

November 8, 2011

### Stock Rating:

**OUTPERFORM**

12-18 mo. Price Target	\$30.00
TLLP - NASDAQ	\$26.61

3-5 Yr. EPS Gr. Rate	NA
52-Wk Range	\$27.18-\$21.00
Shares Outstanding	30.5M
Float	12.8M
Market Capitalization	\$803.8M
Avg. Daily Trading Volume	69,413
Dividend/Div Yield	\$1.40/5.26%
Fiscal Year Ends	Dec
Book Value	\$3.41
2011E ROE	NA
LT Debt	\$50.0M
Preferred	NA
Common Equity	\$104M
Convertible Available	No

DCFPU	Q1	Q2	Q3	Q4	Year	Mult.
2011E	--	0.29A	0.56A	0.44	1.28	20.8x
Prior (E)	--	--	0.38	0.41	1.08	24.6x
2012E	0.45	0.48	0.54	0.56	2.03	13.1x
Prior (E)	0.42	0.44	0.50	0.53	1.89	14.1x

EBITDA	Q1	Q2	Q3	Q4	Year	Mult.
2011E	--	10A	18A	15	43	18.7x
Prior (E)	--	--	14	--	38	21.2x
2012E	16	17	21	21	74	10.9x
Prior (E)	15	16	20	--	71	11.3x

Distribution	Q1	Q2	Q3	Q4	Year	Yield
2011E	--	0.338A	0.350A	0.360	1.050	3.9%
Prior (E)	--	--	0.338	0.345	1.020	
2012E	0.370	0.380	0.390	0.400	1.540	5.8%
Prior (E)	0.355	0.365	0.375	0.385	1.480	

### ENERGY/MASTER LIMITED PARTNERSHIPS

## Tesoro Logistics Partners

### Attractive Ahead of Dec. 5th Analyst Meeting

#### SUMMARY

We reiterate our Outperform rating and \$30 price target on TLLP after 3Q11 results. EBITDA, DCFPU and distribution were all better than we (or consensus) expected and coverage was 1.6x. Results were strong across the two main segments. We continue to believe that TLLP is positioned to grow rapidly as its largest asset is located in one of the fastest growing oil supply basins in the US (Bakken shale). In addition, it has low financial leverage, which will allow a highly accretive debt-financed acquisition in the near future. We are buyers of TLLP ahead of parent company TSO's analyst meeting in New York on December 5th where we believe a positive outlook will be offered.

#### KEY POINTS

- **3Q11 results well ahead of expectations.** EBITDA of \$17.7M handily beat both our expectation of \$13.8M and consensus of \$14.4M. DCFPU was \$0.56 vs. our \$0.38 expectation. TLLP raised its distribution from the MQD of \$0.3375/unit to \$0.35/unit, or 4% seq. We were expecting \$0.3375. Coverage of this higher distribution was 1.6x for the quarter.
- **Strength across the business.** Both segments experienced nice growth q/q. Crude Gathering throughput volumes were up 5% seq. as 2Q11 weather-related effects subsided. Terminalling, Transportation and Storage was also up sharply. We are raising ests across the board to reflect better-than-expected results.
- **We believe TLLP will grow faster than peers.** We are raising our distribution estimates to reflect the higher-than-expected 3Q11 base and reiterate that we believe TLLP will be an attractive grower compared to other fee-based MLPs. We expect almost 12% distribution growth in 2012 vs. peer average (of companies we cover) of ~5.5%.
- **Bakken oil gathering system is key.** We believe TLLP will benefit from Bakken production growth as its system is strategically placed to transport new volumes. We may have to wait until next year before this growth materializes, however.
- **TLLP is well positioned to acquire.** TLLP has little financial leverage. We estimate D/EBITDA stands at 1.0x at the end of 3Q. We believe the associated financial flexibility will allow TLLP to make an acquisition (probably from parent TSO) with reduced equity needs. Debt-financed acquisitions are highly accretive in this low interest rate environment.

#### Stock Price Performance



#### Company Description

TLLP is a fee-based, growth-oriented MLP formed by Tesoro to own, operate, develop and acquire crude oil and refined products logistics assets. Assets consist of a crude oil gathering system in the Bakken Shale/Williston Basin, eight refined products terminals in the Midwest and West, and a crude oil and refined products storage facility and five related short-haul pipelines in Utah.

Oppenheimer & Co. Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. See "Important Disclosures and Certifications" section at the end of this report for important disclosures, including potential conflicts of interest. See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

**Bernard Colson, CFA**  
816-932-8022  
Bernard.Colson@opco.com

Tesoro Logistics LP: (TLLP) OUTPERFORM										
Bernie Colson (816) 932-8022										
Summary Financial Statements										
Millions of Dollars Except for Per Unit Amounts										
Fiscal Year Ending December 31,										
Summary Income Statement	2010A	2011Q2A	2011Q3A	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E
Crude Oil Gathering	50	10.7	13.8	14.3	38.8	14.5	15.4	17.3	18.0	65.3
Terminalling, transportation and storage	44	9.1	13.3	13.5	35.9	13.9	14.7	15.8	16.5	61.0
Total Revenues	93	19.8	27.1	27.8	74.7	28.4	30.1	33.1	34.5	126.2
Operating expenses										
Operating and maintenance expense	37	8.1	7.4	10.8	26.3	11.1	11.8	12.9	13.5	49.2
Depreciation expense	8	2.0	2.0	2.8	6.8	2.8	3.0	3.3	3.5	12.6
General and administrative expense	3	2.1	2.0	1.7	5.7	1.8	1.9	2.1	2.2	7.9
Total operating expenses	48	12.2	11.4	15.3	38.9	15.7	16.7	18.3	19.1	69.7
Operating income	45	7.5	15.7	12.6	35.9	12.7	13.5	14.8	15.5	56.5
Interest Expense	2	0.5	0.6	0.3	1.4	0.7	0.7	2.0	2.0	5.4
Income before income taxes	42	7.1	15.1	12.3	34.5	12.0	12.8	12.8	13.4	51.1
Interest Expense	2	0.5	0.6	0.3	1.4	0.7	0.7	2.0	2.0	5.4
Net income	42	7.1	15.1	12.3	34.5	12.0	12.8	12.8	13.4	51.1
Less: Allocations to GP	1	0.1	0.3	0.3	0.7	0.3	0.3	0.3	0.3	1.1
Net Income allocable to LP	42	6.9	14.8	12.0	33.8	11.8	12.5	12.5	13.1	49.9
Earnings Per LP Unit	1.34	0.22	0.49	0.39	1.10	0.39	0.41	0.41	0.43	1.64
Distributable Cash Flow Calculation	2010A	2011Q2A	2011Q3A	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E
Net Income	42	7.1	15.1	12.3	34.5	12.0	12.8	12.8	13.4	51.1
Depreciation Expense	8	2.0	2.0	2.8	6.8	2.8	3.0	3.3	3.5	12.6
Interest Expense	2	0.5	0.6	0.3	1.4	0.7	0.7	2.0	2.0	5.4
EBITDA	53	9.6	17.7	15.4	42.7	15.6	16.5	18.1	18.9	69.1
Dropdown Addition to EBITDA	0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.5	5.0
Adjusted EBITDA	53	9.6	17.7	15.4	42.7	15.6	16.5	20.6	21.4	74.1
Cash Interest	2	0.0	0.3	0.2	0.5	0.5	0.5	2.2	2.2	5.5
Cash Taxes	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maintenance Capex	2	0.3	0.3	1.5	2.1	1.1	1.2	1.7	1.7	5.6
Other	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distributable Cash Flow	49	9.2	17.2	13.6	40.0	13.9	14.8	16.8	17.5	63.0
Total DCF / Unit	1.57	0.30	0.56	0.45	1.30	0.46	0.49	0.55	0.57	2.07
GP distribution	0.00	0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.03
DCF / LP unit	1.57	0.29	0.56	0.44	1.28	0.45	0.48	0.54	0.56	2.03
LP distribution / Unit		0.3375	0.3500	0.3600	1.0475	0.3700	0.3800	0.3900	0.4000	1.5400
LP distribution / Growth						13%	11%	11%		47%
Coverage		0.9x	1.6x	1.2x	1.2x	1.2x	1.3x	1.4x	1.4x	1.3x
Summary Statement of Cash Flow	2010A	2011Q2A	2011Q3A	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E
Cash Flow From Operations	0	4.6	17.4	15.2	37.2	15.0	16.0	15.9	16.7	63.6
Capital Expenditures	0	(1.4)	(4.8)	(6.0)	(12.2)	(3.1)	(3.2)	(3.7)	(3.7)	(13.6)
Sales (Purchases) of Assets	0	0.0	0.0	0.0	0.0	0.0	0.0	(100.0)	0.0	(100.0)
Cash Flow From Investing	0	(1.4)	(4.8)	(6.0)	(12.2)	(3.1)	(3.2)	(103.7)	(3.7)	(113.6)
Distributions	0	(333.3)	(10.9)	(11.2)	(355.4)	(11.5)	(11.8)	(12.1)	(12.5)	(47.9)
Net Equity Issuance	0	294.3	0.0	0.0	294.3	0.0	0.0	0.0	0.0	0.0
Net Debt Issuance	0	35.8	(1.8)	2.1	36.1	(0.4)	(1.0)	99.8	(0.5)	97.9
Cash Flow From Financing	0	6.8	(12.7)	(9.1)	(15.0)	(11.9)	(12.8)	87.7	(13.0)	50.0
Summary Balance Sheet	2010A	2011Q2A	2011Q3A	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E
Cash	3	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Total Current Assets	3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3	19.3
Net PP&E	132	133.6	138.4	144.4	144.4	147.5	150.7	254.3	258.0	258.0
Total Assets	137	154.8	159.5	165.6	165.6	168.6	171.8	275.4	279.2	279.2
Short-Term Debt	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	0	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2
Long-Term Debt	50	50.0	48.2	50.3	50.3	49.9	48.9	148.7	148.2	148.2
Total Liabilities	50	57.2	55.5	57.5	57.5	57.1	56.1	155.9	155.4	155.4
Total Equity	87	97.5	104.1	108.0	108.0	111.5	115.7	119.5	123.7	123.7
Total Liabilities & Equity	137	154.8	159.5	165.6	165.6	168.6	171.8	275.4	279.2	279.2
Operating Data	2010A	2011Q2A	2011Q3A	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E
Crude Gathering										
Pipeline Throughput (bpd)	50,695	56,635	59,530	62,507	57,880	65,007	68,257	71,670	73,820	69,688
Trucking Volume (bpd)	23,305	23,212	23,879	24,595	23,719	25,333	26,600	27,930	29,326	27,297
Terminalling, Transportation and Storage										
Terminal Throughput (bpd)	113,950	131,812	144,997	137,747	132,240	144,635	151,866	153,385	153,385	150,818
Short Haul Pipeline Volume (bpd)	60,666	66,174	69,658	73,141	67,865	74,604	76,096	77,237	78,396	76,583
Storage capacity reserved	878,000	878,000	878,000	878,000	878,000	878,000	886,000	886,000	886,000	884,000
Source: Company reports; Oppenheimer & Co. estimates; SNL. Please refer to Opco reports for more details										
										11/8/11

## Investment Thesis

We believe TLLP represents the first opportunity in several years to own a 100% fee-based (low-risk) MLP with significant dropdown and organic growth potential early in its life cycle. We forecast double-digit distribution growth CAGR for the next several years as TLLP expands organically and completes acquisitions. Assets include a large crude oil gathering system in North Dakota and Montana that provides exposure to Bakken formation growth. We believe the Bakken is in the very early stages of development and that TLLP provides one of the most concentrated ways to invest in Bakken production.

## Price Target Calculation

Our price target of \$30 per unit is derived using our distribution discount model (DDM). The assumptions underlying this price target are stage one (years 1 & 2) growth of 10%, stage two (years 3-5) growth of 8%, a terminal growth rate of 2% and a discount rate of 8.0%. The terminal distribution is projected to be \$2.06 and is achieved in 2016.

## Key Risks to Price Target

- Weak refined product demand
- Potential to overpay for acquisition
- Acquisition integration
- Rising interest rates
- Economic weakness
- Capital markets access
- Major change in MLP tax code
- FERC regulatory risk
- Conflicts of interest between LPs and GPs
- Counterparty credit risk
- Energy infrastructure overbuild
- Extreme weather
- A unitholder whose units are loaned to a short seller to cover a short sale of units may be viewed as having sold the units. Unitholders who want to be assured of keeping their status as partners and avoid the risk of gain recognition from a loan to a short seller should consider modifying any brokerage account agreements to prohibit their brokers from borrowing their units. Because of the nature of the MLP structure, all investors should consult a qualified tax counsel before making an investment in the sector.

## Important Disclosures and Certifications

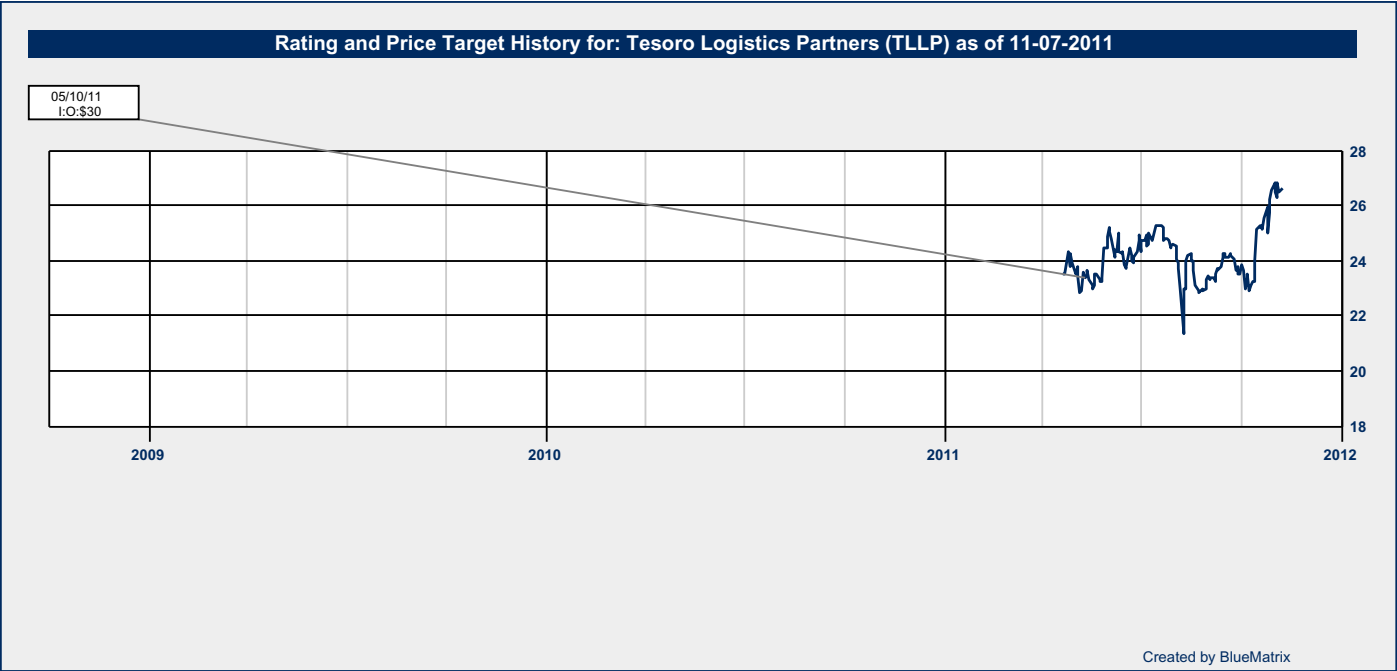
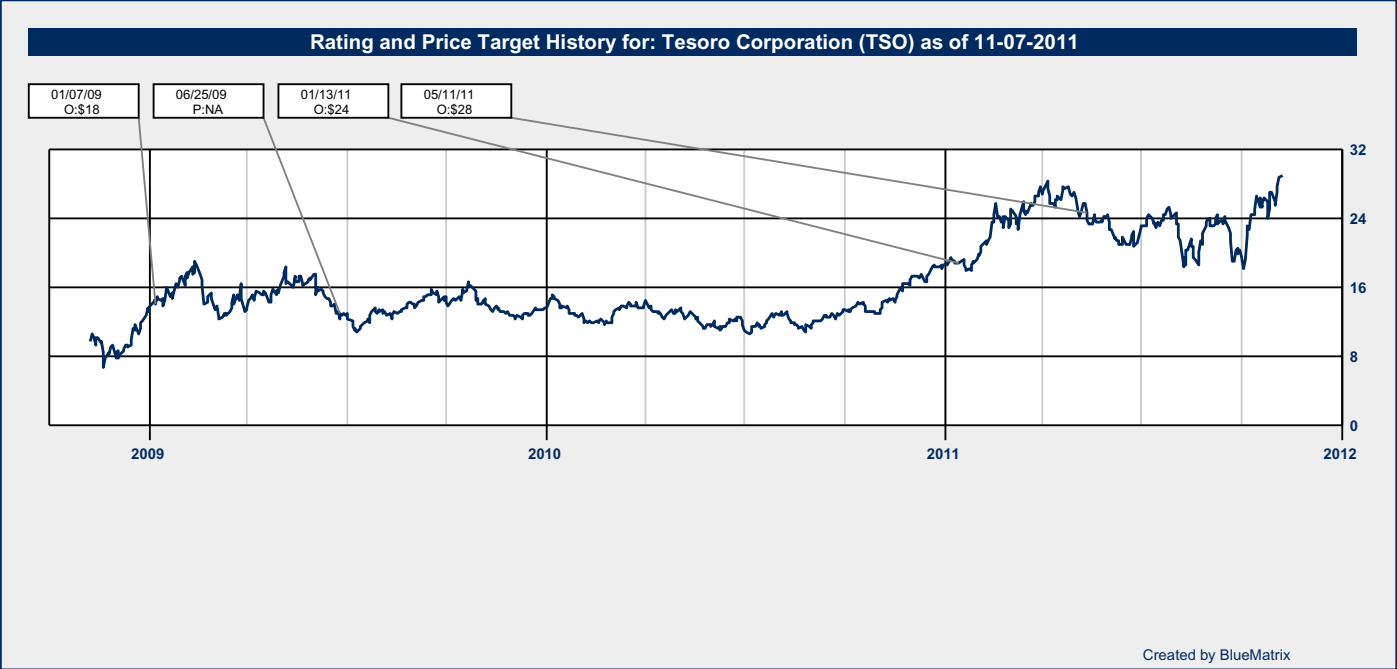
**Analyst Certification** - The author certifies that this research report accurately states his/her personal views about the subject securities, which are reflected in the ratings as well as in the substance of this report. The author certifies that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

### Potential Conflicts of Interest:

Equity research analysts employed by Oppenheimer & Co. Inc. are compensated from revenues generated by the firm including the Oppenheimer & Co. Inc. Investment Banking Department. Research analysts do not receive compensation based upon revenues from specific investment banking transactions. Oppenheimer & Co. Inc. generally prohibits any research analyst and any member of his or her household from executing trades in the securities of a company that such research analyst covers. Additionally, Oppenheimer & Co. Inc. generally prohibits any research analyst from serving as an officer, director or advisory board member of a company that such analyst covers. In addition to 1% ownership positions in covered companies that are required to be specifically disclosed in this report, Oppenheimer & Co. Inc. may have a long position of less than 1% or a short position or deal as principal in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. Recipients of this report are advised that any or all of the foregoing arrangements, as well as more specific disclosures set forth below, may at times give rise to potential conflicts of interest.

## Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by Oppenheimer & Co. Inc:

Stock Prices as of November 8, 2011  
Tesoro Corporation (TSO - NYSE, 28.89, OUTPERFORM)



All price targets displayed in the chart above are for a 12- to- 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 300 Madison Avenue, New York, NY 10017, Attention: Equity Research Department, Business Manager.

Oppenheimer & Co. Inc. Rating System as of January 14th, 2008:

**Outperform(O)** - Stock expected to outperform the S&P 500 within the next 12-18 months.

**Perform (P)** - Stock expected to perform in line with the S&P 500 within the next 12-18 months.

**Underperform (U)** - Stock expected to underperform the S&P 500 within the next 12-18 months.

**Not Rated (NR)** - Oppenheimer & Co. Inc. does not maintain coverage of the stock or is restricted from doing so due to a potential conflict of interest.

#### Oppenheimer & Co. Inc. Rating System prior to January 14th, 2008:

**Buy** - anticipates appreciation of 10% or more within the next 12 months, and/or a total return of 10% including dividend payments, and/or the ability of the shares to perform better than the leading stock market averages or stocks within its particular industry sector.

**Neutral** - anticipates that the shares will trade at or near their current price and generally in line with the leading market averages due to a perceived absence of strong dynamics that would cause volatility either to the upside or downside, and/or will perform less well than higher rated companies within its peer group. Our readers should be aware that when a rating change occurs to Neutral from Buy, aggressive trading accounts might decide to liquidate their positions to employ the funds elsewhere.

**Sell** - anticipates that the shares will depreciate 10% or more in price within the next 12 months, due to fundamental weakness perceived in the company or for valuation reasons, or are expected to perform significantly worse than equities within the peer group.

Distribution of Ratings/IB Services Firmwide				
Rating	Count	IB Serv/Past 12 Mos.		
		Percent	Count	Percent
OUTPERFORM [O]	329	55.40	146	44.38
PERFORM [P]	256	43.10	83	32.42
UNDERPERFORM [U]	9	1.50	3	33.33

Although the investment recommendations within the three-tiered, relative stock rating system utilized by Oppenheimer & Co. Inc. do not correlate to buy, hold and sell recommendations, for the purposes of complying with FINRA rules, Oppenheimer & Co. Inc. has assigned buy ratings to securities rated Outperform, hold ratings to securities rated Perform, and sell ratings to securities rated Underperform.

#### Additional Information Available

Please log on to <http://www.opco.com> or write to Oppenheimer & Co. Inc., 300 Madison Avenue, New York, NY 10017, Attention: Equity Research Department, Business Manager.

## Other Disclosures

This report is issued and approved for distribution by Oppenheimer & Co. Inc. Oppenheimer & Co. Inc. transacts Business on all Principal Exchanges and Member SIPC. This report is provided, for informational purposes only, to institutional and retail investor clients of Oppenheimer & Co. Inc. and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction.

where such offer or solicitation would be prohibited. The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of Oppenheimer & Co. Inc. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. The analyst writing the report is not a person or company with actual, implied or apparent authority to act on behalf of any issuer mentioned in the report. Before making an investment decision with respect to any security recommended in this report, the recipient should consider whether such recommendation is appropriate given the recipient's particular investment needs, objectives and financial circumstances. We recommend that investors independently evaluate particular investments and strategies, and encourage investors to seek the advice of a financial advisor. Oppenheimer & Co. Inc. will not treat non-client recipients as its clients solely by virtue of their receiving this report. Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report. The price of the securities mentioned in this report and the income they produce may fluctuate and/or be adversely affected by exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Oppenheimer & Co. Inc. accepts no liability for any loss arising from the use of information contained in this report, except to the extent that liability may arise under specific statutes or regulations applicable to Oppenheimer & Co. Inc. All information, opinions and statistical data contained in this report were obtained or derived from public sources believed to be reliable, but Oppenheimer & Co. Inc. does not represent that any such information, opinion or statistical data is accurate or complete (with the exception of information contained in the Important Disclosures section of this report provided by Oppenheimer & Co. Inc. or individual research analysts), and they should not be relied upon as such. All estimates, opinions and recommendations expressed herein constitute judgments as of the date of this report and are subject to change without notice. Nothing in this report constitutes legal, accounting or tax advice. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice on the tax consequences of investments. As with any investment having potential tax implications, clients should consult with their own independent tax adviser. This report may provide addresses of, or contain hyperlinks to, Internet web sites. Oppenheimer & Co. Inc. has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

This report or any portion hereof may not be reprinted, sold, or redistributed without the written consent of Oppenheimer & Co. Inc. Copyright © Oppenheimer & Co. Inc. 2011.