent fleet growth history, a great ability to negotiate advantageous contracts, and one of the better balance sheets in the industry. Further, the company's 'Take-or-pay' policy leads to its customers paying full hire regardless of vessel usage, on top of TGP not being impacted by fluctuating rates and structural or global imbalances in LNG trade amid its contracts' nature. Due to the mission-critical role of its assets, we don't believe the company is threatened by major competitive forces, while cash flows should remain mostly secure even under a potential recession or an industry meltdown, as was the case in 2015-2016.

Final Thoughts & Recommendation

Teekay LNG Partners L.P. is one of the best-run vessel operators in the LNG industry and the shipping sector in general. The company displays a great track record of stable profitability, despite the industry's volatility, which we expect to gradually improve going forward driven by robust catalysts. Combined with the likelihood for further DPS increases and the possibility for at least a humble valuation expansion ahead, we forecast annualized returns of around 14.2% in the medium term. Few companies offer such a substantial yield with wide coverage in the current market environment, which income-oriented investors are likely to appreciate. Hence, units earn a Buy rating, but for speculative investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	380	393	399	403	398	396	433	511	601	591
Gross Profit	189	196	199	210	210	211	217	240	332	328
Gross Margin	49.8%	49.9%	49.7%	52.0%	52.9%	53.3%	50.2%	47.1%	55.1%	55.4%
SG&A Exp.	16	19	20	24	25	19	18	36	43	50
D&A Exp.	92	100	98	94	92	96	106	124	137	130
Operating Profit	174	177	178	186	185	192	199	204	289	277
Operating Margin	45.6%	45.1%	44.6%	46.1%	46.6%	48.5%	46.1%	40.0%	48.1%	46.9%
Net Profit	90	124	201	205	201	140	34	28	153	87
Net Margin	23.6%	31.5%	50.4%	51.0%	50.5%	35.4%	7.8%	5.6%	25.4%	14.8%
Free Cash Flow	57	152	(185)	2	48	(151)	(490)	(555)	201	603
Income Tax	1	1	5	8	3	1	1	3	7	3

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,589	3,785	4,220	3,947	4,053	4,315	5,019	5,385	5,410	4,854
Cash & Equivalents	94	114	139	160	102	126	244	149	160	207
Accounts Receivable	4	2	2	3	15	6	11	14	3	2
Goodwill & Int. Ass.	157	146	132	123	114	106	97	87	78	69
Total Liabilities	2,449	2,531	2,776	2,400	2,509	2,538	3,088	3,502	3,533	3,108
Accounts Payable	3	2	2	1	3	6	4	4	5	5
Long-Term Debt	1,315	1,413	1,778	1,907	1,999	1,791	1,798	1,970	1,831	1,472
Shareholder's Equity	1,113	1,213	1,391	1,538	1,519	1,739	1,879	1,833	1,822	1,693

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	2.5%	3.4%	5.0%	5.0%	5.0%	3.4%	0.7%	0.5%	2.8%	1.7%
Return on Equity	8.9%	10.6%	15.5%	14.0%	13.1%	8.6%	1.9%	1.5%	8.4%	5.0%
ROIC	6.1%	8.8%	12.3%	11.0%	10.2%	7.3%	1.8%	1.5%	7.8%	5.1%
Shares Out.	59.1	66.3	71.0	75.7	78.9	79.6	79.6	79.7	78.2	83.3
Revenue/Share	6.43	5.92	5.62	5.32	5.04	4.98	5.42	6.40	7.68	7.09
FCF/Share	0.97	2.29	(2.60)	0.03	0.60	(1.90)	(6.14)	(6.95)	2.57	7.23

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.