

# Tesoro Logistics LP (TLLP)

Rating	<b>OUTPERFORM* [V]</b>
Price (27 May 11, US\$)	24.49
Target price (US\$)	28.00 <sup>1</sup>
52-week price range	24.50 - 22.81
Market cap. (US\$ m)	740.02
Adjusted EV	—

\*Stock ratings are relative to the relevant country benchmark.

<sup>1</sup>Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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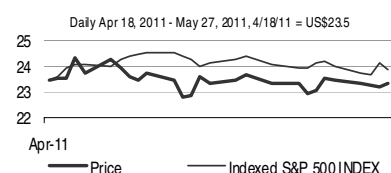
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## INITIATION

## Drop-downs + Bakken Potential = Growth

- **Initiating Coverage of Tesoro Logistics LP (TLLP) with Outperform:** TLLP was formed to be Tesoro Corp's (TSO) vehicle to grow its logistics infrastructure business. Initially, substantially all of TLLP's revenue will be derived from TSO under various long-term, fee-based agreements that include minimum volume commitments. Contracts with TSO provide cash flow stability while drop-downs provide visible upside. Our model assumes that TLLP will acquire \$200 million of assets from Tesoro Corp. from 2012-2015, enabling the MLP to grow its distribution at a five year CAGR of 8.0%.
- **Strategic Position in Bakken Shale/Williston Basin Provides Upside:** TLLP's gathering assets are located in one of the premier and actively drilled oil plays in the U.S. TSO is the primary shipper on TLLP's High Plains system. However, the partnership is evaluating expansion of its system to access new sources of production and make outlet connections to third party pipelines. Importantly, these connections can be made with modest capital requirements. TLLP is also considering construction of a rail facility at TSO's Mandan refinery to move crude oil in excess of the refinery's needs.
- **Third Party Business/Acquisitions Another Source for Growth:** TLLP may partner with TSO in the pursuit of third party acquisitions. For example, TSO and TLLP could jointly bid on a refining acquisition with the refinery assets acquired by TSO and logistics assets acquired by the MLP.
- **Price Target of \$28:** We derived our price target through a three-stage distribution discount model (DDM). Our assumptions include a discount rate of 9.0%, distribution CAGR of 8.0% over the next five years and 5.0% over the following five years and a terminal growth rate of 1.5%. Our \$28 price target implies a yield of 5.1% in the second quarter of 2012 (12 months out) based on a forecast annualized distribution of \$1.43 per unit.

## Share price performance



On 05/27/11 the S&P 500 INDEX closed at 1331.1

Qtrly EPU	Q1	Q2	Q3	Q4
2010A	—	—	—	—
2011E	0.28	0.31	0.33	0.34
2012E	0.31	0.31	0.35	0.35

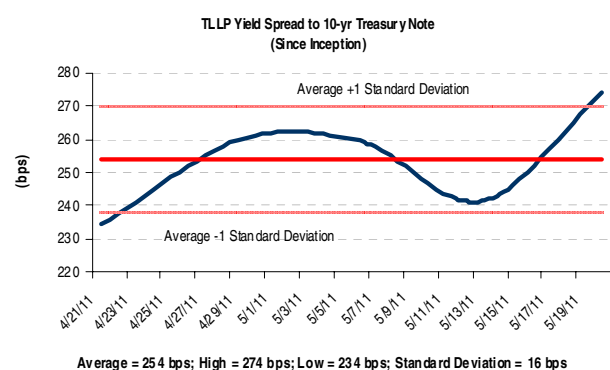
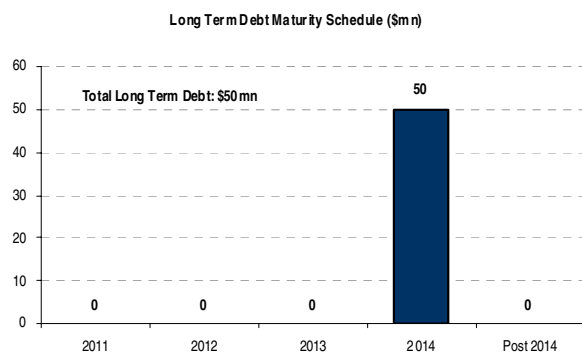
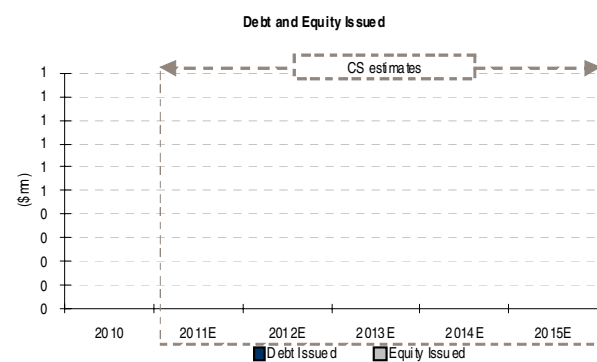
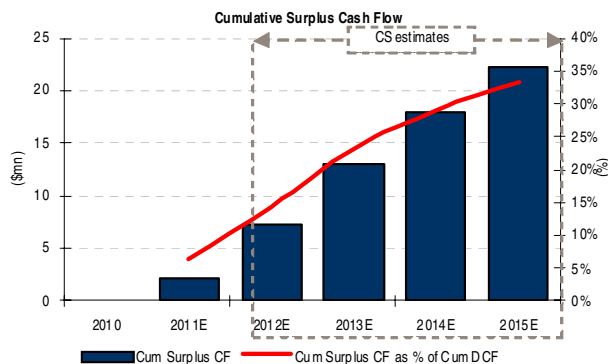
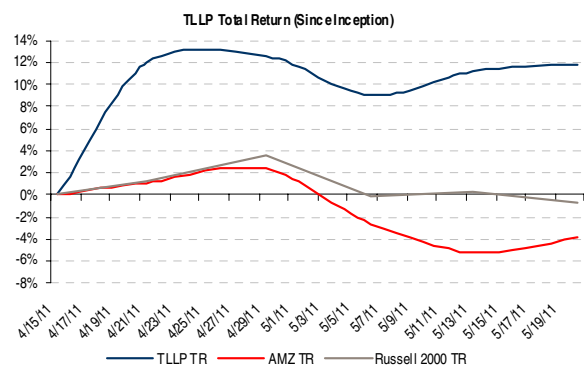
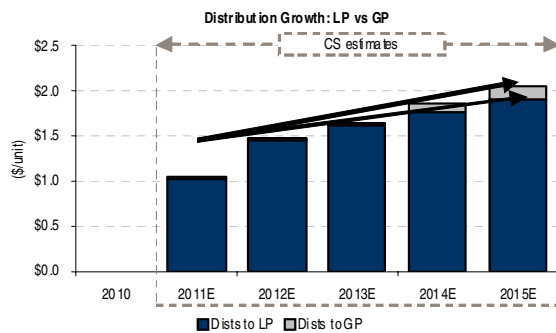
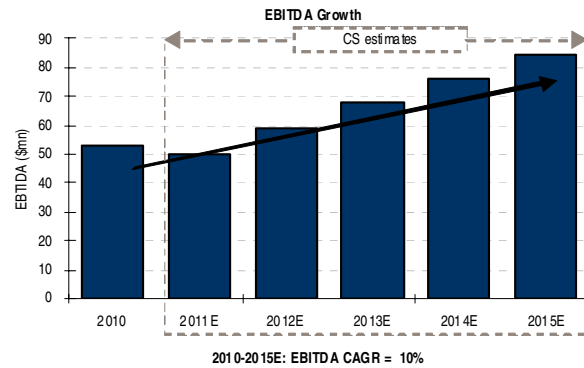
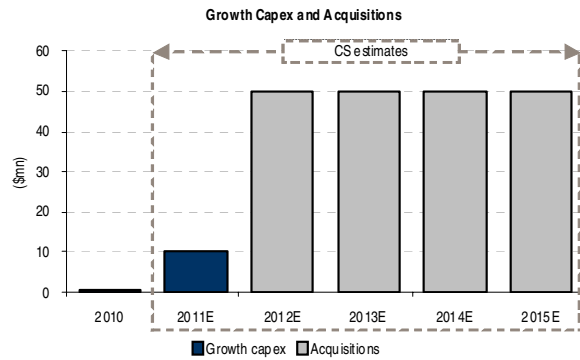
## Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EBITDA (US\$ m)	53	50	59	68
Distribution/unit - DPU (US\$ m)	—	1.03	1.46	1.61
Earnings/unit - EPU (US\$)	1.36	1.26	1.31	1.45
EPU - consensus (US\$)	—	0.97	1.30	1.21
Distributable CF/unit (US\$)	—	1.03	1.46	1.61
Distribution coverage (x)	—	1.07	1.11	1.12
P/DCF (x)	—	—	—	—
Adj. current EV/EBITDA (x)	—	15.3	15.3	19.5
Dist./unit - DPU (Next Qtr.,	—	Distribution yield (%)		
Units outstanding (m)	30	GP take (%)		
Net debt current (US\$ m)	45.7	Net debt/EBITDA (x)		
6-month ADV (000's)	274,488	Net debt/market cap. (%)		
Free float (%)	—	Institutional ownership (%)		

Source: Company data, Credit Suisse estimates.

**DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS.** U.S. Disclosure: Credit Suisse 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.

## Exhibit 1: TLLP Charts Page



Source: Partnership data, Credit Suisse estimates.

## Investment Thesis

We are initiating coverage of Tesoro Logistics LP (TLLP) with an Outperform rating and price target of \$28. TLLP is a fee-based, growth oriented MLP formed by Tesoro Corp to own, operate and acquire crude oil and refined products logistics assets. In other words, TLLP was formed to be Tesoro Corp's vehicle to grow its logistics infrastructure business. Initially, substantially all of TLLP's revenue will be derived from Tesoro, primarily under various long-term, fee-based commercial agreements that include minimum volume commitments. Near term, there is visible growth from already identified projects and future drop-downs or asset sales from Tesoro Corp. Longer term, we expect that TLLP's third party business will grow both organically and via acquisitions. Our model assumes that TLLP will acquire \$200 million of assets from Tesoro Corp. from 2012-2015, enabling the MLP to grow its distribution at a five year CAGR of 8.0%.

TLLP's current valuation does not fully reflect the partnership's growth prospects and low risk profile, in our view. Hence, we rate the stock Outperform.

We are initiating coverage of TLLP with an Outperform Rating

## Company Description

Tesoro Logistics (TLLP) is a fee-based, growth oriented MLP formed by Tesoro Corp (TSO) to own, operate and acquire crude oil and refined products logistics assets. TLLP's assets consist of a crude oil gathering system in the Bakken Shale/Williston Basin area, eight refined products terminals in the western United States, and a crude oil and refined products storage facility and five related short-haul pipelines in Utah.

Tesoro Corp is the second largest refiner in the US with core area of operations in the midwestern and western United States. It owns and operates seven refineries that serve markets in Alaska, Arizona, California, Hawaii, Idaho, Minnesota, Nevada, North Dakota, Oregon, Utah, Washington and Wyoming. Tesoro Corp trades under the symbol TSO and has a market cap that approximates \$3.7 billion. TSO retains a significant ownership in the MLP as it will own about 51% of the limited partner interest and the 2.0% general partner interest and associated incentive distribution rights.

Exhibit 2: TLLP Asset Map



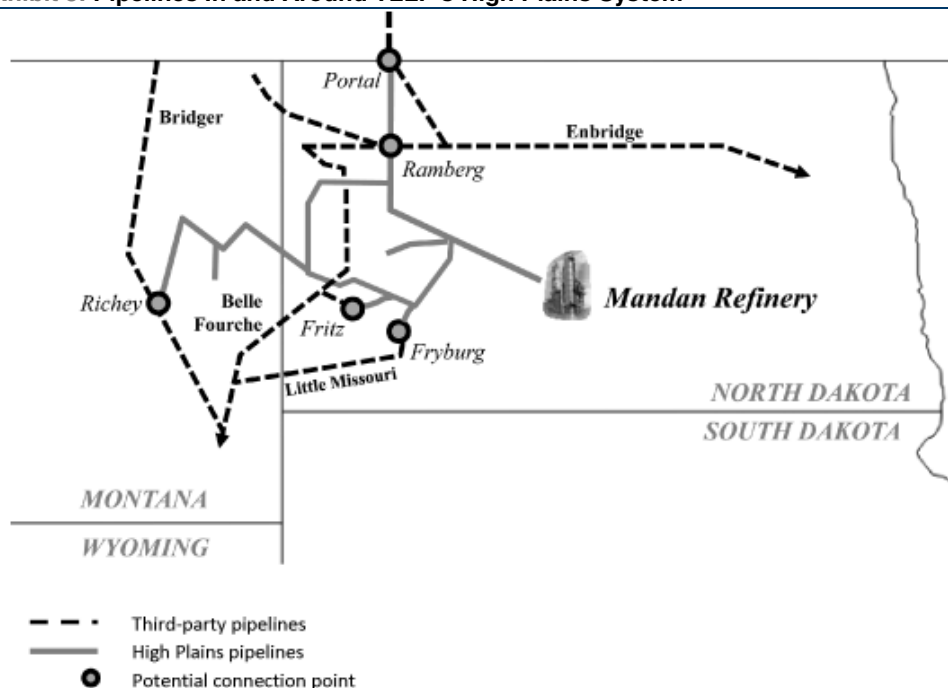
Source: Company data, Credit Suisse estimates

### TLLP's assets are organized into two segments:

- Crude Oil Gathering** will comprise approximately 48% of projected 2011 EBITDA. Revenues from this segment come from TLLP's High Plains system which gathers and transports crude oil from North Dakota and Montana to Tesoro's Mandan refinery. High Plains is situated within the Bakken shale; perhaps the most exciting oil play in the US today, and is well positioned for growth. TLLP will spend approximately \$6 to \$7 million over the next year to expand its High Plains system to accommodate Tesoro's announced 10,000 barrels per day expansion (to 68,000 bpd) of its Mandan refinery. This project is expected to add about \$6 million to TLLP's EBITDA beginning in the second quarter of 2012. In addition, TLLP is in discussion with third parties regarding expanding its system to gather their crude from the Bakken shale.

High Plains System  
Transports Bakken Oil to  
Tesoro's Mandan Refinery

**Exhibit 3: Pipelines In and Around TLLP's High Plains System**



Source: Partnership reports

- Terminalling, Transportation and Storage** will comprise approximately 52% of projected 2011 EBITDA. TLLP owns and operates eight refined products terminals that provide distribution primarily for refined products produced at Tesoro's refineries. Most of the revenues generated in this segment come from transferring refined products from terminals to trucks and barges. These terminals are located in Los Angeles and Martinez, California; Salt Lake City, Utah; Kenai, Alaska; Anacortes, Washington; and Mandan, North Dakota. Growth in this segment will be tied to increases in gasoline consumption, better asset utilization, in part by pursuing third party volumes, and pursuing small expansion projects, such as adding ethanol blending capabilities at several terminals.

**Exhibit 4: TLLP Terminals**

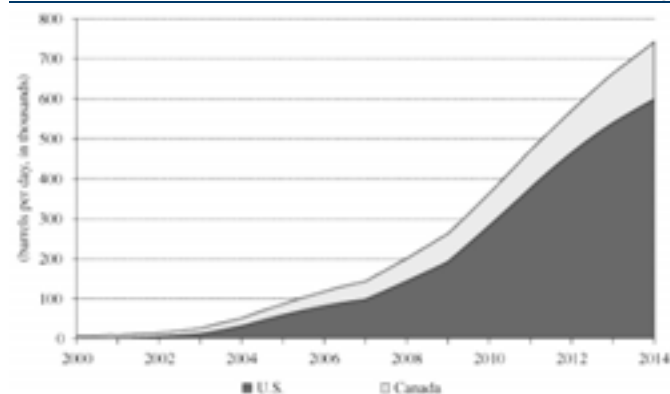
Terminal Location	Products Handled	Storage Capacity (MBbls)	Supply Source	Mode Of Delivery	Terminalling Capacity (MBbls/d)	2010 Throughput	Capacity Utilization
Los Angeles, California	Gasoline; Diesel	6	Refinery	Truck	48	35	73.5%
Stockton, California	Gasoline; Diesel	66	Refinery	Truck	9	9	90.7%
Salt Lake City, Utah	Gas, Diesel, Jet Fuel	18	Refinery	Truck	42	25	60.6%
Anchorage, Alaska	Gasoline, Diesel, Jet Fuel	883	Pipeline; Barge	Truck; Barge; Pipeline	63	15	24.0%
Mandan, North Dakota	Gasoline, Diesel, Jet Fuel	-	Refinery	Truck	23	10	44.3%
Vancouver, Washington	Gasoline; Diesel	298	Pipeline; Barge	Truck; Barge	20	8	43.0%
Boise, Idaho	Gasoline, Diesel, Jet Fuel	254	Pipeline	Truck	23	8	34.1%
Burley, Idaho	Gasoline; Diesel	147	Pipeline	Truck	12	3	29.0%
<b>Total</b>		<b>1,672</b>			<b>239</b>	<b>114</b>	<b>47.7%</b>

Source: Partnership data, Credit Suisse estimates

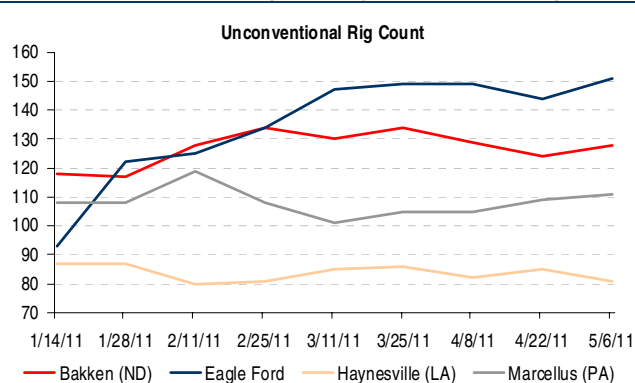
**Bakken Shale**

The Bakken Shale play is one of the premier oil plays in North America today. This unconventional play extends from North Dakota and eastern Montana in the United States into the Canadian provinces of Saskatchewan and Manitoba. TLLP's focus is in the Bakken Shale/Williston Basin in Montana and North Dakota, the heart of the play. In 2008, the US Geological Survey (USGS) estimated that reserves in place could be as high as 3.65 billion barrels of oil. The Bakken Shale play in North Dakota is currently the most actively drilled oil play in the US. According to the Land Rig Newsletter, the current rig count is 128 (all time high was 137 in December 2010).

Oil production has ramped to 359,589 barrels per day in March 2011, from 137,642 bpd in January 2008 according to the North Dakota Industrial Commission (NDIC). TLLP will continue to evaluate opportunities to expand its High Plains system to accommodate increasing crude production from the Bakken Shale.

**Exhibit 5: Bakken Production is Expected to Grow Rapidly**

Source: Partnership reports, PIRA Energy Group

**Exhibit 6: Bakken Drilling Activity Remains Strong**

Source: Land Rig Newsletter, Credit Suisse

**Valuation**

We derive our price target of \$28 for TLLP through a three-stage distribution discount model (DDM). Our assumptions include a discount rate of 9.0%, distribution CAGR of 8.0% over the next five years and 5.0% over the following five years and a terminal growth rate of 1.5%. To arrive at our discount rate we use a blended approach combining the discount rate implied by the capital asset pricing model with the discount rate implied by investors' assumed required rate of return (yield plus expected distribution growth). Our \$28 price target implies a yield of 5.1% in the second quarter of 2012 (12 months out) based on a forecast annualized distribution of \$1.43 per unit.

Exhibit 7: DDM Sensitivity

		Required Rate of Return						
		7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%
Terminal growth rate	0.0%	30	28	27	25	24	22	21
	0.5%	32	30	28	26	24	23	22
	1.0%	33	31	29	27	25	24	22
	1.5%	35	32	30	28	26	24	23
	2.0%	37	34	31	29	27	25	24
	2.5%	40	36	33	30	28	26	24
	3.0%	43	39	35	32	30	27	25

Source: Company data, Credit Suisse estimates

Exhibit 8: Target Yield Sensitivity

		Target Yield						
		3.6%	4.1%	4.6%	5.1%	5.6%	6.1%	6.6%
Distribution	\$1.54	42	37	33	30	27	25	23
	1.50	45	39	35	32	29	26	24
	1.46	45	40	36	32	29	27	25
	1.43	39	35	31	28	25	23	22
	1.40	39	34	30	27	25	23	21
	1.36	37	32	29	26	24	22	20
	1.32	34	30	26	24	22	20	18

Source: Company data, Credit Suisse estimates

TLLP currently trades at a yield of 5.5% compared to the median MLP yield of 6.1% for our coverage universe and at a 245-basis-point spread to 10-year treasury yield. TLLP currently trades at a price-to-2011E distributable-cash flow multiple of 17.7 times and price-to-2012E distributable-cash flow multiple of 16.6 times versus the median for our coverage of 14.7 times and 13.7 times, respectively.

Exhibit 9: Credit Suisse MLP Coverage Universe

		Current Stock Information				Valuation Metrics										Total Returns				
	Ticker	Price	Market	Current	Current	Rating	Price	Upside/	Expected	3-Yr	P/DCF			Adj. EV/EBITDA			YTD	1-Yr	3-Yr	5-Yr
		5/27/11	Cap (m)	Dist.	Yield		Target	Downside	Total	Dist	2010	2011E	2012E	2010	2011E	2012E				
Energy MLPs																				
Boardwalk Pipeline Partners, LP	BWP	\$29.20	\$5,624	\$2.08	7.1%	Outperform	\$35	20%	27%	3.2%	13.7x	14.7x	13.4x	14.2x	13.4x	12.8x	-3%	12%	43%	84%
Duncan Energy Partners	DEP	\$41.54	\$2,400	\$1.83	4.4%	Neutral	\$42	1%	6%	3.0%	23.0x	15.6x	12.5x	NA	NA	NA	33%	78%	163%	NA
DCP Midstream Partners	DPM	\$40.50	\$1,785	\$2.47	6.1%	Outperform	\$45	11%	17%	5.3%	16.3x	15.1x	13.9x	19.7x	15.1x	13.3x	12%	50%	81%	118%
Energy Transfer Partners, LP	ETP	\$47.59	\$9,245	\$3.57	7.5%	Outperform	\$56	18%	25%	3.7%	13.9x	13.6x	12.3x	13.7x	12.1x	10.5x	-5%	18%	26%	58%
Enterprise Products Partners, LP	EPD	\$41.64	\$35,392	\$2.39	5.7%	Outperform	\$46	10%	16%	5.2%	13.7x	14.6x	14.8x	15.2x	14.1x	13.5x	3%	36%	68%	137%
Kinder Morgan Energy Partners, LP	KMP	\$74.18	\$23,651	\$4.56	6.1%	Neutral	\$76	2%	9%	4.9%	16.6x	15.8x	14.7x	16.2x	14.7x	13.3x	9%	26%	56%	133%
Kinder Morgan Management, LLC	KMR	\$65.11	\$6,088	\$4.56	7.0%	Outperform	\$75	15%	22%	4.9%	14.5x	13.8x	12.9x	NA	NA	NA	1%	28%	49%	129%
Magellan Midstream Partners, LP	MMP	\$59.01	\$6,653	\$3.03	5.1%	Neutral	\$59	0%	5%	7.0%	16.2x	16.1x	14.5x	16.7x	14.8x	13.7x	7%	44%	81%	142%
Targa Resources Partners, LP	NGLS	\$34.41	\$2,916	\$2.23	6.5%	Outperform	\$40	16%	23%	8.3%	9.8x	11.2x	10.2x	12.0x	10.2x	9.0x	5%	71%	78%	NA
Niska Gas Storage Partners	NKA	\$19.57	\$1,323	\$1.40	7.2%	Neutral	\$21	7%	14%	3.8%	NA	NA	13.3x	NA	14.1x	11.7x	1%	14%	NA	NA
NuStar Energy, LP	NS	\$63.35	\$4,093	\$4.30	6.8%	Neutral	\$67	6%	13%	3.2%	14.3x	13.7x	13.0x	14.3x	12.9x	11.5x	-6%	24%	59%	84%
ONEOK Partners, LP	OKS	\$83.05	\$8,463	\$4.60	5.5%	Neutral	\$87	5%	10%	5.6%	18.2x	16.7x	15.9x	16.2x	14.1x	12.5x	7%	50%	67%	144%
Plains All American Pipeline, LP	PAA	\$62.14	\$9,267	\$3.88	6.2%	Outperform	\$67	8%	14%	4.6%	15.3x	14.5x	14.2x	16.7x	14.3x	13.3x	2%	16%	65%	87%
Spectra Energy Partners, LP	SEP	\$32.09	\$2,862	\$1.84	5.7%	Neutral	\$35	9%	15%	8.4%	16.0x	15.4x	14.4x	18.3x	15.8x	13.8x	0%	10%	56%	NA
Sunoco Logistics Partners, LP	SXL	\$84.67	\$2,805	\$4.72	5.6%	Neutral	\$89	5%	11%	5.9%	14.9x	14.5x	13.1x	14.6x	13.2x	12.2x	4%	39%	100%	184%
Western Gas Partners	WES	\$35.39	\$2,882	\$1.56	4.4%	Neutral	\$39	10%	15%	11.6%	15.8x	15.6x	14.6x	40.0x	14.0x	11.0x	19%	70%	156%	NA
Average					6.1%				15%	5.5%	15.5x	14.7x	13.6x		13.8x	12.3x	6%	37%	76%	118%
Median					6.1%				14%	5.1%	15.3x	14.7x	13.7x		14.1x	12.6x	3%	32%	67%	129%
Tesoro Logistics LP																				
TLLP	TLLP	\$24.49	\$747	\$1.35	5.5%	Outperform	\$28	14%	20%	7.3%	NA	17.7x	16.6x	NA	16.1x	13.8x	NA	NA	NA	NA
General Partners																				
Energy Transfer Equity	ETE	\$41.73	\$9,305	\$2.16	5.2%	Outperform	\$47	13%	18%	9.9%	19.2x	18.2x	16.2x	NA	NA	NA	10%	48%	59%	112%
Kinder Morgan Inc.	KMI	\$29.18	\$20,630	\$1.16	4.0%	Neutral	\$32	10%	14%	8.6%	NA	25.2x	22.6x	NA	NA	NA	NA	NA	NA	NA
NuStar GP Holdings	NSH	\$36.29	\$1,545	\$1.92	5.3%	Neutral	\$36	-1%	5%	6.5%	19.4x	18.2x	16.9x	NA	NA	NA	3%	41%	72%	NA
Targa Resources Corp.	TRGP	\$34.40	\$1,455	\$1.09	3.2%	Neutral	\$34	-1%	2%	19.3%	NA	27.2x	27.2x	NA	NA	NA	30%	NA	NA	NA
Average					4.4%				10%	11.1%	19.3x	22.2x	20.7x				14%	45%	65%	
Median					4.6%				9%	9.3%	19.3x	21.7x	19.8x				10%	45%	65%	
Indices																				
Alerian Index	AMZ	\$367			6.2%												4%	33%	57%	110%
Russell 2000 Index	RUT	\$836			1.1%												7%	26%	19%	23%
S&P 500 Index	SP50	\$1,331			1.8%												6%	23%	2%	15%
10-year Treasury Note	US10Y				3.1%															

Source: FactSet, Credit Suisse estimates.

## Strengths/Opportunities

- Strategic Position in Bakken Shale/Williston Basin Provides Upside:** TLLP's gathering assets are located in one of the premier and actively drilled oil plays in the U.S. TSO is the primary shipper on TLLP's High Plains system. However, the partnership is evaluating expansion of its system to access new source of production and make outlet connections to third party pipelines. Importantly, these connections can be made with modest capital requirements. TLLP is also considering construction of a rail facility at TSO's Mandan refinery to move crude oil in excess of the refinery's needs.



- **Contractual Arrangements with Tesoro Corp Provide Stable Source of Revenue.** TLLP has long-term (mostly ten-year commitments) fee-based contracts with Tesoro that also provide minimum volume commitments and fees that are indexed to inflation.
- **Potential Dropdowns from Tesoro Provide Visible Growth Opportunities.** Tesoro still has logistics assets with total aggregate book value of \$240 million that may be sold to TLLP. This compares to approximately \$193.0 million for the initial assets contributed to TLLP.

**Exhibit 10: TLLP Right Of First Offer Terminals**

Asset	Location	Terminalling Capacity (MBbls/d)	2010 Throughput	Capacity Utilization	Description
Golden Eagle Refined Products Terminal	Martinez, California	38	14	37.1%	Truck loading rack with three loading bays
Golden Eagle Marine Terminal	Martinez, California	145	50	34.3%	Single-berth dock, five crude oil storage tanks with combines capacity of 425,000 barrels
Golden Eagle Wharf Facility	Martinez, California	50	30	59.8%	Single-berth dock and related pipelines
Tesoro Alaska Pipeline	Nikiski, Alaska	48	36	75.0%	Approx. 69 miles of 10-inch pipeline
Nikiski Refined Products Terminal	Nikiski, Alaska	-	82	-	A truck loading rack with two loading bays
Los Angeles Crude Oil & Refined Products Pipeline System	Los Angeles, California	-	42	-	Nine separate DOT-regulated pipelines totaling approx. 17 miles
Anacortes Refined Products Terminal	Anacortes, Washington	-	2	-	Truck loading facility with two loading bays
Anacortes Marine Terminal and Storage Facility	Anacortes, Washington	-	31	-	Crude oil & refined products wharf and four storage tanks
Long Beach Marine Terminal	Long Beach, California	-	99	-	A dock with two vessels

Source: Partnership data, Credit Suisse estimates

- **Third Party Business/Acquisitions Another Source for Growth.** TLLP was formed in part to facilitate the growth of Tesoro's logistics business and to potentially partner with Tesoro in the pursuit of third party acquisitions. For example, Tesoro and TLLP could jointly bid on a refining acquisition with the refinery assets acquired by Tesoro and the logistics assets acquired by the MLP.
- **Financial Flexibility.** TLLP has a strong balance sheet with just \$50 million drawn under a \$150 million revolving credit facility. For perspective, EBITDA over the next twelve months should approximate \$50 million, so debt to EBITDA is just around 1.0 times and well below a target leverage of under 3.0 times. Also, the distribution coverage ratio is a conservative 1.1 times.

## Challenges/Risks

- **Tesoro accounts for nearly all of TLLP's revenues and revenues from Tesoro's minimum volume commitments are not sufficient to cover the minimum quarterly distribution.** More than 95% of TLLP's next twelve months total revenues is expected to come from Tesoro and approximately 84% of TLLP's revenues are forecasted to be generated from minimum volume commitments from Tesoro. This risk is mitigated by Tesoro's strong base of business, financial position and majority (52%) ownership of TLLP.
- **It is hard to predict the timing of drop-downs and/or third party acquisitions.** Our model and distribution forecast assumes that TLLP will acquire \$200 million of logistics assets from Tesoro over the period of 2012 through 2015. Although we assume \$50 million of annual drop-downs there is no explicit commitment from Tesoro and TLLP. The timing and amount of drop-downs will impact distribution growth.
- **Pipeline expansions in the Bakken Shale could displace trucking volumes on the High Plains gathering system.** Overall increases in volumes on the High Plains pipeline system is expected to more than offset potential volume declines in trucking volumes. Additionally, pipeline margins are higher than trucking volumes primarily because of the lower operating costs.

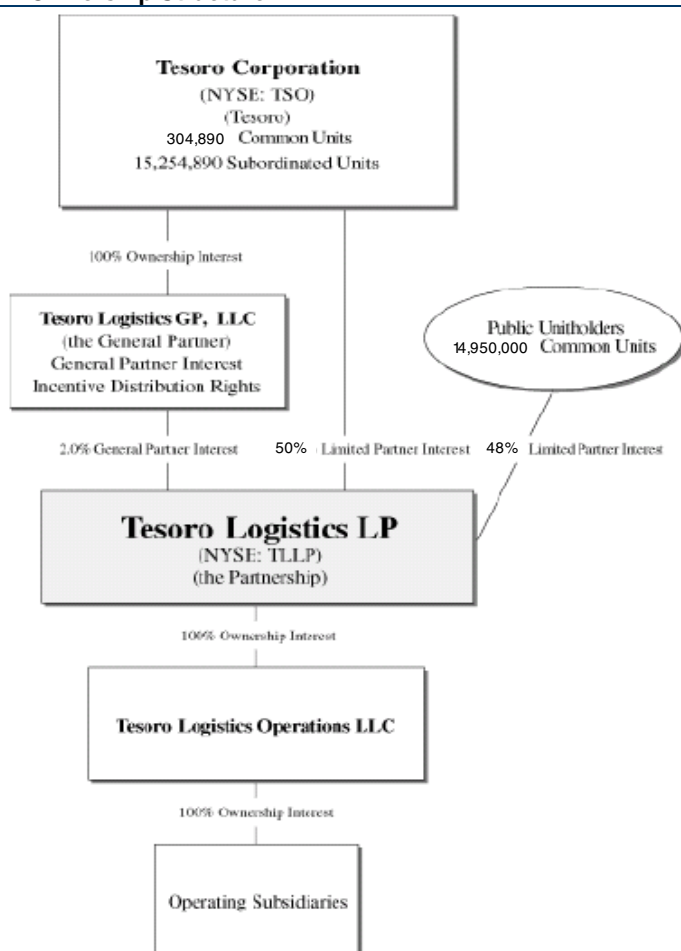
- **Tesoro, under certain circumstances could suspend, reduce, or terminate its contractual commitments.** These events include the closure or suspension of refining operations by Tesoro or a force majeure event that would prevent TLLP from being able to meet its service obligations.
- **Change in Taxation of Pass-through Entities.** As pass-through entities, MLPs currently pay no tax at the corporate level. A corporate tax on MLPs would negatively impact distributable cash flow across the sector and could negatively impact TLLP's ability to pay distributions. However, we view MLP tax reform as unlikely, as energy MLPs play a crucial role in building and maintaining US infrastructure, which in turn creates U.S. jobs.

## Structure

Tesoro Logistics LP (TLLP) completed its initial public offering (IPO) of 13 million units at \$21 per unit in April 2011. To note, the offering was upsized from 12.5 million units, the underwriters' over-allotment option was exercised (1.95 million common units) and pricing was at the high end of the \$19 to \$21 filing range. The units were priced to yield 6.4% based on the minimum quarterly distribution of \$0.3375. The public owns 48.0% of the outstanding equity of TLLP and the balance is owned by Tesoro Corp., including the general partner, incentive distribution rights (IDRs) and subordinated common units.

TLLP has the conventional IDR structure with the general partner entitled to up to 50% of distribution increases if targeted distribution tiers are achieved.

**Exhibit 11: TLLP Ownership Structure**



Source: Partnership reports; as of TLLP's IPO



**Exhibit 12: TLLP IDR Summary Table**

	Quarterly Distribution/Unit	LP	GP + IDR	Annual Distribution/Unit
Minimum Quarterly Distribution	\$0.3375	98%	2%	\$1.35
First Target Distribution	up to \$0.3881	98%	2%	\$1.55
Second Target Distribution	> \$0.3881 up to \$0.4219	85%	15%	\$1.69
Third Target Distribution	> \$0.4219 up to \$0.50630	75%	25%	\$2.03
Thereafter	> \$0.50630	50%	50%	\$2.03

Source: Partnership data, Credit Suisse estimates.

## Financials

### Long Term Agreements with Tesoro Provide Cash Flow Stability

A majority (84%) of TLLP's revenues are expected to come from long-term fee-based contracts with Tesoro. These contracts contain minimum volume commitments and fees that are indexed to inflation, except for the trucking transportation services agreement.

#### **High Plains Pipeline – 10-Year Pipeline Services Agreement**

TLLP and Tesoro have a ten-year agreement under which Tesoro is obligated to transport an average of at least 49,000 bpd of crude oil per month at a committed rate on TLLP's High Plains pipeline from North Dakota origin points to Tesoro's Mandan refinery. Committed revenues on this agreement approximate \$20 million. To note, actual volumes transported have historically exceeded this minimum volume commitment and we expect this to be the case moving forward. In addition, the tariff rates will be adjusted annually at a rate equal to the percentage change consistent with the FERC indexing methodology.

#### **High Plains Trucking – Two Year Agreements that Renew Automatically**

Similarly, there is a two-year trucking transportation services agreement in place for a minimum of 22,000 bpd per month at a rate of \$2.72 per barrel. Committed revenues on this agreement approximate \$22 million. TLLP expects to generate incremental revenues above the minimum commitment. To note, volumes that are shifted to pipeline gathering can reduce the trucking volume minimum obligation. However, TLLP realizes a higher margin on its pipeline gathering so financial results should not be adversely affected. The trucking transportation services agreement will renew automatically for up to four successive two-year terms unless earlier terminated by TLLP or Tesoro with at least three months notice.

#### **Master Terminalling Services Agreement for Refined Products Terminals Aggregating**

Under this ten-year agreement, Tesoro is obligated to an aggregate minimum throughput of 100,000 bpd per month at TLLP's eight refined product terminals. The minimum revenue commitment approximates \$29 million and fees will escalate annually by a percentage equal to the consumer price index. Additionally, TLLP will charge Tesoro separate fees for providing ancillary services such as ethanol blending and additive injection. Tesoro retains the option to renew the contract for two additional five year terms.

#### **Short-Haul Pipeline Transportation Services Agreement ~ \$5 million Commitment**

Similarly, Tesoro and TLLP have entered into a ten-year minimum volume commitment on TLLP's five Salt Lake City short-haul pipelines. Based on minimum volumes of 54,000 bpd and a \$0.25 per tariff, the revenue commitment totals \$5 million annually. As above, the agreement can be renewed for two additional five-year terms and the annual tariff will escalate with the percentage change in the consumer price index.

#### **Salt Lake City Storage Is Fully Contracted**

Tesoro has leased all the capacity (878,000 barrels) at TLLP's Salt Lake City storage facility and the existing capacity on the four pipelines connecting to Tesoro's Salt Lake City

refinery. The agreed upon tariff of \$0.50 per barrel per month may be increased annually by the percentage change in the consumer price index (at TLLP's option). This agreement has an initial term of ten years and may be renewed for two additional five year terms at Tesoro's option.

### **Distribution Outlook**

We forecast a five year distribution CAGR of 8.0%, driven by \$200 million of estimated drop-downs (\$50 million per year from 2012-15). We estimate the transactions are consummated at an EBITDA multiple of eight times.

### **Balance Sheet and Liquidity**

TLLP has a strong balance sheet with a \$150 million revolving credit facility of which \$50 million has been drawn and paid to Tesoro as part of the compensation for the assets contributed in the formation of the MLP. To note, Tesoro also received \$280 million of the net proceeds from the IPO and TLLP retained just \$5 million (primarily for working capital purposes and the cost for setting up the revolving credit facility). Capacity under the revolver can be increased to \$300 million subject to receiving increased commitments from the lenders. The loan is guaranteed by all of TLLP's subsidiaries and secured by substantially all of TLLP's assets. The borrowing rate approximates a base rate of 3.25% plus a margin of about 1.5% or a Eurodollar rate (0.21% at April 26, 2011) plus an applicable margin of about 2.5%. There is a 0.50% annual commitment fee for the unused portion of the revolver. To note, the facility is set to mature on April 25, 2014.

TLLP's EBITDA over the next twelve months should approximate \$53 million, so debt to EBITDA is just around 1.0 times and well below a target leverage of under 3.0 times. Also, the distribution coverage ratio is a conservative 1.1 times.

### **Capex**

We forecast only \$10 million of growth capex in 2011 related to projects to expand services at certain terminals and to add capacity on its High Plains System. The latter relates to the announced expansion of Tesoro's Mandan refinery. As noted, the majority of TLLP's distribution growth will result from \$200 million in drop-down acquisitions.

### **Forecast**

We forecast 2011 recurring EBITDA of \$50 million, which does not assume any additional acquisitions for the year. We assume EBITDA grows at ~16% in 2012-13 and 11-12% in 2014-15, driven by \$200 million in drop-down acquisitions. To note, we think there is upside to our numbers, as the market value of potential drop-downs is likely \$300+mn. There also may be upside to our growth capex estimate of \$10 million if TLLP is able to further expand its gathering system around the Bakken Shale. Finally, third party acquisitions may provide upside to our estimates.

We forecast three quarters of distributable cash flow (2Q12-4Q12) of \$34 million and distributable cash flow per LP unit of \$1.10. This compares to our declared LP distribution/unit estimate of \$1.03, and implies a 1.07x times coverage ratio. We assume a coverage ratio of 1.05-1.12 times throughout our forecast period.

## Management

Management consists of experienced and well-regarded veterans.

### Exhibit 13: Management Team

Name	Title	Joined TSO
Gregory J. Goff	Chairman of the Board of Directors and Chief Executive Officer	May-2010
Phillip M. Anderson	President and Director	Dec-1998
G. Scott Spendlove	Vice President, Chief Financial Officer and Director	2002
Charles S. Parrish	Vice President, General Counsel, Secretary and Director	1994
Raymond J. Bromark	Director (Outside)	Mar-2011
Ralph J. Grimmer	Vice President, Operations	2006

Source: Partnership data.

### Exhibit 14: TLLP Abbreviated Financial Statements, 2008–2015E

Tesoro Logistics, L.P. (NYSE: TLLP)

Abbreviated Financial Statements

Credit Suisse - Master Limited Partnerships and Natural Gas

Yves Siegel, CFA (212) 325-8462

Elvira Scotto, CFA (212) 538-7097

Joseph Siano, CFA (212) 538-2585

Year ending December 31

(\$ millions, except per unit data)

	TLLP Predecessor			Pro Forma									
	2008	2009	2010	2010	1Q11E	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E	2014E	2015E
Distributable Cash Flow (DCF)													
Net income				42	9	10	10	10	39	41	45	49	54
(+) Interest expense, net				2	0	0	0	0	2	4	6	8	11
(+) Depreciation and amortization				8	2	2	2	2	9	14	16	18	20
EBITDA				53	12	12	13	13	50	59	68	76	84
(-) Cash interest paid				2	0	0	0	0	2	4	6	8	11
(-) Maintenance capital expenditure				2	0	1	1	1	3	5	6	6	7
(-) Other				3	0	0	0	0	0	0	0	0	0
Distributable Cash Flow				46	11	11	11	12	45	50	56	61	67
DCF per LP unit				\$1.51	\$0.36	\$0.35	\$0.37	\$0.37	\$1.46	\$1.62	\$1.78	\$1.89	\$2.02
Cash Distribution Declared Per Unit						\$0.34	\$0.34	\$0.35	\$1.03	\$1.46	\$1.61	\$1.77	\$1.92
% yr/yr growth									NA	41.6%	10.7%	9.9%	8.2%
Total declared cash distributions						11	11	11	32	45	50	57	62
Cash flow surplus / (deficit) (Total DCF - Total declared dists)						1	1	1	2	5	6	5	4
Distribution Coverage (Total DCF/Total Distribution Declared)						1.05x	1.08x	1.08x	1.07x	1.11x	1.12x	1.09x	1.07x
% of Total Cash Distribution													
General Partner						2%	2%	2%	2%	2%	3%	4%	6%
Limited Partners						98%	98%	98%	98%	98%	97%	96%	94%
Capital Expenditures & Acquisitions													
Growth Capex	10	6	0	0	3	3	3	3	10	0	0	0	0
Maintenance Capex	8	3	2	2	0	1	1	1	3	5	6	6	7
Acquisitions	0	0	0	0	0	0	0	0	0	50	50	50	50
Total Capital Expenditures & Acquisitions	19	9	2	2	3	4	4	4	13	5	6	6	7
Financing and Credit Metrics													
Equity Issuances (\$ Millions)				0	0	0	0	0	0	0	0	0	0
Net Debt Issuances (\$ Millions) - includes credit facility				0	0	(9)	2	2	(5)	50	43	43	46
Total Debt (\$ Millions)				50	50	41	43	45	45	95	137	181	227
Net Debt-to-TTM EBITDA				0.9x	0.8x	0.8x	0.8x	0.9x	0.9x	1.5x	2.0x	2.3x	2.6x
Interest Expense, Net (\$ Millions)				(2)	(0)	(0)	(0)	(0)	(2)	(4)	(6)	(8)	(11)
EBITDA-to-Interest Expense				NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Maintenance Capex As % of EBITDA				3%	1%	8%	8%	8%	7%	8%	8%	8%	8%
Debt-to-Market Cap													
Abbreviated Balance Sheet													
Cash and Equivalents	0	0	0	3	12	1	1	1	1	6	4	3	3
Current Assets	0	3	4	3	12	1	1	1	1	6	4	3	3
Property Plant and Equipment, Net	139	138	132	132	132	133	134	136	136	176	216	253	290
Other Assets	3	0	0	2	2	2	2	2	2	2	2	2	2
Total Assets	142	141	136	137	145	136	137	138	138	184	222	258	295
Current Liabilities													
	0	5	5	0	0	0	0	0	0	0	0	0	0
Credit facility	0	0	0	50	50	41	43	45	45	95	137	181	227
Long term debt, less current portion & Credit Facility	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Liabilities	9	1	2	50	50	41	43	45	45	95	137	181	227
Total Liabilities	9	5	7	50	50	41	43	45	45	95	137	181	227
Partners Capital	133	136	129	87	95	95	94	94	94	89	85	77	69
Total Liabilities & Partners Capital	142	141	136	137	145	136	137	138	138	184	222	258	295

Source: Company data, Credit Suisse estimates

## Exhibit 15: Operating Metrics

Operating Metrics	TLLP Predecessor			Pro Forma	Pro Forma									
	2008	2009	2010	2010	1Q11E	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E	2014E	2015E	
<b>Crude Oil Gathering:</b>														
Pipeline (Mbpdd)	54.7	52.8	50.7	50.7	55.3	55.0	57.0	58.0	56.3	63.0	68.0	70.0	72.1	
Average pipeline revenue per barrel (\$/Bbl)	\$1.06	\$1.01	\$1.06	\$1.35	\$1.12	\$1.26	\$1.26	\$1.26	\$1.23	\$1.28	\$1.31	\$1.33	\$1.36	
Trucking (Mbpdd)	23.8	23.0	23.3	23.3	21.6	22.9	22.9	22.9	22.6	22.2	21.5	20.9	20.5	
Average trucking revenue per barrel (\$/Bbl)		\$2.88		\$2.91	\$2.88	\$2.88	\$2.89	\$2.90	\$2.89	\$2.93	\$2.93	\$2.93	\$2.93	
<b>Terminaling, Transportation and Storage:</b>														
Terminal throughput (Mbpdd)	112.9	113.1	114.0	114.0	121.5	116.0	117.0	118.0	118.1	118.0	121.0	124.0	127.1	
Average terminal revenue per barrel				\$0.79	\$0.79	\$0.79	\$0.79	\$0.79	\$0.79	\$0.81	\$0.84	\$0.86	\$0.89	
Total Short-haul pipeline throughput	68.9	62.8	60.7	60.7	62.2	60.3	60.3	60.3	60.8	60.3	60.3	60.3	60.3	
Average short-haul pipeline revenue per barrel				\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.27	\$0.27	\$0.27	\$0.27	
Storage capacity reserved (shell capacity M barrels)				878.0	878.0	878.0	878.0	878.0	878.0	878.0	878.0	878.0	878.0	
Storage per shell capacity barrel (per month)				\$0.50	\$0.51	\$0.51	\$0.51	\$0.51	\$0.51	\$0.52	\$0.52	\$0.52	\$0.52	

Source: Company data, Credit Suisse estimates

## Exhibit 16: TLLP Income Statement, 2008–2015E

Tesoro Logistics, L.P. (NYSE: TLLP)

Credit Suisse - Master Limited Partnerships and Natural Gas

Consolidated Statements of Income - Fiscal Year End December 31

(\$ in millions except per unit data)

Yves Siegel, CFA (212) 325-8462

Elvira Scotto, CFA (212) 538-7097

Joseph Siano, CFA (212) 538-2585

	TLLP Predecessor			Pro Forma	Pro Forma				Pro Forma				
	2008	2009	2010	2010	1Q11E	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E	2014E	2015E
Affiliate	21.0	19.3											
Third Party	0.2	0.1											
Crude oil gathering	21.2	19.4	19.6	49.6	11.2	12.3	12.7	12.8	49.0	53.2	55.4	56.4	57.7
Terminals, transportation and storage	3.3	3.2	3.7	43.6	11.4	11.1	11.2	11.3	45.0	46.4	48.3	50.4	52.6
Acquisitions					0.0	0.0	0.0	0.0	0.0	7.5	17.5	27.5	37.5
Total revenue	24.5	22.7	23.3	93.2	22.6	23.4	23.9	24.2	94.1	107.1	121.2	134.3	147.7
% change sequential	25%	-7.5%	28%	311.1%	-3.1%	3.5%	2.4%	0.9%	1.0%	13.8%	13.3%	10.7%	10.0%
Operating and maintenance	29.7	32.6	33.0	36.8	9.3	9.2	9.2	9.2	36.9	39.2	41.6	43.9	46.3
Depreciation and amortization	6.6	8.8	8.0	8.0	2.3	2.3	2.3	2.3	9.2	14.4	16.4	18.4	20.4
General and administrative	2.5	3.1	3.2	3.4	1.8	1.8	1.8	1.8	7.0	9.0	11.6	14.3	16.9
% y/r Change									103.4%	28.5%	29.2%	22.6%	18.5%
Unallocated G&A					1.5	1.5	1.5	1.5	6.0	6.1	6.2	6.4	6.5
Allocated G&A					0.3	0.3	0.3	0.3	1.0	2.9	5.4	7.9	10.4
Total operating expense	38.9	44.5	44.2	48.3	13.3	13.2	13.3	13.3	53.1	62.7	69.6	76.5	83.7
EBIT (operating income recurring)	(14.4)	(21.9)	(20.9)	44.9	9.3	10.2	10.7	10.9	41.0	44.4	51.6	57.7	64.1
Interest expense (income), net				(2.4)	(0.4)	(0.4)	(0.4)	(0.4)	(1.7)	(3.5)	(6.1)	(8.3)	(10.6)
Net income (recurring)	(14.4)	(21.9)	(20.9)	42.5	8.8	9.7	10.3	10.5	39.3	40.9	45.5	49.4	53.5
Non-recurring Items					0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported Net Income	(14.4)	(21.9)	(20.9)	42.5	8.8	9.7	10.3	10.5	39.3	40.9	45.5	49.4	53.5
Net Income Attributed to Tesoro Logistics LP	(14.4)	(21.9)	(20.9)	42.5	8.8	9.7	10.3	10.5	39.3	40.9	45.5	49.4	53.5
Pre-Acquisition (income) loss allocated to Parent			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GP interest in net income				0.9	0.2	0.2	0.2	0.2	0.8	0.8	1.2	2.4	3.9
% of net income				2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.6%	4.9%	7.3%
LP interest in net income				41.6	8.6	9.5	10.1	10.2	38.5	40.1	44.3	47.0	49.6
% of net income				98.0%	98.0%	98.0%	98.0%	98.0%	98.0%	98.0%	97.4%	95.1%	92.7%
Total net income				42.5	8.8	9.7	10.3	10.5	39.3	40.9	45.5	49.4	53.5
Recurring Net income per unit (EPU)- diluted				\$1.36	\$0.28	\$0.31	\$0.33	\$0.34	\$1.26	\$1.31	\$1.45	\$1.54	\$1.63
Reported Net Income Per Unit				\$1.36	\$0.28	\$0.31	\$0.33	\$0.34	\$1.26	\$1.31	\$1.45	\$1.54	\$1.63
Common units (diluted)				15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3
Subordinated units				15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3	15.3
Weighted average L.P. units outstanding (diluted)				30.5	30.5	30.5	30.5	30.5	30.5	30.5	30.5	30.5	30.5

Source: Company data, Credit Suisse estimates

**Exhibit 17: TLLP Balance Sheet, 2008–2015E**

Tesoro Logistics, L.P. (NYSE: TLLP)

Consolidated Balance Sheets - Fiscal Year End December 31

(\$ in millions except per unit data)

Credit Suisse - Master Limited Partnerships and Natural Gas

Yves Siegel, CFA (212) 325-8462

Elvira Scotto, CFA (212) 538-7097

Joseph Siano, CFA (212) 538-2585

	TLLP Predecessor			Pro Forma									
	2008	2009	2010	2010	1Q11E	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E	2014E	2015E
<b>ASSETS</b>													
Cash and cash equivalents	0.0	0.0	0.0	3.0	11.5	1.0	0.9	0.7	0.7	5.8	4.4	2.8	3.1
<b>Total current assets</b>	<b>0.0</b>	<b>3.2</b>	<b>4.0</b>	<b>3.0</b>	<b>11.5</b>	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>	<b>0.7</b>	<b>5.8</b>	<b>4.4</b>	<b>2.8</b>	<b>3.1</b>
Net property, plant, and equipment	138.8	138.1	131.6	131.6	131.9	133.1	134.4	135.7	135.7	176.2	215.5	253.5	290.2
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>Total assets</b>	<b>141.7</b>	<b>141.2</b>	<b>135.6</b>	<b>136.6</b>	<b>145.4</b>	<b>136.1</b>	<b>137.3</b>	<b>138.4</b>	<b>138.4</b>	<b>184.0</b>	<b>221.9</b>	<b>258.3</b>	<b>295.2</b>
<b>LIABILITIES AND PARTNERS' CAPITAL</b>													
<b>Total current liabilities</b>	<b>0.0</b>	<b>4.6</b>	<b>5.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Long-term debt	0.0	0.0	0.0	50.0	50.0	41.5	43.0	44.5	44.5	94.5	137.3	180.8	226.7
Other			1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities</b>	<b>8.7</b>	<b>5.5</b>	<b>6.8</b>	<b>50.0</b>	<b>50.0</b>	<b>41.5</b>	<b>43.0</b>	<b>44.5</b>	<b>44.5</b>	<b>94.5</b>	<b>137.3</b>	<b>180.8</b>	<b>226.7</b>
<b>Partners' capital</b>													
Common unitholders - public	0.0	0.0	0.0	246.6	255.2	254.5	254.1	253.7	253.7	249.4	244.6	237.6	228.8
Common unitholders - affiliate	0.0	0.0	0.0	(20.8)	(20.8)	(20.8)	(20.8)	(20.8)	(20.8)	(20.8)	(20.8)	(20.8)	(20.8)
Subordinated unitholders - affiliate	0.0	0.0	0.0	(140.9)	(140.9)	(140.9)	(140.9)	(140.9)	(140.9)	(140.9)	(140.9)	(140.9)	(140.9)
General partner interest	0.0	0.0	0.0	1.7	1.9	1.9	1.9	1.9	1.9	1.8	1.7	1.6	1.5
Accum. other comprehensive income/Non Controlling Interests	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.0)	(0.0)	0.0
<b>Total partners' capital</b>	<b>133.0</b>	<b>135.7</b>	<b>128.8</b>	<b>86.6</b>	<b>95.4</b>	<b>94.6</b>	<b>94.3</b>	<b>93.9</b>	<b>93.9</b>	<b>89.5</b>	<b>84.6</b>	<b>77.5</b>	<b>68.5</b>
<b>Total liabilities and partners' capital</b>	<b>141.7</b>	<b>141.2</b>	<b>135.6</b>	<b>136.6</b>	<b>145.4</b>	<b>136.1</b>	<b>137.3</b>	<b>138.4</b>	<b>138.4</b>	<b>184.0</b>	<b>221.9</b>	<b>258.3</b>	<b>295.2</b>

Source: Partnership data, Credit Suisse estimates

**Exhibit 18: TLLP Statement of Cash Flows, 2008–2015E**

Tesoro Logistics, L.P. (NYSE: TLLP)

Consolidated Statement of Cash Flows - Fiscal Year End December 31

(\$ in millions except per share data)

Credit Suisse - Master Limited Partnerships and Natural Gas

Yves Siegel, CFA (212) 325-8462

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	TLLP Predecessor			Pro Forma									
	2008	2009	2010	2010	1Q11E	2Q11E	3Q11E	4Q11E	2011E	2012E	2013E	2014E	2015E
<b>Cash flow from operating activities:</b>													
Net income (loss)	(14.4)	(21.9)	(20.9)	42.5	8.8	9.7	10.3	10.5	39.3	40.9	45.5	49.4	53.5
<b>Adjustments to reconcile net income (loss) to cash provided by operating activities:</b>													
Depreciation and amortization	6.6	8.8	8.0	0.0	2.3	2.3	2.3	2.3	9.2	14.4	16.4	18.4	20.4
Other, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Changes in assets and liabilities:</b>													
<b>Net cash provided by (used in) operating activities</b>	<b>(6.5)</b>	<b>(13.4)</b>	<b>(11.9)</b>	<b>42.5</b>	<b>11.1</b>	<b>12.0</b>	<b>12.6</b>	<b>12.8</b>	<b>48.5</b>	<b>55.3</b>	<b>61.9</b>	<b>67.8</b>	<b>73.9</b>
<b>Cash flow from investing activities:</b>													
Capital expenditures	0.0	0.0	0.0	0.0	(2.6)	(3.5)	(3.6)	(3.6)	(13.3)	(4.9)	(5.7)	(6.4)	(7.1)
Acquisitions	(16.0)	(12.2)	(2.6)	0.0	0.0	0.0	0.0	0.0	0.0	(50.0)	(50.0)	(50.0)	(50.0)
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash provided by (used in) investing activities</b>	<b>(16.0)</b>	<b>(12.2)</b>	<b>(2.6)</b>	<b>0.0</b>	<b>(2.6)</b>	<b>(3.5)</b>	<b>(3.6)</b>	<b>(3.6)</b>	<b>(13.3)</b>	<b>(54.9)</b>	<b>(55.7)</b>	<b>(56.4)</b>	<b>(57.1)</b>
<b>Cash flow from financing activities:</b>													
Proceeds from issuance of partnership units	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowings under credit facility	0.0	0.0	0.0	0.0	0.0	(8.5)	1.5	1.5	(5.5)	50.0	42.8	43.5	45.9
Proceeds from issuance of long-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contributions from unitholders	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distributions to unitholders	0.0	0.0	0.0	0.0	0.0	(10.5)	(10.7)	(10.8)	(32.0)	(45.3)	(50.4)	(56.5)	(62.4)
Parent contribution	22.1	24.6	14.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash provided by (used in) financing activities</b>	<b>22.1</b>	<b>24.6</b>	<b>14.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(19.0)</b>	<b>(9.1)</b>	<b>(9.3)</b>	<b>(37.5)</b>	<b>4.7</b>	<b>(7.6)</b>	<b>(13.1)</b>	<b>(16.5)</b>
<b>Change in cash and cash equivalents</b>	<b>(0.5)</b>	<b>(1.1)</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>8.5</b>	<b>(10.5)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(2.3)</b>	<b>5.1</b>	<b>(1.4)</b>	<b>(1.6)</b>	<b>0.3</b>
Cash and cash equivalents at beginning of period	0.5	1.1	0.5	0.0	3.0	11.5	1.0	0.9	3.0	0.7	5.8	4.4	2.8
<b>Cash and cash equivalents at end of period</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>3.0</b>	<b>11.5</b>	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>	<b>0.7</b>	<b>5.8</b>	<b>4.4</b>	<b>2.8</b>	<b>3.1</b>

Source: Partnership data, Credit Suisse estimates

**Companies Mentioned** (Price as of 27 May 11)

Boardwalk Pipeline Partners, LP (BWP, \$29.20, OUTPERFORM, TP \$35.00)  
 DCP Midstream Partners, LP (DPM, \$40.50, OUTPERFORM, TP \$45.00)  
 Duncan Energy Partners, LP (DEP, \$41.54, NEUTRAL, TP \$42.00)  
 Energy Transfer Equity, LP (ETE, \$41.73, OUTPERFORM, TP \$47.00)  
 Energy Transfer Partners, L.P. (ETP, \$47.59, OUTPERFORM, TP \$56.00)  
 Enterprise Products Partners, LP (EPD, \$41.64, OUTPERFORM, TP \$46.00)  
 Kinder Morgan Energy Partners, L.P. (KMP, \$74.18, NEUTRAL, TP \$76.00)  
 Kinder Morgan Management, LLC (KMR, \$65.11, OUTPERFORM, TP \$74.72)  
 Kinder Morgan, Inc. (KMI, \$29.18, NEUTRAL [V], TP \$32.00)  
 Magellan Midstream Partners, LP (MMP, \$59.01, NEUTRAL, TP \$59.00)  
 Niska Gas Storage, LLC (NKA, \$19.57, NEUTRAL, TP \$21.00)  
 NuStar Energy LP (NS, \$63.35, NEUTRAL, TP \$67.00)  
 NuStar GP Holdings LLC (NSH, \$36.29, NEUTRAL, TP \$36.00)  
 ONEOK Partners, LP (OKS, \$83.05, NEUTRAL, TP \$87.00)  
 Spectra Energy Partners, LP (SEP, \$32.09, NEUTRAL, TP \$35.00)  
 Sunoco Logistics Partners, L.P. (SXL, \$84.67, NEUTRAL, TP \$89.00)  
 Targa Resources Corp (TRGP, \$34.40, NEUTRAL [V], TP \$34.00)  
 Targa Resources Partners LP (NGLS, \$34.41, OUTPERFORM, TP \$40.00)  
 Tesoro Logistics LP (TLLP, \$24.49, OUTPERFORM, TP \$28.00)  
 Western Gas Partners, L.P. (WES, \$35.39, NEUTRAL, TP \$39.00)

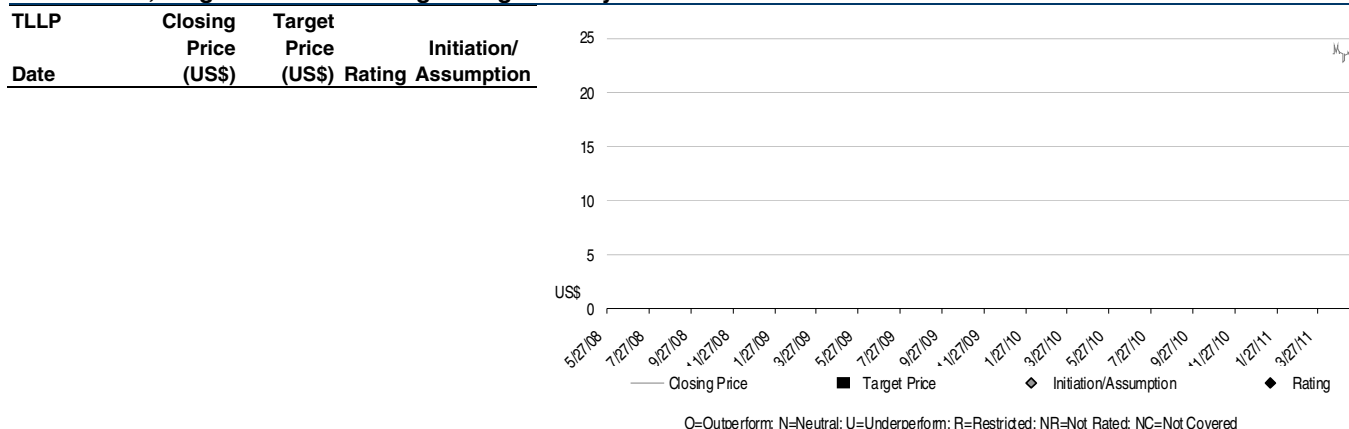
## Disclosure Appendix

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**Neutral (N):** The stock's total return is expected to be in line with the relevant benchmark\* (range of  $\pm 10-15\%$ ) over the next 12 months.

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Restricted	3%	

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**Price Target:** (12 months) for (TLLP)

**Method:** We derived our \$28 price target through a three-stage distribution discount model (DDM). Our assumptions include a discount rate of 9.0%, distribution compounded annual growth rate of 8.0% over the next five years and 5.0% over the following five years and a terminal growth rate of 1.5%.

**Risks:** Risks to our \$28 price target for TLLP are potential refinery closings which would negatively impact volumes, dependence upon TSO for the majority of revenue, difficulty predicting timing of drop-down acquisitions which could result in lower than expected growth, potential for interest rate increases, which would negatively impact interest expense at the partnership's revolving credit facility, and demand destruction and/or declining volumes in the areas in which TLLP operates.

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