

TESORO LOGISTICS LP

Raising Price Target to \$30

Off to good start with bump in first full quarter post IPO, next potential catalyst analyst day. We raise our price from \$28 to \$30 to reflect solid 3Q results, sooner-than-expected distribution bump, and improving growth visibility. Our \$30 PT is based on a 12-month distribution run rate of \$1.58 (previously \$1.48) and target yield of 5.25% (previously 5.3%). Double-digit distribution growth visibility (we expect 12.7% in 2012) is supported by organic projects, including the emerging Bakken Shale and drop down opportunities. The next potential catalyst is TLLP's 12/5 analyst day, where management will provide guidance on 2012 expansion capex and likely its dropdown expectations.

3Q results above estimates, distribution bump sooner-than-expected. EBITDA was \$17.7mm vs. our \$14.2mm estimate and \$14.3mm consensus. Distributable cash flow was \$17.2mm vs. our \$12.6mm estimate. Upside to our estimates was driven by higher-than-expected crude gathering and terminalling volumes, lower-than-expected maintenance capex, and a gain from product sale under terminal loss allowance. TLLP posted its first distribution bump sooner than we forecasted. The Partnership increased its quarterly distribution 3.7% QoQ to \$0.35 per unit (\$1.40 annualized). Distribution coverage was a healthy 1.58x in 3Q. In addition, management slightly increased its quarterly EBITDA run rate by \$0.5mm to \$15.5mm.

Organic projects on track, awaiting first dropdown. Though the current expansion capex budget is relatively small at \$29mm (\$20.5mm net of \$8.5mm reimbursements from parent), it is comprised of a diverse set of highly accretive midstream projects with an aggregate EBITDA multiple less than 2x. Expected incremental EBITDA of \$11.5mm translates to 19% YoY growth. Additional growth should come from dropdown (we assume \$50mm in 2012). Given TLLP's low leverage (less than 1x), we expect current organic projects and the first dropdown will be debt financed.

TLLP: Quarterly and Annual EPS (USD)

FY Dec	2010		2011		2012			Change y/y	
	Actual	Old	New	Cons	Old	New	Cons	2011	2012
Q1	N/A	0.32A	0.00A	-0.19A	0.38E	0.40E	0.38E	N/A	40%
Q2	N/A	0.25A	0.25A	0.25A	0.41E	0.41E	0.41E	N/A	64%
Q3	N/A	0.37E	0.49A	0.37E	0.48E	0.49E	0.44E	N/A	0%
Q4	N/A	0.37E	0.40E	0.38E	0.46E	0.47E	0.44E	N/A	17%
Year	N/A	0.99E	1.14E	0.92E	1.72E	1.77E	1.65E	N/A	55%
P/E	N/A		23.6			15.2			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 6.

Stock Rating	1-OVERWEIGHT Unchanged
Sector View	2-NEUTRAL Unchanged
Price Target	USD 30.00 raised 7% from USD 28.00

Price (08-Nov-2011)	USD 26.85
Potential Upside/Downside	+12%
Tickers	TLLP

Market Cap (USD mn)	804
Shares Outstanding (mn)	30.20
Free Float (%)	82.67
52 Wk Avg Daily Volume (mn)	0.2
Dividend Yield (%)	0.0
Return on Equity TTM (%)	N/A
Current BVPS (USD)	6.52

Source: FactSet Fundamentals

Price Performance	Exchange-NYSE
52 Week range	USD 27.43-21.07



Link to Barclays Capital Live for interactive charting

U.S. MLPs

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COMPANY SNAPSHOT

Tesoro Logistics LP

U.S. MLPs

Income statement (\$mn)	2010A	2011E	2012E	2013E	CAGR
EBITDA	na	54	69	88	NA
EBIT	na	30	60	76	NA
Pre-tax income	na	36	56	70	NA
Net income	na	36	56	70	NA
Reported EPS	na	\$1.14	\$1.77	\$2.04	NA
Diluted shares (m)	na	31	31	33	NA
Cash Distribution per Unit	na	\$1.38	\$1.55	\$1.72	NA

Balance Sheet and Cash flow (\$m)					CAGR
Cash	na	13	4	5	NA
Net PP&E	na	142	155	226	NA
Debt	na	52	97	122	NA
Operating cash flow	na	35	65	81	NA
Distributable cash flow	na	49	60	74	NA

Valuation and leverage metrics					Average
Distribution coverage ratio %	na	132.2	123.9	126.9	127.7
EV/EBITDA (x)	na	14.8	11.4	9.0	11.7
EV/EBITDA less MC, GP (x)	na	16.0	12.6	10.1	12.9
Price/DCF(x)	na	15.2	12.5	11.0	12.9
EBITDA/interest expense (x)	na	32.5	15.7	13.7	20.6
Debt/EBITDA (x)	na	1.0	1.4	1.4	1.3

Operating metrics (volumes in 000 bpd)					Average
Crude oil pipeline volumes	na	57.5	59.5	60.7	59.2
Trucking volume	na	23.2	23.8	24.5	23.9
Terminal volumes	na	133.3	139.8	141.1	138.1
Short-haul pipeline volumes	na	66.0	69.5	72.0	69.2
Storage capacity (000 bbls)	na	878.0	878.0	886.0	880.7

Stock Rating	1-OVERWEIGHT
Sector View	2-NEUTRAL
Price (08-Nov-2011)	\$26.85
Price Target	\$30
Ticker	TLLP

Investment case

TLLP is a high-growth, relatively low-risk crude oil/refined products pipeline MLP with an attractive mid-teens total return value proposition. Growth supported by organic projects, including the emerging Bakken Shale, and asset drop downs. Stability supported by long-term volume commitments from parent.

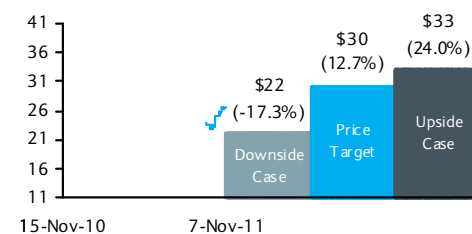
Upside case \$33

Could see upside from asset dropdown or third party acquisition over next 12 months, which could drive higher growth rate, increasing forward distribution estimate to \$1.60 and lowering target yield to 4.85%

Downside case \$22

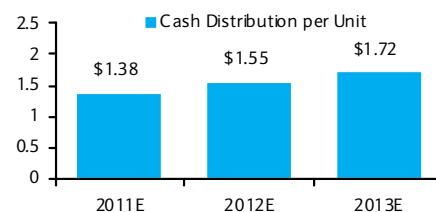
Weakening macro conditions or failure to generate expected returns on current growth projects could increase equity risk premium, increasing target yield to 6.5% and lowering forward distribution estimate to \$1.40.

Upside/downside scenarios



Source: FactSet

Cash Distribution per Unit



Source: Company data, Barclays Capital

9 November 2011

Note: FY end Dec.

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High-return organic projects should drive double-digit distribution growth

TLLP has 7 projects totalling \$29mm gross or \$20.5mm net (parent will reimburse TLLP \$8.5mm for Connolly gathering and Salt Lake City/Burley ethanol blending projects) and expected to generate incremental EBITDA of \$11.5mm, translating to a 1.8x multiple. Of the 7 projects, 3 are in the emerging Bakken. The \$6mm High Plains expansion will add pumping, tankage and truck unloading capacity related to TSO's 10,000 bpd Mandan, ND refinery expansion. Expected EBITDA is \$5mm and in-service date is 2Q12. The \$1.5mm Rangeland interconnect project will connect TLLP's High Plains pipeline system to Rangeland's North Dakota terminal and pipeline. Expected EBITDA is \$1.5mm and in-service date is 2Q12. The \$4mm Connolly gathering project will build a new gathering expected to transport 1,500 bpd of crude. TSO will reimburse TLLP the \$4mm cost. The project is EBITDA neutral, as it replaces trucked barrels with piped barrels. However, Connolly provides TLLP with a new gathering hub for future expansions. Expected in-service date is 1Q12. The remaining projects are terminal expansions in Los Angeles and Stockton, CA and ethanol blending in Burley, ID (Salt Lake completed in 2Q11) with expected in-service dates from 1Q12 to 4Q12.

Figure 1: TLLP Expansion Capex (\$ in million, net)

Project	Capex	EBITDA	multiple	Expected completion
Salt Lake/Burley ethanol blending (a)	0.0	1.0	n/a	2Q11/2Q12
Connolly gathering (a)	0.0	0.0	n/a	1Q12
Los Angeles terminal permit expansion	0.0	1.0	n/a	1Q12
High Plains Pipeline	6.0	5.0	1.2x	2Q12
Rangeland interconnect	1.5	1.5	1.0x	2Q12
Los Angeles terminal transmix	3.0	0.5	6.0x	3Q12
Stockton terminal	10.0	2.5	4.0x	4Q12
Total	20.5	11.5	1.8x	

(a) TSO is reimbursing TLLP \$4.5mm for ethanol and \$4mm for Connolly projects

Source: Company filings

No update on first dropdown but we expect color at Dec analyst day

TLLP is in discussions with TSO regarding the first asset dropdown. However, no further color such as size or type of asset was provided during the 11/8 earnings conference call. We believe TLLP will provide more detail on its dropdown schedule at the 12/5 analyst day in New York. We forecast TLLP to do a \$50mm dropdown in 1Q12.

Balance sheet update

At the end of 3Q, TLLP had \$100mm of availability on its \$150mm revolver. Debt/EBITDA was below 1x. Given its low leverage, TLLP will likely not raise equity for its current slate of organic projects and its first dropdown, assuming the drop is below \$100mm.

Figure 2: Potential asset dropdowns

Asset	Location	Description
Refined products terminals	Martinez, CA	38,000 bpd
Refined products terminals	Nikiski, AK	211,000 barrels storage capacity & 2,6000 bpd truck rack
Refined products terminals	Anacortes, WA	1,700 bpd
Marine terminals	Long Beach, CA	104,200 bpd crude/refined products
Marine terminals	Martinez, CA	61,000 bpd crude and 425,000 barrels storage
Marine terminals	Martinez, CA	product wharf with limited volumes currently
Marine terminals	Nikiski, AK	74,000 bpd crude/refined products and 930,000 barrels storage
Marine terminals	Anacortes, WA	54,000 bpd crude/refined products and 1.4MM barrels storage
Pipelines	Nikiski, AK	31,000 bpd volume serving TSO AK refinery
Pipelines	Los Angeles, CA	9 lines with 45,000 bpd volume serving TSO LA refinery

Source: Company filings

3Q Review

3Q EBITDA \$17.7mm was vs. our \$14.2mm estimate and \$14.3mm consensus. Distributable cash flow was \$17.2mm vs. our \$12.6mm estimate. Upside to our estimates was driven by higher-than-expected crude gathering and terminalling volumes, lower-than-expected maintenance capex and gain from product sale under terminal loss allowance. TLLP posted its first distribution bump sooner than we forecasted. The Partnership increased its quarterly distribution 3.7% QoQ to \$0.35 per unit (\$1.40 annualized). Distribution coverage was a healthy 1.58x in 3Q. In addition, management slightly increased its quarterly EBITDA run rate by \$0.5mm to \$15.5mm.

Figure 3: TLLP Operating Metrics

	2Q11	3Q11	% change
Crude oil pipeline volumes (bpd)	55,717	59,530	6.8%
Crude oil pipeline tariff (per barrel)	\$1.24	\$1.35	8.9%
Crude oil trucking volumes (bpd)	23,212	23,879	2.9%
Crude oil trucking revenue (per barrel)	\$2.86	\$2.90	1.4%
Terminalling volumes (bpd)	134,579	144,997	7.7%
Terminalling revenue (per barrel)	\$0.76	\$0.78	2.6%
Storage capacity reserved (barrels)	878,000	878,000	0.0%
Storage fee (per month)	\$0.50	\$0.51	2.0%
Short-haul pipeline volumes (bpd)	71,395	69,658	-2.4%
Short-haul pipeline tariff (per barrel)	\$0.25	\$0.25	2.0%

Source: Company filings

3Q11 marked TLLP's first full quarter results as an MLP (IPO in April). As such, YoY comps are not helpful. That being said, we will review 3Q11 results vs. 2Q11 (from April 26). Overall pipeline, trucking and terminal volumes increased QoQ. Crude oil pipeline volumes grew 6.8% due to improved weather conditions in North Dakota (2Q had flooding). Trucking volumes increased 2.9%. Crude pipeline tariff increased 8.9% YoY to \$1.35 largely due to a 7% increase in the tariff rate beginning July 1. Trucking fees increased 1.4% due to

an inflation adjustor. Terminal volumes increased 7.7% due to higher seasonal demand and higher utilization. Terminal fees per barrel increased 2.6% partially due to inflation adjustor. Storage capacity and short-haul pipeline fees increased 2% also due to inflation adjustments. Short-haul pipe volumes declined 2.4%.

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Primary Stocks (Ticker, Date, Price)

Tesoro Logistics LP (TLLP, 08-Nov-2011, USD 26.85), 1-Overweight/2-Neutral

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Calumet Specialty Products Partners, L.P. (CLMT)	Chesapeake Midstream Partners LP (CHKM)	Constellation Energy Partners LLC (CEP)
Copano Energy LLC (CPNO)	Crosstex Energy LP (XTEX)	DCP Midstream Partners LP (DPM)
Eagle Rock Energy Partners LP (EROC)	El Paso Pipeline Partners, L.P. (EPB)	Enbridge Energy Partners (EEP)
Encore Energy Partners LP (ENP)	Energy Transfer Equity LP (ETE)	Energy Transfer Partners LP (ETP)
Enterprise Products Prtns LP (EPD)	Exterran Partners LP (EXLP)	Ferrellgas Partners (FGP)
Global Partners LP (GLP)	Holly Energy Partners LP (HEP)	Inergy L.P. (NRGY)
Kinder Morgan Energy Prtnrs LP (KMP)	Linn Energy LLC (LINE)	Magellan Midstream Partners, LP (MMP)
Markwest Energy Partners, LP (MWE)	Niska Gas Storage Partners LLC (NKA)	NuStar Energy LP (NS)
Oiltanking Partners LP (OILT)	ONEOK Partners LP (OKS)	PAA Natural Gas Storage LP (PNG)
Plains All American Pipeline (PAA)	Regency Energy Partners LP (RGP)	Spectra Energy Partners, LP (SEP)

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TC Pipelines, LP (TCLP)	Teekay Offshore Partners LP (TOO)	Tesoro Logistics LP (TLLP)
Vanguard Natural Resources (VNR)	Western Gas Partners LP (WES)	Williams Partners LP (WPZ)

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Tesoro Logistics LP (TLLP)

USD 26.85 (08-Nov-2011)

Stock Rating

1-OVERWEIGHT

Sector View

2-NEUTRAL

Rating and Price Target Chart - USD (as of 08-Nov-2011)

Currency=USD



Date	Closing Price	Rating	Price Target
08-Jun-2011	24.30	1-Overweight	28.00

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Valuation Methodology: Our \$30 price target is based on a 12-month distribution run rate of \$1.58 and a 5.25% target yield.

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