



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

March 8, 2013

## Range Resources (RRC)

### Raise NPV to \$90 from \$70 on Big Wells

<i>Symbol</i>	RRC	<i>Ebitda Next Twelve Months ending 3/31/14 (US\$m)</i>	1,025
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	59
<i>Price (\$/sh)</i>	78.84	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	3/7/13	<i>Adjusted Reserves/Production NTM</i>	14.0
<i>Shares (mm)</i>	160	<i>EV/Ebitda</i>	15.6
<i>Market Capitalization (\$mm)</i>	12,600	<i>PV/Ebitda</i>	17.3
<i>Debt (\$mm)</i>	3,300	<i>Undeveloped Reserves (%)</i>	47
<i>Enterprise Value (EV) (\$mm)</i>	16,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	17.30
<i>Present Value (PV) (\$mm)</i>	17,700	<i>Present Value Proven Reserves(\$/boe)</i>	16.30
<i>Net Present Value (\$/share)</i>	90	<i>Oil and Gas Ebitda Margin (%)</i>	57
<i>Debt/Present Value</i>	0.19	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.14
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	69
<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\$100 a barrel and natural gas, \$6 a million btu.			

## Summary and Recommendation

We raise estimated Net Present Value (NPV) to \$90 a share from \$70 for Buy-recommended **Range Resources (RRC)** on the basis of high performance wells that strengthen the credibility of the company's estimate of potential resources some ten times proven reserves. "Did I tell you about those five wells?" chief operating officer Ray Walker repeated on the memorable quarterly call on February 27. The new wells in the Marcellus formation delivered initial rates averaging 2600 barrels equivalent daily (boed) each, with 15% condensate, 46% natural gas liquids and 39% natural gas. Mr. Walker proudly recalled working on the first horizontal well in the formation in 2006 with Bill Zagorski, Range's "father of the Marcellus" as acknowledged by chief executive Jeff Ventura. Industry has since drilled 7000 wells to make the Marcellus the largest natural gas field in the U.S. Just in Southwest Pennsylvania, Range is producing 80,000 boed from 400 wells and has 6000 more wells to drill. Management sees 15-20% a year growth in volume for years to come. While most of that is visible in the Marcellus in SW PA, the growth is also likely to include contributions from other promising areas such as the Utica and Upper Devonian shale, the Nemaha Ridge in Oklahoma and the Permian Basin of West Texas. About a third of NPV relates to future production not as readily quantifiable and not included in NPV for most of our companies (see tables Operating and Financial Estimates, Present Value, ISC-1 to ISC-3). High cash flow multiple highlights valuation risk that may prompt some investors to take partial profits.

Kurt H. Wulff, CFA



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Range Resources Corporation											
Next Twelve Months Operating and Financial Estimates											
	Q4	Q3	Q4	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Next Twelve Months
	12/31/11	9/30/12	12/31/12	2012	3/31/13	6/30/13	9/30/13	12/31/13	2013E	3/31/14	3/31/14
<b>Volume</b>											
Natural Gas (mmcf)	491	623	655	<b>592</b>	678	702	728	754	<b>716</b>	781	<b>741</b>
Oil (mbd)	22.3	27.7	31.5	<b>26.8</b>	28.3	31.9	36.1	40.8	<b>34.3</b>	46.1	<b>38.7</b>
Total (mb)	9.6	12.1	12.9	<b>46</b>	12.7	13.6	14.5	15.3	<b>56</b>	15.9	<b>59</b>
Total (mmcf)	625	789	844	<b>752</b>	848	894	944	998	<b>921</b>	1,057	<b>973</b>
<b>Price</b>											
Henry Hub (\$/mmbtu)	3.55	2.80	3.40	<b>2.79</b>	3.34	3.57	3.69	3.86	<b>3.62</b>	4.10	<b>3.81</b>
Differential (\$/mmbtu)	(0.11)	0.02	(0.14)	<b>(0.04)</b>	(0.13)	(0.14)	(0.15)	(0.16)	<b>(0.15)</b>	(0.16)	<b>(0.16)</b>
Company (\$/mcf)	3.66	2.78	3.54	<b>2.83</b>	3.47	3.72	3.84	4.02	<b>3.77</b>	4.26	<b>3.97</b>
WTI Cushing (\$/bbl)	94.06	92.22	88.18	<b>94.16</b>	93.47	90.57	91.41	91.11	<b>91.64</b>	90.32	<b>90.85</b>
Differential	33.75	46.87	37.58	<b>42.95</b>	39.83	38.60	38.96	38.83	<b>39.11</b>	38.49	<b>38.73</b>
Company (\$/bbl)	60.30	45.35	50.60	<b>51.21</b>	53.64	51.97	52.45	52.28	<b>52.53</b>	51.83	<b>52.12</b>
Total (\$/bbl)	30.17	22.72	27.82	<b>24.29</b>	27.39	28.66	29.79	31.01	<b>29.31</b>	32.44	<b>30.56</b>
<b>Revenue (\$mm)</b>											
Natural Gas	165	159	213	<b>612</b>	212	238	257	279	<b>985</b>	300	<b>1,073</b>
Oil	124	116	147	<b>503</b>	136	151	174	196	<b>657</b>	215	<b>736</b>
Total	289	275	360	<b>1,115</b>	348	389	431	475	<b>1,643</b>	514	<b>1,809</b>
<b>Expense</b>											
Transportation	35	52	55	<b>193</b>							
Production	31	39	38	<b>156</b>							
General and administrative	33	33	31	<b>134</b>							
Total	99	124	124	<b>483</b>	151	168	187	206	<b>712</b>	223	<b>784</b>
<b>Ebitda</b>	190	151	236	<b>632</b>	197	220	244	269	<b>931</b>	292	<b>1,025</b>
Exploration	24	15	17	<b>114</b>	17	17	17	17	<b>68</b>	17	<b>68</b>
Deprec., Deplet., & Amort.	97	123	113	<b>445</b>	112	120	128	135	<b>494</b>	140	<b>522</b>
Other	(47)	(80)	(52)	<b>(323)</b>	(58)	(38)	(17)	5	<b>(107)</b>	25	<b>(24)</b>
<b>Ebit</b>	116	93	158	<b>395</b>	126	122	116	112	<b>476</b>	110	<b>460</b>
Interest	35	44	45	<b>169</b>	45	45	45	45	<b>180</b>	45	<b>180</b>
<b>Ebt</b>	81	49	113	<b>226</b>	81	77	71	67	<b>296</b>	65	<b>280</b>
Income Tax	28	17	40	<b>79</b>	28	27	25	23	<b>104</b>	23	<b>98</b>
<b>Net Income (\$mm)</b>	53	32	74	<b>147</b>	53	50	46	43	<b>193</b>	42	<b>182</b>
Per Share (\$)	0.33	0.20	0.46	<b>0.92</b>	0.33	0.31	0.29	0.27	<b>1.20</b>	0.26	<b>1.14</b>
<b>Shares (millions)</b>	160	160	160	<b>160</b>	160	160	160	160	<b>160</b>	160	<b>160</b>
Ebitda Margin	66%	55%	66%	<b>57%</b>	57%	57%	57%	57%	<b>57%</b>	57%	<b>57%</b>
Tax rate	35%	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	35%	<b>35%</b>

Range Resources Corporation						
Functional Cash Flow and Present Value						
	NTM Ebitda	Adjusted	PV/	Present		
	(US\$mm)	R/P	Ebitda	Value		
				(US\$mm)		
North American Natural Gas	608	13.2	19.7	12,000	68%	
Oil	417	16.5	13.7	5,700	32%	
	1,025	14.0	17.3	17,700	100%	
Debt (US\$mm)					3,300	
Net Present Value (US\$mm)					14,400	
Shares (mm)					160	
Net Present Value - Standard Estimate (US\$/sh)					90	
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					67	



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Table ISC-1										
McDep Income and Small Cap Energy Portfolio										
Debt, Segments, Cash Flow, Income and McDep Ratio										
		Price								
Symbol/Rating		(US\$/sh)	EV/	Enterprise	PV(%)		EV/	Dist.	Dist.	
	B = Buy	7-Mar	Market	Value	Nat	Oil	Ebitda	NTM	Yield	McDep
CB (see below)		2013	Cap	(\$mm)	Gas		NTM	(\$/un)	(%)	Ratio
<b>Small Cap Independent Producers</b>										
PDC Energy	PDCE	49.70	1.39	2,140	30	70	10.8	-	-	1.00
Peyto Exploration and Developmen	PEYUF	26.35	1.19	4,500	76	24	10.9	0.70	2.7	0.98
Continental Resources (32%)	CLR B	90.10	1.23	6,540	21	79	7.4	-	-	0.92
Range Resources	RRC B	78.84	1.27	15,960	68	32	15.6	0.16	0.2	0.90
Halcón Resources	HK	6.72	3.02	4,620	14	86	6.2	-	-	0.86
Berry Petroleum Company	BRY	46.56	1.69	4,330	12	88	6.7	-	-	0.77
Denbury Resources Inc.	DNR	18.13	1.36	9,460	5	95	6.2	-	-	0.71
Birchcliff Energy Ltd.	BIREF B	7.62	1.40	1,740	67	33	9.5	-	-	0.71
Cimarex Energy Company	XEC B	67.49	1.22	7,120	41	59	5.3	0.56	0.8	0.66
Whiting Petroleum Corporation	WLL B	50.39	1.39	8,340	6	94	4.6	-	-	0.65
<i>Total or Median</i>				1.38	64,800	26	74	7.1		0.81
<b>Leveraged Cash Payers</b>										
Linn Energy, LLC	LINE	37.99	1.65	14,640	43	57	12.5	2.90	7.6	1.15
Vanguard Natural Resources, LLC	VNR	27.78	1.62	2,390	33	67	11.8	2.40	8.6	1.07
Legacy Reserves L.P.	LGCY	26.10	1.47	1,820	25	75	9.4	2.26	8.7	0.91
Enerplus Corporation	ERF	14.17	1.62	4,500	32	68	6.5	1.05	7.4	0.77
<i>Total or Median</i>				1.62	23,400	32	68	10.6	8.1	0.99
<b>RTF Cash Payers</b>										
Freehold Royalties Ltd.	FRHLF	21.86	TL	1,500	16	84	11.1	1.63	7.5	1.04
Dorchester Minerals, L.P.	DMLP B	23.14	TL	710	61	39	12.0	1.88	8.1	0.86
San Juan Basin Royalty Trust	SJT B	15.96	BL	740	100	-	10.6	1.09	6.8	0.76
Enduro Royalty Trust (40%)	NDRO	15.46	BL	200	48	52	7.6	1.52	9.8	0.74
Sabine Royalty Trust	SBR	45.59	TL	670	51	49	11.5	3.97	8.7	0.70
Permian Basin RT	PBT	12.71	TL	590	33	67	8.2	0.84	6.6	0.64
Cross Timbers Royalty Trust	CRT	27.18	TL	160	70	30	8.5	3.08	11.3	0.62
Mesa RoyaltyTrust	MTR	22.62	BL	42	75	25	8.8	2.05	9.1	0.56
Hugoton RoyaltyTrust	HGT	7.87	BL	320	88	13	6.9	0.47	5.9	0.56
<i>Total or Median</i>				4,900	61	39	8.8		8.1	0.70
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.										
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses										
Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.										
Dist. = Income distribution. NTM = Next Twelve Months Ended March 31, 2014. Enterprise Value = Market Cap and Debt.										
TL = Top Line income sources, BL = Bottom Line income sources										



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Table ISC-2								
McDep Income and Small Cap Energy Portfolio								
Net Present Value and McDep Ratio								
			Price (\$/sh)	Shares	Market Cap (\$mm)	Net Present Value (\$/un)	Debt/ Present Value	McDep Ratio
	Symbol/ Rating		7-Mar 2013	(mm)				
<b>Small Cap Independent Producers</b>								
PDC Energy	PDCE		49.70	31.0	1,540	50.00	*	0.28
Peyto Exploration and Development Cor	PEYUF		26.35	144.0	3,790	27.00		0.15
Continental Resources (32%)	CLR	B	90.10	59.2	5,330	100.00		0.17
Range Resources	RRC	B	78.84	160.0	12,610	90.00		0.19
Halcón Resources	HK		6.72	228.0	1,530	10.00		0.58
Berry Petroleum Company	BRY		46.56	55.3	2,570	70.00		0.31
Denbury Resources Inc.	DNR		18.13	383.0	6,940	28.00		0.19
Birchcliff Energy Ltd.	BIREF	B	7.62	163.0	1,240	12.00		0.20
Cimarex Energy Company	XEC	B	67.49	86.7	5,850	110.00		0.12
Whiting Petroleum Corporation	WLL	B	50.39	119.0	6,000	88.00		0.18
<i>Total or Median</i>					47,400			0.19
<b>Leveraged Cash Payers</b>								
Linn Energy, LLC	LINE		37.99	233.0	8,850	30.00		0.45
Vanguard Natural Resources, LLC	VNR		27.78	53.1	1,480	25.00		0.41
Legacy Reserves L.P.	LGCY		26.10	47.5	1,240	30.00		0.29
Enerplus Corporation	ERF		14.17	196.0	2,780	21.00		0.29
<i>Total or Median</i>					14,350			0.35
<b>RTF Cash Payers</b>								
Freehold Royalties Ltd.	FRHLF		21.86	65.7	1,440	21.00	0.04	1.04
Dorchester Minerals, L.P.	DMLP	B	23.14	30.7	710	27.00	-	0.86
San Juan Basin Royalty Trust	SJT	B	15.96	46.6	740	21.00	-	0.76
Enduro Royalty Trust (40%)	NDRO		15.46	13.2	200	21.00	-	0.74
Sabine Royalty Trust	SBR		45.59	14.6	670	65.00	-	0.70
Permian Basin RT	PBT		12.71	46.6	590	20.00	-	0.64
Cross Timbers Royalty Trust	CRT		27.18	6.0	160	44.00	-	0.62
Mesa RoyaltyTrust	MTR		22.62	1.9	42	40.00	-	0.56
Hugoton RoyaltyTrust	HGT		7.87	40.0	320	14.00	-	0.56
<i>Total or Median</i>					4,870			0.70
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses								
Present Value presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.								
* NPV for PDC Energy rasied to \$50 a share from \$40 on 3/7/13 for higher cash flow margin and higher oil reserves.								



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Table ISC-3

## McDep Income and Small Cap Energy Portfolio Value Multiples - Rank by EV/Ebitda

			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		7-Mar 2013	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	78.84		-	14.0	17.3	15.6
Peyto Exploration and Development Corp	PEYUF		26.35		0.29	8.9	11.2	10.9
PDC Energy	PDCE		49.70		-	16.7	10.8	10.8
Birchcliff Energy Ltd.	BIREF	B	7.62		-	19.5	13.4	9.5
Continental Resources (32%)	CLR	B	90.10		-	10.8	8.1	7.4
Berry Petroleum Company	BRY		46.56		-	12.1	8.7	6.7
Halcón Resources	HK		6.72		-	4.7	7.2	6.2
Denbury Resources Inc.	DNR		18.13		-	14.1	8.6	6.2
Cimarex Energy Company	XEC	B	67.49		-	7.9	8.1	5.3
Whiting Petroleum Corporation	WLL	B	50.39		-	8.8	7.0	4.6
	<i>Median</i>					11.5	8.7	7.1
<b>Leveraged Cash Payers</b>								
Linn Energy, LLC	LINE		37.99		1.06	13.9	10.9	12.5
Vanguard Natural Resources, LLC	VNR		27.78		1.07	13.2	11.1	11.8
Legacy Reserves L.P.	LGCY		26.10		0.78	11.0	10.4	9.4
Enerplus Corporation	ERF		14.17		0.42	6.7	8.4	6.5
	<i>Median</i>					12.1	10.6	10.6
<b>RTF Cash Payers</b>								
Dorchester Minerals, L.P.	DMLP	B	23.14	77	0.97	6.4	13.9	12.0
Sabine Royalty Trust	SBR		45.59	100	1.00	8.1	16.4	11.5
Freehold Royalties Ltd.	FRHLF		21.86	80	0.83	5.0	10.7	11.1
San Juan Basin Royalty Trust	SJT	B	15.96		0.73	10.4	14.0	10.6
Mesa RoyaltyTrust	MTR		22.62		0.80	7.8	15.6	8.8
Cross Timbers Royalty Trust	CRT		27.18	78	0.97	14.2	13.8	8.5
Permian Basin RT	PBT		12.71	52	0.54	9.9	12.9	8.2
Enduro Royalty Trust (40%)	NDRO		15.46		0.75	7.2	10.4	7.6
Hugoton RoyaltyTrust	HGT		7.87		0.41	13.7	12.3	6.9
	<i>Median</i>					8.1	13.8	8.8
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2014; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								

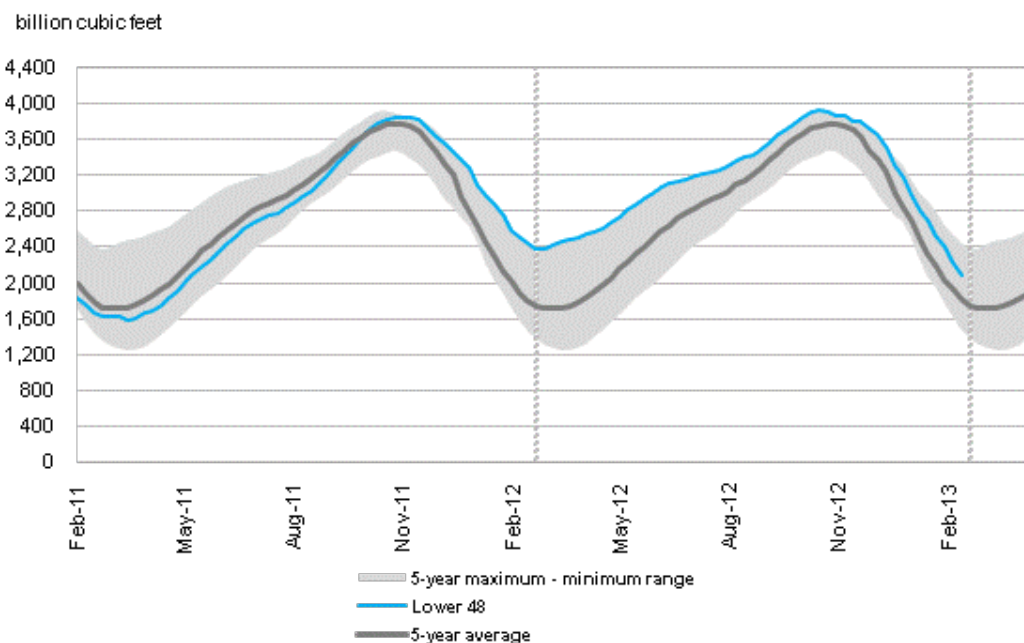


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**Working gas in underground storage compared with the 5-year maximum and minimum**



Source: U.S. Energy Information Administration

**Disclaimer:** This analysis was prepared by Kurt Wulff, Manager of McDep LLC. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

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