



PRICE TARGET REVISION | COMMENT

AUGUST 10, 2011

Tesoro Logistics LP (NYSE: TLLP)

Volume Growth Driving Estimates Higher

Outperform Average Risk

Price:	22.99	Price Target:	29.00 ↑ 28.00
Shares O/S (MM):	30.5	Implied All-In Return:	32%
Dividend:	1.35	Market Cap (MM):	701
Float (MM):	30.2	Yield:	5.9%
Debt to Cap:	37%	Avg. Daily Volume (MM):	0.40
		Est Tax Deferral:	80%

Event: 2Q11 Results

Investment Thesis

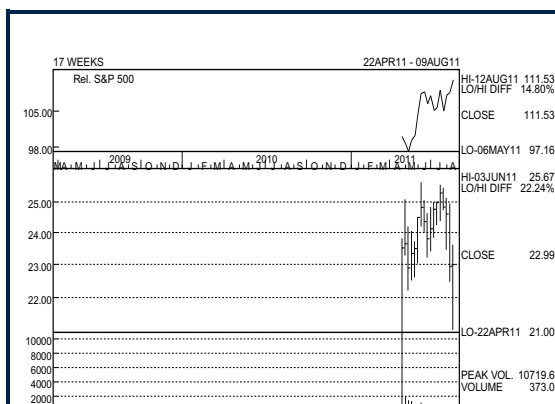
2Q11 Results Solid On Strong Terminal Volumes. TLLP reported 2Q11 EBITDA of \$9.6M, but TLLP was only public for a portion of 2Q11 (IPO date of April 26, 2011). Prior to the IPO, TSO did not record inter-company revenue so comparisons to prior-year periods or our estimates are not useful. In general, TLLP indicated that strong terminal volumes offset some slowdowns in crude oil pipeline shipments within North Dakota due to bad weather.

Unexpected Terminal Volume Increase Incremental To Our Estimates.

Following the IPO, TLLP increased product volumes through terminals in Los Angeles, Vancouver and Mandan by 10 Mbpd (or about 8%) as parent TSO took more volume. The increased volume does not represent any new third party volumes, and we believe there could be more upside from third volumes over time. Regardless, the volume increase is a bigger and quicker impact than we had modeled, and adds roughly \$3M annual EBITDA to our estimates. TLLP also announced plans to permit an additional 5 Mbpd increase at its Los Angeles terminal by YE11, which is also accretive to our estimates.

High Plains Growth. TSO recently announced plans to build a rail unloading facility at its Anacortes facility capable of taking 30 MBpd of Bakken crude oil by YE12. It is possible that some of this will be sourced through TLLP's High Plains gathering system. The crude oil will be delivered from Rangeland Energy, LLC's loading terminal and pipeline facility in Williams County, North Dakota, and TLLP announced that it will spend \$3M to interconnect with Rangeland's pipeline by 2Q12. This will initially have an approximate \$1M annual EBITDA impact, but we expect the benefit can grow as more High Plains crude is potentially used for delivery to Anacortes.

Adjusting Estimates; Raising Price Target. We have increased our 2012/13 EBITDA estimates by 5%/6% to account for higher terminal product volumes, Rangeland interconnect and additional High Plains growth. We model in \$50M drop-downs every other quarter beginning in 4Q11 (management is currently working on its first drop). Distribution outlook unchanged and we have increased our price target slightly on improved coverage. We remain Outperform as TLLP executes its drop down strategy.



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FY Dec	2010A	2011E	2012E	2013E
DCF - FD		1.17	1.96	2.41
Prev.		1.14	1.82	2.22
EPU (Op) - FD		1.00	1.58	1.89
Prev.			1.46	1.71
EBITDA (MM)		52.8	70.6	90.0
Prev.		52.7	67.0	84.6
P/DCF	NM	19.6x	11.7x	9.5x
P/EPU	NM	23.0x	14.6x	12.2x
EV/EBITDA	NM	13.3x	9.9x	7.8x
DCF - FD	Q1	Q2	Q3	Q4
2011	0.00A	0.29A	0.43E	0.46E
Prev.		0.37E	0.37E	0.40E
2012	0.43E	0.48E	0.49E	0.52E
Prev.	0.39E	0.44E	0.45E	0.50E
EPU (Op) - FD				
2011	0.00A	0.23A	0.39E	0.39E
Prev.		0.33E	0.33E	0.34E
2012	0.36E	0.40E	0.40E	0.42E
Prev.	0.33E	0.36E	0.37E	0.40E
EBITDA (MM)				
2011	12.3A	9.6A	15.0E	16.0E
Prev.		12.8E	13.2E	14.4E
2012	15.4E	17.5E	18.1E	19.6E
Prev.	14.6E	16.3E	17.1E	19.0E

All values in USD unless otherwise noted.

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

For Required Conflicts Disclosures, see Page 4.

Valuation

Using our multi-stage dividend discount model (DDM) for the LP units, we calculate a 12-month price target of \$29/unit, which implies a yield of 5.7% on our one-year-out distribution estimate of \$1.67/unit. Our DDM is based on our distribution estimates for the four quarters starting one year out and then a five-year growth rate of 9% (from the current distribution rate, these assumptions result in an annualized growth rate of 14% over the next five years). We discount our DDM distributions at a rate consistent with our interest rate expectations and the risk associated with an Average risk qualifier. Our risk qualifier considers and weighs various risk factors, including TLLP's trading liquidity, debt to forward EBITDA of 0.9x, forward total unit coverage of 1.2x, diversification, and commodity exposure.

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.

	2011 Quarterly Results				2012 Quarterly Results						
	Q111A	Q211A	Q311E	Q411E	Q112E	Q212E	Q312E	Q412E	FY11E	FY12E	FY13E
Crude Oil Gathering	12.1	10.7	13.1	13.4	13.8	14.1	14.8	15.8	49.3	58.6	69.1
Terminalling, Transport. & Storage	10.9	9.1	12.3	13.5	14.4	17.6	18.1	19.3	45.7	69.5	86.8
Total Revenue	\$23.0	\$19.8	\$25.4	\$26.9	\$28.2	\$31.8	\$32.9	\$35.1	\$95.1	\$128.0	\$155.9
Total Costs and Expenses	12.9	12.2	12.7	13.8	15.7	17.8	18.4	19.7	51.6	71.5	84.9
Operating Income	\$10.1	\$7.5	\$12.7	\$13.1	\$12.5	\$14.0	\$14.6	\$15.5	\$43.5	\$56.5	\$71.0
Interest Expense	-	(0.5)	(0.7)	(1.0)	(1.3)	(1.7)	(2.0)	(2.3)	(2.1)	(7.3)	(12.2)
Net Income	\$10.1	\$7.1	\$12.1	\$12.1	\$11.1	\$12.3	\$12.6	\$13.2	\$41.4	\$49.2	\$58.8
General Partner Interest	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.8	1.0	1.2
LP Interest In Net Income	\$9.9	\$6.9	\$11.8	\$11.9	\$10.9	\$12.1	\$12.3	\$12.9	\$40.5	\$48.2	\$57.6
Diluted Earnings (loss) per Unit		\$0.23	\$0.39	\$0.39	\$0.36	\$0.40	\$0.40	\$0.42	\$1.00	\$1.58	\$1.89
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	\$12.3	\$9.6	\$15.0	\$16.0	\$15.4	\$17.5	\$18.1	\$19.6	\$52.8	\$70.6	\$90.0

Distributable Cash Flow											
Adjusted EBITDA	\$12.3	\$9.6	\$15.0	\$16.0	\$15.4	\$17.5	\$18.1	\$19.6	\$52.8	\$70.6	\$90.0
Cash Interest Expense	-	(0.0)	(0.6)	(0.8)	(1.1)	(1.4)	(1.7)	(1.9)	(1.4)	(6.1)	(10.2)
Maintenance CapEx	(0.8)	(0.7)	(1.0)	(1.0)	(1.0)	(1.1)	(1.3)	(1.4)	(3.6)	(4.8)	(6.3)
General Partner Interest	-	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)	(0.6)	(1.1)	(4.3)
Distributable Cash Flow to LP	\$11.5	\$8.7	\$13.2	\$13.9	\$13.0	\$14.8	\$14.9	\$15.9	\$47.3	\$58.7	\$69.2
Distributable CF Per Unit		\$0.29	\$0.43	\$0.46	\$0.43	\$0.48	\$0.49	\$0.52	\$1.17	\$1.96	\$2.41
Distributions per Unit	-	\$0.24480	\$0.33825	\$0.35325	\$0.36825	\$0.39325	\$0.41825	\$0.44325	\$0.93630	\$1.62300	\$2.02300
Common Unit Coverage	-	1.17x	1.28x	1.29x	1.16x	1.23x	1.17x	1.18x	1.25x	1.21x	1.19x

Balance Sheet											
Total Assets	\$136.7	\$140.3	\$143.7	\$195.7	\$198.6	\$247.8	\$246.8	\$295.4	\$195.7	\$295.4	\$387.7
Total Partners' Capital	129.8	84.2	85.7	87.3	87.4	88.3	88.6	88.6	87.3	88.6	84.4
Net Debt	-	\$47.0	\$47.6	\$97.6	\$100.1	\$147.7	\$146.0	\$194.1	\$97.6	\$194.1	\$289.3
Net Debt / TTM EBITDA	.0x	1.0x	.9x	1.8x	1.8x	2.3x	2.2x	2.7x	1.8x	2.7x	3.2x
Interest Coverage	-	20.8x	22.6x	16.0x	11.4x	10.5x	9.2x	8.6x	24.9x	9.7x	7.4x

Source: RBC Capital Markets estimates & Company Reports

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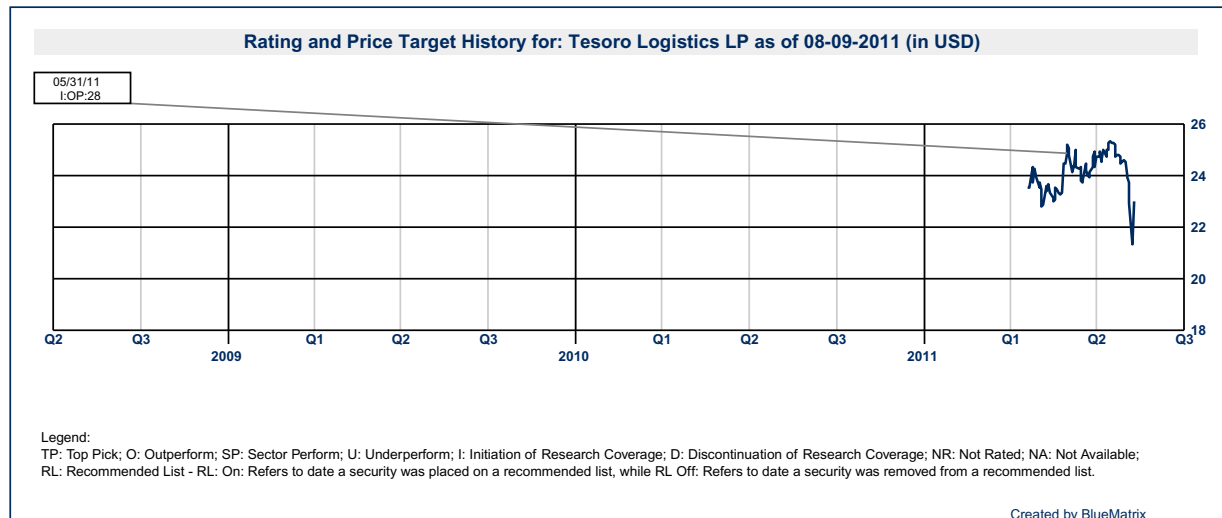
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