Initiating Coverage
Rating: Buy
Price Target: $27.50

TESORO LOGISTICS LP (TLLP: $23.27)

October 13, 2011

Market Data

12-18 Month Price Target	$27.50
52-Week Range	$25.67 - $21.00
ADTV - 90Day (MM)	77.5
Market Cap ($000s)	$710.0
Shares Out (MM)	30.5
Public Market Float (MM)	12.7
Dividend	$0.98
Dividend/Yield	4.21%

Earnings Per Unit (EPU) ($)

FY DEC	2011	2012		2013	
	Estimate	Previous	Current	Previous	Current
Q1	–	–	$0.37E	–	$0.45E
Q2	$0.25E	–	$0.41E	–	$0.45E
Q3	$0.37E	–	$0.45E	–	$0.45E
Q4	$0.37E	–	$0.45E	–	$0.45E
YEAR	$0.99E	–	$1.69E	–	$1.80E

Distribution Per Unit ($)

FY DEC	2011	2012		2013	
	Estimate	Previous	Current	Previous	Current
Q1	–	–	$0.370E	–	$0.410E
Q2	$0.245A	–	$0.380E	–	$0.420E
Q3	$0.350E	–	$0.390E	–	$0.430E
Q4	$0.360E	–	$0.400E	–	$0.440E
YEAR	$0.955E	–	$1.540E	–	$1.700E

Valuation Ratio

	FY11	FY12	FY13
Debt/EBITDA	1.3x	0.8x	0.7x
EBITDA/Interest	21.6x	36.2x	38.5x
EV/EBITDA	19.2x	11.5x	10.8x
P/DCF	20.8x	12.4x	11.8x

Financial Data

	FY11	FY12	FY13
EBITDA	$38.9E	$65.2E	$69.3E

Balance Sheet

	FY11	FY12	FY13
Total Assets	$159.0E	$164.3E	$168.9E
Long Term Debt	$50.0E	$50.0E	$50.0E
Total SOE and Liab.	$159.0E	$164.3E	$168.9E

Initiating Coverage With a Buy — An MLP With Solid Distribution Growth

Summary

We are initiating coverage of Tesoro Logistics LP (TLLP) with a Buy rating and a $27.50 price target. Tesoro Logistics is a crude oil and refined products Master Limited Partnership (MLP) that gathers, transports, and stores crude oil and distributes, transports, and stores refined products. The partnership's assets consist of a crude oil gathering system in the Bakken Shale/Williston Basin area of North Dakota and Montana, eight refined products terminals in the Midwestern and Western United States, and a crude oil and refined products storage facility and five related short-haul pipelines in Utah.

Key Points

- **Investment thesis.** We believe Tesoro is a good investment for several reasons, including: estimated 2013 distribution growth at 10.4%; our price target provides 18% upside from the units' current price; it has several avenues for growth, including dropdown acquisitions; agreements with its parent that provide for minimum volume commitments; and it should remain in the low distribution split levels over the near term.
- **Valuation framework.** We use a dividend (distribution) discount model to evaluate MLPs. We believe this is the best approach as investors typically are drawn to the partnerships for the cash flow. We use a two-stage model, estimating the partnership's distribution over the next five years and then using a long-term growth rate. We then discount the cash flows to derive the present value. Our $27.50 price target for Tesoro is derived using a required rate of return of 8.5% and a long-term growth rate of 2%. Our terminal value in 2016 is $30.91.
- **Profile.** Tesoro's assets consist of a crude oil gathering system in the Bakken Shale/Williston Basin area, eight refined products terminals in the Midwestern and Western U.S., and a crude oil and refined products storage facility and five related short-haul pipelines in Utah. Tesoro's results are primarily driven by revenues generated from the gathering, transporting, and storing of crude oil and refined products. The partnership does not generally own the products and does not trade, so there is minimal direct commodity price exposure.
- **Growth prospects.** We believe Tesoro will be able to grow its operations through dropdown acquisitions and potentially benefit from Tesoro Corporation's (TSO-NR) desire to expand its logistics asset base. The partnership could also benefit from undertaking organic growth projects and joint acquisitions with Tesoro Corporation. We believe Tesoro has various opportunities for growth that should enable it to increase its distribution.
- **Distribution.** We estimate Tesoro's distribution at $0.9548/unit in 2011, $1.54/unit in 2012, and $1.70/unit in 2013. Our estimates provide a 10.4% growth rate in 2013. This compares quite favorably to the 4.9% estimated average growth in 2013 for liquids-based partnerships under our coverage. Based on our distributable cash flow estimate of $1.87/unit for 2012 and $1.98/unit in 2013, coverage ratios would be 1.2x for both years.

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For Required Disclosures and Reg AC, please see page 14 of report

Executive Summary

We are initiating coverage of Tesoro Logistics LP (TLLP) with a Buy rating and a $27.50 price target. Tesoro Logistics is a crude oil and refined products Master Limited Partnership (MLP) that gathers, transports, and stores crude oil and distributes, transports, and stores refined products. The partnership's assets consist of a crude oil gathering system in the Bakken Shale/Williston Basin area of North Dakota and Montana, eight refined products terminals in the Midwestern and Western United States, and a crude oil and refined products storage facility and five related short-haul pipelines in Utah.

Tesoro's results are primarily driven by revenues generated from the gathering, transporting, and storing of crude oil and refined products. The partnership does not generally own the products and does not trade, so there is minimal direct commodity price exposure. The majority of its revenue is derived from Tesoro Corporation under long-term, fee-based contracts that include minimum volume commitments.

Tesoro's growth should be driven by acquisitions and organic growth projects. Growth spending should total approximately $18 million for 2011 and 2012.

As of December 31, 2010, the gross book value of the logistics assets that Tesoro Corporation contributed to the partnership was approximately $193.0 million and the gross book value of the company's retained logistics assets on which Tesoro has a right of first offer was approximately $240.0 million.

We estimate Tesoro's distribution at $0.9548/unit in 2011, $1.54/unit in 2012, and $1.70/unit in 2013. Based on our distributable cash flow estimate of $1.87/unit for 2012 and $1.98/unit in 2013, coverage ratios would be 1.2x for both years. Our estimates provide a 10.4% distribution growth rate in 2013.

Investment Thesis

We believe Tesoro is a good investment for several reasons, including: estimated 2013 distribution growth at 10.4%; our price target provides 18% upside from the units' current price; several avenues for growth, including dropdown acquisitions; agreements with its parent that provide for minimum volume commitments; and it should remain in the low distribution split levels over the near term.

We believe Tesoro will be able to grow its operations through dropdown acquisitions and benefit from Tesoro Corporation's desire to expand its logistics asset base. The partnership could also benefit from undertaking organic growth projects and joint acquisitions with Tesoro Corporation. We believe Tesoro has various opportunities for growth that should enable it to increase its distribution.

The majority of Tesoro's revenue is derived from Tesoro Corporation under long-term, fee-based contracts that include minimum volume commitments. Under these agreements, Tesoro will provide services to Tesoro Corporation and in turn will be provided with minimum monthly throughput volumes of crude oil and refined products. Approximately 84% of Tesoro's revenue is derived from minimum volume commitments.

We estimate Tesoro's distribution at $0.9548/unit in 2011, $1.54/unit in 2012, and $1.70/unit in 2013. Our estimates provide a 10.4% distribution growth rate in 2013. This compares quite favorably to the 4.9% estimated average growth in 2013 for liquids-based partnerships under our coverage.

We do not forecast Tesoro entering the high distribution split levels until after 2015, given our current outlook for distribution increases. We view this as positive for the partnership as it facilitates a lower cost of capital, which would make acquisitions more accretive, all things being equal. If Tesoro were to make acquisitions it would likely result in higher-than-forecasted distribution growth that could push the distribution into the higher splits sooner.

Since Tesoro's IPO in April, the units' performance has led the liquids group. We believe the outperformance is a result of investors' anticipation of strong distribution growth, which should lead to a solid total return. Although Tesoro's yield is lower than that of its peers, we believe the potential total return of Tesoro makes for a compelling story.

Valuation Framework

We use a dividend (distribution) discount model to evaluate MLPs. We believe this is the best approach as investors typically are drawn to the partnerships for the cash flow. We use a two-stage model, estimating the partnership's distribution over the next five years and then using a long-term growth rate. We then discount the cash flows to derive the present value.

Our $27.50 price target for Tesoro is derived using a required rate of return of 8.5% and a long-term growth rate of 2%. Our terminal value in 2016 is $30.91. However, since the model is highly sensitive to the assumptions made about growth rates and discount rates, we have performed a sensitivity analysis. We use our forecast for distributions for the next five years, but use different required rates of return and long-term growth rates to derive a series of values for Tesoro's unit price. We present our results in Figure 1.

FIGURE 1 – TESORO LOGISTICS – VALUATION SENSITIVITY ANALYSIS

		L-T Growth Rate					
		0.0%	1.0%	1.5%	2.0%	2.5%	3.0%
RROR	6.0%	$31.99	$37.19	$40.66	$44.99	$50.57	$58.00
	6.5%	$29.47	$33.75	$36.54	$39.94	$44.20	$49.66
	7.0%	$27.31	$30.89	$33.17	$35.90	$39.24	$43.42
	7.5%	$25.44	$28.47	$30.36	$32.60	$35.28	$38.56
	8.0%	$23.81	$26.40	$27.99	$29.84	$32.04	$34.67
	8.5%	$22.37	$24.60	$25.95	$27.51	$29.34	$31.49
	9.0%	$21.09	$23.03	$24.19	$25.52	$27.05	$28.84
	9.5%	$19.94	$21.64	$22.65	$23.79	$25.09	$26.60
	10.0%	$18.91	$20.41	$21.29	$22.27	$23.40	$24.68

Source: Wunderlich Securities, Inc.

Financial Statement Analysis

We estimate that Tesoro's debt/EBITDA ratio will be 0.8x at year-end 2012, and it should remain near this level over the next several years. EBITDA/interest is estimated at 25x at year-end 2012, and we forecast this ratio will increase over the next several years. The partnership only has $50 million drawn on its credit facility, resulting in the strong ratios. As Tesoro undertakes organic capital spending and potential acquisitions, the partnership is likely to use its credit facility as its first source of funding.

The partnership has a $150 million credit facility that expires in April 2014. Tesoro can request that the maximum amount of the credit facility be increased up to $300 million, subject to receiving increased commitments from the lenders.

The partnership's revolving credit facility contains covenants requiring Tesoro to maintain a consolidated funded debt to consolidated EBITDA ratio of not more than 4.50 to 1.00 following acquisitions and not greater than 4.00 to 1.00 during other times and an EBITDA to interest ratio of not less than 3.00 to 1.00. The partnership's target for leverage is a low 3x EBITDA multiple.

The partnership issued guidance for expansion capital expenditures of $10.4 million for the 12 months ending March 2012, and maintenance capital of $4.6 million. Since the original guidance was issued, Tesoro has announced a few additional expansion projects. In our model, we forecast Tesoro will use its credit facility to pay for its capital spending this year and next.

Partnership Description

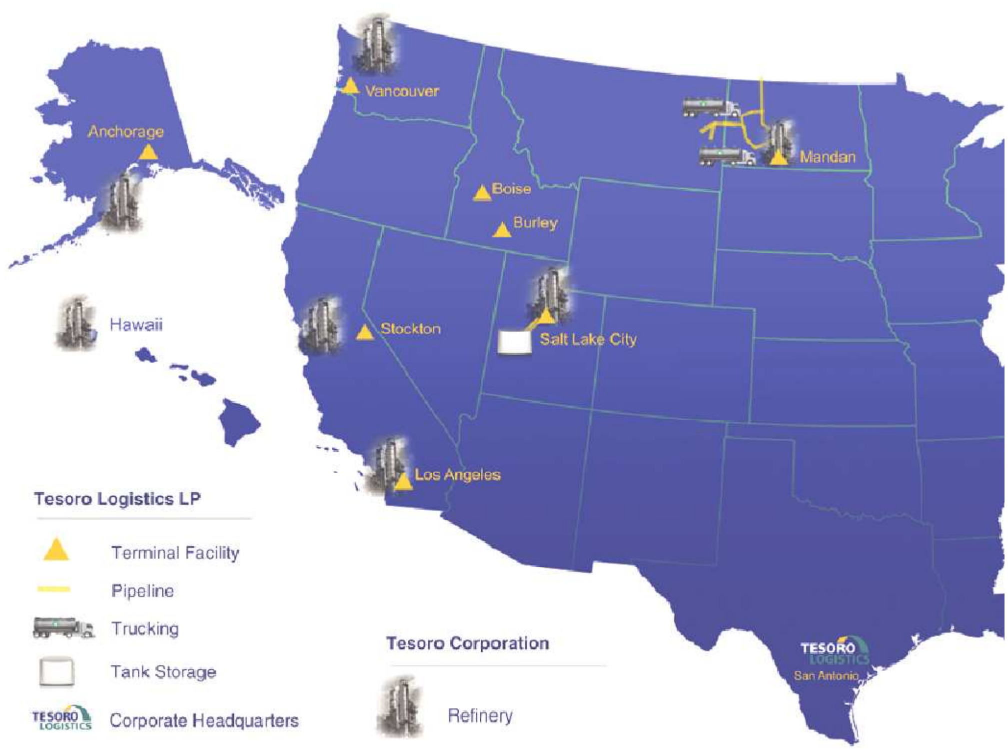
Tesoro Logistics LP is a crude oil and refined products Master Limited Partnership (MLP) that gathers, transports, and stores crude oil and distributes, transports, and stores refined products.

The partnership's assets consist of a crude oil gathering system in the Bakken Shale/Williston Basin area of North Dakota and Montana, eight refined products terminals in the Midwestern and Western United States, and a crude oil and refined products storage facility and five related short-haul pipelines in Utah.

Tesoro's results are primarily driven by revenues generated from the gathering, transporting, and storing of crude oil and refined products. The partnership does not generally own the products and does not trade, so there is minimal direct commodity price exposure.

The majority of its revenue is derived from Tesoro Corporation under long-term, fee-based contracts that include minimum volume commitments.

FIGURE 2 – TESORO LOGISTICS – ASSET MAP



Source: Tesoro Logistics, LP

Crude Oil Gathering

Tesoro’s crude oil gathering system is in North Dakota and Montana and is referred to as the High Plains system. The system operates in the Williston Basin and includes production from the Bakken Shale region. The assets include an approximate 23,000 barrels per day (bpd) truck-based gathering operation, approximately 700 miles of pipeline, and storage assets. The total system can deliver up to 70,000 bpd to Tesoro Corporation’s Mandan refinery.

The partnership and Tesoro Corporation have a 10-year pipeline transportation services agreement, under which Tesoro will charge Tesoro Corporation for transporting crude oil on the High Plains pipeline system for shipments in North Dakota. Tesoro Corporation will be obligated to transport an average of at least 49,000 bpd of crude oil per month at the committed rate.

Tesoro also expects to receive revenue from shipments above the minimum volume commitment and from interstate shipments. Tesoro Corporation has historically shipped volumes of crude oil in excess of the minimum throughput commitment, and those excess shipments should continue. The partnership should also derive revenue from other services.

The partnership and Tesoro Corporation also have a two-year trucking transportation services agreement under which Tesoro will provide truck-based crude oil gathering services to Tesoro Corporation. Under the agreement, Tesoro Corporation will be obligated to pay a fee on a minimum volume of crude oil equal to an average of 22,000 bpd per month.

Tesoro also expects to generate additional uncommitted transportation fees at the same per-barrel rate for volumes in excess of Tesoro's minimum commitments.

Terminalling, Transportation, and Storage

Tesoro owns eight refined products terminals with total truck and barge delivery capacity of approximately 229,000 bpd. The terminals provide distribution primarily for refined products produced at Tesoro Corporation's refineries located in Los Angeles and Martinez, California; Salt Lake City, Utah; Kenai, Alaska; Anacortes, Washington; and Mandan, North Dakota.

The partnership also owns a refined products and crude oil storage facility with total shell capacity of approximately 878,000 barrels and three short-haul crude oil supply pipelines and two short-haul refined product delivery pipelines connected to third-party interstate pipelines. These assets support Tesoro Corporation’s Salt Lake City refinery.

Tesoro and Tesoro Corporation have also entered into a 10-year master terminalling services agreement under which the corporation will be obligated to throughput minimum volumes of refined products equal to an aggregate average of 100,000 bpd per month at the partnership's eight refined products terminals and pay throughput fees and fees for providing related ancillary services (such as ethanol blending and additive injection) at Tesoro's terminals.

The two entities also have a 10-year agreement regarding the Salt Lake City pipeline system whereby the corporation is obligated to ship 54,000 bpd per month. In addition, there is a 10-year agreement under which Tesoro Corporation is obligated to use Tesoro's storage facility in Salt Lake City.

FIGURE 3 – TESORO LOGISTICS – ASSETS

Refined Product Terminals	Products	Storage Capacity (barrels)	Maximum Available Terminalling Capacity (bd)
Los Angeles	Gasoline, Diesel	6,000	48,000
Stockton	Gasoline, Diesel	66,000	9,400
Salt Lake City	Gasoline, Diesel, Jet Fuel	18,000	42,000
Anchorage	Gasoline, Diesel, Jet Fuel	883,000	63,000
Mandan, North Dakota	Gasoline, Diesel, Jet Fuel	NA	22,500
Vancouver, Washington	Gasoline, Diesel	298,000	19,600
Boise, Idaho	Gasoline, Diesel, Jet Fuel	254,000	22,500
Burley, Idaho	Gasoline, Diesel	147,000	12,000
		1,672,000	239,000

Source: Partnership reports and Wunderlich Securities, Inc.

Summary of Agreements With Tesoro Corporation

The majority of Tesoro's revenue is derived from Tesoro Corporation under long-term, fee-based contracts that include minimum volume commitments. Under these agreements, Tesoro will provide services to Tesoro Corporation and in turn will be provided with minimum monthly throughput volumes of crude oil and refined products. The agreements include:

- a 10-year pipeline transportation services agreement under which Tesoro Corporation will pay Tesoro fees for gathering and transporting crude oil on its High Plains pipeline system;
- a two-year trucking transportation services agreement under which Tesoro Corporation will pay Tesoro fees for crude oil trucking and related services and scheduling and dispatching services that Tesoro provides through its High Plains truck-based crude oil gathering operation;
- a 10-year master terminalling services agreement under which Tesoro Corporation will pay Tesoro fees for providing terminalling services at its eight refined products terminals;

- a 10-year pipeline transportation services agreement under which Tesoro Corporation will pay Tesoro fees for transporting crude oil and refined products on its five Salt Lake City short-haul pipelines; and
- a 10-year storage and transportation services agreement under which Tesoro Corporation will pay Tesoro fees for storing crude oil and refined products at its Salt Lake City storage facility and transporting crude oil and refined products between the storage facility and Tesoro Corporation's Salt Lake City refinery through interconnecting pipelines on a dedicated basis.

Strategy

Tesoro plans to pursue the following strategies:

- *Focus on Stable, Fee-Based Businesses.* Tesoro will focus on providing fee-based logistics services to Tesoro Corporation and third parties and to minimize direct exposure to commodity prices.
- *Pursue Organic Growth Opportunities.* Tesoro will pursue expanding its asset base from opportunities that may arise from the growth of Tesoro Corporation's refining and marketing business or from increased third-party activity. These opportunities could come from areas that complement the partnership’s asset base or from new areas within its geographic footprint.
- *Grow Through Strategic Acquisitions*. Tesoro will pursue acquisitions from Tesoro Corporation and third parties. In order to provide Tesoro with initial acquisition opportunities, Tesoro Corporation has granted the partnership a right of first offer on certain logistics assets that it owns. Third-party acquisitions will be focused on logistics assets in the western half of the U.S.
- *Optimize Existing Asset Base and Pursue Third-Party Volumes*. Tesoro will pursue opportunities to add volumes, improve operating efficiencies, and increase utilization.

Tesoro Corporation

Tesoro Corporation owns 49% of TLLP’s limited partner interests and the 2% general partner interest. Tesoro Corporation is an independent refiner and marketer of petroleum products. It operates seven refineries with a combined capacity of approximately 665,000 barrels per day and its retail-marketing system includes over 880 branded retail stations.

Tesoro Corporation has agreed not to own or operate crude oil or refined products pipelines, terminals, or storage facilities in the U.S. that are not integral to one of its refineries. Additionally, Tesoro Corporation granted the partnership a right of first offer to acquire certain of its retained logistics assets, including terminals, pipelines, docks, storage facilities, and other related logistic assets located in Alaska, California, and Washington, if it decides to sell of any of those assets.

Growth Prospects

Tesoro's growth should be driven by acquisitions and organic growth projects. Spending on growth projects should total approximately $18 million for 2011 and 2012.

The partnership's High Plains system is being expanded at a cost of $7-$8 million, which should generate an EBITDA run rate of $6 million. The project should be completed by the second quarter of 2012.

Tesoro has various projects taking place in the Terminalling segment at a cost of roughly $10 million, and these should be finished by the second quarter of 2012.

As of December 31, 2010, the gross book value of the logistics assets that Tesoro Corporation contributed to the partnership was approximately $193.0 million and the gross book value of Tesoro Corporation's retained logistics assets on which Tesoro has a right of first offer was approximately $240.0 million.

As part of its agreement with Tesoro Corporation, the partnership has the right of first offer on the following assets:

- a refined products terminal associated with Tesoro Corporation's Golden Eagle refinery consisting of a truck loading rack with three loading bays;
- a marine terminal located in Martinez, California, consisting of a dock, five crude oil storage tanks, and related pipelines;
- a wharf facility located in Martinez, California;
- a pipeline used to transport refined products from Tesoro Corporation's Kenai refinery to Anchorage International Airport, a receiving station at the Port of Anchorage and third-party terminals;
- a dock and storage facility, located at Tesoro Corporation's Kenai refinery, that includes five crude oil storage tanks;
- a refined products terminal located at Tesoro Corporation's Kenai refinery;
- a crude oil and refined products pipeline system used to transport products between Tesoro Corporation's Los Angeles refinery and Tesoro's Long Beach terminal and to various third-party facilities;
- a refined products terminal located at Tesoro's Anacortes refinery;
- a marine terminal and storage facility located at Tesoro Corporation's Anacortes refinery; and
- a marine terminal leased from the Port of Long Beach, California, consisting of a dock with two vessel berths.

The partnership could pursue third-party acquisitions under the right circumstances, but we believe it is more likely that Tesoro will rely on organic growth and dropdowns from its parent for growth.

Distribution

We estimate Tesoro's distribution at $0.9548/unit in 2011, $1.54/unit in 2012, and $1.70/unit in 2013. Based on our distributable cash flow estimate of $1.87/unit for 2012 and $1.98/unit in 2013, coverage ratios would be 1.2x. Our estimates provide a 10.4% growth rate in 2013. Management has stated that it is comfortable with a coverage ratio of 1.1x.

We believe the partnership should be able to increase its distribution over the next several years. Our estimates do not take into account any potential acquisitions and reflects the partnership's guidance and CAPEX program for 2011 and 2012. As the partnership continues with its growth program and if it were to make accretive acquisitions, there should be room for further distribution growth.

Risks

The partnership and all MLPs pass through taxes to unitholders, giving the partnership a lower cost of capital relative to a taxed corporate competitor. Congress or the IRS could decide to remove these tax benefits. This is the biggest risk to Tesoro and all MLPs.

The partnership is dependent on volumes running through its infrastructure. If volumes were to decline, cash flow would be negatively impacted. The transportation and processing of hydrocarbons are subject to environmental and other regulations, and regulators could approve more stringent rules that could increase the costs for companies in the energy industry.

The partnership is dependent on Tesoro Corporation for a substantially all of its revenues. Therefore, if Tesoro Corporation were to experience a significant setback, the partnership could be negatively impacted.

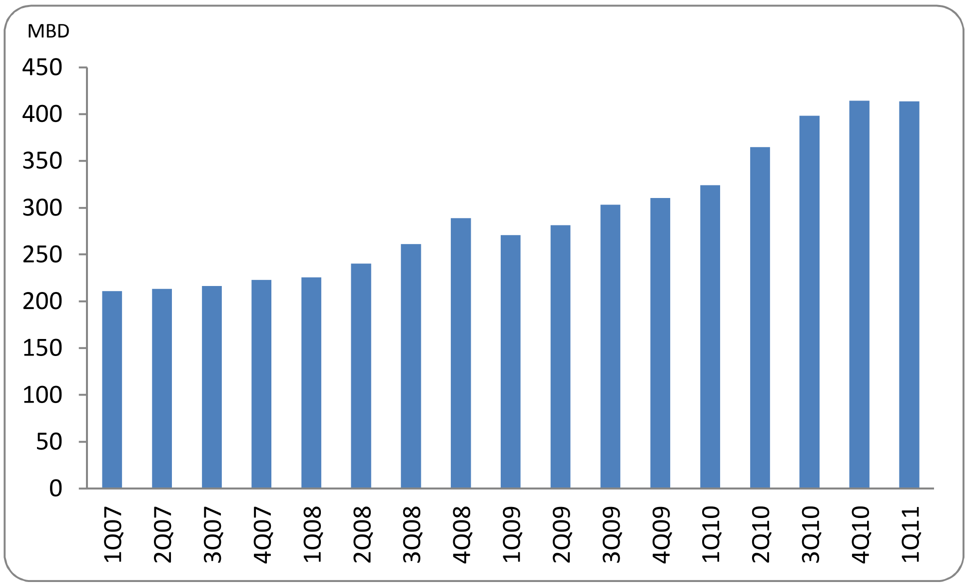
One of the partnership's strategies is to acquire assets, with a focus on dropdowns from its parent. If Tesoro Corporation does not sell midstream assets to Tesoro, the partnership would be dependent on third-party acquisitions, which could be more expensive and less accretive than dropdown assets.

A unitholder whose units are lent to a short seller to cover a short sale of units may be viewed as having sold the units. Unitholders who want to be assured of keeping their status as partners and avoid the risk of gain recognition from a loan to a short seller should consider modifying any brokerage account agreements to prohibit their brokers from borrowing their units. Because of the nature of the MLP structure, all investors should consult qualified tax counsel before making an investment in the sector.

Williston Basin and The Bakken Shale

The Williston Basin is located in North Dakota, South Dakota, Montana, and southern Canada. It extends approximately 475 miles from north to south and 300 miles from east to west. The basin became a major oil producer in the 1950s, when large fields were discovered in North Dakota. Production peaked in 1986, but in the early 2000s significant increases in production began because of horizontal drilling techniques, especially in the Bakken Formation.

FIGURE 4 – TESORO LOGISTICS – WILLISTON BASIN PRODUCTION



Includes North Dakota, South Dakota, and certain counties in Eastern Montana.

Source: North Dakota Pipeline Authority

In April 2008, the United States Geological Survey (USGS) estimated that the Bakken had approximately 3.0-4.3 billion barrels of technically recoverable reserves. The Bakken Formation estimate is larger than all other current USGS oil assessments of the lower 48 states and is the largest continuous oil accumulation ever assessed by the USGS.

According to the North Dakota Pipeline Authority (NDPA), the rig count in North Dakota has increased to 183 rigs as of July 2011 from 91 rigs as of December 2008. In addition, the NDPA's figures show that oil production from the Williston has continued to increase over the last several years, with production averaging 414 thousand barrels per day (MBD) during the first quarter of 2011, compared with 226 MBD during the first quarter of 2008.

FIGURE 5 – TESORO LOGISTICS – WILLISTON BASIN MAP

Source: EIA

FIGURE 6 – TESORO LOGISTICS – MODEL

$ in millions except per unit data	1Q11	2Q11	3Q11E	4Q11E	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E	1Q13E	2Q13E	3Q13E	4Q13E	2013E
Operating Income	-	7.5	12.0	12.1	**31.6**	12.3	13.5	14.8	14.8	**55.4**	14.8	14.9	14.9	14.9	**59.4**
Interest expense, net	-	(0.5)	(0.7)	(0.7)	**(1.8)**	(0.7)	(0.7)	(0.7)	(0.7)	**(2.6)**	(0.7)	(0.7)	(0.7)	(0.7)	**(2.6)**
Other income	-	0.8	0.0	0.0	**0.8**	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
Pre-tax income	-	7.9	11.4	11.4	**30.7**	11.6	12.9	14.2	14.2	**52.8**	14.2	14.2	14.2	14.2	**56.8**
Income Tax	-	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	**0.0**
Net Income	**-**	**7.9**	**11.4**	**11.4**	**30.7**	**11.6**	**12.9**	**14.2**	**14.2**	**52.8**	**14.2**	**14.2**	**14.2**	**14.2**	**56.8**
Net Income to General Partner	-	0.2	0.2	0.2	**0.6**	0.2	0.3	0.3	0.3	**1.1**	0.4	0.4	0.5	0.6	**1.9**
Net Income to Limited Partners	**-**	**7.7**	**11.2**	**11.2**	**30.1**	**11.4**	**12.6**	**13.9**	**13.8**	**51.7**	**13.8**	**13.8**	**13.7**	**13.6**	**54.9**
Net Income/Unit (Limited)	**-**	**$0.25**	**$0.37**	**$0.37**	**$0.99**	**0.37**	**$0.41**	**$0.45**	**$0.45**	**$1.69**	**0.45**	**$0.45**	**$0.45**	**$0.45**	**$1.80**
Limited Partnership Units	-	30.5	30.5	30.5	**30.5**	30.5	30.5	30.5	30.5	**30.5**	30.5	30.5	30.5	30.5	**30.5**
EBITDA (total)	-	10.0	14.4	14.4	**38.9**	14.7	16.0	17.3	17.3	**65.2**	17.3	17.3	17.3	17.3	**69.3**
EBITDA/Unit	**-**	**$0.33**	**$0.47**	**$0.47**	**$1.27**	**0.48**	**$0.52**	**$0.57**	**$0.57**	**$2.14**	**0.57**	**$0.57**	**$0.57**	**$0.57**	**$2.27**
EBITDA (Limited Partners)	-	9.9	14.2	14.2	**38.3**	14.5	15.7	17.0	16.9	**64.1**	16.9	16.9	16.8	16.7	**67.3**
EBITDA/Unit	**-**	**$0.32**	**$0.47**	**$0.47**	**$1.25**	**0.47**	**$0.51**	**$0.56**	**$0.55**	**$2.10**	**0.55**	**$0.55**	**$0.55**	**$0.55**	**$2.21**
Other	-	(0.0)	(0.7)	(0.7)	**(1.3)**	(0.7)	(0.7)	(0.7)	(0.7)	**(2.6)**	(0.7)	(0.7)	(0.7)	(0.7)	**(2.6)**
Maintenance CAPEX	-	(0.3)	(1.2)	(1.2)	**(2.8)**	(1.2)	(1.0)	(1.0)	(1.0)	**(4.2)**	(1.0)	(1.0)	(1.0)	(1.0)	**(4.0)**
Distributable Cash Flow	-	9.7	12.5	12.5	**34.8**	12.8	14.3	15.6	15.6	**58.4**	15.6	15.7	15.7	15.7	**62.6**
Distributable Cash Flow (GP)	-	(0.2)	(0.3)	(0.3)	**(0.7)**	(0.3)	(0.3)	(0.3)	(0.4)	**(1.2)**	(0.4)	(0.5)	(0.6)	(0.7)	**(2.2)**
Distributable Cash Flow (LP)	-	9.5	12.3	12.3	**34.1**	12.6	14.0	15.3	15.2	**57.1**	15.2	15.2	15.1	15.0	**60.5**
Distributable Cash Flow/Unit	**-**	**$0.31**	**$0.40**	**$0.40**	**$1.12**	**0.41**	**$0.46**	**$0.50**	**$0.50**	**$1.87**	**0.50**	**$0.50**	**$0.50**	**$0.49**	**$1.98**
Distribution		$0.2448	$0.3500	$0.3600	**$0.9548**	$0.3700	$0.3800	$0.3900	$0.4000	**$1.5400**	$0.4100	$0.4200	$0.4300	$0.4400	**$1.7000**
Coverage Ratio					**1.2x**					**1.2x**					**1.2x**
Distribution Growth															**10.4%**
Debt/EBITDA										**0.8x**					**0.7x**
EBITDA/Interest Expense										**25.1x**					**26.6x**

Source: Partnership reports and Wunderlich Securities, Inc. estimates

Disclosures:

Analyst Certification

I John R. Cusick, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their underlying securities. I further certify that I have not and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this research report.

Valuation/Risks

- We have a Buy rating on TLLP and a $27.50 price target. Our price target is derived through a two-stage distribution discount model, which assumes a required rate of return of 8.5% and a long-term growth rate of 2.0%. Our terminal value in 2016 is $30.91.
- MLPs are tax-advantaged investments. Congress or the IRS could decide to remove these tax benefits. This is the biggest risk to all MLPs.

General disclosures:

Prices are as of the close of 10/12/11.

Ratings Distribution (in Percentages) & Investment Banking Disclosure Chart Information

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	**139**	**63.50**	**18**	**12.95**
Hold -rated	**77**	**35.20**	**5**	**6.49**
Sell -rated	**3**	**1.40**	**0**	**0.00**

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*** Percentage of companies within Wunderlich-rated Buy, Hold, and Sell categories for which Wunderlich or an associated firm provided investment banking services within the past 12 months.*

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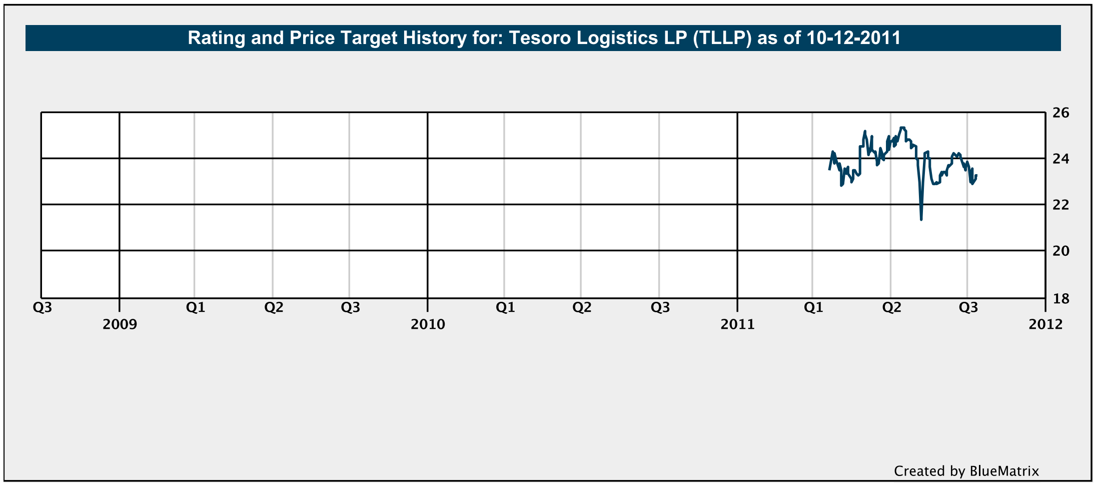

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