



Independent Stock Idea

May 9, 2016

Range Resources (RRC) Restore Net Present Value to \$42 a Share

<i>Symbol</i>	RRC	<i>Ebitda Next Twelve Months ending 3/31/17 (US\$m)</i>	320
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	64
<i>Price (\$/sh)</i>	41.70	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	5/9/16	<i>Adjusted Reserves/Production NTM</i>	14.6
<i>Shares (mm)</i>	167	<i>EV/Ebitda</i>	31.2
<i>Market Capitalization (\$mm)</i>	7,000	<i>PV/Ebitda</i>	31.4
<i>Debt (\$mm)</i>	3,000	<i>Undeveloped Reserves (%)</i>	45
<i>Enterprise Value (EV) (\$mm)</i>	10,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	3.70
<i>Present Value (PV) (\$mm)</i>	10,000	<i>Present Value Proven Reserves(\$/boe)</i>	6.10
<i>Net Present Value (\$/share)</i>	42	<i>Oil and Gas Ebitda Margin (%)</i>	28
<i>Debt/Present Value</i>	0.30	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.06
<i>McDep Ratio - EV/PV</i>	1.00	<i>Price/Earnings Next Twelve Months</i>	708
<i>Dividend Yield (%/year)</i>	0.2	<i>Indicated Annual Dividend (US\$/sh)</i>	0.08
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\$70 a barrel and natural gas, \$4.00 a million btu			
For historical analysis of Range since 2010 see www.mcdep.com/4rrc.htm			

Summary and Recommendation

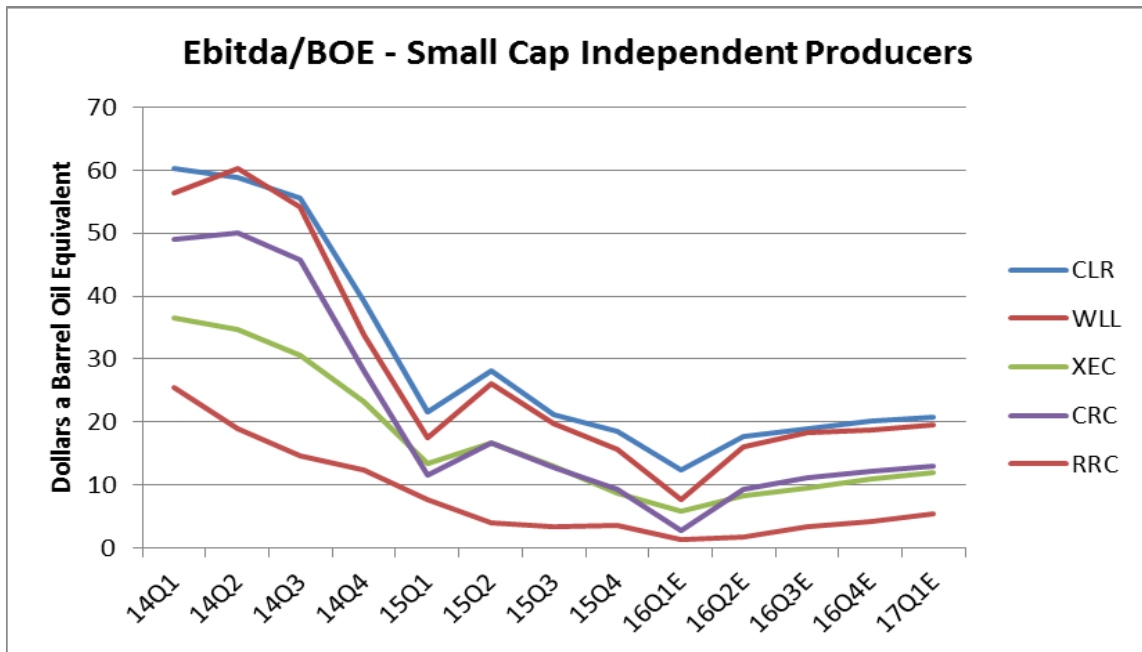
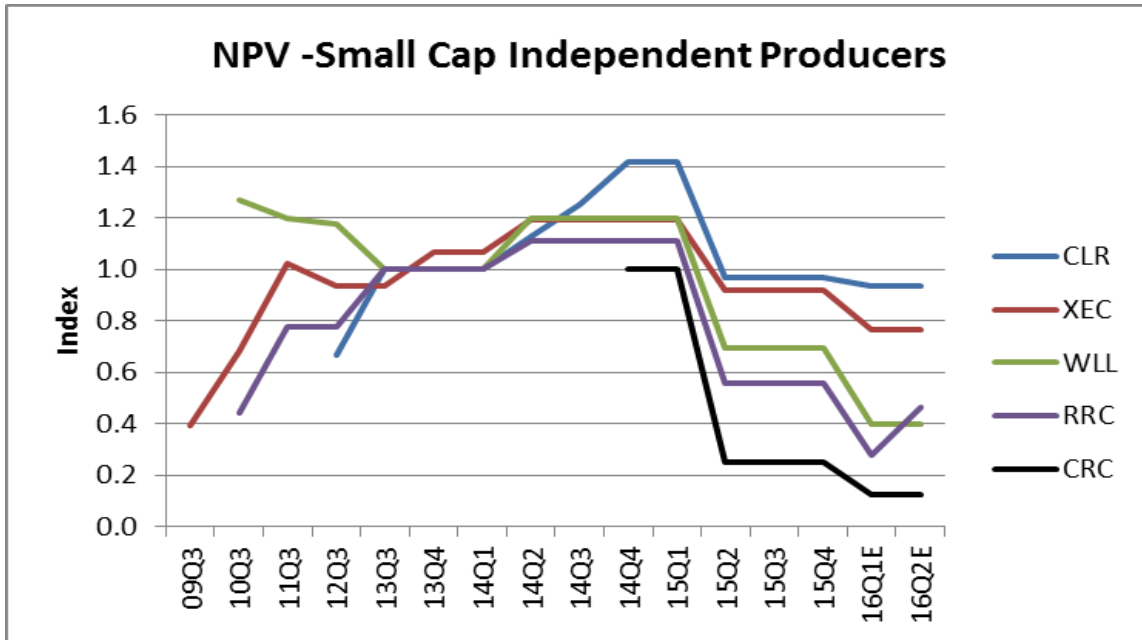
We raise Net Present Value (NPV) for Range Resources (RRC) to \$42 a share from a low of \$25 earlier in 2016. With the stock price practically at NPV, our rating is essentially Hold for a 7% real rate of return. We probably overreacted when we reduced NPV at the beginning of 2016 (see chart [NPV](#) on page 2). Our concern was the near disappearance of positive cash flow at the bottom (see chart [Ebitda/Barrel Oil Equivalent](#) on page 2). Excluding hedging, unlevered cash flow (Ebitda) dropped to just \$28 million in the first quarter of 2016 reported on April 28 (see table [Operating and Financial Estimates](#) on page 3). Fortunately, oil and gas price gains indicate that Ebitda would advance rapidly to \$120 million in the first quarter of 2017. Still, NPV corresponds to a high multiple of next twelve months cash flow at 31 times (see table [Present Value](#) on page 4). To reconcile the high cash flow multiple with discounted cash flow rationale consider that management believes that RRC can hold Marcellus shale production flat with capital spending of \$300 a year. At industry prices of \$70 a barrel and \$4 a million btu for natural gas, RRC would generate about a billion dollars of Ebitda at current production. Free cash flow would be \$700 million. At the 7% discount rate we use, free cash flow that lasts indefinitely is worth 14 times. That would imply a present value of \$10 billion, which corresponds to \$42 a share. The illustration does not count the Utica shale which lies below the Marcellus as well as a growing base volume in the Marcellus. Finally, while attraction of resource value upside is balanced by wariness of a high multiple of cash flow, stock price momentum looks positive after scoring a golden cross, which is indicated by the 50 day average crossing above the 200-day average (see chart on page 4).

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Range Resources Corporation											
Next Twelve Months Operating and Financial Estimates											
	Q1		Year	Q1		Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	3/31/15	12/31/15	2015	3/31/16	6/30/16	9/30/16	12/31/16	2016E	3/31/17	3/31/17	
Volume											
Natural Gas (bcf)	80.5	97.2	363	84.9	85.4	86.8	87.3	344	86.9	346	
Natural Gas (mmcf)	894	1,056	993	933	938	944	949	941	955	946	
Days	90	92	365	91	91	92	92	366	91	366	
Oil (mmb)	6.5	5.8	24	6.8	7.2	7.4	7.5	29	7.6	30	
Oil (mbd)	72.2	63.1	67.0	75.0	79.0	80.3	81.7	79.0	83.1	81.0	
Total (mmb)	19.9	22.0	85	21.0	21.4	21.9	22.1	86	22.0	87	
Total (mmcf)	1,327	1,435	1,395	1,383	1,412	1,426	1,440	1,415	1,454	1,433	
Price											
Henry Hub (\$/mmbtu)	2.99	2.28	2.67	2.09	2.00	2.31	2.70	2.27	3.09	2.52	
Differential (\$/mmbtu)	0.15	0.39	0.54	0.41	0.30	0.30	0.53	0.38	0.61	0.43	
Company (\$/mcf)	2.84	1.89	2.13	1.68	1.70	2.01	2.17	1.89	2.48	2.09	
WTI Cushing (\$/bbl)	48.62	42.21	48.79	33.47	43.55	45.73	46.77	42.38	47.47	45.88	
Differential	33.72	30.06	35.83	23.63	30.75	32.28	33.02	29.87	33.52	32.38	
Company (\$/bbl)	14.90	12.15	12.96	9.84	12.80	13.44	13.75	12.51	13.96	13.50	
Total (\$/bbl)	16.34	11.55	12.84	10.00	11.08	12.53	13.26	11.74	14.57	12.87	
Revenue (\$mm)											
Natural Gas	229	184	773	143	145	175	189	652	216	725	
Oil	97	71	317	67	92	99	103	362	106	400	
Total	325	254	1,089	210	237	274	293	1,014	321	1,125	
Expense											
Transportation	89	112	396	125	134	134	134	526	134	396	
Production	46	36	167	29	36	37	37	139	37	167	
General and administrative	37	29	136	28	31	31	31	121	31	136	
Total	172	177	699	182	200	201	202	785	202	805	
Ebitda											
Exploration	19	3	43	15	18	6	6	45	6	36	
Deprec., Deplet., & Amort.	147	128	581	121	125	127	128	501	128	509	
Other	(100)	(159)	(523)	(121)	(112)	(101)	(96)	(430)	(87)	(396)	
Ebit											
Interest	39	41	166	38	39	39	39	156	39	157	
Ebt											
Income Tax	17	22	43	(9)	(11)	1	5	(15)	12	5	
Net Income (\$mm)											
Per Share (\$)	0.19	0.25	0.48	(0.10)	(0.13)	0.01	0.05	(0.17)	0.13	0.06	
Shares (millions)											
Ebitda Margin	47%	30%	36%	13%	15%	27%	31%	23%	37%	28%	
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	



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Range Resources Corporation					
Functional Cash Flow and Present Value					
	NTM Ebitda (US\$mm)	Adjusted R/P	PV/ Ebitda	Present Value (US\$mm)	
North American Natural Gas	206	13.9	33.9	7,000	70%
Oil	114	15.9	26.3	3,000	30%
	320	14.6	31.2	10,000	100%
Debt (US\$mm)					3,000
Net Present Value (US\$mm)					7,000
Shares (mm)					167
Net Present Value - Standard Estimate (US\$/sh)					42
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					25





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