Teekay LNG Partners L.P. (TGP)

Updated August 5th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$13.70	**5 Year CAGR Estimate:**	16.2%	**Market Cap:**	$1.18B
Fair Value Price:	$18.50	**5 Year Growth Estimate:**	4.0%	**Ex-Dividend Date:**	10/30/2021[1]
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.3%	**Dividend Payment Date:**	11/13/2021
Dividend Yield:	8.4%	**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 August 5th, 2021, Teekay LNG Partners reported its Q2 results for the quarter ended June 30th, 2021. Revenues were stable, coming in at $148.77 million, 0.4% higher year-over-year. Revenues reflected the strength of the Teekay LNG's fixed-rate contract portfolio, which saw robust average rates and maxed out utilization.

Adjusted net income was $57.0 million or $0.57/share, compared to $62.6 million or $0.67/share in the comparable period last year. The 8.9% decline was attributed to an increase in scheduled dry dockings during vs. Q2-2020 and the timing of planned repairs and maintenance activities. Consequently, distributable cash flows landed at $0.90 vs. $1.03 in Q2-2020.

Teekay LNG's fleet is 98% fixed for the remainder of 2021 and 89% fixed for 2022, providing the partnership with a great deal of forward visibility in terms of its future cash flows. Simultaneously, the partnership continues to deleverage, reducing its long-term debt position by 13% year-over-year to $1.06 billion. Mr. Kremin, TGP's CEO, mentioned that Q3's results should again be impacted by a heavy dry-docking schedule but are expected to rebound during Q4 towards normality. Based on TGP's results during the first half of the year, we continue to 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	***86.9***	***90.0***

The partnership's overall performance and distributable cash flows have 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 partnership 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 the medium term following a favorable LNG outlook ahead. Financial expenses should also keep dropping amid debt pay downs and

[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.

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	***3.7***	***5.0***
Avg. Yld.	7.0%	6.8%	6.5%	6.6%	7.0%	4.3%	3.6%	3.2%	5.2%	8.6%	***8.4%***	***6.2%***

Following the plunge of oil in 2015-2016, TGP suffered a severe valuation compression that has yet to reverse despite the partnership 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 current yield of 8.4% is on the high end of TGP's historical average following the recent DPS increase, which should further encourage a valuation expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

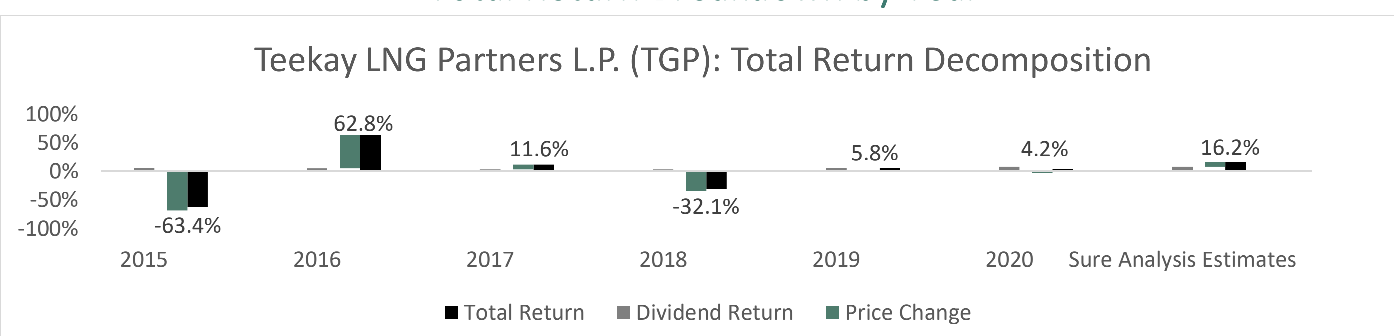
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	91%	82%	81%	94%	78%	19%	25%	28%	24%	26%	***31%***	***31%***

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 partnership 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, TGP'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 major competitive forces threaten the partnership. At the same time, 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. Despite the industry's volatility, the partnership displays a great track record of stable profitability, 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 16.2% 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.