

TESORO LOGISTICS LP (TLLP: \$36.48)
February 22, 2012
Raising Price Target
Rating: Buy
Price Target: Old - \$33.00; New - \$39.00

Market Data					
12-18 Month Price Target				\$39.00	
52-Week Range				\$37.33 - \$21.00	
ADTV - 90Day (000s)				59.9	
Market Cap (\$MM)				\$1,113.0	
Shares Out (MM)				30.5	
Public Market Float (MM)				13.0	
Dividend				\$1.45	
Dividend/Yield				3.97%	
Earnings Per Unit (EPU) (\$)					
FY DEC	2011	2012		2013	
	Actual	Previous	Current	Previous	Current
Q1	—	—	\$0.38E	—	\$0.62E
Q2	\$0.25A	—	\$0.44E	\$0.63	\$0.71E
Q3	\$0.49A	—	\$0.55E	\$0.62	\$0.70E
Q4	\$0.37A	—	\$0.57E	\$0.61	\$0.68E
YEAR	\$1.11A	—	\$1.95E	\$2.47	\$2.70E
Distribution Per Unit (\$)					
FY DEC	2011	2012		2013	
	Actual	Previous	Current	Previous	Current
Q1	—	—	\$0.375E	—	\$0.430E
Q2	\$0.245A	—	\$0.388E	—	\$0.450E
Q3	\$0.350A	—	\$0.400E	—	\$0.470E
Q4	\$0.363A	—	\$0.413E	\$0.480	\$0.490E
YEAR	\$0.957A	—	\$1.575E	\$1.830	\$1.840E
Valuation Ratio					
		FY11	FY12	FY13	
Debt/EBITDA		3.3x	1.8x	1.3x	
EBITDA/Interest		8.7x	15.8x	23.2x	
EV/EBITDA		27.3x	15.1x	10.3x	
P/DCF		28.7x	17.2x	12.9x	
Financial Data					
		FY11	FY12	FY13	
EBITDA		\$41.9A	\$75.8E	\$111.4E	
Balance Sheet					
		FY11	FY12	FY13	
Total Assets		\$170.2A	\$270.8E	\$430.7E	
Long Term Debt		\$50.0A	\$140.0E	\$270.0E	
Total SOE and Liab.		\$170.2A	\$270.8E	\$430.7E	

Increasing Price Target to \$39; Potential Acquisition Should Increase Growth

Summary

We are increasing our price target on Tesoro Logistics LP (TLLP) to \$39 from \$33. We are including the potential dropdown of the Anacortes rail system starting in the second quarter of 2013. This increases our distribution outlook, which boosts the value of the partnership in our dividend (distribution) discount model. We believe Tesoro's distribution growth should be solid over the next several years, including estimated 2013 growth at 16.8%. We have a Buy rating on TLLP units.

Key Points

- **Price target.** We are increasing our price target to \$39/unit from \$33/unit as we are now incorporating a dropdown of the Anacortes rail facility at the beginning of 2Q13. This changes our long-term outlook for distribution growth, which derives the higher price target in our dividend (distribution) discount model. Although we believe the dropdown is likely to occur, if the deal is not completed or if the terms are meaningfully different than our estimates, Tesoro may not increase its distribution to our forecasted levels.
- **Anacortes rail facility.** Tesoro Corporation (TSO-NR) said on its fourth quarter earnings call that it intends to drop down this asset to Tesoro, but not likely this year. The facility should be completed in 4Q12 at a cost of \$60 million. The EBITDA run rate could reach between \$35 million and \$40 million. The facility will have the capacity to unload 30 thousand barrels per day of Bakken crude.
- **Model basis.** We forecast the dropdown to occur at the beginning of 2Q13 and the deal will be financed with all debt. We estimate the asset will generate \$15 million in EBITDA, as Tesoro Corporation may not agree to support 100% of the asset's volumes initially. We forecast the partnership will pay \$90 million, or a 6x multiple. We believe there is likely to be little maintenance capex.
- **Distribution.** We are maintaining our 2012 distribution estimate at \$1.575/unit and increasing our 2013 distribution estimate to \$1.84/unit from \$1.83/unit. Our long-term estimates are also changing as the full benefits of the dropdown are realized. Our distributable cash flow estimates are \$2.12/unit for 2012 and \$2.82/unit in 2013, compared with \$2.12/unit and \$2.60/unit, previously. This equates to coverage ratios of 1.3x and 1.5x for both years, respectively.
- **Estimates.** We are maintaining our 2012 EBITDA estimate at \$75.8 million and increasing our 2013 EBITDA estimate to \$111.4 million from \$100.1 million. We are keeping our 2012 DCF estimate at \$66.3 million and increasing our 2013 DCF estimate to \$91 million from \$83.7 million. Our estimates take into account the partnership's previous guidance for 2013 EBITDA of \$100 million plus the potential dropdown of the Anacortes asset.

Company Description

Tesoro Logistics is a Master Limited Partnership that gathers, transports, and stores crude oil and distributes, transports, and stores refined products. Its assets consist of a crude oil gathering system in the Bakken Shale/Williston Basin area, eight refined products terminals, and a crude oil and refined products storage facility and five related short-haul pipelines.

Figure 1 – Tesoro Logistics – Model

\$ in millions except per unit data	1Q11	2Q11	3Q11	4Q11	2011	1Q12E	2Q12E	3Q12E	4Q12E	2012E	1Q13E	2Q13E	3Q13E	4Q13E	2013E
Operating Income	-	7.5	15.7	12.1	35.4	12.5	15.1	18.7	19.4	65.6	21.1	25.2	25.3	24.9	96.4
Interest expense, net	-	(0.5)	(0.6)	(0.5)	(1.6)	(0.5)	(1.3)	(1.4)	(1.5)	(4.763)	(1.6)	(2.7)	(2.8)	(3.0)	(10.2)
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	15.1	11.5	34.6	12.0	13.8	17.3	17.8	60.9	19.4	22.4	22.4	22.0	86.2
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	15.1	11.5	34.6	12.0	13.8	17.3	17.8	60.9	19.4	22.4	22.4	22.0	86.2
Net Income to General Partner	-	0.2	0.3	0.2	0.7	0.2	0.3	0.4	0.5	1.4	0.6	0.9	1.1	1.2	3.8
Net Income to Limited Partners	-	7.7	14.8	11.3	33.9	11.7	13.5	16.9	17.3	59.5	18.8	21.5	21.4	20.7	82.4
Net Income/Unit (Limited)	-	\$0.25	\$0.49	\$0.37	\$1.11	0.38	\$0.44	\$0.55	\$0.57	\$1.95	0.62	\$0.71	\$0.70	\$0.68	\$2.70
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	17.7	14.1	41.9	14.5	17.6	21.4	22.3	75.8	24.4	29.1	29.2	28.8	111.4
EBITDA (Limited Partners)	-	9.9	17.4	13.9	41.2	14.3	17.3	21.0	21.8	74.4	23.7	28.2	28.1	27.5	107.6
Other	-	(0.0)	(0.3)	(0.4)	(0.7)	(0.4)	(0.8)	(0.9)	(1.0)	(3.1)	(1.6)	(2.6)	(2.7)	(2.8)	(9.7)
Maintenance CAPEX	-	(0.3)	(0.3)	(1.2)	(1.7)	(1.0)	(1.1)	(2.1)	(2.1)	(6.4)	(2.3)	(2.7)	(2.8)	(2.8)	(10.8)
Distributable Cash Flow	-	9.7	17.2	12.6	39.5	13.2	15.6	18.3	19.1	66.3	20.5	23.7	23.6	23.1	91.0
Distributable Cash Flow (GP)	-	(0.2)	(0.3)	(0.3)	(0.8)	(0.3)	(0.3)	(0.4)	(0.6)	(1.6)	(0.8)	(1.2)	(1.4)	(1.6)	(4.9)
Distributable Cash Flow (LP)	-	9.5	16.8	12.3	38.7	12.9	15.3	17.9	18.6	64.7	19.7	22.6	22.2	21.5	86.0
Distributable Cash Flow/Unit	-	\$0.31	\$0.55	\$0.40	\$1.27	0.42	\$0.50	\$0.59	\$0.61	\$2.12	0.65	\$0.74	\$0.73	\$0.70	\$2.82
Distribution		\$0.2448	\$0.3500	\$0.3625	\$0.9573	\$0.3750	\$0.3875	\$0.4000	\$0.4125	\$1.5750	\$0.4300	\$0.4500	\$0.4700	\$0.4900	\$1.8400
Coverage Ratio					1.3x					1.3x					1.5x
Distribution Growth															16.8%
Debt/EBITDA										1.8x					2.4x
EBITDA/Interest Expense										15.9x					10.9x

Source: Partnership reports and Wunderlich Securities, Inc. estimates

Disclosures:

Analyst Certification

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Valuation/Risks

- We have a Buy rating on TLLP and a \$39 price target. Our price target is derived through a two-stage distribution discount model, which assumes a required rate of return of 8% and a long-term growth rate of 2.0%. Our terminal value in 2016 is \$45.90.
- 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 02/21/12.

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

Ratings Distribution & Investment Banking Disclosure				
Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	147	63.90	21	14.29
Hold -rated	76	33.00	8	10.53
Sell -rated	7	3.00	0	0.00

* Percentage of all Wunderlich-covered stocks assigned an equivalent Buy, Hold, or Sell rating.

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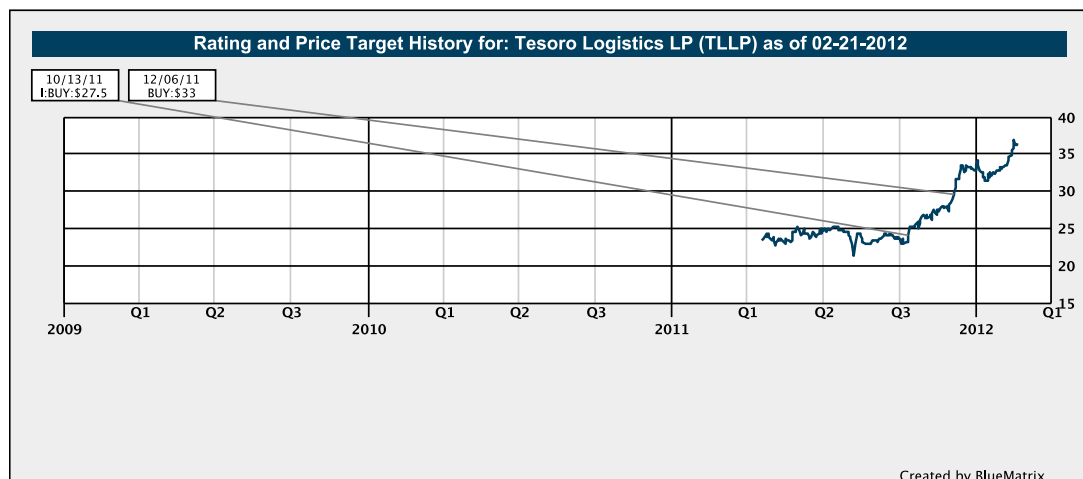
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