

July 7, 2011

Stock Rating:
OUTPERFORM

12-18 mo. Price Target	\$30.00
TLLP - NASDAQ	\$24.61

3-5 Yr. EPS Gr. Rate	NA
52-Wk Range	\$25.67-\$21.00
Shares Outstanding	14.9M
Float	12.8M
Market Capitalization	\$743.3M
Avg. Daily Trading Volume	54,364
Dividend/Div Yield	\$1.35/5.49%
Fiscal Year Ends	Dec
Book Value	\$4.22
2011E ROE	NA
LT Debt	\$50.0M
Preferred	NA
Common Equity	\$86M
Convertible Available	No

DCFPU	Q1	Q2	Q3	Q4	Year	Mult.
2011E	--	0.32	0.37	0.37	1.06	23.2x
Prior (E)	--	0.33	--	--	1.07	23.0x
2012E	0.37	0.39	0.42	0.44	1.61	15.3x
Prior (E)	--	--	--	--	1.70	14.5x
2013E	--	--	--	--	1.86	13.2x

EBITDA	Q1	Q2	Q3	Q4	Year	Mult.
2011E	--	12	13	14	39	NM
Prior (E)	--	--	--	--	--	NM
2012E	14	14	17	18	63	NM
Prior (E)	--	--	15	16	58	NM
2013E	--	--	--	--	82	NM
Prior (E)	--	--	--	--	64	NM

Distribution	Q1	Q2	Q3	Q4	Year	Yield
2011E	--	0.266	0.338	0.345	0.949	3.9%
2012E	0.355	0.365	0.375	0.385	1.480	6.0%
2013E	--	--	--	--	1.640	6.7%

ENERGY/MASTER LIMITED PARTNERSHIPS

Tesoro Logistics Partners

Lower 2Q Trucking Volumes on Weather

SUMMARY

We are reducing 2Q11 trucking volumes as adverse North Dakota weather closed roads and forced trucking restrictions throughout the Williston Basin. Despite slightly lowering estimates for 2Q11, we do not foresee a lasting impact and view the lost revenue as a special item. Furthermore, we do not believe the recent legislation involving ethanol subsidies will impact TLLP as the Renewable Fuel Standard creates a growing demand for ethanol. TLLP remains our top pick in the MLP space as we forecast double-digit distribution growth for several years. We believe the Bakken is early in development and TLLP provides one of the most concentrated ways to invest in Bakken development.

KEY POINTS

- **2Q weather bad, even for North Dakota.** Record winter snowfall and heavy spring rain caused record flooding in the Williston Basin. As a result, we are lowering our estimated 2Q trucking volumes, resulting in a one-time (\$0.5M) impact on 2Q11 EBITDA.
- **Weather impact for 2Q only; strong growth remains.** We believe that trucking volumes recovered quickly. Furthermore, we anticipate \$17.2M of organic growth projects generating over \$10M of incremental EBITDA. Longer term, we expect TLLP to have ample opportunity to expand its Bakken infrastructure as drilling increases.
- **Ethanol blending small part of business; we expect blending to continue.** TLLP has announced intentions to expand and add ethanol blending capabilities at several terminals, and we believe growth will be highly accretive. Even if the subsidy for ethanol producers is removed, the Renewable Fuel Standard creates a growing demand for ethanol through 2015.
- **Model adjustments.** We made several adjustments including a slight downward revision to 2Q11 numbers driven by trucking volumes. We also corrected for an error to the model that reflects higher EBITDA forecasts in 2012 and 2013.
- **Attractive total return prospects make TLLP our top MLP pick.** We est. ~30% 12-18 month total return potential to our \$30 PT, making TLLP our top pick. We believe TLLP provides a 100% fee-based, relatively low-risk, high-return investment. We recommend purchase while it is still early in its life cycle. (Return calculations excl. applicable fees incl. interest & commission.)

Stock Price Performance

Company Description

TLLP is a fee-based, growth-oriented MLP formed by Tesoro to own, operate, develop and acquire crude oil and refined products logistics assets. Assets consist of a crude oil gathering system in the Bakken Shale/Williston Basin, eight refined products terminals in the Midwest and West, and a crude oil and refined products storage facility and five related short-haul pipelines in Utah.

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Summary Financial Statements											Shawn Radtke (720) 554-1101	
Millions of Dollars Except for Per Unit Amounts												
Fiscal Year Ending December 31,												
Summary Income Statement	2010A	2011Q1E	2011Q2E	2011Q3E	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E	2013E
Crude Oil Gathering	50		9.1	13.0	13.2	35.3	12.9	13.7	14.5	15.1	56.3	62.0
Terminalling, transportation and storage	44		8.8	11.6	11.8	32.2	11.9	12.3	12.8	13.3	50.3	55.1
Total Revenues	93		17.9	24.5	25.1	67.5	24.8	26.0	27.4	28.4	106.6	117.1
Operating expenses												
Operating and maintenance expense	37		5.4	9.5	9.7	24.7	9.7	10.1	10.7	11.1	41.6	45.7
Depreciation expense	8		1.4	2.4	2.4	6.2	2.4	2.5	2.7	2.8	10.4	11.4
General and administrative expense	3		1.0	1.7	1.7	4.4	1.6	1.7	1.8	1.8	6.9	7.3
Total operating expenses	48		7.7	13.6	13.9	35.2	13.7	14.4	15.1	15.7	58.9	64.4
Operating income	45		10.1	10.9	11.2	32.3	11.1	11.6	12.2	12.7	47.7	52.7
Interest Expense	2		0.5	0.7	0.8	2.0	0.8	0.9	2.3	2.3	6.3	14.0
Income before income taxes	42		9.6	10.2	10.4	30.3	10.3	10.8	10.0	10.4	41.4	38.7
Interest Expense	2		0.5	0.7	0.8	2.0	0.8	0.9	2.3	2.3	6.3	14.0
Net income	42		9.6	10.2	10.4	30.3	10.3	10.8	10.0	10.4	41.4	38.7
Less: Allocations to GP	1		0.2	0.2	0.2	0.6	0.2	0.2	0.2	0.2	0.9	0.9
Net Income allocable to LP	42		9.4	10.0	10.2	29.7	10.0	10.5	9.7	10.1	40.4	37.7
Earnings Per LP Unit	1.34		0.30	0.32	0.33	0.95	0.32	0.34	0.31	0.33	1.30	1.21
Distributable Cash Flow Calculation	2010A	2011Q1E	2011Q2E	2011Q3E	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E	2013E
Net Income	42		9.6	10.2	10.4	30.3	10.3	10.8	10.0	10.4	41.4	38.7
Depreciation Expense	8		1.4	2.4	2.4	6.2	2.4	2.5	2.7	2.8	10.4	11.4
Interest Expense	2		0.5	0.7	0.8	2.0	0.8	0.9	2.3	2.3	6.3	14.0
EBITDA	53		11.5	13.3	13.6	38.5	13.5	14.2	14.9	15.5	58.1	64.1
Dropdown Addition to EBITDA	0		0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.5	5.0	17.5
Adjusted EBITDA (Reported)	53		11.5	13.3	13.6	38.5	13.5	14.2	17.4	18.0	63.1	81.6
Cash Interest	2		0.5	0.5	0.6	1.6	0.6	0.7	2.5	2.5	6.3	15.3
Cash Taxes	0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maintenance Capex	2		1.0	1.2	1.2	3.4	1.2	1.3	1.5	1.6	5.6	7.3
Other	0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distributable Cash Flow	49		10.0	11.6	11.9	33.5	11.7	12.3	13.4	13.8	51.2	59.0
Total DCF / Unit	1.57		0.32	0.37	0.38	1.08	0.38	0.39	0.43	0.44	1.64	1.89
GP distribution	0.00		0.01	0.01	0.01	0.02	0.01	0.01	0.01	0.01	0.03	0.03
DCF / LP unit	1.57		0.32	0.37	0.37	1.06	0.37	0.39	0.42	0.44	1.61	1.86
LP distribution / Unit			0.2663	0.3375	0.3450	0.9488	0.3550	0.3650	0.3750	0.3850	1.4800	1.6400
LP distribution / Growth Coverage			1.2x	1.1x	1.1x	1.1x	1.0x	1.1x	1.1x	1.1x	1.1x	1.1x
Summary Statement of Cash Flow	2010A	2011Q1E	2011Q2E	2011Q3E	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E	2013E
Cash Flow From Operations	0		11.0	12.8	13.1	36.9	12.9	13.5	12.4	12.9	51.8	48.8
Capital Expenditures	0		(5.5)	(5.7)	(5.7)	(16.9)	(3.2)	(3.3)	(3.5)	(3.6)	(13.6)	(15.3)
Sales (Purchases) of Assets	0		0.0	0.0	0.0	0.0	0.0	0.0	(100.0)	0.0	(100.0)	(100.0)
Cash Flow From Investing	0		(5.5)	(5.7)	(5.7)	(16.9)	(3.2)	(3.3)	(103.5)	(3.6)	(113.6)	(115.3)
Distributions	0		(8.5)	(10.7)	(11.0)	(30.1)	(11.3)	(11.6)	(11.9)	(12.2)	(47.0)	(50.6)
Net Equity Issuance	0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Debt Issuance	0		3.0	3.6	3.6	10.1	1.6	1.3	103.0	2.9	108.8	117.1
Cash Flow From Financing	0		(5.5)	(7.1)	(7.4)	(20.0)	(9.7)	(10.3)	91.1	(9.3)	61.8	66.5
Summary Balance Sheet	2010A	2011Q1E	2011Q2E	2011Q3E	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E	2013E
Cash	3		3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Total Current Assets	3		3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Net PP&E	132		137.1	142.8	148.5	148.5	151.7	154.9	258.5	262.1	262.1	377.4
Total Assets	137		142.1	147.8	153.5	153.5	156.7	159.9	263.5	267.1	267.1	382.4
Short-Term Debt	0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-Term Debt	50		53.0	56.5	60.1	60.1	61.7	63.0	166.1	169.0	169.0	286.1
Total Liabilities	50		53.0	56.5	60.1	60.1	61.7	63.0	166.1	169.0	169.0	286.1
Total Equity	87		89.2	91.2	93.3	93.3	95.0	96.9	97.4	98.1	98.1	96.3
Total Liabilities & Equity	137		142.1	147.8	153.5	153.5	156.7	159.9	263.5	267.1	267.1	382.4
Operating Data	2010A	2011Q1E	2011Q2E	2011Q3E	2011Q4E	2011E	2012Q1E	2012Q2E	2012Q3E	2012Q4E	2012E	2013E
Crude Gathering												
Pipeline Throughput (bpd)	50,695		55,096	57,437	59,878	56,315	59,878	62,273	64,764	66,707	63,406	67,209
Trucking Volume (bpd)	23,305		19,710	22,957	22,842	22,174	22,614	23,744	24,932	26,178	24,367	26,507
Terminalling, Transportation and Storage												
Terminal Throughput (bpd)	113,950		114,863	115,323	115,784	115,094	116,363	116,945	117,530	118,117	117,239	119,601
Short Haul Pipeline Volume (bpd)	60,666		64,361	66,935	69,612	65,848	72,049	74,571	77,180	79,882	75,920	87,120
Storage capacity reserved	878,000		878,000	878,000	878,000	878,000	878,000	886,000	886,000	886,000	884,000	886,000
Source: Company reports; Oppenheimer & Co. estimates; SNL. Please refer to Ooco reports for more details												
												7/7/11

Source: Company reports; Oppenheimer & Co. estimates; SNL. Please refer to Opco reports for more details

7/7/11

Investment Thesis

TLLP is currently our top pick within our MLP coverage. We believe TLLP represents the first opportunity in several years to own a 100% fee-based (low-risk) MLP with significant dropdown and organic growth potential early in its life cycle. We forecast double-digit distribution growth CAGR for the next several years as TLLP expands organically and completes acquisitions. Assets include a large crude oil gathering system in North Dakota and Montana that provides exposure to Bakken formation growth. We believe the Bakken is in the very early stages of development and that TLLP provides one of the most concentrated ways to invest in Bakken production.

Price Target Calculation

Our price target of \$30 per unit is derived using our distribution discount model (DDM). The assumptions underlying this price target are stage one (years 1 & 2) growth of 10%, stage two (years 3-5) growth of 8%, a terminal growth rate of 2% and a discount rate of 8.0%. The terminal distribution is projected to be \$2.06 and is achieved in 2015.

Key Risks to Price Target

- Weak refined product demand
- Potential to overpay for acquisitions
- Acquisition integration
- Rising interest rates
- Economic weakness
- Capital markets access
- Major change in MLP tax code
- FERC regulatory risk
- Conflicts of interest between LPs and GPs
- Counterparty credit risk
- Energy infrastructure overbuild
- Extreme weather
- A unitholder whose units are loaned 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 a qualified tax counsel before making an investment in the sector.

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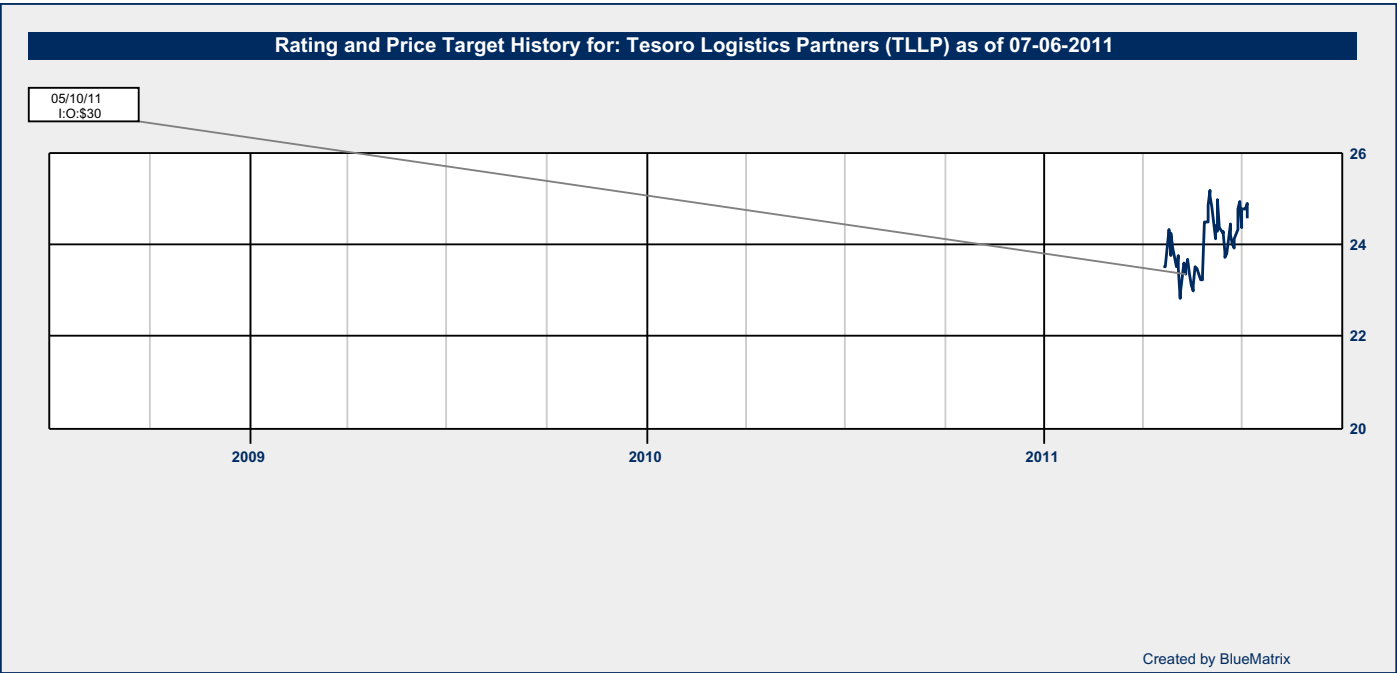
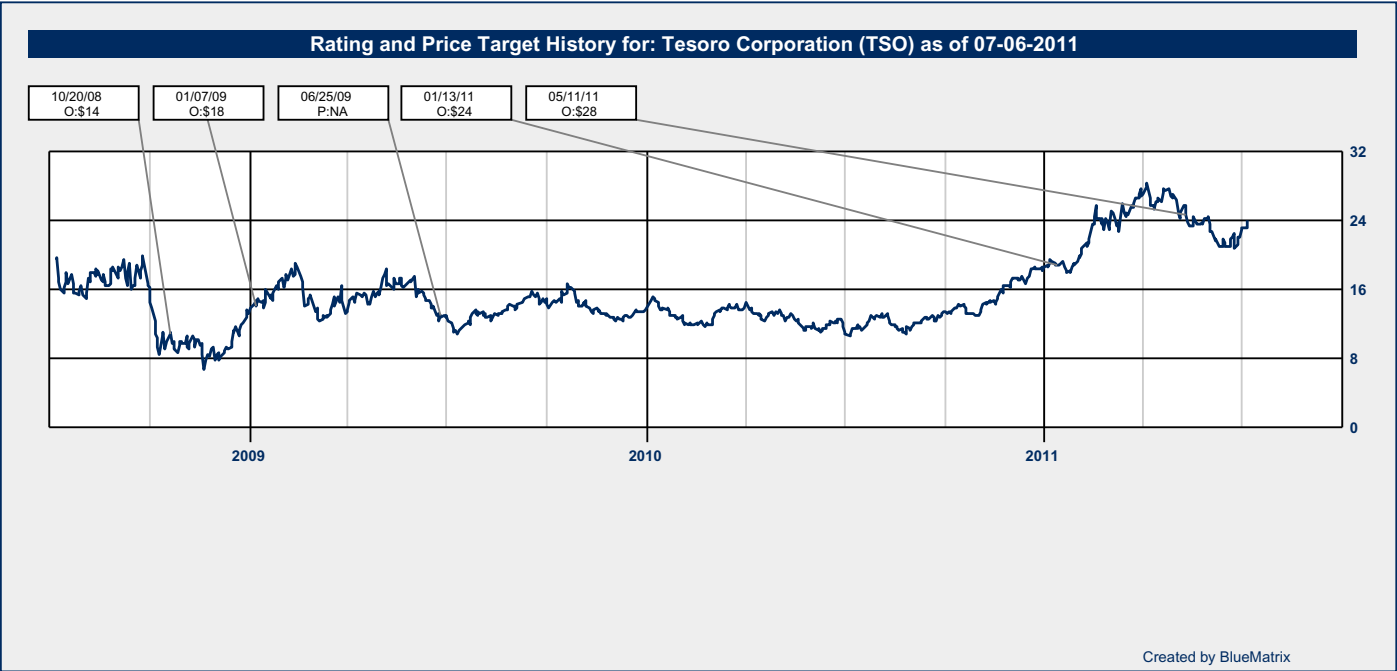
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Stock Prices as of July 7, 2011
Tesoro Corporation (TSO - NYSE, 24.48, OUTPERFORM)



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Distribution of Ratings/IB Services Firmwide				
Rating	Count	IB Serv/Past 12 Mos.		
		Percent	Count	Percent
OUTPERFORM [O]	322	55.10	142	44.10
PERFORM [P]	253	43.30	82	32.41
UNDERPERFORM [U]	9	1.50	1	11.11

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