

TESORO LOGISTICS LP

First dropdown expected in 2Q

Raising price target to \$36 from \$34 on growth visibility and low interest rates. Our double-digit-distribution growth estimates (14.6% in 2012 and 15.1% 3-year CAGR) are supported by \$100mm of high-return organic projects in the Bakken and West Coast terminals plus a pending dropdown (we estimate \$65mm). Our \$36 PT is based on a 12-month distribution run rate of \$1.69 (unchanged) and 4.7% target yield (previously 5%). The 30 bps yield compression is due to a slight increase in our 2013 and 2014 distribution estimates and extended low interest rate environment.

4Q results modestly below estimates, but management reiterates 2013 EBITDA guidance of \$100mm. EBITDA was \$14.1mm vs. our \$15.5mm estimate and \$15.3mm consensus. Distributable cash flow was \$12.6mm vs. our \$13.5mm estimate. Variance to our estimates was attributable to higher operating expenses more than offsetting higher crude pipeline and trucking volumes. Costs increased due to higher third-party trucking costs and repairs to the High Plains Pipeline (from last summer rain). Importantly, management maintained 2013 EBITDA guidance of \$100mm, representing 60% growth from current run rate of \$63mm.

Distribution up 7.4%, Martinez terminal dropdown expected 2Q. The Partnership increased its quarterly distribution 7.4% from the initial distribution in 2Q11 and 3.6% QoQ to \$0.3625 per unit (\$1.45 annualized). Distribution coverage was 1.11x in 4Q. The Martinez, CA crude oil marine terminal dropdown should take place in early 2Q. Combining our estimate of \$65mm for the dropdown and approximately \$100mm of organic projects (net of parent reimbursements), TLLP has visible growth from \$165mm of expansion capex through 2013 at an attractive blended multiple of less than 3.5x. Given TLLP's low leverage of 1x, we expect expansion capex to be funded with debt and without any equity issuance.

TLLP: Quarterly and Annual EPS (USD)

	2011		2012		2013			Change y/y		
FY Dec	Old	New	Old	New	Cons	Old	New	Cons	2012	2013
Q1	0.00A	0.00A	0.40E	0.38E	0.38E	N/A	N/A	0.52E	38%	N/A
Q2	0.25A	0.25A	0.41E	0.42E	0.42E	N/A	N/A	0.55E	68%	N/A
Q3	0.49A	0.49A	0.58E	0.54E	0.50E	N/A	N/A	0.60E	10%	N/A
Q4	0.41E	0.37A	0.55E	0.53E	0.50E	N/A	N/A	0.58E	43%	N/A
Year	1.15E	1.11A	1.93E	1.86E	1.80E	N/A	2.35E	2.21E	68%	26%
P/E		30.1		18.0			14.2			

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 5.

Stock Rating **1-OVERWEIGHT**
Unchanged

Sector View **2-NEUTRAL**
Unchanged

Price Target **USD 36.00**
raised 6% from USD 34.00

Price (07-Feb-2012) USD 33.38
Potential Upside/Downside +8%
Tickers TLLP

Market Cap (USD mn) 1015
Shares Outstanding (mn) 30.20
Free Float (%) 82.67
52 Wk Avg Daily Volume (mn) 0.1
Dividend Yield (%) 1.8
Return on Equity TTM (%) 34.24
Current BVPS (USD) 3.42
Source: FactSet Fundamentals

Price Performance Exchange-NYSE
52 Week range USD 34.76-21.07



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)	2011A	2012E	2013E	2014E	CAGR
EBITDA	38	73	104	122	48.1%
EBIT	30	63	91	107	53.5%
Pre-tax income	35	59	82	95	40.1%
Net income	35	59	82	95	40.1%
Reported EPS	\$1.11	\$1.86	\$2.35	\$2.38	29.0%
Diluted shares (m)	31	31	33	35	4.8%
Cash Distribution per Unit	\$1.39	\$1.59	\$1.86	\$2.12	15.1%

Balance Sheet and Cash flow (\$m)	CAGR				
Cash	18	18	8	17	-2%
Net PP&E	139	235	328	416	44.0%
Debt	50	135	200	240	68.7%
Operating cash flow	34	68	95	110	48%
Distributable cash flow	35	63	89	103	43.0%

Valuation and leverage metrics	Average				
Distribution coverage ratio %	117.7	127.0	138.4	123.1	127
EV/EBITDA (x)	28.4	14.7	10.2	8.7	15.5
EV/EBITDA less MC, GP (x)	21.8	16.2	11.4	10.1	14.9
Price/DCF(x)	29.8	16.4	12.8	12.5	17.9
EBITDA/interest expense (x)	23.4	16.8	11.3	10.2	15.4
Debt/EBITDA (x)	1.0	1.9	1.9	2.0	1.7

Operating metrics (volumes in 000 bpd)	Average				
Crude oil pipeline volumes	57.9	59.9	61.1	62.9	60.4
Trucking volume	24.0	26.0	27.3	28.3	26.4
Terminal volumes	134.0	140.0	141.4	143.5	139.7
Short-haul pipeline volumes	65.6	69.5	72.0	72.7	70.0
Storage capacity (000 bbls)	878	878	886	886	882

Stock Rating	1-OVERWEIGHT
Sector View	2-NEUTRAL
Price (07-Feb-2012)	\$33.38
Price Target	\$36
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.

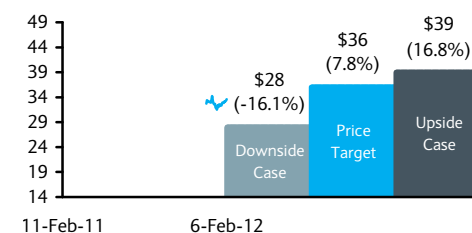
Upside case **\$39**

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 \$1.72 and lowering target yield to 4.4%

Downside case **\$28**

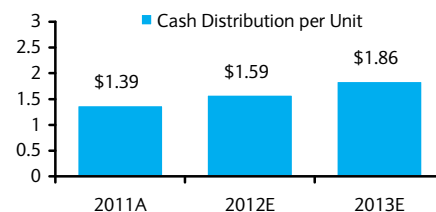
Weakening macro conditions or failure to generate expected returns on current growth projects could increase equity risk premium, increasing target yield to 5.5% and lowering forward distribution estimate to \$1.53.

Upside/downside scenarios



Source: FactSet

Cash Distribution per Unit



Source: Company data, Barclays Capital

Note: FY end Dec.

Organic projects and dropdowns support growth

TLLP has approximately \$97mm of organic projects (net of parent reimbursements) through 2013. In addition, TLLP plans to do its first dropdown in early 2Q11, which we estimate at \$65mm. The combined \$162mm of organic projects and dropdown is expected to generate approximately \$50mm or an attractive blended multiple of 3.2x (assuming organic projects at 2.3x and dropdown at 8.0x). Cash flow stability from the expansion capex is supported by long-term contracts with TSO.

In December 2011, TLLP announced \$80mm of new organic projects, comprised of crude gathering and truck volume expansions in the Bakken and refined product terminal expansions. In the Bakken, TLLP is adding approximately \$53mm of new projects to increase crude gathering capacity on its High Plains system and trucking capacity to accommodate TSO's growing demand for Bakken crude. Combining TSO's 10,000 bpd Mandan refinery expansion, 30,000 bpd Anacortes rail project and gathering expansions in the Bakken, TLLP's High Plains system is expected to add 50,000 bpd of new volumes by 2013, raising its total volumes to more than 100,000 bpd.

On the trucking side, TLLP is expanding its fleet and expects volumes to increase 10,000 bpd to 35,000 bpd by 2013. In addition, TLLP lengthened its trucking contract with TSO from 2 years to 5 years and increased minimum volume commitments from 22,000 bpd to 27,000 bpd in 2012 and 32,000 bpd in 2013. The remaining new projects comprise approximately \$27mm for terminal expansions at Los Angeles, Stockton and Mandan. Including previously announced storage projects, TLLP plans to invest approximately \$40mm on terminal projects through 2013, which is expected to increase volumes by 40,000 bpd to approximately 185,000 bpd.

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

Project	Capex	EBITDA	multiple	Expected completion
Salt Lake/Burley ethanol blending (a)	0.0	1.0	n/a	2Q11/2Q12 - completed
Connolly gathering (a)	0.0	0.0	n/a	1Q12
Los Angeles terminal permit expansion	0.0	2.5	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	2013
Stockton terminal	10.0	4.0	2.5x	4Q12
New terminal expansion projects	18.0	10.0	1.8x	2013
Various growth plan projects	58.0	18.0	3.2x	2013
Total	96.5	42.5	2.3x	

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

Source: Company filings

First dropdown expected early 2Q12

Management announced the first dropdown will be the Martinez, CA crude oil marine terminal serving TSO's 166,000 bpd Golden Eagle refinery (TSO's largest refinery). Expected close is early 2Q12. While management did not provide a purchase price (terms still being discussed), we assume a price tag of approximately \$65mm based on 8x multiple on EBITDA of \$8mm.

The Martinez crude oil marine terminal is comprised of 145,000 bpd of wharf capacity, 425,000 bpd of storage capacity and interconnecting pipes. Similar to other TLLP assets, the Martinez terminal cash flows will be supported by a 10-year contract with TSO with minimum volume commitment for 90% of projected volumes of 70,000 bpd. Given TLLP's high liquidity (\$100mm of availability on \$150mm revolver) and low leverage (Debt/EBITDA 1x), we expect the dropdown and growth projects to be financed with debt. In addition, TLLP anticipates expanding its revolver from \$150mm to \$300mm in association with the Martinez dropdown.

4Q Review

Q4 EBITDA \$14.1mn vs. our estimate of \$15.5mn and consensus \$15.3mn. Distributable cash flow was \$12.6mn vs. our \$13.5mn estimate. Variance to our estimates was attributable to higher operating expenses more than offsetting higher crude pipeline and trucking volumes. Costs increased due to higher third-party trucking costs and repairs to the High Plains Pipeline (from last summer rain). The Partnership increased its quarterly distribution 3.6% QoQ and 7.4% above its initial quarterly distribution, to \$0.3625 per unit (\$1.45 annualized), above our \$0.35 estimate. Distribution coverage came in at 1.11x.

Figure 2: TLLP Operating Metrics

	3Q11	4Q11	% change
Crude oil pipeline volumes (bpd)	59,530	60,064	0.9%
Crude oil pipeline tariff (per barrel)	\$1.35	\$1.37	1.5%
Crude oil trucking volumes (bpd)	23,879	27,007	13.1%
Crude oil trucking revenue (per barrel)	\$2.90	\$2.96	2.1%
Terminalling volumes (bpd)	144,997	137,378	-5.3%
Terminalling revenue (per barrel)	\$0.78	\$0.79	1.3%
Storage capacity reserved (barrels)	878,000	878,000	0.0%
Storage fee (per month)	\$0.51	\$0.51	0.0%
Short-haul pipeline volumes (bpd)	69,658	64,468	-7.5%
Short-haul pipeline tariff (per barrel)	\$0.25	\$0.25	-1.6%

Source: Company filings

Crude oil pipeline volumes grew 0.9% over QoQ driven by increased Bakken production. Trucking volumes increased 13.1% QoQ as TLLP utilized more contract carriers. Crude pipeline tariff increased 1.5% to \$1.37 and trucking fees increased 2.1% to \$2.96. Volumes in the terminalling, transportation and storage segment was down due to seasonally lower demand. As such, Terminal volumes decreased 5.3% and short-haul pipeline volumes declined 7.5% QoQ. Terminal fees increased 1.3% to \$0.79 per barrel while short-haul pipe fees declined 1.6%. Storage capacity and fee per month remained flat relative to 3Q.

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Primary Stocks (Ticker, Date, Price)

Tesoro Logistics LP (TLLP, 07-Feb-2012, USD 33.38), 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)	Crestwood Midstream Partners LP (CMLP)	Crosstex Energy LP (XTX)
DCP Midstream Partners LP (DPM)	Eagle Rock Energy Partners LP (EROC)	El Paso Pipeline Partners, L.P. (EPB)
Enbridge Energy Partners (EEP)	Enduro Royalty Trust (NDRO)	Energy Transfer Equity LP (ETE)
Energy Transfer Partners LP (ETP)	Enterprise Products Ptns LP (EPD)	Exterran Partners LP (EXLP)
Ferrellgas Partners (FGP)	Global Partners LP (GLP)	Holly Energy Partners LP (HEP)

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Linn Energy LLC (LINE)	Magellan Midstream Partners, LP (MMP)	Markwest Energy Partners, LP (MWE)
Memorial Production Partners (MEMP)	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)	Rose Rock Midstream, L.P. (RRMS)
Spectra Energy Partners, LP (SEP)	Suburban Propane Partners (SPH)	Sunoco Logistics Partners L.P. (SXL)
Targa Resources Partners LP (NGLS)	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 33.38 (07-Feb-2012)

Stock Rating

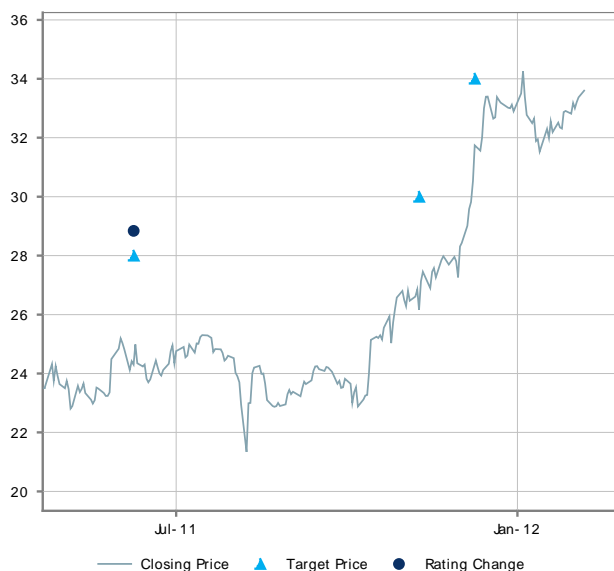
1-OVERWEIGHT

Sector View

2-NEUTRAL

Rating and Price Target Chart - USD (as of 07-Feb-2012)

Currency=USD



Date	Closing Price	Rating	Price Target
09-Dec-2011	31.74		34.00
09-Nov-2011	26.16		30.00
08-Jun-2011	24.30	1-Overweight	28.00

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