Knot Offshore Partners, LP

Fourth Quarter 2017 Earnings Conference Call

Wednesday, February 21st, 2018, 12:00 PM Eastern

CORPORATE PARTICIPANTS

John Costain - *Chief Executive Officer*

PRESENTATION

Operator
Good day and welcome to the Knot Offshore Partners Fourth Quarter Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero.

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like turn the conference over to John Costain. Please go ahead.

John Costain

Thank you. If any of you have not seen the earnings release or slide presentation, they're both available on the investor's section of our website.

On today's call, our review will include non-U.S. GAAP measures such as distributable cash flow and adjusted earnings before interest, taxation, depreciation and amortization, the EBITDA. The earnings release includes a reconciliation of these non-GAAP measures to the most directly comparable GAAP financial measures.

A quick reminder that any forward-looking statements made during today's call are subject to risks and uncertainties, and these are discussed at length in our annual and our quarterly SEC filings. As you know, actual events and results can differ materially from those forward-looking statements. The partnership does not undertake a duty to update any forward-looking statements.

And now on to the presentation;

Knot Offshore Partners, KNOP, focus is on the shuttle tanker segment. The vessel is field specific and an integral part of the logistics supply chain. Under non-volume based contracts, we transport oil from the offshore oil production units to shore side; in essence a midstream mobile pipeline business. Shuttle tankers operate in a niche space and, being built to the charterers' requirements, they are generally used on specific oilfields. In our sector, there has been no speculative ordering, so the partnership should yield both stable and sustainable revenues longer term.

As oil production moves further offshore, these tankers operate in a space which will see substantial growth in the coming years. Some of the largest discovered oil reserves in the Southern Hemisphere are in the pre-salt layer 130 kilometers off the coast of Brazil. The average annual production operated in the pre-salt layer, which includes portions of Petrobras and its partners, in 2017 was the largest in the company's history, reaching a mark of 1.29 million barrels per day. This volume exceeded the 2016 production by 26%. In addition, Petrobras and its partners have achieved monthly records in the month of December of 1.36 million barrels per day with, in December, the highest daily output ever reported at 1.84 million barrels per day. With the phasing out of some of their less technically advanced fleet, their DP1 tankers occurring in 2017, we now see further inquiries. Petrobras Transpetro are in the market for new vessels.

Although our MLP fleet is young, our sponsor is a very experienced operator, having been involved in the design and construction of these type of vessels for over 30 years. Today the Knutsen Group has more than 30 of these ships, high-specification tankers, building the fleet organically during this period.

In the last 15 months, the MLP has acquired Raquel Knutsen in Q4 2016, Tordis in Q1, Vigdis in Q2, Lena Knutsen in Q3, Brasil Knutsen in Q4, and now in Q1 we announced the acquisition of Anna Knutsen. We have achieved these acquisitions through a combination of common and preference unit issues together with refinancings and revolving credit facilities. This has enabled us to grow our distributable cash flow cover to the current level and improve the long-term outlook for the MLP.

Our sponsor, Knutsen NYK, is, according to Clarkson Platou research, part of the largest shipping group in the world, and NYK is a major company in the Mitsubishi family. In the space of under five years, the fleet has grown 300% to 16 vessels with an average age of 4.75 years.

Now turning on to the presentation,

Slide three, financial highlights; the partnership generated its highest quarterly revenues of $61.6 million and operating income of $25 million, and a net income of $18.6 million. It generated its highest adjusted EBITDA of $45.1 million, with a distributable cash flow of $21.5 million and a coverage ratio of 1.19. We declared and paid a cash distribution of $0.52 per unit for Q4 2017 on the 15th of February 2018.

Since our initial public offering in April 2013, we've declared and paid common unit distributions of $9.26, so our initial investors have received a total return of 44%. Our current yield is a stable distribution of 9.8%.

The fleet operated with 98.5% utilization for scheduled operations and 95.5% utilization considering the scheduled dry-docking and repair of Carmen Knutsen, which was off hire for the entire quarter.

On November, the 9th, 2017, the partnership sold three million common units in a public offering. At that time, the partnership's general partner contributed a total of $1.2 million in order to maintain its 1.85% share in the general partner. The total proceeds from the offering and its related general partner contribution was $66 million.

On the 15th of December, the partnership completed the acquisition of Brasil Knutsen, which is under charter to Galp Sinopec.

On the 30th of June, 2018, the partnership completes the $100 million refinancing of the credit facility secured by the Torill Knutsen. On February, the 20th, 2018, the partnership's wholly owned subsidiary, KNOT Shuttle Tankers AS, entered into a purchase agreement with Knutsen NYK to acquire Knot Shuttle Tanker 30, the company that owns the shuttle tanker Anna Knutsen, from Knutsen NYK. The partnership expects the Anna Knutsen acquisition to close by March the 1st, 2018, subject to customary conditions.

Slide four, the income statement; total revenues were $61.6 million for the three months ended December 31st compared to $58.2 million for the three months ended September 30th, Q3. Q4 revenues were positively impacted by increases in time charter earnings due to the four quarter earnings on Lena Knutsen, as she was included in the results of operations from 29th of

September, 2017. The increase is partly offset by the reduced revenues on Carmen Knutsen due to its scheduled dry-docking and subsequent propeller repairs. The partnership has filed an insurance claim for the off-hire caused by the repairs of $1.8 million.

Vessel operating expenses for the fourth quarter of 2017 were $15.2 million, an increase of $3.3 million from $11.8 million in Q3 2017. This was mainly due to Lena Knutsen and Brasil Knutsen being included in results of operations from 29th September and 15th December respectively, and $0.6 million bunker consumption in connection with the dry-docking of Carmen Knutsen. The partnership also expensed $2.3 million in repair costs for the Carmen Knutsen, which is expected to be covered by insurance less a deductible.

General and administrative expenses were $1.3 million in Q4, unchanged from Q3. Depreciation was $20.1 million for Q4, an increase of $1.7 million, again mainly due to the Lena and Brasil Knutsen acquisitions. As a result, operating income in Q4 was $25 million compared to $26.7 million in Q3.

Interest expense in Q4 was $9.2 million compared to $8 million in Q3. The increase was mainly due to the additional debt incurred in connection with the acquisitions.

The gain on derivative instruments was $3 million in the fourth quarter compared to the gain of $2.8 million in the third quarter. The unrealized mark-to-market gain was $3.8 million for Q4 compared to a mark-to-market gain of $2.9 million Q3. Most of the gains were from interest rate swaps. As a result, net income for Q4 was $18.6 million compared to $21.1 million for Q3.

Slide five, adjusted EBITDA; in Q4, the partnership generated adjusted EBITDA of $45.1 million compared to $45.1 million for Q3. Adjusted EBITDA refers to earnings before interest, taxation, depreciation and amortization, and it provides a proxy for cash flow.

Adjusted EBITDA, of course, is a non-U.S. GAAP measure used by our investors to measure partnership performance. With a wasting asset like a vessel, younger fleets tend to produce lower EBITDAs for every dollar invested. The annuity effect reduces the annual loss in the early years, which is factored into the replacement CapEx calculation for the distributable cash flow.

At the end of Q4, the KNOP fleet had 15 vessels with an average age of 4.7 years, compared to the rest of the industry average for shuttle tankers, excluding KNOP, of around 12 years. Since the formation of KNOP, we have had very high levels of vessel utilization, on average around 99.6% for scheduled operations. Financially, this translates into a continually high and increasing predictable revenue, adjusted EBITDA, and a discounted cash flow as more vessels are added to the fleet.

Slide six, distributable cash flow; another non-U.S. GAAP measure to estimate distribution sustainability. Quarterly distributable cash flow was $21.5 million in Q4. This compares to $24 million in Q3. We maintained our distribution level for Q4 at $0.52 per unit, equivalent to an annual distribution of $2.08. The distribution coverage ratio for the quarter was 1.19. It is affected by the issuance of the common units in Q4. It should improve significantly in the coming quarters with the acquisitions of Brasil and Anna Knutsen.

A coverage ratio of 1.26 for the full year in 2017 is lower than our Investor Day guidance of between 1.30 and 1.32, which is included on the 6-K filing we made at that time. The reduction is primarily due to the equity overhang occurring in Q4 results together with the costs of the propeller repairs on the Carmen. We have added further vessels rather more than we expected at the time of Investor Day.

We won't be guiding financial results for 2018. However, please note the following, which will impact the calculation for 2018. There are four first special survey dry-dockings in 2018, one-third of the time charter fleet. Three of these vessels operate in the North Sea, Hilda, Torill, and Ingrid, and one, Brasil Knutsen, all will dry-dock in Europe. The vessels will go off-hire and the positional bunker costs are expensed.

We also see rising interest rates in the U.S. in 2018 and 2019 together with increasing replacement CapEx provisions charged on our vessels as they get older. However, our coverage should be significantly better this year and in 2019. KNOP has a significantly elevated yield compared to most MLPs, and we continue to remain focused on firstly building coverage and then deleveraging when not making accretive investments.

Given the quality and market position of the sponsor, together with the shuttle tanker outlook, the yield is elevated. There is therefore little benefit to the MLP in the short term to increasing the distribution when the yield is close to 10%. We continue to see double digit distributions as a signal that investors would prefer increased coverage through investments and, secondly, deleveraging rather than increasing dividends. The growing coverage ratio in the coming quarters will give the partnership more flexibility regarding both our capital base and distributions.

Slide seven, the balance sheet; at the end of the Q4, we had a very solid liquidity position, with cash and cash equivalents of $46.1 million and an ongoing undrawn credit facility of $35 million, and credit facilities available until mid-2019. And given the increasing fleet size, we would hope to extend these facilities. We have a predictable cash flow, a healthy liquidity position, and with the Torill refinancing in early 2018, no significant balloon repayments until 2019.

Slide eight, EBITDA growth from Brasil Knutsen, Anna Knutsen acquisitions. The Raquel Knutsen was added to fleet in Q4 2016. Four vessels were added to the fleet during 2017; the Tordis on the 1st of March, Vigdis on the 1st of June, Lena on 30 September, and Brasil on the 15th of December. A fifth vessel, Anna, will shortly be added, the 1st of March, 2018.

To finance all these acquisitions, as well as new ones, we have raised about $121 million net from the sale of 5.56 million common units. We also raised $87.4 million from the sale of $90 million worth of preferred shares with an 8% coupon and adjustable conversion price around $24. In addition, on January 30th, 2018, the partnership has closed $100 million senior secured term loan facility with a consortium of banks, in which the Bank of Tokyo Mitsubishi UFJ acted as agent. The new $100 million secured facility is secured on the Torill Knutsen.

Because the partnership has taken a higher structural leverage on the recent long term financings, undertaken a couple of preference issues which are more accretive, and added to the fleet whilst the existing fleet deleverages, the MLP has a very solid outlook.

Slide nine, long term contracts by leading energy companies; the Windsor Knutsen has been on charter since October 2015 for an initial three-year period, which will end in October 2018, to a subsidiary of Royal Dutch Shell. It has five years of extension options. Shell, we believe, are looking to expand their shuttle tanker fleet in total, and this vessel has a relatively low charter rate.

The Bodil Knutsen, our largest shuttle tanker operating in the North Sea, is ice class and on charter to Statoil AS until May 2019. There are five further years of options to extend.

Four of our vessels are on long term bareboat charter to 2023 with Petrobras Transporte. These vessels are amongst the youngest in the Petrobras fleet, delivered between 2011 and '12, and are heavily utilized. Dan Sabia and Dan Cisne are a unique size, and Fortaleza and Recife Knutsen have shallow drafts with lots of thrusting capacity.

Delivered in 2013, the Carmen Knutsen is on charter direct for Repsol Sinopec until 2023. The vessel went off hire on the 22nd of September 2017 and commenced its voyage to Navantia's shipyard in Cadiz, Spain for her scheduled first special survey dry-docking. Entering the dry-dock on 30th of October, all work in dock proceeded as planned until reassembling the controllable pitch propeller system, the CPP. Whilst the condition of the CPP hub was found to be good, the shaft run-out measures were found not to be in line with manufacturer's tolerances after the coupling was installed and the shaft connected.

During the five years of operation in Brazilian waters, no operational problems with the CPP have been reported and no clear evidence has emerged that any damage to the shaft was observed or reported during fabrication or installation at the new-build stage. It is therefore very hard to conclude the cause of the defect to the propeller shaft. However, the fault could not be quickly resolved, and so the vessel transferred to Damen Shiprepair, Brest, France, to carry out a complete tail shaft withdrawal. The propeller shaft was transported to Marine Shaft in Denmark, a company specializing in straightening shafts, with a new fabrication being estimated at seven months.

The straightening of the shaft went well. Some machining of the coupling and connecting shaft, as well as a new sleeve, was required. All were installed onboard and found to be in good order. The vessel departed from Damen Shiprepair at Brest on the 15th of December, recommencing charter in Brazil on the 1st of January, 2018.

The Ingrid was delivered in December 2013 and is operating in the North Sea on a time charter for Standard Marine Tonsberg, a Norwegian subsidiary of ExxonMobil. This will expire in first quarter of 2024. The charter has options to extend the charter to five one-year periods.

The Raquel Knutsen was delivered in March 2015, and it operates under a charter that expires in the first quarter of 2025 with Repsol Sinopec in Brazil. There are options to extend until 2030.

The Tordis, Vigdis, and Lena Knutsen are on five-year time charters to Brazil Shipping I, a subsidiary of Shell. These will all expire during 2022, and the charterer has options to extend with two additional five year options totaling 15 years.

The Brasil and Anna Knutsen are on charter to Galp Energia until 2022 with options to extend until 2028.

The KNOP fleet has average remaining fixed contract durations of 4.2 years, with an additional 4.7 years, on average, in charterers' option. Whilst we currently have no further dropdown candidates, which means no near-term equity requirement, given the market outlook we would expect to be in a position to grow it in the coming years.

The following two slides have been provided by Fearnleys this week;

Slide 10, oil production from shuttle tanker operated fields. In the North Sea graphic, the estimated 9% depletion rate as applied to existing fields is very generous. The average depletion rate could justifiably be closer to 2000 to 2014 long term average of 6% per annum.

Originally planned as a fixed platform and fixed pipeline solution, the Johan Castberg field in the Barents Sea will be developed using a float and shuttle tankers. The Barents Sea will become the new shuttle tanker frontier in the 2020s, as oil companies remain optimistic to continue exploratory drilling in the area.

In Brazil, Fearnleys' graphic again uses a 9% depletion rate for existing fields. This is the official Petrobras figure. New production has been greatly impacted by the corruption scandals. However, sanctioned projects seem to be moving forward. The post 2020 Libra development of 12 to 16 shuttle tankers is moving forward according to plan, with limited impact by the corruption scandals.

Slide 11, attractive long term outlook for shuttle tanker business; as of today, the shuttle tanker market is extremely tight and there have been no speculative new-building orders. There is an active tender for long term contracts for Petrobras shuttle tankers in the market, expected to close in the first half of 2018. Fearnleys sees a significant demand for new shuttle tankers going forward, with expected tenders in excess of 40 vessels, including replacement tonnage, delivering by 2022.

Higher steel prices, more ordering, and the recent U.S. dollar weakness have dampened the fall in new-building prices. This should provide a platform for orders, as charterers tend to delay their tenders until this point.

In summary,

Slide 12, Knot Offshore Partners is in essence a midstream mobile pipeline business with fully contracted revenue streams. Since being awarded its first two contracts in 1984, Knutsen has grown organically for over 30 years as the business has been built into a sizable fleet of these tankers, currently 31 units including orders.

We have had another quarter with strong financial performance and with a substantial increase in all financial measures throughout the year, not surprising when set against the acquisition program. One vessel, Raquel, was added to the fleet in Q4 2016, four vessels were added to the fleet during 2017; the Tordis 1st of March, Vigdis 1st of June, Lena 30 September, and Brasil 15th of December. A fifth vessel, Anna, will shortly be added on the 1st of March, 2018.

KNOP has very good access to financing. In the last year, to finance the growth acquisitions, we have raised both $211 million of new equity and $200 million of long-term debt, with $25 million of credit facilities, all on attractive terms. Whilst analysts may bemoan the current lack of a dropdown inventory, many of our regular investors will be relieved to take a short breather.

KNOP is well placed to compete in future tenders. We have a solid and profitable contract base generated by our modern fleet, which by the end of December had an average age of around 4.75 years. Since the formation of KNOP, we have had very high levels of vessel utilization, on average around 99.6%. Financially, this translates into high and increasing predictable revenue, adjusted EBITDA, and a discounted cash flow as more vessels are added to the fleet.

No one has more expertise in operating the sophisticated shuttle tanker than Knot Offshore Partners, and we operate these vessels with real expertise. Today supply is tightening and the market is expanding. And with tenders back, the sponsor expects to build a further drop-down inventory. We have a supportive sponsor, and we remain an attractive value proposition with a quarterly distribution of $0.52, around 10% distribution.

Thank you. And that concludes the narrative for the slides. If anybody has any questions, I'll be happy to take them.

QUESTION AND ANSWER

Operator

We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

The first question today comes from Michael Webber with Wells Fargo. Please go ahead.

Michael Webber

Hey, good morning, guys. How are you?

John Costain

I'm good, thanks, Michael. And you?

Michael Webber

I'm good. I'm good. Thanks for the overview. John, I wanted to touch first on the charter portfolio. You kind of went through a lot of the recent drops. But looking at the firm periods that are starting to roll in '18, I know you extended the option period already for I believe it was the Bodil. But the Windsor…

John Costain

Yes.

Michael Webber

The Hilda, the Torill all have options or firm periods that are ending in 2018. I guess, one, if you can refresh us on when your charterers would actually need to let you know about whether they'd be picking up those option strings. And then…

John Costain

That's been…sorry. Carry on, Mike. Sorry. I interrupted you. Go on.

Michael Webber

That's all right. No, sorry. Go ahead with that one and then I'll continue.

John Costain

Yes, okay. I was just going to say normally on the Torill, Hilda, and the Windsor, they're all three months. Sometimes it's six months, but for those three it's three months. Given the fact that we've refinanced the Hilda and Torill, there's no real pressure on us to fix any long term periods with them. They're all fairly well financed, so we're quite relaxed about the short periods. It would take about 2.5 years probably to build replacements for the Hilda and Torill again. New vessels of a similar nature would be take about 2.5 to three years because they're quite specialist.

There are four ships, more or less, that can do that contract. I mentioned that the contract hasn't gone very well for ENI. I mean, the oil flows aren't fantastic from that field at the moment. But over time, those vessels are all needed on that contract, and we don't foresee a problem there. And on that basis, we've been able to refinance the ships quite comfortably.

Charterers seem to like to have short option periods. Obviously, Shell have got eight shuttles in Brasil today. We understand from talking to them they're in the market, or going to be in the market soon, looking for another tanker or two. But that's unofficial, so I can't say for sure. There's not a new tender out there. But their outlook, until we deliver ships, they're expanding quite rapidly in Brazil and they need more tankers, not less. The Windsor is an older ship, admittedly, but it's also pretty well specked and well liked, and the charter rate is at the lower end of the range for those ships. It's actually relatively cheap compared to what a new ship would be.

You can never say never with an option, but to me it looks quite decent and the outlook for the market is pretty good. There's a lot of ships coming up to 20 years of age, so we're quite relaxed about them all. With the way accounting standards and things have gone, realistically the days of really long deals, 10 year deals, is getting more and more difficult because of the lease accounting. People generally like shorter deals. It's more off balance sheet. That's my speculation as an accountant. I think we've just got to accept…

Michael Webber
And those strings are all one plus one plus one, right? They're an annual license, right?

John Costain
Yes, that's right. Yes, that's right.

Michael Webber
With the Bodil, I think they extended it. You ended up extending it for a couple years, and then there was a new five-year string put on the end of that.

John Costain
That's right, yes.

Michael Webber
Would you expect a similar structure, in terms of that contract tenor kind of coming down? You think if they were to look at those options and…I guess the first question would be are they getting closer to being incrementally in the money, the Hilda and the Torill?

John Costain
Look at the general tanker market today. I mentioned it because the new-build prices, they're probably bottoming out again. This is when you start to see orders going in.

Charterers aren't daft. They do follow the general tanker market and the new-build costs a bit. Obviously, a shuttle tanker is a different beast, but it does follow that a little bit. They tend to go in for their contracts or tenders when they see that there's a spike up in new-build prices because they want to get the low point. Because obviously when we're tendering as well, owners as well, they quite like the bottom of the market as well because their residual risk will come down. As well as the base price being low, the IRRs (Internal Rates of Return) are quite low because the tail risk is removed on the contract if your asset price is going up.

That tends to be a bit of a game the charterers play. I would never want to say this market is similar to the tanker market. It's very different, but there are certain things in there that are impacted by the general shipping market, and that's one of them. I'm quite relaxed about it. We could potentially see these vessels redelivering, but the way they both…all these charterers need ships, I think it's highly unlikely.

We have the crew. We have the technical expertise. It'd be difficult to go out and get another tanker, but it's not impossible. And you have to respect the market. You can't just say, oh…but I wouldn't like to say that the time charter rates are at the bottom, because when the new tendering comes out it could be a bit lower than the last lot because basically the new-build contract prices have gone down a bit. But the interest rates are going up, so that's the counterpoint. And the OpEx will start to go up as well. These things have impact.

Michael Webber
Right. I guess it's unclear how close to the money those options are, and it seems like it's kind of done on a case by case basis.

John Costain
Yes.

Michael Webber
But when you look at cash on cash returns for a new-build, if you're going to participate in one of these tenders, where are cash on cash returns right now relative…on an absolute basis, and then where are they relative to where they were a year ago?

John Costain
Well, there wasn't really a market a year ago, Michael. I think the market tends to come in waves. I mean, the last time there was a market was probably about 2014 and '15. Fifty-two, around, would be down to about 49 now. I think that's the sort of…you're not looking at massive reductions.

You're looking at…because the ships operating costs are about 14,000, 15,000 a day, and then the new-build prices are probably about 95, 100 as opposed to 105, 110 for a Chinese built ship, and before like the contract price. I would have said, looking on the CapEx burden, about a 10% reduction. It's difficult to say. That's probably what you're looking at, maybe slightly less than that. It's going to be directly correlated to the whole cost for a new-build shuttle tanker. And that's probably about…compared to three or four years ago, that's probably 5% to 10% down on rates.

I think with interest rates going up it'll be interesting, because obviously IRR will be integral. It's good for an older tanker higher interest rates, because on an older vessel you do get a bit of an interest savings because there's less capital wrapped up in it. Older ships again become a little bit more competitive with higher interest rates. Ironically an older portfolio looks better, a bit better than it did with a lower interest rate. But this is old news.

But what I'm trying to say, really, is this is why we built the cover, one of the reasons, because obviously, we're going to get a few slight downward shocks. And it's better to have a 140 cover if you don't want future problems.

Michael Webber

Well, if anything, it seems like…if I kind of look at slide 11, if anything I guess it seems that, while there might not be a ton of data points and a ton of liquidity in that market, it seems like the next move…the second derivative change on cash on cash returns might actually be positive.

Maybe just before I turn it over, like along those lines, if I look at slide 11 and when we look at the fact that, especially given a relatively firmer demand environment than most were expecting, that we're starting to see a pretty noticeable gap or an implication that utilization rates should be moving higher, when do you think we'll actually start to see that materializing?

John Costain
Certainly, I've seen this graph for a few years now, Mike, and when I started at KNOP I would have thought we'd have been largely ordering by now. I'm always a bit skeptical about it. I mean, we don't know.

I genuinely think it will happen fairly soon, in the next six months, because unless we start to see new build price increases people will hang on. Charterers will hang on and they'll monitor the new-build market a bit, and they tend to do that. I mean, the last time we got the orders in 2014, '15, when we got all the BG ships and we won a whole lot of tenders, we won five ships, it was an inflection point. And then suddenly the offshore market collapsed a few months afterwards.

The new-build prices on contracts and old ships went down in value because obviously every yard was competing for tonnage rather than…because obviously they were previously wrapped up in offshore projects. Suddenly they're competing for ships. And rather than me seeing a tanker and general bulk shipping recovery, we did start to see at the beginning of 2014, it shot down again and the market went quiet on shuttles.

The market is very, very tight. I mean, Teekay are ordering speculatively, and you see that maybe I shouldn't mention Teekay, but you do see they need these tankers when you look at their COA position. They say it's really good if you look at their earnings call, so I believe them. That's all I can say, really. That's just circumstantial. I know our own COA fee is very limited, so we're not that exposed to it. But we've had no problems tendering lately.

I mean, in the past…sometimes when the market's weak you have way too many difficulties fixing vessels, but the actual tender business is there for the COA freight, in terms of Knutsen. We have smaller product tankers and older vessels. It's actually quite decent, the market.

Michael Webber
Okay. Great. Well, I appreciate the time, guys. Thanks.

John Costain
No problem.

Operator
The next question comes from Nick Raza with Citi. Please go ahead.

Nick Raza
Thank you. Thanks, John. That was great color. But just to piggyback off the last question, in terms of pricing competitiveness and softer pricing perhaps as a result of new-build costs

coming off, do you expect regional differences like maybe in Brazil versus the North Sea versus in east Canada? Could you just comment on that?

John Costain
Yes. Obviously the main difference…there are several reasons. Obviously, specification varies quite a lot on shuttle tankers, but I would suspect Petrobras will be more comfortable with Chinese built ships than, say, Statoil. It depends on the charterer. A lot of the rest, now I imagine they…some of them are comfortable with Chinese built vessels. And there's nothing wrong with them at all, but some charterers do spec where the yard is for the vessel. That tends to have an impact on cost, because obviously Chinese ships are probably about $10 million cheaper than the Korean vessels, which are very…I don't know if I'd say better quality, but they tend to be preferred.

Obviously you've also got the dual fuel in this. Teekay have ordered dual fuel ships, and they're significantly more expensive. I think when you've got weathering on the ships like in the Barents Sea with the four ships our two with ENI and the AET tankers with Statoil on the Goliat field, they're significantly more expensive as well. These ships are…the specification tends to dictate it a little bit.

If you take the basic ship in Brazil, a Suezmax, you're probably looking at $50,000 a day now, maybe a bit less. I wouldn't like to say. The tendering could be quite aggressive, it's difficult. You get an idea when you see, when it happens. But, I mean, that's the sort of number you're looking around, I would think. Then it goes up from there for Suezmax size.

Nick Raza
Right, right. And then just to clarify then, if you do see some of the vessel contracts come off, do you expect any movement, say, from the North Sea to Brazil, or do you expect your fleet to essentially stay in place?

John Costain
No, I would expect the fleet to stay in place, although obviously the Windsor has moved to Brazil. That was because we had that better deployments, because the Windsor is ice-class, it's a bit unusual to have an ice-class tanker in Brazil.

Generally, no, not any need at the moment because both markets are pretty tight. You wouldn't ballast a ship. You could take one from Brazil because obviously it's going to dry-dock in Europe. But it's all fairly tight, certainly from the North Sea to Brazil is a problem unless you're dry-docking the ship. I think you wouldn't move ships around.

But obviously ships from Brazil, at the moment they still dry-dock in Europe. There's no available facilities in Brazil to dry-dock the ship, which is quite an expense and I can't see that lasting forever. But today all our dry-docks are done in Europe, in France or Spain normally, or Portugal, which is pretty stupid, really, commercially, but that's how it is. Because you're going to have 50 or 60 shuttle tankers down there potentially. You can't be keeping dry-docking in Europe. That's not sensible. It's like 40 days' ballast.

Nick Raza
Fair enough.

John Costain
You try and get cargo, but you can't always.

Nick Raza
All right, so fair enough. That's all I had. Thanks, folks.

John Costain
Yes. Okay.

Operator
Again, if you have a question, please press star then one. The next question comes from Ben Brownlow with Raymond James. Please go ahead.

Ben Brownlow
Hey, John, thanks for taking the question. Just to follow up on the scheduled off-hire in the second quarter for the Brasil Knutsen in that 55 day range, does insurance cover the off-hire past, say, that 14 day deductible?

John Costain
No. No, that's the scheduled off-hire. There's nothing wrong with that. We would maybe get a cargo if we're lucky. But really, the vessel has to go to Europe. As I was saying, the vessel has to go to Europe to dry-dock, and that's just a scheduled amount of off-hire.

You have to accept that in the earnings of the ship, and that was taken into account when we acquired the vessel. That's part of the trading pattern of the vessel. We hope in the longer run to make a bit of a saving there. Hopefully in the next five years, there'll be a facility in the Brazil or much closer to Brazil that can dry-dock the ship, because obviously that amount of off-hire is quite a killer, really. It's a lot of revenue.

Ben Brownlow
That's what I thought. I just wanted to make sure. Just from an accounting perspective, most of my other questions were answered. But on the insurance recovery, that $1.8 million in the fourth quarter, was that only reflective of the lost charter days, or is that filing partially to recover some of the repair cost that was expensed in the fourth quarter?

John Costain
No, just the loss of hire days. The repair costs of the vessel, they have to be submitted to the insurer. And they're only accounted once we get confirmation that they've accepted the costs. There's an estimate of around $2.3 million for the repair costs and $150,000 deductible. But that's not confirmed. Obviously we can't account for something that hasn't been agreed with an insurer, so it's left outside. Hopefully you'll see a bit of a lift in the first quarter or second quarter once that's been agreed, if it is agreed. But today we just account purely for the loss of hire, because that we had known about, and we just account for the rest on confirmation of receipt. And that's how it works.

Ben Brownlow
Great. Thanks for clarifying. That's all I had.

Operator
This concludes our question and answer session and our conference. Thank you for attending today's presentation. You may now disconnect.