

**TESORO LOGISTICS LP (TLLP: \$32.20)**
**January 23, 2012**
**Company Update**
**Rating: Buy**
**Price Target: \$33.00**

Market Data					
12-18 Month Price Target					\$33.00
52-Week Range					\$34.76 - \$21.00
ADTV - 90Day (000s)					52.1
Market Cap (\$MM)					\$982.3
Shares Out (MM)					30.5
Public Market Float (MM)					13.0
Dividend					\$1.45
Dividend/Yield					4.50%
Earnings Per Unit (EPU) (\$)					
FY DEC	2011	2012		2013	
	Estimate	Previous	Current	Previous	Current
Q1	—	—	\$0.42E	—	\$0.61E
Q2	\$0.25A	—	\$0.49E	—	\$0.62E
Q3	\$0.49A	—	\$0.57E	—	\$0.63E
Q4	\$0.38E	—	\$0.56E	—	\$0.62E
YEAR	\$1.12E	—	\$2.04E	—	\$2.48E
Distribution Per Unit (\$)					
FY DEC	2011	2012		2013	
	Estimate	Previous	Current	Previous	Current
Q1	—	\$0.370	\$0.375E	—	\$0.430E
Q2	\$0.245A	\$0.380	\$0.388E	—	\$0.450E
Q3	\$0.350A	—	\$0.400E	—	\$0.470E
Q4	\$0.363A	\$0.410	\$0.413E	—	\$0.480E
YEAR	\$0.957A	\$1.560	\$1.575E	—	\$1.830E
Valuation Ratio					
		FY11	FY12	FY13	
Debt/EBITDA		1.2x	0.6x	0.5x	
EBITDA/Interest		24.8x	46.8x	58.9x	
EV/EBITDA		24.0x	12.7x	10.1x	
P/DCF		25.4x	14.5x	12.4x	
Financial Data					
		FY11	FY12	FY13	
EBITDA		\$42.2E	\$79.6E	\$100.1E	
Balance Sheet					
		FY11	FY12	FY13	
Total Assets		\$166.3E	\$286.9E	\$309.8E	
Long Term Debt		\$50.0E	\$155.0E	\$155.0E	
Total SOE and Liab.		\$166.3E	\$286.9E	\$309.8E	

**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.

**Distribution Above Our Forecast; Long-Term Growth Looks Strong**
**Summary**

Tesoro Logistics LP (TLLP) announced its fourth quarter distribution, which was above our forecast. We believe Tesoro will be among the leaders in distribution growth over the next several years, including estimated 2013 distribution growth at 16.2%. In addition, the partnership should benefit from its organic growth capital spending and potential dropdown acquisitions. We have a Buy rating on Tesoro's units and a \$33/unit price target.

**Key Points**

- **Distribution.** Tesoro announced a distribution of \$0.3625/unit (\$1.45/unit annualized) for the fourth quarter of 2011. The distribution will be paid February 13, 2012, to all unitholders of record on February 3, 2012. The distribution represents a 3.6% increase over the \$0.35/unit (\$1.40/unit annualized) for the third quarter of 2011.
- **Our take.** The distribution was above our estimate. 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. 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 increasing our 2012 distribution estimate to \$1.575/unit from \$1.56/unit and maintaining our 2013 distribution estimate at \$1.83/unit. Our estimates provide a 16.2% growth rate in 2013. This compares quite favorably to the 6.5% estimated average growth in 2013 for liquids-based partnerships under our coverage. Our distributable cash flow estimates are \$2.22/unit for 2012 and \$2.60/unit in 2013, which equates to coverage ratios of 1.4x for both years.
- **Earnings.** Tesoro plans to release its earnings for the fourth quarter 2011 after the market closes on February 6, 2012. The partnership will hold a conference call regarding fourth quarter results on February 7, 2012, at 8:30 a.m. EST (7:30 a.m. CST). We expect some seasonality for Tesoro's fourth quarter earnings, which could dip slightly below the third quarter's results.
- **Investment thesis.** We believe Tesoro will be among the leaders in distribution growth over the next several years, including estimated 2013 distribution growth at 16.2%. In addition, the partnership should benefit from its organic growth capital spending and potential dropdown acquisitions. The partnership's assets are well-positioned to take advantage of growing production from the Bakken Shale.

Figure 1 – Tesoro Logistics – Model

\$ in millions except per unit data	1Q11	2Q11	3Q11	4Q11E	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E	1Q13E	2Q13E	3Q13E	4Q13E	2013E
Operating Income	-	7.5	15.7	12.4	35.7	13.8	16.8	19.5	19.4	69.5	21.1	21.7	22.0	21.8	86.7
Interest expense, net	-	(0.5)	(0.6)	(0.6)	(1.7)	(0.8)	(1.6)	(1.7)	(1.9)	(5.950)	(1.9)	(1.9)	(1.9)	(1.9)	(7.5)
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	11.8	34.9	13.0	15.2	17.8	17.5	63.5	19.2	19.9	20.2	19.9	79.2
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	11.8	34.9	13.0	15.2	17.8	17.5	63.5	19.2	19.9	20.2	19.9	79.2
Net Income to General Partner	-	0.2	0.3	0.2	0.7	0.3	0.3	0.4	0.5	1.4	0.6	0.8	1.0	1.1	3.5
Net Income to Limited Partners	-	7.7	14.8	11.6	34.2	12.7	14.9	17.4	17.0	62.1	18.6	19.0	19.2	18.8	75.7
<b>Net Income/Unit (Limited)</b>	-	<b>\$0.25</b>	<b>\$0.49</b>	<b>\$0.38</b>	<b>\$1.12</b>	<b>0.42</b>	<b>\$0.49</b>	<b>\$0.57</b>	<b>\$0.56</b>	<b>\$2.04</b>	<b>0.61</b>	<b>\$0.62</b>	<b>\$0.63</b>	<b>\$0.62</b>	<b>\$2.48</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
EBITDA (total)	-	10.0	17.7	14.5	42.2	15.8	19.4	22.2	22.2	79.6	24.4	25.1	25.5	25.2	100.1
EBITDA (Limited Partners)	-	9.9	17.4	14.2	41.5	15.5	19.1	21.8	21.8	78.2	23.8	24.3	24.5	24.1	96.6
Other	-	(0.0)	(0.3)	(0.4)	(0.7)	(0.5)	(0.9)	(1.0)	(1.1)	(3.6)	(1.8)	(1.8)	(1.8)	(1.8)	(7.1)
Maintenance CAPEX	-	(0.3)	(0.3)	(1.5)	(2.1)	(1.2)	(1.1)	(2.1)	(2.1)	(6.6)	(2.3)	(2.3)	(2.3)	(2.3)	(9.4)
Distributable Cash Flow	-	9.7	17.2	12.6	39.5	14.1	17.3	19.0	19.0	69.4	20.3	21.0	21.4	21.1	83.7
Distributable Cash Flow (GP)	-	(0.2)	(0.3)	(0.3)	(0.8)	(0.3)	(0.3)	(0.5)	(0.5)	(1.6)	(0.8)	(1.0)	(1.3)	(1.4)	(4.4)
Distributable Cash Flow (LP)	-	9.5	16.8	12.3	38.7	13.8	17.0	18.6	18.4	67.8	19.5	19.9	20.1	19.7	79.3
<b>Distributable Cash Flow/Unit</b>	-	<b>\$0.31</b>	<b>\$0.55</b>	<b>\$0.40</b>	<b>\$1.27</b>	<b>0.45</b>	<b>\$0.56</b>	<b>\$0.61</b>	<b>\$0.60</b>	<b>\$2.22</b>	<b>0.64</b>	<b>\$0.65</b>	<b>\$0.66</b>	<b>\$0.65</b>	<b>\$2.60</b>
<b>Distribution</b>		\$0.2448	\$0.3500	\$0.3625	<b>\$0.9573</b>	\$0.3750	\$0.3875	\$0.4000	\$0.4125	<b>\$1.5750</b>	\$0.4300	\$0.4500	\$0.4700	\$0.4800	<b>\$1.8300</b>
<b>Coverage Ratio</b>					<b>1.3x</b>					<b>1.4x</b>					<b>1.4x</b>
Distribution Growth															<b>16.2%</b>
Debt/EBITDA										<b>1.9x</b>					<b>1.5x</b>
EBITDA/Interest Expense										<b>13.4x</b>					<b>13.4x</b>

Source: Partnership reports and Wunderlich Securities, Inc. estimates

## Disclosures:

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### Valuation/Risks

- We have a Buy rating on TLLP and a \$33 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 \$38.08.
- 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 01/20/12.

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

Ratings Distribution & Investment Banking Disclosure				
Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	148	64.10	21	14.19
Hold -rated	79	34.20	7	8.86
Sell -rated	4	1.70	0	0.00

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

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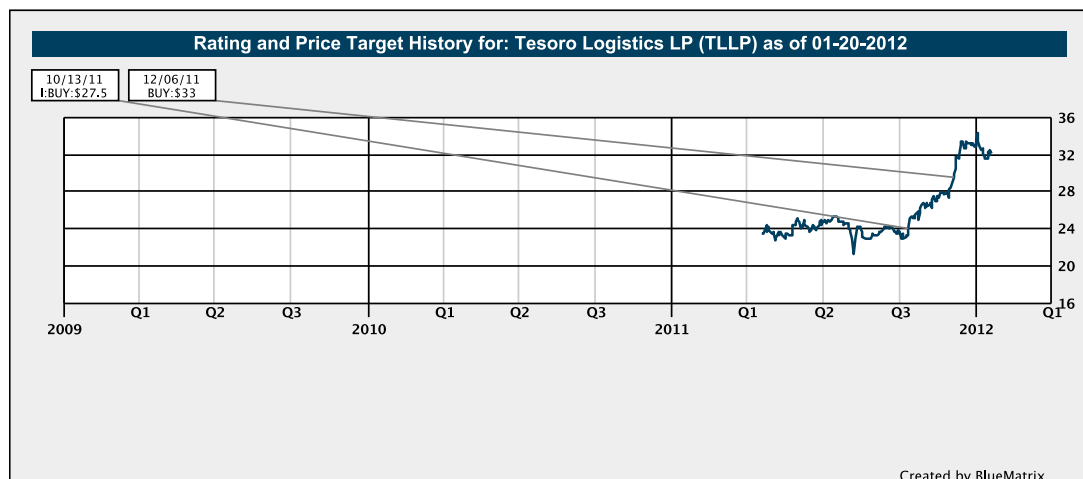
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