

**TESORO LOGISTICS LP (TLLP: \$25.55)**
**October 24, 2011**
**Company Update**
**Rating: Buy**
**Price Target: \$27.50**

Market Data					
12-18 Month Price Target					\$27.50
52-Week Range					\$25.86 - \$21.00
ADTV - 90Day (000s)					75.7
Market Cap (\$MM)					\$778.0
Shares Out (MM)					30.5
Public Market Float (MM)					12.7
Dividend					\$1.40
Dividend/Yield					5.48%
Earnings Per Unit (EPU) (\$)					
FY DEC	2011	2012		2013	
	Estimate	Previous	Current	Previous	Current
Q1	—	—	\$0.37E	—	\$0.45E
Q2	\$0.25A	—	\$0.41E	—	\$0.45E
Q3	\$0.37A	—	\$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	\$0.350A	—	\$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		21.0x	12.5x	11.8x	
P/DCF		22.8x	13.7x	12.9x	
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	

## Distribution In Line With Our Estimate; Solid Distribution Growth Expected

### Summary

Tesoro Logistics LP (TLLP) announced a distribution of \$0.35/unit for 3Q11, which was in line with our forecast. 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. We believe Tesoro's distribution growth should be solid over the next several years, including estimated 2013 distribution growth at 10.4%. We have a Buy rating and a \$27.50 price target.

### Key Points

- Distribution.** Tesoro announced a distribution of \$0.35/unit (\$1.40/unit annualized) for the third quarter of 2011. The distribution will be paid November 14, 2011, to all unitholders of record on November 4, 2011. The distribution represents a 4% increase over the pro rated \$0.2448/unit for the second quarter 2011 distribution. The distribution was in line with our estimate.
- Our take.** This was the first full quarterly distribution the partnership has paid since its IPO in April. We believe Tesoro will be able to grow its operations through dropdown acquisitions and potentially 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.
- Distribution estimates.** We are maintaining our distribution estimates at \$0.9548/unit for 2011, \$1.54/unit for 2012, and \$1.70/unit for 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.
- Earnings.** Tesoro plans to release its earnings for the third quarter 2011 after the market closes on November 7, 2011. The partnership will hold a conference call regarding third quarter results and other business matters on November 8, 2011, at 11:00 a.m. EST (10:00 a.m. CST).
- Investment thesis.** We believe Tesoro is a good investment for several reasons, including: estimated 2013 distribution growth at 10.4%; 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.

Figure 1 – 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
<b>Net Income/Unit (Limited)</b>	-	<b>\$0.25</b>	<b>\$0.37</b>	<b>\$0.37</b>	<b>\$0.99</b>	<b>0.37</b>	<b>\$0.41</b>	<b>\$0.45</b>	<b>\$0.45</b>	<b>\$1.69</b>	<b>0.45</b>	<b>\$0.45</b>	<b>\$0.45</b>	<b>\$0.45</b>	<b>\$1.80</b>
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
<b>EBITDA (total)</b>	-	<b>10.0</b>	<b>14.4</b>	<b>14.4</b>	<b>38.9</b>	<b>14.7</b>	<b>16.0</b>	<b>17.3</b>	<b>17.3</b>	<b>65.2</b>	<b>17.3</b>	<b>17.3</b>	<b>17.3</b>	<b>17.3</b>	<b>69.3</b>
<b>EBITDA/Unit</b>	-	<b>\$0.33</b>	<b>\$0.47</b>	<b>\$0.47</b>	<b>\$1.27</b>	<b>0.48</b>	<b>\$0.52</b>	<b>\$0.57</b>	<b>\$0.57</b>	<b>\$2.14</b>	<b>0.57</b>	<b>\$0.57</b>	<b>\$0.57</b>	<b>\$0.57</b>	<b>\$2.27</b>
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
<b>EBITDA/Unit</b>	-	<b>\$0.32</b>	<b>\$0.47</b>	<b>\$0.47</b>	<b>\$1.25</b>	<b>0.47</b>	<b>\$0.51</b>	<b>\$0.56</b>	<b>\$0.55</b>	<b>\$2.10</b>	<b>0.55</b>	<b>\$0.55</b>	<b>\$0.55</b>	<b>\$0.55</b>	<b>\$2.21</b>
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
<b>Distributable Cash Flow/Unit</b>	-	<b>\$0.31</b>	<b>\$0.40</b>	<b>\$0.40</b>	<b>\$1.12</b>	<b>0.41</b>	<b>\$0.46</b>	<b>\$0.50</b>	<b>\$0.50</b>	<b>\$1.87</b>	<b>0.50</b>	<b>\$0.50</b>	<b>\$0.50</b>	<b>\$0.49</b>	<b>\$1.98</b>
<b>Distribution</b>		\$0.2448	\$0.3500	\$0.3600	<b>\$0.9548</b>	\$0.3700	\$0.3800	\$0.3900	\$0.4000	<b>\$1.5400</b>	\$0.4100	\$0.4200	\$0.4300	\$0.4400	<b>\$1.7000</b>
<b>Coverage Ratio</b>					<b>1.2x</b>					<b>1.2x</b>					<b>1.2x</b>
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

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### 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 10/21/11.

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

Ratings Distribution & Investment Banking Disclosure				
Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	140	63.10	18	12.86
Hold -rated	79	35.60	5	6.33
Sell -rated	3	1.40	0	0.00

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

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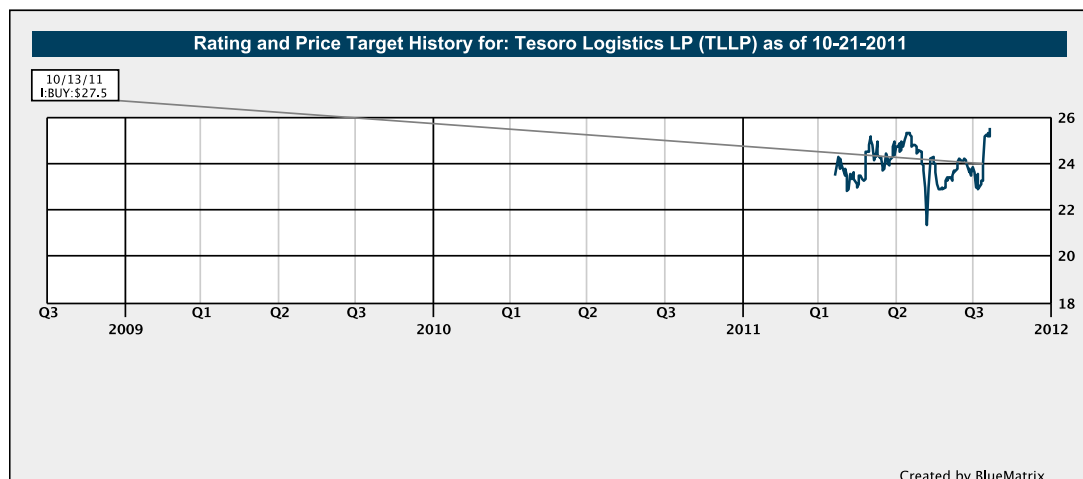
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<b>Baltimore</b> 400 E. Pratt Street Suite 710 Baltimore, MD 21202 866.297.8259	<b>Director of Equity Capital Markets</b> J. Jeffery Fowlds Brooke Hrimnak	303.965.7964 410.369.2609	jfowlds@wundernet.com bhrimnak@wundernet.com
	<b>Equity Research</b> <b>Director of Research</b> Michael E. Hoffman	410.369.2620	mehoffman@wundernet.com
<b>Boston</b> 470 Atlantic Avenue Suite 4047 Boston, MA 02210	<b>Accounting and Tax Policy</b> <b>Forensic Accounting</b> Mike Gyure, CPA	440.364.7473	mgyure@wundernet.com
	<b>Diversified Industrials</b> <b>Environmental Services</b> Michael E. Hoffman Brian J. Butler, CFA Jacob Hughes	410.369.2620 410.369.2614 410.369.2616	mehoffman@wundernet.com bbutler@wundernet.com jhughes@wundernet.com
<b>Chicago</b> 200 W. Madison Street Suite 2950 Chicago, IL 60606 800.388.3851	<b>For-Profit Education</b> Trace Urdan Jeff Lee	415.489.6809 415.489.6806	turdan@wundernet.com jlee@wundernet.com
	<b>Transportation</b> Brian J. Butler, CFA	410.369.2614	bbutler@wundernet.com
<b>Denver</b> 1099 18th Street Suite 2015 Denver, CO 80202 866.493.6588	<b>Energy</b> <b>Alternative Energy</b> Theodore O'Neill	212.402.2054	toneill@wundernet.com
	<b>Exploration &amp; Production</b> Irene O. Haas Mostafa Dahhane	713.403.3980 713.403.3986	ihaas@wundernet.com mdahhane@wundernet.com
<b>Houston</b> 10370 Richmond Avenue Suite 950 Houston, TX 77042 888.385.6928	<b>Master Limited Partnerships</b> John R. Cusick	212.402.2057	jcusick@wundernet.com
	<b>Utilities/Power</b> James L. Dobson Erica Piserchia	212.402.2059 212.402.2061	jdobson@wundernet.com episerchia@wundernet.com
<b>Memphis</b> 6000 Poplar Avenue Suite 150 Memphis, TN 38119 800.726.0557	<b>Financial Services</b> <b>Real Estate</b> Merrill Ross Ian P. Fleischer, CFA	703.307.9409 410.369.2618	mross@wundernet.com ifleischer@wundernet.com
	<b>Regional Banks</b> Kevin Reynolds, CFA Jeremy Lucas	901.251.2229 901.251.1362	kreynolds@wundernet.com jlucas@wundernet.com
<b>New York</b> 60 East 42nd Street Suite 1007 New York, NY 10165 866.575.2223	<b>Healthcare</b> <b>Medical Devices</b> Gregory J. Simpson, CFA	314.719.3467	gsimpson@wundernet.com
	<b>Technology, Media &amp; Telecommunications (TMT)</b> <b>Cable/Satellite Entertainment</b> Matthew Harrigan	303.965.7966	mharrigan@wundernet.com
<b>San Francisco</b> 275 Battery Street Suite 480 San Francisco, CA 94111 415.489.6800	<b>Communications &amp; Networking Equipment</b> Matthew S. Robison Sam Brownell	415.572.0936 415.489.6818	mrobison@wundernet.com sbrownell@wundernet.com
	<b>Information Infrastructure</b> Brian S. Freed, CFA	901.251.1353	bfreed@wundernet.com
<b>St. Louis</b> 7711 Bonhomme St. Suite 600 St. Louis, MO 63105 888.432.5671	<b>Software-as-a-Service</b> Richard K. Baldry, CFA	410.369.2633	rbaldry@wundernet.com
	<b>Specialty Semiconductors and Components</b> William S. Harrison Blake T. Harper, CFA	410.369.2632 410.369.2629	sharrison@wundernet.com bharper@wundernet.com
	<b>Institutional Equity Sales</b> <b>Director of Institutional Sales</b> Thomas S. Stephens	410.369.2602	tstephens@wundernet.com
	Beth Adams Clifford Athey Greg Brown James Donovan Paul Gillespie Daniel Glading Mike Grabenstein Chris Greenwell Thomas Hadley John Hohweiler Mark McCulloh Ethel McGlynn Kyle Norton Robert Oram Kristi Papanikolaw Scott Robinson Beth Rosenberry Christina Rosso Ned Sinnott	972.772.5066 410.369.2627 303.260.7902 617.273.8334 901.259.9407 410.369.2613 410.369.2629 310.651.2203 303.260.7905 410.369.2610 410.369.2619 303.260.7904 212.402.2060 212.402.2056 212.402.2058 410.369.2630 312.368.0478 212.402.2055 804.263.5240	badams@wundernet.com cathey@wundernet.com gbrown@wundernet.com jdonovan@wundernet.com pgillespie@wundernet.com dglading@wundernet.com mgrabenstein@wundernet.com cgreenwell@wundernet.com thadley@wundernet.com jhohweiler@wundernet.com mmcculloh@wundernet.com ethel@wundernet.com knorton@wundernet.com boram@wundernet.com kpapanikolaw@wundernet.com srobinson@wundernet.com brosenberry@wundernet.com crosso@wundernet.com nsinnott@wundernet.com
	<b>Institutional Equity Trading</b> <b>Director of Institutional Equity Trading</b> Stephen C. Iskalis John Belgrade Chuck Berry Erik Briggs Trip Carey Jeffrey England Daniel Muhly	303.260.7901 888.257.4152 303.965.7961 410.369.2611 617.273.8335 303.965.7960 410.369.2606	siskalis@wundernet.com jbelgrade@wundernet.com cberry@wundernet.com ebriggs@wundernet.com tcarey@wundernet.com jengland@wundernet.com dmuhly@wundernet.com