



# Independent Stock Idea

July 30, 2014

## Range Resources (RRC) Transportation and Processing Lagging Fraccing

<i>Symbol</i>	RRC	<i>Ebitda Next Twelve Months ending 6/30/15 (US\$mm)</i>	1,367
<i>Rating</i>	Contrarian Buy	<i>North American Natural Gas/Ebitda (%)</i>	58
<i>Price (\$/sh)</i>	78.17	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	7/29/14	<i>Adjusted Reserves/Production NTM</i>	12.4
<i>Shares (mm)</i>	163	<i>EV/Ebitda</i>	11.9
<i>Market Capitalization (\$mm)</i>	12,700	<i>PV/Ebitda</i>	14.5
<i>Debt (\$mm)</i>	3,500	<i>Undeveloped Reserves (%)</i>	49
<i>Enterprise Value (EV) (\$mm)</i>	16,300	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	16.50
<i>Present Value (PV) (\$mm)</i>	19,800	<i>Present Value Proven Reserves(\$/boe)</i>	14.50
<i>Net Present Value (\$/share)</i>	100	<i>Oil and Gas Ebitda Margin (%)</i>	67
<i>Debt/Present Value</i>	0.18	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.09
<i>McDep Ratio - EV/PV</i>	0.82	<i>Price/Earnings Next Twelve Months</i>	71
<i>Dividend Yield (%/year)</i>	0.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.16
Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.			
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.			
Estimated present value presumes a long-term price for oil of US\$90 a barrel and natural gas, \$6 a million btu.			
For historical analysis of Range since 2010 see <a href="http://www.mcdep.com/4rrc.htm">www.mcdep.com/4rrc.htm</a>			

### Summary and Recommendation

With patience, new commitments may be timely in Contrarian Buy **Range Resources (RRC)** at a McDep Ratio of 0.82. The Marcellus shale gas producer is advancing fracking productivity so rapidly that construction of pipelines and processing plants can't keep up. As a result, natural gas and natural gas liquids prices in Pennsylvania have been under pressure and RRC's stock price has ticked down at the same time. On the quarterly call on July 29, Chief Operating Officer Ray Walker highlighted a well with initial production of 38.1 million cubic feet equivalent (65% liquids) in 24 hours, the highest rate for the southwestern Marcellus. Expectations are high for the drilling underway of the company's first Utica formation well in Washington County likely to test in the fourth quarter. Favorable fracking results are driving infrastructure expansion. Modifications are underway to reverse the flow at pipelines that traditionally hauled natural gas from Louisiana to Pennsylvania so that they may haul natural gas from Pennsylvania to Louisiana instead. New pipelines are operating and more are being built to transport liquids extracted from natural gas to petrochemical plants in Canada and the Gulf Coast as well as to Atlantic ports for export to global markets. Local jobs are multiplying to build and operate extraction plants and petrochemical plants close to the natural gas source. The combination of long-term good news and short term price pressure is an opportunity for long-term investors, we believe.

Kurt H. Wulff, CFA



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Range Resources Corporation										
Next Twelve Months Operating and Financial Estimates										
	Q2	Year	Q1	Q2	Q3E	Q4E	Year	Q1E	Q2E	Next Twelve Months
	6/30/13	2013	3/31/14	6/30/14	9/30/14	12/31/14	2014E	3/31/15	6/30/15	6/30/15
<b>Volume</b>										
Natural Gas (bcf)	64.9	<b>264.5</b>	62.0	67.8	77.3	86.9	<b>294.0</b>	89.3	94.8	<b>348.3</b>
Natural Gas (mmcf)	713	<b>725</b>	689	745	840	945	<b>806</b>	992	1,042	<b>954</b>
Days	91	<b>365</b>	90	91	92	92	<b>365</b>	90	91	<b>365</b>
Oil (mmb)	3.0	<b>13</b>	5.5	5.5	5.5	6.2	<b>23</b>	6.4	6.8	<b>25</b>
Oil (mbd)	32.7	<b>35.9</b>	61.2	60.0	60.0	67.5	<b>62.2</b>	70.9	74.4	<b>68.2</b>
Total (mb)	13.8	<b>57</b>	15.8	16.8	18.4	20.7	<b>72</b>	21.3	22.6	<b>83</b>
Total (mmcf)	909	<b>940</b>	1,056	1,105	1,200	1,350	<b>1,179</b>	1,418	1,488	<b>1,363</b>
<b>Price</b>										
Henry Hub (\$/mmbtu)	4.10	<b>3.65</b>	4.95	4.67	3.97	3.84	<b>4.36</b>	3.96	3.71	<b>3.87</b>
Differential (\$/mmbtu)	(0.03)	<b>0.04</b>	(0.63)	0.60	0.51	0.50	<b>0.35</b>	0.51	0.48	<b>0.50</b>
Company (\$/mcf)	4.13	<b>3.61</b>	5.58	4.07	3.46	3.34	<b>4.01</b>	3.45	3.23	<b>3.36</b>
WTI Cushing (\$/bbl)	94.22	<b>97.98</b>	98.74	102.98	102.13	99.52	<b>100.84</b>	97.42	95.76	<b>98.71</b>
Differential	47.54	<b>48.67</b>	58.14	66.90	66.35	64.65	<b>64.07</b>	63.29	62.21	<b>64.19</b>
Company (\$/bbl)	46.68	<b>49.31</b>	40.60	36.08	35.78	34.87	<b>36.77</b>	34.13	33.55	<b>34.52</b>
Total (\$/bbl)	29.51	<b>27.99</b>	35.96	28.22	25.26	24.50	<b>28.10</b>	24.71	23.63	<b>24.49</b>
<b>Revenue (\$mm)</b>										
Natural Gas	268	<b>955</b>	346	276	267	291	<b>1,180</b>	308	306	<b>1,172</b>
Oil	139	<b>645</b>	224	197	198	217	<b>835</b>	218	227	<b>859</b>
Total	407	<b>1,600</b>	570	473	465	507	<b>2,015</b>	525	533	<b>2,031</b>
<b>Expense</b>										
Transportation	66	<b>256</b>	74	77						
Production	43	<b>170</b>	51	44						
General and administrative	36	<b>144</b>	37	35						
Total	145	<b>570</b>	162	156	152	166	<b>636</b>	172	174	<b>663</b>
<b>Ebitda</b>	262	<b>1,030</b>	408	317	313	341	<b>1,379</b>	354	359	<b>1,367</b>
Exploration	32	<b>81</b>	14	23	23	23	<b>83</b>	18	18	<b>82</b>
Deprec., Deplet., & Amort.	120	<b>492</b>	129	133	152	171	<b>586</b>	176	187	<b>687</b>
Other	(19)	<b>(76)</b>	108	26	23	36	<b>193</b>	41	44	<b>144</b>
<b>Ebit</b>	129	<b>533</b>	157	135	114	111	<b>518</b>	118	110	<b>454</b>
Interest	45	<b>176</b>	45	45	45	45	<b>180</b>	45	45	<b>180</b>
<b>Ebt</b>	84	<b>357</b>	112	90	69	66	<b>338</b>	73	65	<b>274</b>
Income Tax	29	<b>125</b>	39	32	24	23	<b>118</b>	26	23	<b>96</b>
<b>Net Income (\$mm)</b>	55	<b>232</b>	73	59	45	43	<b>219</b>	48	43	<b>178</b>
Per Share (\$)	0.34	<b>1.44</b>	0.45	0.36	0.28	0.26	<b>1.35</b>	0.29	0.26	<b>1.09</b>
<b>Shares (millions)</b>	161	<b>161</b>	162	163	163	163	<b>163</b>	163	163	<b>163</b>
Ebitda Margin	64%	<b>64%</b>	72%	67%	67%	67%	<b>68%</b>	67%	67%	<b>67%</b>
Tax rate	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	35%	35%	<b>35%</b>



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<b>Range Resources Corporation</b>					
<b>Functional Cash Flow and Present Value</b>					
	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	789	12.1	15.2	12,000	61%
Oil	578	13.1	13.5	7,800	39%
	1,367	12.4	14.5	19,800	100%
Debt (US\$mm)					3,500
Net Present Value (US\$mm)					16,300
Shares (mm)					163
Net Present Value - Standard Estimate (US\$/sh)					100
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					70

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