



PRICE TARGET REVISION | COMMENT

NOVEMBER 9, 2011

Tesoro Logistics LP (NYSE: TLLP)

Solid 3Q11; 2012 Plan and Asset-Drop Are the Next Catalysts

Outperform
Average Risk

Price:	26.85	Price Target:	30.00 ↑ 28.00
Shares O/S (MM):	30.5	Implied All-In Return:	17%
Dividend:	1.40	Market Cap (MM):	819
Float (MM):	30.2	Yield:	5.2%
Debt to Cap:	32%	Avg. Daily Volume (MM):	0.07
		Est Tax Deferral:	80%

3Q11 Beats on Terminal Performance; Look for More Clarity Around Asset Drop on December 5th

Investment Opinion

3Q11 Beat Driven by Terminal Results: 3Q11 EBITDA of \$17.7M exceeded our \$15M and the \$14.4M consensus on seasonally strong terminal throughput and a return to normalcy in the Bakken after severe flooding impacted Q2. Results also benefited from a fee escalation on the crude pipeline (+7%) and higher rates for trucking (+2%) and terminalling (+2%). Profitability was boosted further by a \$2M credit for terminal loss allowances, which reduces OpEx, expected to total \$1M in future quarters. DCF/unit of \$0.56 compares to our \$0.43 and resulted in coverage of 1.6x the declared distribution of \$0.35 (above our \$0.33825 and +4% Q/Q).

Terminal Optimization Bearing Fruit: Seasonally strong throughput of 145 Mbpd was 8% above our estimate as 6 locations achieved record volumes. TLLP's optimization efforts continue to bear fruit driving growth in volumes from both TSO and third parties (+1 Mbpd in Q3). TLLP has \$17.5M of growth projects underway expected to generate \$5M of annual EBITDA and further expansions could be on the horizon.

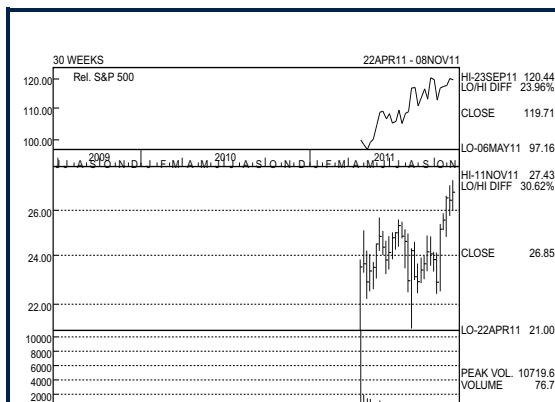
Evaluating Additional Bakken Opportunities: Bakken infrastructure constraints show no sign of easing as production and reserve estimates move higher. TLLP has \$11.5M of crude projects underway with longer-term opportunities around additional gathering and trucking capacity along with interstate pipeline interconnects. Admittedly, infrastructure constraints pose a gating factor near-term, but support from TSO, which has a vested interest in Bakken crude supply, should help.

Looking for Clarity Around First Drop at TSO Analyst Day: On December 5th, TSO will hold an analyst day and release the 2012 financial plan for the partnership. We look for clarity on the timing of the first asset drop-down and potential for near-term crude trucking expansion. Our model now assumes the first \$50M drop in 1Q12 (from 4Q11 prior) financed entirely with availability under the revolver.

Raising Estimates and Price Target: We have increased our estimates to reflect higher terminal loss allowance credits which are partially offset by pushing back our first drop-down assumption. We raise our price target to \$30 on distribution roll-over and maintain our Outperform rating given our expectation for highly accretive debt funded drop-downs and above-average distribution growth.

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

For Required Conflicts Disclosures, see Page 4.



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FY Dec	2011E	2012E	2013E	
DCF - FD	1.27	2.11	2.48	
Prev.	1.17	1.96	2.41	
EPU (Op) - FD	1.12	1.81	2.04	
Prev.	1.00	1.58	1.89	
EBITDA (MM)	38.9	74.3	90.9	
Prev.	36.8	70.6	90.0	
P/DCF	21.1x	12.7x	10.8x	
P/EPU	24.0x	14.8x	13.2x	
EV/EBITDA	21.1x	11.0x	9.0x	
DCF - FD	Q1	Q2	Q3	Q4
2011	0.00A	0.29A	0.56A	0.43E
Prev.			0.43E	0.46E
2012	0.46E	0.51E	0.54E	0.56E
Prev.	0.43E	0.48E	0.49E	0.52E
EPU (Op) - FD				
2011	0.00A	0.23A	0.49A	0.41E
Prev.			0.39E	0.39E
2012	0.40E	0.45E	0.47E	0.49E
Prev.	0.36E	0.40E	0.40E	0.42E
EBITDA (MM)				
2011	(3.8)A	9.6A	17.7A	15.3E
Prev.			15.0E	16.0E
2012	16.2E	17.9E	19.6E	20.6E
Prev.	15.4E	17.5E	18.1E	19.6E

All values in USD unless otherwise noted.

Valuation

We derive our 12-month price target of \$30 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 8%, which, from the current distribution implies a 5-year CAGR of 13.1%. 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 \$30 price target implies a yield of 5.8% on our one year out annualized distribution of \$1.72 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	13.2	13.3	13.3	14.6	15.2	43.3	56.4	63.9
Terminalling, Transport. & Storage	0.7	9.1	13.3	12.6	14.9	17.7	19.0	20.2	35.7	71.9	89.2
Total Revenue	\$6.3	\$19.8	\$27.1	\$25.9	\$28.1	\$31.1	\$33.7	\$35.4	\$79.0	\$128.3	\$153.1
Total Costs and Expenses	12.1	12.2	11.4	12.6	14.6	15.8	17.4	18.0	48.3	65.9	78.6
Operating Income	(\$5.8)	\$7.5	\$15.7	\$13.2	\$13.5	\$15.2	\$16.3	\$17.3	\$30.7	\$62.4	\$74.5
Interest Expense	-	(0.5)	(0.6)	(0.6)	(1.0)	(1.3)	(1.6)	(1.9)	(1.7)	(5.9)	(10.8)
Net Income	(\$5.8)	\$7.1	\$15.1	\$12.6	\$12.5	\$13.9	\$14.7	\$15.4	\$29.0	\$56.5	\$63.7
General Partner Interest	-	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.7	1.3	1.4
LP Interest In Net Income	(\$5.8)	\$6.9	\$14.8	\$12.4	\$12.2	\$13.6	\$14.4	\$15.1	\$28.3	\$55.3	\$62.2
Diluted Earnings (loss) per Unit		\$0.23	\$0.49	\$0.41	\$0.40	\$0.45	\$0.47	\$0.49	\$1.12	\$1.81	\$2.04
Average Units Outstanding	-	30.5	30.5	30.5	30.5	30.5	30.5	30.5	22.9	30.5	30.5
Adjusted EBITDA	(\$3.8)	\$9.6	\$17.7	\$15.3	\$16.2	\$17.9	\$19.6	\$20.6	\$38.9	\$74.3	\$90.9

Distributable Cash Flow											
Adjusted EBITDA	(\$3.8)	\$9.6	\$17.7	\$15.3	\$16.2	\$17.9	\$19.6	\$20.6	\$38.9	\$74.3	\$90.9
Cash Interest Expense	-	(0.0)	(0.3)	(0.5)	(0.9)	(1.1)	(1.3)	(1.6)	(0.8)	(4.9)	(9.0)
Maintenance CapEx	(0.2)	(0.7)	(0.3)	(1.5)	(1.1)	(1.2)	(1.4)	(1.4)	(2.6)	(5.0)	(6.4)
General Partner Interest	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.5)	(0.6)	(1.3)	(5.0)
Distributable Cash Flow to LP	(\$4.0)	\$8.7	\$17.0	\$13.2	\$14.0	\$15.4	\$16.5	\$17.1	\$34.9	\$63.1	\$70.5
Distributable CF Per Unit		\$0.29	\$0.56	\$0.43	\$0.46	\$0.51	\$0.54	\$0.56	\$1.27	\$2.11	\$2.48
Distributions per Unit	-	\$0.24480	\$0.35000	\$0.36500	\$0.38000	\$0.40500	\$0.43000	\$0.45500	\$0.95980	\$1.67000	\$2.07000
Total Unit Coverage	-	1.17x	1.59x	1.18x	1.21x	1.25x	1.26x	1.23x	1.33x	1.26x	1.20x

Balance Sheet											
Total Assets	\$138.7	\$154.8	\$165.3	\$171.1	\$225.0	\$217.9	\$271.1	\$271.9	\$171.1	\$271.9	\$372.0
Total Partners' Capital	132.2	97.5	106.4	108.2	109.3	111.3	113.4	115.2	108.2	115.2	113.7
Net Debt	-	\$40.0	\$32.2	\$39.7	\$91.7	\$92.2	\$142.4	\$140.9	\$39.7	\$140.9	\$240.5
Net Debt / TTM EBITDA	.0x	23.3x	1.4x	1.0x	1.6x	1.4x	2.1x	1.9x	1.0x	1.9x	2.6x
Interest Coverage	-	20.8x	29.5x	25.7x	15.4x	13.5x	12.3x	10.8x	23.4x	12.7x	8.4x

Source: RBC Capital Markets estimates & Company Reports

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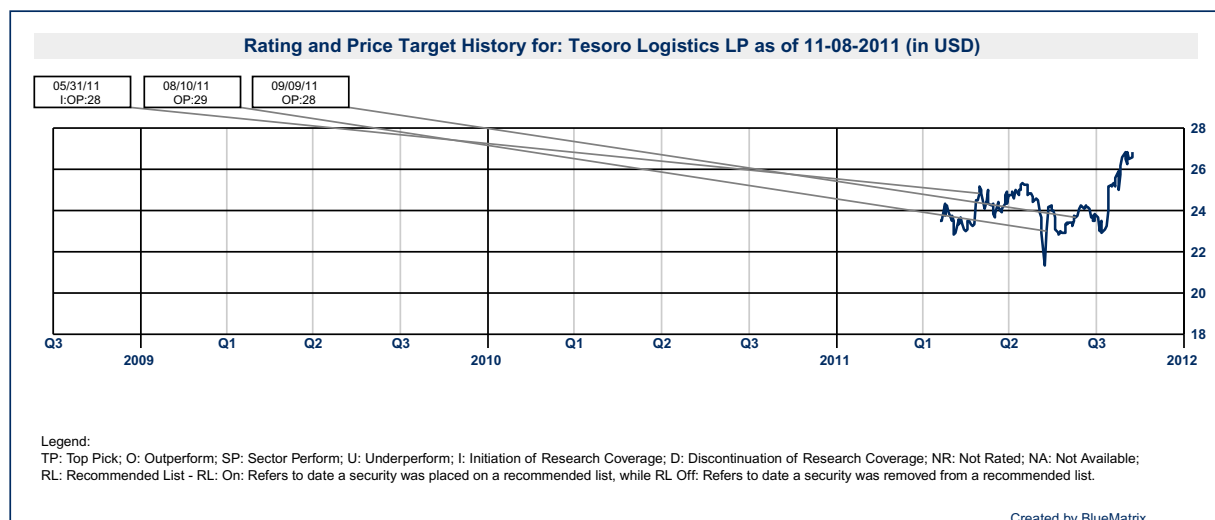
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