



## PRICE TARGET REVISION | COMMENT

DECEMBER 6, 2011

## Tesoro Logistics LP (NYSE: TLLP)

## Treasure Chest of Growth Opportunities; Raising Price Target

Outperform  
Average Risk

Price:	29.01	Price Target:	35.00 ↑ 30.00
Shares O/S (MM):	30.5	Implied All-In Return:	25%
Dividend:	1.40	Market Cap (MM):	885
Float (MM):	30.2	Yield:	4.8%
Debt to Cap:	32%	Avg. Daily Volume (MM):	0.05
		Est Tax Deferral:	80%

**Event:** Announces 2012 MLP Business Plan Highlights at Parent TSO Analyst Day

## Investment Opinion

**Raising Price Target on Growth Visibility:** We raise our price target to \$35 as identified organic growth opportunities have surpassed our expectations and substantial ROFO (right of first offer) assets remain available for acquisition. TLLP announced plans for \$100M of organic CapEx through 2013 at attractive cash flow multiples (less than 4x EBITDA) which exceeds our prior assumption of \$33M during that period. Additionally, our current estimate of ~\$15M in drop-down EBITDA through 2013 represents only 20%-30% of the total available ROFO EBITDA of \$50-\$80M. We therefore raise our 2012/2013 EBITDA/DCF estimates and our medium-term distribution growth assumption (12% from 8% prior), which implies a premium target yield of 5.1%.

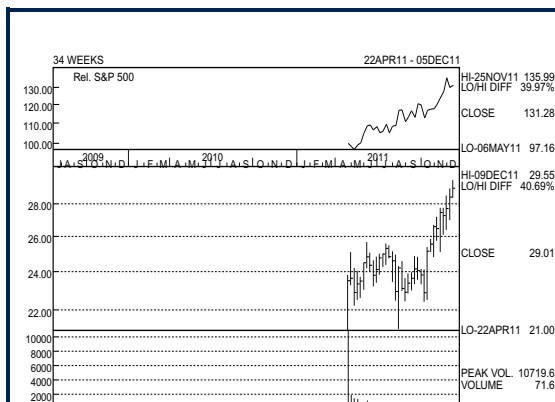
**Announces 2012 Business Plan:** TLLP guided 2013 EBITDA to \$100M in 2013, which compares to prior RBC and Street estimates of \$90.9M and \$88.4M respectively. The plan contemplates organic CapEx of \$100M over the next two years (including previously announced projects of \$15M), which will double Bakken crude volumes (60% of CapEx) and boost terminal throughput by 40 Mbpd (~28%).

**Announces First Drop-Down Transaction:** TLLP announced the first ROFO asset drop-down (Martinez Crude Oil Marine Terminal) from TSO, which should close in 1Q12 and add \$8M in annualized EBITDA. The terminal supplies TSO's Golden Eagle refinery and TLLP expects throughput of 70 Mbpd after close. We have assumed a \$60M purchase price for the Martinez terminal, implying a 7.5x EBITDA multiple. We believe the 30 Mbpd Anacortes rail facility under construction by TSO (4Q12 completion) remains a logical drop-down candidate for 2013 with further expansion to 45 Mbpd possible. We assume a \$50M drop-down in 1Q13 at ~7x cash flow contributing ~\$7M in annualized EBITDA.

**Further Growth on The Horizon:** Management noted that the total book value of the TSO midstream portfolio is roughly 125% larger than the initial assets contributed to TLLP (including Martinez). With a pristine un-levered balance sheet, the partnership is poised to deliver maximum accretion to LP unitholders with minimal equity dilution on drop-downs. Given the substantial opportunity, we remain confident that the partnership will deliver top-tier distribution growth over the next 5-years and continue to recommend the units.

Priced as of prior trading day's market close, EST (unless otherwise noted).

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FY Dec	2011E	2012E	2013E	
DCF - FD	1.31	2.30	3.00	
Prev.	1.27	2.11	2.48	
EPU (Op) - FD	1.13	1.98	2.53	
Prev.	1.12	1.81	2.04	
EBITDA (MM)	39.1	80.2	105.0	
Prev.	38.9	74.3	90.9	
P/DCF	22.1x	12.6x	9.7x	
P/EPU	25.7x	14.7x	11.5x	
EV/EBITDA	22.6x	11.0x	8.4x	
DCF - FD	Q1	Q2	Q3	Q4
2011	0.00A	0.29A	0.56A	0.47E
Prev.				0.43E
2012	0.49E	0.55E	0.59E	0.62E
Prev.	0.46E	0.51E	0.54E	0.56E
EPU (Op) - FD				
2011	0.00A	0.23A	0.49A	0.42E
Prev.				0.41E
2012	0.43E	0.48E	0.52E	0.56E
Prev.	0.40E	0.45E	0.47E	0.49E
EBITDA (MM)				
2011	(3.8)A	9.6A	17.7A	15.6E
Prev.				15.3E
2012	17.1E	19.4E	21.0E	22.6E
Prev.	16.2E	17.9E	19.6E	20.6E

All values in USD unless otherwise noted.

## Valuation

We derive our 12-month price target of \$35 for TLLP using our multi-stage distribution discount model (DDM). Our DDM is based on our distribution estimates for the four quarters starting one year out followed by a 5-year growth rate of 12%, which, from the current distribution implies a 5-year CAGR of 17.4%. Our long-term distribution schedule assumes that over the subsequent 11 years growth converges to the 1% perpetual rate. We discount our distributions at a 9.0% discount rate, which incorporates our interest rate expectations and a risk premium based on TLLP-specific risks and is consistent with an Average risk qualifier. Our \$35 price target implies a yield of 5.1% on our one year out annualized distribution of \$1.80 per unit.

## Price Target Impediment

Among the key issues that could impede our price target are:

- Acquisition risk;
- Damage to pipeline infrastructure;
- Commodity price risks;
- TLLP is dependent on Tesoro Corp parent for substantially all of its revenue, so any inability to meet its requirements with Tesoro would negatively impact results.
- Trading liquidity in the units is relatively low; and
- Other risks, including prolonged declines in volumes, interest rates, and regulatory risk.

## Company Description

TLLP is a growth oriented MLP formed by Tesoro to operate its gathering and processing and short-haul pipelines, trucking and terminalling logistics assets. The partnership intends to operate its assets under long-term, minimum volume contracts with Tesoro and pursue asset drop-down growth opportunities. The initial assets are strategically located near Tesoro refineries in the Bakken Shale, West Coast, Rockies and Alaska with potential drop-downs near existing infrastructure.

(\$ in MM, except per share data & ratios)	2011 Quarterly Results				2012 Quarterly Results				Annual Results		
	Q111A	Q211A	Q311A	Q411E	Q112E	Q212E	Q312E	Q412E	FY11E	FY12E	FY13E
Crude Oil Gathering	5.6	10.7	13.8	13.9	14.1	15.4	17.4	19.8	44.0	66.7	88.9
Terminalling, Transport. & Storage	0.7	9.1	13.3	12.6	14.5	18.0	18.7	18.9	35.7	70.1	90.7
<b>Total Revenue</b>	<b>\$6.3</b>	<b>\$19.8</b>	<b>\$27.1</b>	<b>\$26.5</b>	<b>\$28.6</b>	<b>\$33.4</b>	<b>\$36.1</b>	<b>\$38.7</b>	<b>\$79.7</b>	<b>\$136.8</b>	<b>\$179.7</b>
Total Costs and Expenses	12.1	12.2	11.4	13.0	14.4	17.0	18.3	19.4	48.7	69.0	90.7
<b>Operating Income</b>	<b>(\$5.8)</b>	<b>\$7.5</b>	<b>\$15.7</b>	<b>\$13.6</b>	<b>\$14.3</b>	<b>\$16.4</b>	<b>\$17.8</b>	<b>\$19.3</b>	<b>\$31.0</b>	<b>\$67.8</b>	<b>\$89.0</b>
Interest Expense	-	(0.5)	(0.6)	(0.5)	(1.0)	(1.6)	(1.7)	(1.8)	(1.6)	(6.1)	(10.1)
<b>Net Income</b>	<b>(\$5.8)</b>	<b>\$7.1</b>	<b>\$15.1</b>	<b>\$13.1</b>	<b>\$13.3</b>	<b>\$14.8</b>	<b>\$16.1</b>	<b>\$17.5</b>	<b>\$29.5</b>	<b>\$61.7</b>	<b>\$78.9</b>
General Partner Interest	-	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.7	1.4	1.7
<b>LP Interest In Net Income</b>	<b>(\$5.8)</b>	<b>\$6.9</b>	<b>\$14.8</b>	<b>\$12.8</b>	<b>\$13.0</b>	<b>\$14.5</b>	<b>\$15.7</b>	<b>\$17.1</b>	<b>\$28.7</b>	<b>\$60.3</b>	<b>\$77.1</b>
Diluted Earnings (loss) per Unit		\$0.23	\$0.49	\$0.42	\$0.43	\$0.48	\$0.52	\$0.56	\$1.13	\$1.98	\$2.53
Average Units Outstanding	-	30.5	30.5	30.5	30.5	30.5	30.5	30.5	22.9	30.5	30.5
<b>Adjusted EBITDA</b>	<b>(\$3.8)</b>	<b>\$9.6</b>	<b>\$17.7</b>	<b>\$15.6</b>	<b>\$17.1</b>	<b>\$19.4</b>	<b>\$21.0</b>	<b>\$22.6</b>	<b>\$39.1</b>	<b>\$80.2</b>	<b>\$105.0</b>

Distributable Cash Flow											
Adjusted EBITDA	(\$3.8)	\$9.6	\$17.7	\$15.6	\$17.1	\$19.4	\$21.0	\$22.6	\$39.1	\$80.2	\$105.0
Cash Interest Expense	-	(0.0)	(0.3)	(0.4)	(0.8)	(1.3)	(1.4)	(1.5)	(0.7)	(5.1)	(8.4)
Maintenance CapEx	(0.2)	(0.7)	(0.3)	(0.8)	(1.0)	(1.2)	(1.3)	(1.5)	(1.9)	(4.9)	(5.0)
General Partner Interest	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.4)	(0.7)	(0.6)	(1.6)	(7.9)
<b>Distributable Cash Flow to LP</b>	<b>(\$4.0)</b>	<b>\$8.7</b>	<b>\$17.0</b>	<b>\$14.2</b>	<b>\$15.0</b>	<b>\$16.7</b>	<b>\$17.9</b>	<b>\$18.9</b>	<b>\$35.9</b>	<b>\$68.6</b>	<b>\$83.7</b>
<b>Distributable CF Per Unit</b>		<b>\$0.29</b>	<b>\$0.56</b>	<b>\$0.47</b>	<b>\$0.49</b>	<b>\$0.55</b>	<b>\$0.59</b>	<b>\$0.62</b>	<b>\$1.31</b>	<b>\$2.30</b>	<b>\$3.00</b>
Distributions per Unit	-	\$0.24480	\$0.35000	\$0.36500	\$0.38000	\$0.42000	\$0.45000	\$0.48000	\$0.95980	\$1.73000	\$2.22000
Total Unit Coverage	-	1.17x	1.59x	1.28x	1.30x	1.30x	1.30x	1.29x	1.36x	1.33x	1.35x

Balance Sheet											
Total Assets	\$138.7	\$154.8	\$165.3	\$153.3	\$231.7	\$249.2	\$263.7	\$276.3	\$153.3	\$276.3	\$344.0
Total Partners' Capital	132.2	97.5	106.4	108.6	110.5	113.5	116.4	119.4	108.6	119.4	126.3
<b>Net Debt</b>	<b>-</b>	<b>\$40.0</b>	<b>\$32.2</b>	<b>\$32.9</b>	<b>\$108.7</b>	<b>\$121.6</b>	<b>\$132.4</b>	<b>\$141.1</b>	<b>\$32.9</b>	<b>\$141.1</b>	<b>\$199.7</b>
Net Debt / TTM EBITDA	.0x	23.3x	1.4x	.8x	1.8x	1.7x	1.8x	1.8x	.8x	1.8x	1.9x
Interest Coverage	-	20.8x	29.5x	31.6x	17.5x	12.4x	12.2x	12.3x	25.2x	13.1x	10.4x

Source: RBC Capital Markets estimates &amp; Company Reports

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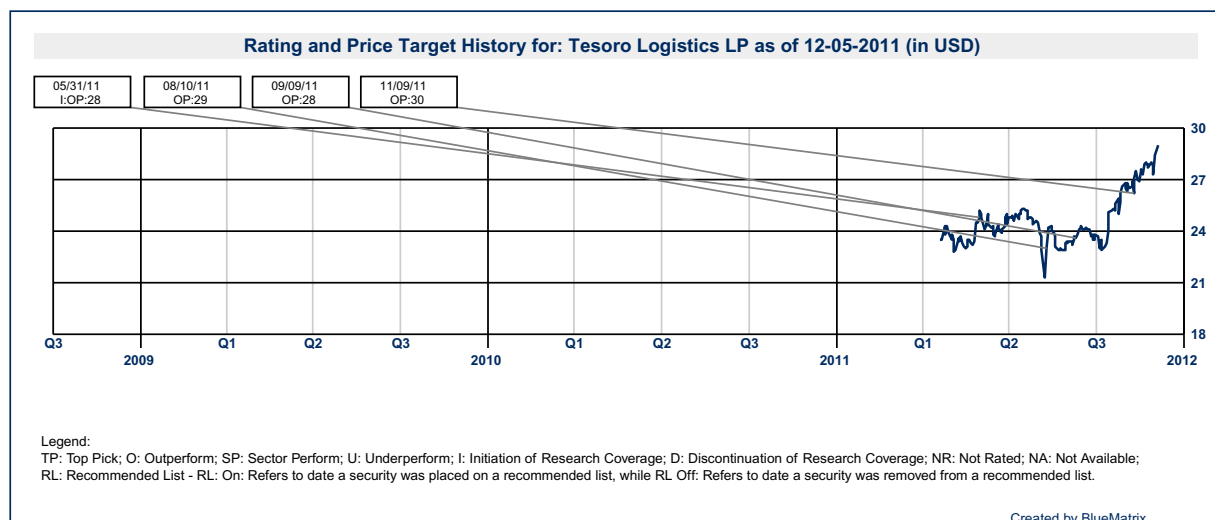
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