

December 9, 2011

Stock Rating:
OUTPERFORM

12-18 mo. Price Target \$34.50
TLLP - NASDAQ \$30.53

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$30.61-\$21.00
Shares Outstanding 15.3M
Float 12.8M
Market Capitalization \$922.2M
Avg. Daily Trading Volume 49,498
Dividend/Div Yield \$1.40/4.59%
Fiscal Year Ends Dec
Book Value \$3.49
2011E ROE NA
LT Debt \$50.0M
Preferred NA
Common Equity \$106M
Convertible Available No

DCFPU	Q1	Q2	Q3	Q4	Year	Mult.
2011E	--	0.29A	0.56A	0.44	1.28	23.9x
2012E	0.43	0.52	0.52	0.57	2.03	15.0x
Prior (E)	0.45	0.48	0.54	0.56	--	15.0x

EBITDA	Q1	Q2	Q3	Q4	Year	Mult.
2011E	--	10A	18A	15	43	21.8x
2012E	15	19	20	22	77	12.2x
Prior (E)	16	17	21	21	74	12.7x

Distribution	Q1	Q2	Q3	Q4	Year	Yield
2011E	--	0.338A	0.350A	0.362	1.050	3.4%
Prior (E)	--	--	--	0.360	--	--
2012E	0.375	0.388	0.400	0.412	1.575	5.2%
Prior (E)	0.370	0.380	0.390	0.400	1.540	--

ENERGY/MASTER LIMITED PARTNERSHIPS

Tesoro Logistics Partners

2012 Outlook Bests our Street-high Estimates

SUMMARY

We reiterate our Outperform rating and raise our PT to \$34.50 from \$30 after TSO's analyst meeting and the release of TLLP's 2012 business plan. The outlook is even better than we previously believed, with \$100M of EBITDA expected in 2013. Both the High Plains system and terminalling are experiencing better than expected growth. We now believe 2012 distribution growth will be 13.5% and that TLLP can grow at 12% annually for the next four years. Mgmt guided to an early 2012 dropdown of the Martinez terminal that will add \$8M of annual EBITDA, and we believe there is no need for equity financing for the next several years as the partnership's leverage ratio is so low compared to peers.

KEY POINTS

- **Outlook from analyst day even better than we thought.** Mgmt's 2013 EBITDA target of \$100M bested even our Street-high \$96M estimate. Organic growth from the High Plains system (Bakken crude oil gathering) and crude oil terminalling drives this outlook. We are increasing our estimates across the board to reflect this growth.
- **Raising distribution growth estimates.** We are raising our distribution estimates. We now assume that TLLP increases its distributions by \$0.0125 quarterly instead of \$0.01. We now expect 13.5% growth in 2012 and 12.7% growth in 2013. While a solid base case, these estimates could be conservative given a solid 1.4x coverage ratio by 2013.
- **Price target increases to \$34.50 from \$30.** We derive our \$34.50 price target though a combination of a DDM and target yield methodology. Our DDM gives us a price of \$36 and the target yield model a price of \$33. Assigning a 50% weighting to each method results in a price target of \$34.50.
- **First dropdown to take place soon.** TLLP indicated that its first dropdown will take place in early 2012. The asset being acquired is the Martinez Crude Oil Marine Terminal in CA. The terminal will include 10-year fee-based contracts with 90% under minimum volume commitments. Projected EBITDA is \$8M.
- **Equity not needed in the next several years.** Even including the Martinez dropdown (estimated purchase price of \$80M) and another dropdown in 2013 of \$100M, we believe TLLP does not need to issue equity. Current D/EBITDA is below 1x. Given the company's risk profile, we believe it can carry 4x with comfort.

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.

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Tesoro Logistics LP: (TLLP) OUTPERFORM										
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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	14.1	14.3	15.4	15.5	59.3
Terminalling, transportation and storage	44	9.1	13.3	13.5	35.9	13.3	13.6	14.5	15.0	56.4
Total Revenues	93	19.8	27.1	27.8	74.7	27.4	27.9	29.9	30.5	115.7
Operating expenses										
Operating and maintenance expense	37	8.1	7.4	10.8	26.3	10.7	10.9	11.6	11.9	45.1
Depreciation expense	8	2.0	2.0	2.8	6.8	2.7	2.8	3.0	3.1	11.6
General and administrative expense	3	2.1	2.0	1.7	5.7	1.7	1.7	1.9	1.9	7.2
Total operating expenses	48	12.2	11.4	15.3	38.9	15.2	15.4	16.5	16.9	63.9
Operating income	45	7.5	15.7	12.6	35.9	12.3	12.5	13.4	13.7	51.8
Interest Expense	2	0.5	0.6	0.4	1.4	1.0	2.2	2.4	2.6	8.2
Income before income taxes	42	7.1	15.1	12.2	34.4	11.3	10.2	10.9	11.1	43.5
Interest Expense	2	0.5	0.6	0.4	1.4	1.0	2.2	2.4	2.6	8.2
Net income	42	7.1	15.1	12.2	34.4	11.3	10.2	10.9	11.1	43.5
Less: Allocations to GP	1	0.1	0.3	0.3	0.7	0.2	0.2	0.3	0.3	1.0
Net Income allocable to LP	42	6.9	14.8	11.9	33.7	11.0	10.0	10.7	10.8	42.6
Earnings Per LP Unit	1.34	0.22	0.49	0.39	1.09	0.36	0.33	0.35	0.35	1.40
Distributable Cash Flow Calculation	2010A	2011Q2A	2011Q3A	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E
Net Income	42	7.1	15.1	12.2	34.4	11.3	10.2	10.9	11.1	43.5
Depreciation Expense	8	2.0	2.0	2.8	6.8	2.7	2.8	3.0	3.1	11.6
Interest Expense	2	0.5	0.6	0.4	1.4	1.0	2.2	2.4	2.6	8.2
EBITDA	53	9.6	17.7	15.4	42.7	15.0	15.3	16.3	16.7	63.4
Acquisition/Project EBITDA	0	0.0	0.0	0.0	0.0	0.0	3.9	3.9	5.6	13.4
Adjusted EBITDA	53	9.6	17.7	15.4	42.7	15.0	19.2	20.2	22.3	76.7
Cash Interest	2	0.0	0.3	0.2	0.6	0.7	1.7	2.6	2.8	7.9
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	1.3	1.6	1.8	5.8
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	13.2	16.1	16.0	17.7	63.0
Total DCF / Unit	1.57	0.30	0.56	0.45	1.30	0.43	0.53	0.52	0.58	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	0.43	0.52	0.52	0.57	2.03
LP distribution / Unit		0.3375	0.3500	0.3625	1.0500	0.3750	0.3875	0.4000	0.4125	1.5750
LP distribution / Growth						15%	14%	14%		50%
Coverage		0.9x	1.6x	1.2x	1.2x	1.1x	1.3x	1.3x	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	15.8	15.1	35.5	14.3	13.6	13.7	13.9	55.5
Capital Expenditures	0	(1.4)	(1.8)	(14.0)	(17.2)	(13.6)	(13.8)	(14.1)	(14.3)	(55.8)
Sales (Purchases) of Assets	0	0.0	0.0	0.0	0.0	0.0	(80.0)	0.0	0.0	(80.0)
Cash Flow From Investing	0	(1.4)	(1.8)	(14.0)	(17.2)	(13.6)	(93.8)	(14.1)	(14.3)	(135.8)
Distributions	0	(333.3)	(7.6)	(11.3)	(352.2)	(11.7)	(12.1)	(12.1)	(13.0)	(48.3)
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	6.2	10.2	52.1	10.9	92.3	12.5	13.4	128.7
Cash Flow From Financing	0	6.8	(6.3)	(1.1)	(0.6)	(0.7)	80.2	0.4	0.4	80.3
Summary Balance Sheet	2010A	2011Q2A	2011Q3A	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E
Cash	3	10.0	17.8	17.8	17.8	17.8	17.8	17.8	17.8	17.8
Total Current Assets	3	19.3	29.7	29.7	29.7	29.7	29.7	29.7	29.7	29.7
Net PP&E	132	133.6	133.9	148.0	148.0	161.5	255.4	269.5	283.8	283.8
Total Assets	137	154.8	165.3	179.4	179.4	192.9	286.8	300.9	315.2	315.2
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	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
Long-Term Debt	50	50.0	50.0	60.2	60.2	71.1	163.4	175.9	189.3	189.3
Total Liabilities	50	57.2	58.9	69.1	69.1	80.1	172.4	184.9	198.2	198.2
Total Equity	87	97.5	106.4	110.3	110.3	112.9	114.4	116.0	116.9	116.9
Total Liabilities & Equity	137	154.8	165.3	179.4	179.4	192.9	286.8	300.9	315.2	315.2
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	62,819	63,133	63,449	63,766	63,292
Trucking Volume (bpd)	23,305	23,212	23,879	24,595	23,719	24,718	24,842	24,966	25,091	24,904
Terminalling, Transportation and Storage										
Terminal Throughput (bpd)	113,950	131,812	144,997	137,747	132,240	137,747	137,747	137,747	137,747	137,747
Short Haul Pipeline Volume (bpd)	60,666	66,174	69,658	73,141	67,865	73,141	73,141	73,141	73,141	73,141
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

12/9/11

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

We derive our \$34.50 price target by combining our DDM (\$36 value) with a target yield methodology (\$33 value). The assumptions underlying our DDM are stage one (years 1 & 2) growth of 12%, stage two (years 3-5) growth of 12%, a terminal growth rate of 2% and a discount rate of 8.0%. The terminal distribution is projected to be \$2.47 and is achieved in 2016. The assumptions underlying our target yield methodology are a forecasted annualized distribution in 4Q12 of \$1.65 divided by a target yield of 5%. We assign a 50% weighting to each methodology.

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.

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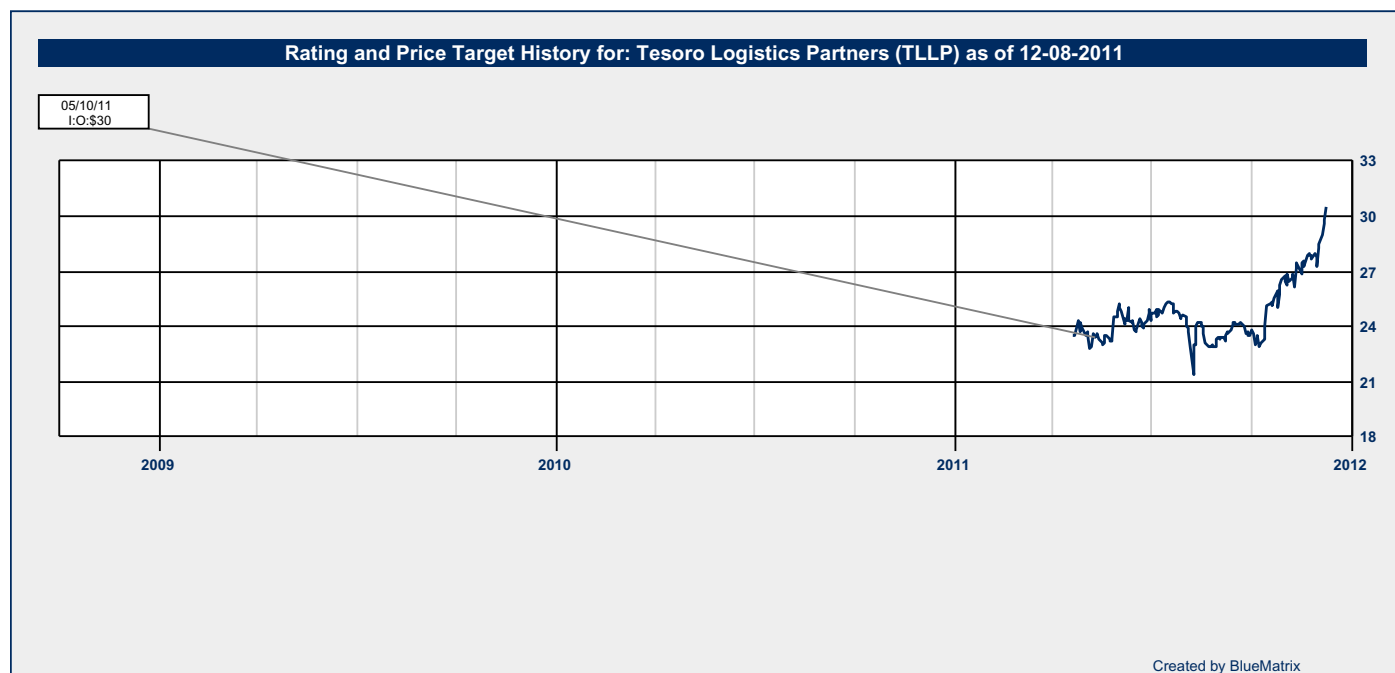
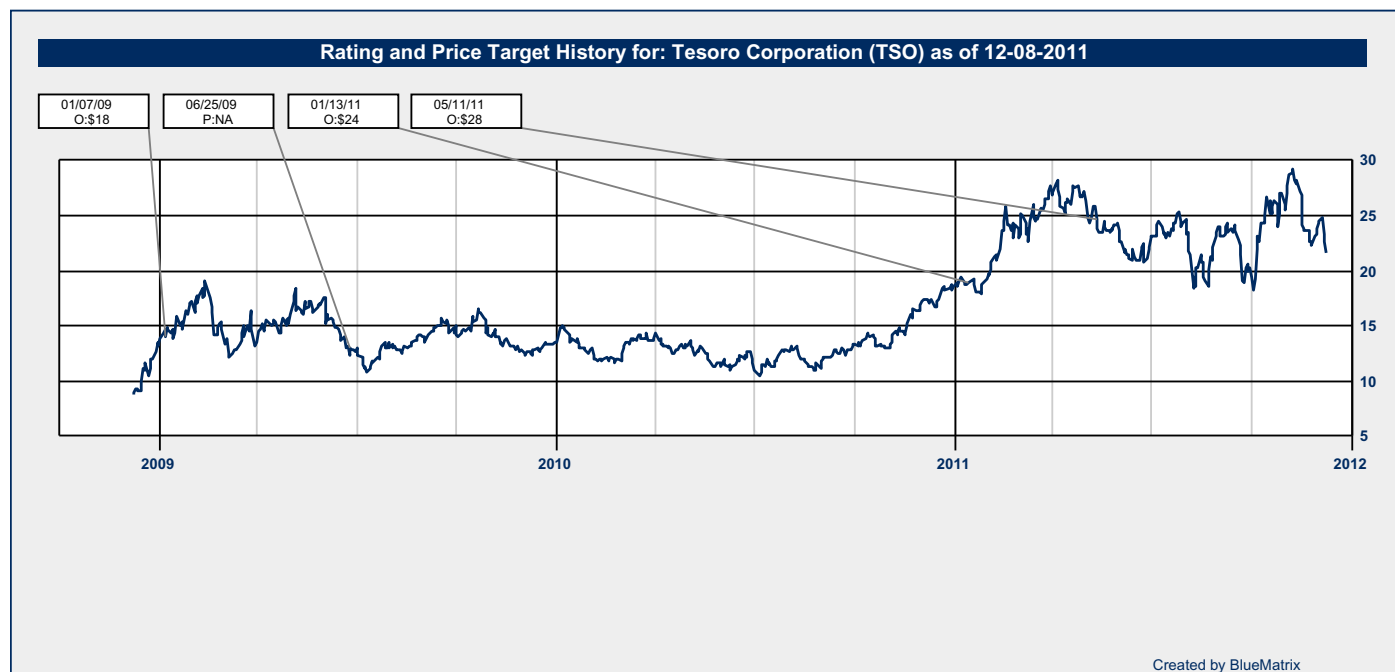
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Stock Prices as of December 9, 2011

Tesoro Corporation (TSO - NYSE, 21.68, 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.

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Distribution of Ratings/IB Services Firmwide				
Rating	Count	IB Serv/Past 12 Mos.		
		Count	Percent	
OUTPERFORM [O]	334	56.00	144	43.11
PERFORM [P]	255	42.80	85	33.33
UNDERPERFORM [U]	7	1.20	3	42.86

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