Tesoro Logistics LP (TLLP)

Rating	**OUTPERFORM***
Price (05 Dec 11, US$)	29.01
Target price (US$)	(from 29.00) 33.00[1]
52-week price range	29.01 - 21.34
Market cap. (US$ m)	885.09
Adjusted EV	—

**Stock ratings are relative to the relevant country benchmark.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

Research Analysts

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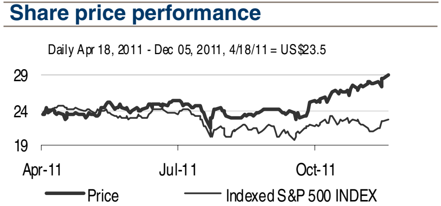
INCREASE TARGET PRICE

Growth Poised to Accelerate

- **Raising Estimates and Target Price:** Following TLLP's '2012 Business Plan Update' released on 12/6/2011, we are raising our distribution growth CAGR over the next five years from 8.8% to 12.0%. We reiterate our Outperform rating with a revised target price of $33 (from $29). Our DDM assumes a discount rate of 9.0%, distribution CAGR of 12.0% over the first five years and 5.0% over the following five years and a terminal growth rate of 1.5%.
- **2012 Business Plan Update:** 1) TLLP plans to invest heavily in its organic growth projects, to the tune of $100 million by 2013 (up from $15 million). Management plans to double the volumes from the Bakken supported by demand from its sponsor Tesoro Corp (TSO). 2) Martinez Crude Oil Marine Terminal will be the first asset to be dropped down. We have modeled the dropdown at 10 times estimated EBITA to $8 million. 3) As a result of these investments management expects to grow EBITDA to $100 million in 2013. This compares to our previous estimate of $82.1 million.
- **Strong Fundamentals with Visible Growth:** TLLP maintains strong financial flexibility and is able to finance its 2012 organic growth and dropdown projects via their revolver. TLLP has $100 million remaining on its $150 million revolver (that is expandable to $300 million). However, we are modeling an equity offering in 3Q12 to be conservative. This provides management with additional dry powder and will improve the trading liquidity of its units. To note, TLLP plans to maintain a distribution coverage ratio of 1.1 times over the long term. Lastly, we suspect that TLLP is evaluating other potential projects in and around the Bakken projects.

Share price performance



On 12/05/11 the S&P 500 INDEX closed at 1262.09

Qtrly EPU	Q1	Q2	Q3	Q4
2010A	—	—	—	—
2011E	-0.19	0.25	0.49	0.40
2012E	0.33	0.41	0.47	0.44

Financial and valuation metrics

Year	12/10A	12/11E	12/12E	12/13E
EBITDA (US$ m)	53	44	74	99
Distribution/unit - DPU (US$ m)	—	1.05	1.58	1.78
Earnings/unit - EPU (US$)	1.36	0.95	1.66	2.14
EPU - consensus (US$)	—	0.95	1.76	1.91
Distributable CF/unit (US$)	1.51	1.15	1.96	2.32
Distribution coverage (x)	—	1.21	1.27	1.39
P/DCF (x)	—	—	—	—
Adj. current EV/EBITDA (x)	—	18.1	21.8	44.7

Dist./unit - DPU (Next Qtr., US$)	0.36	Distribution yield (%)	1.2
Units outstanding (m)	31	GP take (%)	—
Net debt current (US$ m)	33.4	Net debt/EBITDA (x)	0.74
6-month ADV (000's)	14,087	Net debt/market cap. (%)	—
Free float (%)	—	Institutional ownership (%)	—

Source: Company data, Credit Suisse estimates.

Investment Thesis

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. Over the next several years, there is visible growth from, 1) organic projects tied to its strategies in the Bakken shale; 2) multi year inventories of dropdown assets from Tesoro Corp, and the 3) development of third party businesses.

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 $3.5 billion. TSO retains a significant ownership in the MLP as it will own about 50% of the limited partner interest and the 2.0% general partner interest and associated incentive distribution rights.

Exhibit 1: TLLP Asset Map

Source: Company data, Credit Suisse estimates

Martinez Crude Oil Terminal Dropdown

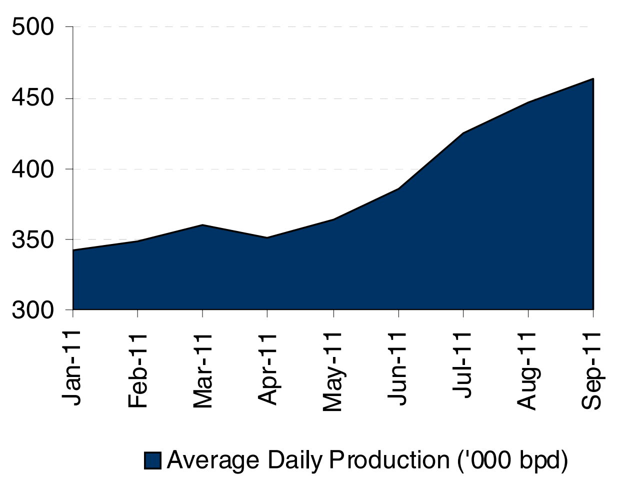
TSO plans to dropdown Martinez Crude Oil Marine Terminal to TLLP in early 2012. The company projects the EBITDA contribution from the dropdown at about $8 million annually. We model the dropdown at an EBITDA multiple of 10 times, on approximately $80 million. TLLP expects to finance the entire deal with its available revolver (that is expandable to $300 million). We have modeled the acquisition as 50/50 debt/equity to be conservative, with cost of debt at 6.0% and an annual maintenance capital expenditure of $0.5 million. We expect the dropdown to be in the range of $0.07 - 0.11 or 4.4% - 7.4% accretive to cash flow, depending on the multiple of the dropdown transaction. The terminal's projected volume is 70,000bpd with minimum volume commitments of 65,000bpd. In addition, the terminal has a wharf capacity of 145,000bpd and storage capacity of 425,000 barrels.

Focus on Bakken Shale

TLLP plans to expand its High Plains system to accommodate increasing crude production from the Bakken Shale. Management targets to grow system volumes to over 100,000bpd by 2013. This is supported by expansion at TSO's Mandan refinery (+10,000 bpd) and Anacortes refinery (+30,000bpd).

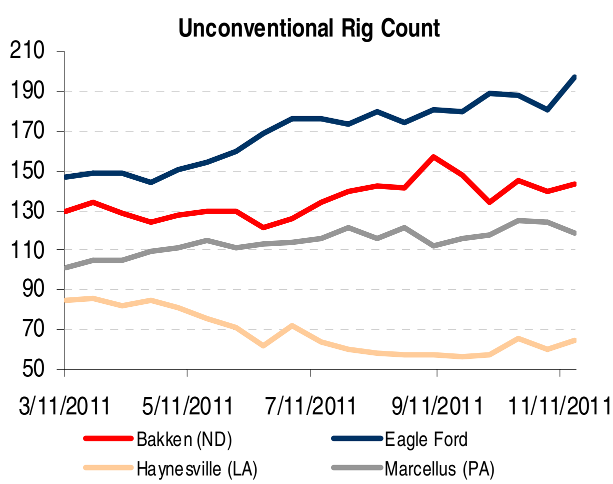
The Bakken Shale play is one of the premier oil plays in North America today. This unconventional play extends from North Dakota and eastern Montana in the United States into the Canadian provinces of Saskatchewan and Manitoba. The Bakken Shale play in North Dakota is currently the most actively drilled oil play in the US. According to the Land Rig Newsletter, the current rig count is 143 (all time high was 157 in September 2011). Oil production was at 463,754 bpd, up from 342,876 bpd in January 2011 and 137,642 bpd in January 2008, according to the North Dakota Industrial Commission (NDIC).

Exhibit 2: Production Growth in North Dakota



Source: North Dakota Industrial Commission (NDIC), Credit Suisse estimates

Exhibit 3: Bakken Drilling Activity Remains Strong



Source: Land Rig Newsletter, Credit Suisse

Exhibit 4: TLLP Changes to Model

	4Q11E	2011E	2012E	2013E	2014E	2015E	4Q11E	2011E	2012E	2013E	2014E	2015E
Crude oil gathering	7.0	14.0	29.9	32.7	33.4	34.2	8.0	15.8	32.4	44.1	48.2	49.0
Terminalling, transportation and storage	9.3	31.5	42.0	44.7	46.6	48.7	8.6	33.5	41.6	48.0	51.1	51.9
Acquisitions	0.0	0.0	4.7	10.9	17.2	23.4	0.0	0.0	6.0	12.7	18.9	25.2
Recurring EBITDA	**14.8**	**40.0**	**70.5**	**82.1**	**90.8**	**99.8**	**15.1**	**44.2**	**73.8**	**98.6**	**111.9**	**119.6**
Operating and maintenance	10.0	36.6	44.9	48.6	51.2	54.1	9.6	33.9	46.9	59.4	65.3	67.5
Depreciation and amortization	2.3	8.6	14.4	16.4	18.4	20.4	2.3	8.4	14.4	16.4	18.4	20.4
General and administrative	1.8	6.9	9.0	11.6	14.3	16.9	1.8	7.2	9.5	12.3	15.0	17.6
EBIT (operating income recurring)	**12.5**	**31.4**	**56.1**	**65.7**	**72.4**	**79.4**	**12.8**	**35.8**	**59.4**	**82.1**	**93.5**	**99.2**
Interest expense (income), net	(0.4)	(1.3)	(3.8)	(6.6)	(8.3)	(10.1)	(0.5)	(1.5)	(6.4)	(10.0)	(12.4)	(13.8)
Net income (recurring)	**12.1**	**30.1**	**52.3**	**59.1**	**64.1**	**69.3**	**12.4**	**34.3**	**53.1**	**72.1**	**81.1**	**85.4**
Non-recurring Items	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	0.0
Reported Net Income	**12.1**	**30.9**	**52.3**	**59.1**	**64.1**	**69.3**	**12.4**	**35.1**	**53.1**	**72.1**	**81.1**	**85.4**
EPU	**0.4**	**0.8**	**1.7**	**1.9**	**2.0**	**2.1**	**0.4**	**0.9**	**1.7**	**2.1**	**2.3**	**2.3**
EBITDA - Recurring	14.8	40.0	70.5	82.1	90.8	99.8	15.1	44.2	73.8	98.6	111.9	119.6
Average Units Outstanding	30.5	30.5	30.5	30.5	30.5	30.5	30.5	30.5	31.2	32.3	32.3	32.3
Distributable Cash Flow (DCF)												
Net income	12.1	24.7	52.3	59.1	64.1	69.3	12.4	28.8	53.0	72.1	81.1	85.4
(+) Interest expense, net	0.4	1.3	3.8	6.6	8.3	10.1	0.5	1.5	6.4	10.0	12.4	13.8
(+) Depreciation and amortization	2.3	8.6	14.4	16.4	18.4	20.4	2.3	8.4	14.4	16.4	18.4	20.4
EBITDA	**14.8**	**34.6**	**70.5**	**82.1**	**90.8**	**99.8**	**15.1**	**38.7**	**73.8**	**98.6**	**111.9**	**119.6**
(-) Cash interest paid	0.4	0.8	3.8	6.6	8.3	10.1	0.5	0.8	6.4	10.0	12.4	13.8
(-) Maintenance capital expenditure	1.1	2.6	5.9	6.9	7.6	8.4	1.1	1.8	3.7	4.9	5.6	6.0
(-) Other	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Avaliable Cash	**13.3**	**30.8**	**60.8**	**68.6**	**74.9**	**81.3**	**13.6**	**35.7**	**63.8**	**83.6**	**94.0**	**99.8**
Cash paid to the general partner	0.2	0.6	1.0	1.8	3.3	4.9	0.2	0.7	1.2	2.7	5.0	10.3
GP portion of surplus cash flow	0.0	0.0	0.7	3.1	3.8	4.8	0.0	0.1	1.4	5.9	7.7	9.6
Distributable cash flow to LP	**13.1**	**30.1**	**59.1**	**63.8**	**67.8**	**71.6**	**13.3**	**34.9**	**61.2**	**75.0**	**81.2**	**79.9**
DCF per LP unit	**$0.43**	**$0.99**	**$1.94**	**$2.09**	**$2.22**	**$2.35**	**$0.44**	**$1.15**	**$1.96**	**$2.32**	**$2.51**	**$2.47**
Cash Distribution Declared Per Unit	**$0.36**	**$1.04**	**$1.53**	**$1.69**	**$1.85**	**$2.00**	**$0.36**	**$1.05**	**$1.58**	**$1.78**	**$1.98**	**$2.18**
Total declared cash distributions	11.1	32.5	47.7	53.4	59.8	65.8	11.3	32.7	50.3	60.1	68.8	80.5
Cash flow surplus / (deficitl) (Total DCF - Total declared dists)	2.2	2.2	13.1	15.3	15.1	15.6	2.3	6.9	13.4	23.6	25.1	19.3
Distribution Coverage (Total DCF/Total Distribution Declared)	**1.20x**	**1.07x**	**1.28x**	**1.29x**	**1.25x**	**1.24x**	**1.20x**	**1.21x**	**1.27x**	**1.39x**	**1.37x**	**1.24x**

$ in millions, except for per unit data
Coverage Ratio = Total DCF/Total Cash Dist

Source: Partnership data, Credit Suisse estimates

Exhibit 5: TLLP Abbreviated Financial Statements

Tesoro Logistics, L.P. (NYSE: TLLP) — **Credit Suisse - Master Limited Partnerships and Natural Gas**

Abbreviated Financial Statements — Yves Siegel, CFA (212) 325-8462

Year ending December 31 ($ millions, except per unit data)	TLLP Predecessor			Pro Forma	Pro Forma									
	2008	**2009**	**2010**	**2010**	1Q11	2Q11	3Q11	4Q11E	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**
Crude oil gathering	4	(0)	(1)	28	1	5	7	8	16	32	44	48	49
% of Total	*-47%*	*1%*	*5%*	*53%*	*-19%*	*55%*	*42%*	*53%*	*36%*	*44%*	*45%*	*43%*	*41%*
Terminalling, transportation and storage	(10)	(11)	(10)	28	(3)	6	11	9	33	42	48	51	52
% of Total	*125%*	*82%*	*78%*	*54%*	*89%*	*59%*	*65%*	*57%*	*76%*	*56%*	*49%*	*46%*	*43%*
Acquisitions	0	0	0	0	0	0	0	0	0	6	13	19	25
% of Total	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*8%*	*13%*	*17%*	*21%*
EBITDA - Recurring	**(8)**	**(13)**	**(13)**	**53**	**(4)**	**10**	**18**	**15**	**44**	**74**	**99**	**112**	**120**
y/y change (%)										*67%*	*33%*	*14%*	*7%*
EPU	$0.00	$0.00	$0.00	$1.36	($0.19)	$0.25	$0.49	$0.40	$0.95	$1.66	$2.14	$2.35	$2.32
Average Units Outstanding	-	-	-	30.5	30.5	30.5	30.5	30.5	30.5	31.2	32.3	32.3	32.3
Distributable Cash Flow (DCF)													
Net income				42	(6)	7	15	12	29	53	72	81	85
(+) Interest expense, net				2	0	0	1	0	2	6	10	12	14
(+) Depreciation and amortization				8	2	2	2	2	8	14	16	18	20
EBITDA				**53**	**(4)**	**10**	**18**	**15**	**39**	**74**	**99**	**112**	**120**
(-) Cash interest paid				2	0	0	0	0	1	6	10	12	14
(-) Maintenance capital expenditure				2	0	0	0	1	2	4	5	6	6
(-) Other				3	0	0	(0)	0	0	0	0	0	0
Distributable Cash Flow				**46**	**(4)**	**9**	**17**	**14**	**36**	**64**	**84**	**94**	**100**
DCF per LP unit				**$1.51**	**($0.13)**	**$0.29**	**$0.55**	**$0.44**	**$1.15**	**$1.96**	**$2.32**	**$2.51**	**$2.47**
Cash Distribution Declared Per Unit						**$0.34**	**$0.35**	**$0.36**	**$1.05**	**$1.58**	**$1.78**	**$1.98**	**$2.18**
% yr/yr growth									*NA*	*16.7%*	*12.7%*	*11.3%*	*10.1%*
Total declared cash distributions						11	11	11	33	50	60	69	81
Cash flow surplus / (deficitl) (Total DCF - Total declared dists)						(2)	6	2	7	13	24	25	19
Distribution Coverage (Total DCF/Total Distribution Declared)						**0.85x**	**1.58x**	**1.20x**	**1.21x**	**1.27x**	**1.39x**	**1.37x**	**1.24x**
% of Total Cash Distribution													
General Partner						2%	2%	2%	2%	2%	5%	7%	13%
Limited Partners						98%	98%	98%	98%	98%	95%	93%	87%
Capital Expenditures & Acquisitions													
Growth Capex	10	6	0	0	0	1	2	3	6	60	40	0	0
Maintenance Capex	8	3	2	2	0	0	0	1	2	4	5	6	6
Acquisitions	0	0	0	0	0	0	0	0	0	80	50	50	50
Total Capital Expenditures & Acquisitions	**19**	**9**	**2**	**2**	**1**	**1**	**3**	**4**	**8**	**144**	**95**	**56**	**56**
Financing and Credit Metrics													
Equity Issuances ($ Millions)				0	0	294	0	0	294	40	0	0	0
Net Debt Issuances ($ Millions) - includes credit facility				0	0	50	0	(0)	50	84	64	23	27
Total Debt ($ Millions)				50	0	50	50	50	50	134	198	221	248
Net Debt-to-TTM EBITDA				0.9x	0.0x	1.2x	0.9x	0.8x	0.7x	1.6x	1.9x	1.9x	2.1x
Interest Expense, Net ($ Millions)				2	0	0	1	0	2	6	10	12	14
EBITDA-to-Interest Expense				21.9x	NA	20.8x	29.5x	31.5x	28.6x	11.6x	9.9x	9.1x	8.7x
Maintenance Capex As % of EBITDA				3%	-3%	3%	2%	7%	4%	5%	5%	5%	5%
Abbreviated Balance Sheet													
Cash and Equivalents	0	0	0	3	0	10	18	17	17	13	9	6	3
Current Assets	**0**	**3**	**4**	**3**	**4**	**19**	**30**	**29**	**29**	**29**	**29**	**27**	**25**
Property Plant and Equipment, Net	139	138	132	132	135	134	134	135	135	345	473	560	646
Other Assets	3	0	0	2	(0)	2	2	2	2	2	2	2	2
Total Assets	**142**	**141**	**136**	**137**	**139**	**155**	**165**	**166**	**166**	**375**	**504**	**589**	**672**
Current Liabilities	**0**	**5**	**5**	**0**	**5**	**7**	**9**	**9**	**9**	**12**	**15**	**16**	**17**
Credit facility	0	0	0	50	50	50	50	50	50	54	93	91	93
Long term debt, less current portion & Credit Facility	0	0	0	0	0	0	0	0	0	80	105	130	155
Other Liabilities	9	1	2	50	1	50	50	50	50	54	93	91	93
Total Liabilities	**9**	**5**	**7**	**50**	**6**	**57**	**59**	**59**	**59**	**146**	**213**	**237**	**265**
Partners Capital	133	136	129	87	132	98	106	108	108	229	290	352	407
Total Liabilities & Partners Capital	**142**	**141**	**136**	**137**	**139**	**155**	**165**	**166**	**166**	**375**	**504**	**589**	**672**

*Note: GP portion of surplus cash flow refers to the excess cash flow, above distributions paid, to which the general partner would be entitled if excess cash flow were fully distributed. Similarly, GP portion of cash flow deficit refers to the portion of the shortfall that the GP would share in the event that distributions were paid only out of DCF.

Source: Partnership reports, Credit Suisse estimates

Source: Partnership data, Credit Suisse estimates

Companies Mentioned *(Price as of 05 Dec 11)*
Tesoro Corp. (TSO, $24.83, NEUTRAL [V], TP $35.00)
Tesoro Logistics LP (TLLP, $29.01, OUTPERFORM [V], TP $33.00)

Disclosure Appendix

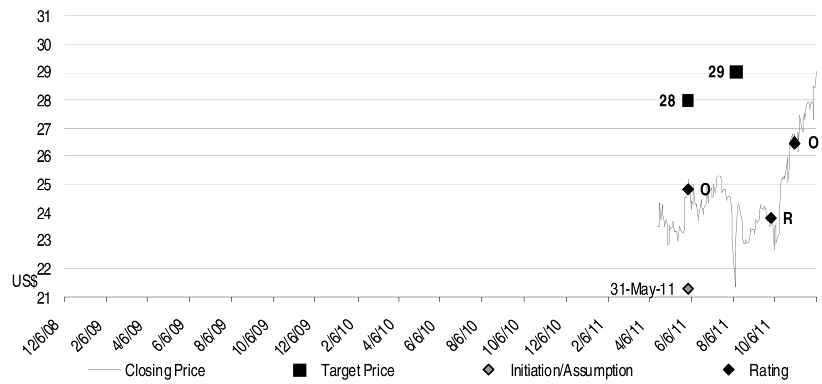
Important Global Disclosures

I, Yves Siegel, CFA, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for TLLP

TLLP Date	Closing Price (US$)	Target Price (US$)	Rating	Initiation/ Assumption
5/31/11	24.84	28	O	X
8/10/11	22.99	29		
9/30/11	23.8		R	
11/4/11	26.47		O	



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

Analysts' stock ratings are defined as follows:

Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

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

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

Restricted (R): In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*
***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

	Global Ratings Distribution	
Outperform/Buy*	48%	(61% banking clients)
Neutral/Hold*	40%	(57% banking clients)
Underperform/Sell*	10%	(54% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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Price Target: (12 months) for (TLLP)
Method: We derived our $33 price target through a three-stage distribution discount model (DDM). Our assumptions include a discount rate of 12.0%, 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 $33 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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The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (TLLP) within the past 12 months.

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