Range Resources Corp.

Estimate Change BUY

Equity | United States | Oil & Gas Producers
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Bank of America Merrill Lynch

RESEARCH

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Marcellus challenging Haynesville as top play

Q4 production inline; FY09 plans reflect efficiency gains

RRC reported Q4 production of 403 MMcfe/d (+3.9% sequential), inline with our estimate. We are lowering our Q4:09 EPS estimate to $0.22 from $0.34 to reflect lower than expected realized prices ($6.86/Mcfe; 12% below BAS-ML). RRC's rig count has decreased by 17 rigs since July (to 13 rigs) while FY09 drilling plans call for flat YoY activity levels (500 net wells planned for FY09 vs. 489 in FY08). In our view, rig reductions and flat YoY drilling plans reflect efficiency gains in the Marcellus and foreshadow a shift toward high ROR projects in the eastern region.

Marcellus IP rates improve 50%; Well costs headed down

In the Marcellus, average IP rates from RRC's 10 latest wells increased 49% from previous results (7.3 MMcfe/d vs. 4.9 MMcfe/d) and included the highest rate well announced in the play to date. At 24.5 MMcfe/d for less than half the cost, the well compares favorably with a typical Haynesville well. In addition, RRC has reduced drilling times by 20 days ($800k / well cost reduction) and the addition of 6 built-for-purpose rigs should drive further efficiency gains. In the Barnett, Range announced the best well to date in Hill County (IP: 9.0 MMcfed) and positive results from its Tarrant downspacing program (2 wells combined IP rate of 14.0 MMcfe/d).

PA program set to thrive in low nat gas environment

RRC's conservative hedging and balance sheet coupled with excellent project economics (Marcellus is economic down to $3.75/MMBtu) should translate into a FY09 growth/spending outlook (likely announced near-term) at the high end of our group. In our opinion, recent drilling results and near-term Marcellus development plans (50 hz. wells in FY09) highlight the company's widening first mover advantage in the play and should provide a steady stream of catalysts throughout 2009. Reiterate Buy.

Estimates (Dec)

(US$)	2006A	2007A	2008E	2009E	2010E
EPS	1.11	1.69	1.82	1.10	1.41
GAAP EPS	1.42	1.12	1.84	1.10	1.41
EPS Change (YoY)	12.1%	52.3%	7.7%	-39.6%	28.2%
Consensus EPS (Bloomberg)			1.98	1.35	1.90
Dividend Rate	0.12	0.13	0.16	0.16	0.16

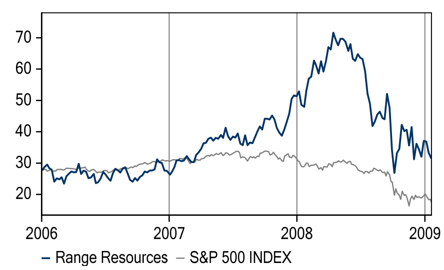
Valuation (Dec)

	2006A	2007A	2008E	2009E	2010E
P/E	31.5x	20.7x	19.2x	31.8x	24.8x
GAAP P/E	24.6x	31.2x	19.0x	31.8x	24.8x
Dividend Yield	0.3%	0.4%	0.5%	0.5%	0.5%
EV / EBITDA*	12.5x	12.1x	8.0x	8.9x	7.5x
Free Cash Flow Yield*	-0.8%	-3.6%	-2.5%	-2.9%	-3.3%

* For full definitions of *iQmethod* SM measures, see page 5.

Stock Data

Price	US$34.94
Price Objective	US$52.00
Date Established	26-Nov-2008
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	US$23.77-76.81
Mrkt Val / Shares Out (mn)	US$5,341 / 152.9
ML Symbol / Exchange	RRC / NYS
Bloomberg / Reuters	RRC US / RRC.N
ROE (2008E)	14.3%
Total Dbt to Cap (Sep-2008A)	43.1%
Est. 5-Yr EPS / DPS Growth	-1.3% / NA



Quarterly Earnings Estimates

	2007	2008
Q1	0.46A	0.62A
Q2	0.41A	0.48A
Q3	0.42A	0.51A
Q4	0.40A	0.22E

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Refer to important disclosures on page 6 to 8. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4.

iQprofile SM Range Resources Corp.

iQmethod SM – Bus Performance*

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Return on Capital Employed	10.0%	6.5%	7.5%	4.7%	5.3%
Return on Equity	15.8%	16.9%	14.3%	7.4%	8.9%
Operating Margin	48.6%	39.8%	43.6%	35.7%	37.7%
Free Cash Flow	(38)	(174)	(121)	(137)	(159)

iQmethod SM – Quality of Earnings*

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Cash Realization Ratio	3.1x	2.5x	2.7x	4.1x	3.8x
Asset Replacement Ratio	3.0x	3.6x	2.8x	2.3x	2.4x
Tax Rate	38.5%	37.2%	38.6%	38.0%	38.0%
Net Debt-to-Equity Ratio	83.3%	66.4%	81.6%	83.4%	84.2%
Interest Cover	6.6x	4.4x	5.4x	3.3x	3.7x

Income Statement Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Sales	780	862	1,234	1,119	1,313
% Change	45.5%	10.5%	43.1%	-9.3%	17.4%
Gross Profit	651	713	1,033	904	1,064
% Change	48.8%	9.4%	45.0%	-12.5%	17.6%
EBITDA	593	611	926	834	992
% Change	58.8%	3.0%	51.6%	-9.9%	18.9%
Net Interest & Other Income	(58)	(78)	(70)	(119)	(135)
Net Income (Adjusted)	154	253	285	174	224
% Change	20.1%	64.0%	12.9%	-39.2%	28.9%

Free Cash Flow Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Net Income from Cont Operations (GAAP)	198	167	287	174	224
Depreciation & Amortization	170	227	314	369	428
Change in Working Capital	37	(3)	1	(4)	3
Deferred Taxation Charge	122	98	176	105	136
Other Adjustments, Net	(46)	152	(22)	69	71
Capital Expenditure	(517)	(816)	(877)	(850)	(1,020)
Free Cash Flow	-38	-174	-121	-137	-159
% Change	NM	-362.5%	30.5%	-14.0%	-15.8%

Balance Sheet Data (Dec)

(US$ Millions)	2006A	2007A	2008E	2009E	2010E
Cash & Equivalents	2	4	0	0	0
Trade Receivables	130	166	179	233	246
Other Current Assets	188	91	68	68	68
Property, Plant & Equipment	2,724	3,565	4,997	5,411	5,935
Other Non-Current Assets	144	190	216	216	216
Total Assets	3,188	4,017	5,460	5,929	6,466
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	232	305	350	401	416
Long-Term Debt	1,049	1,151	1,857	2,019	2,203
Other Non-Current Liabilities	650	832	976	1,087	1,230
Total Liabilities	1,932	2,288	3,184	3,507	3,849
Total Equity	1,256	1,728	2,276	2,422	2,616
Total Equity & Liabilities	3,188	4,017	5,460	5,929	6,466

* For full definitions of *iQmethod* SM measures, see page 5.

Company Description

Range Resources has a natural gas weighted, diversified portfolio of assets split between three core areas (Southwest, Gulf Coast, and Appalachia). The company targets predominantly unconventional oil and gas plays but maintains exposure to high potential conventional prospects as well. The company had 2.2 Tcfe of proved reserves at year-end 2007 and estimates an additional 3.1 Tcfe in probable and possible upside.

Investment Thesis

RRC possesses a deep, low risk development inventory and a leadership position in the promising Marcellus Shale. In our opinion, the favorable location of its core development areas along with infrastructure agreements currently in place could provide upside to growth expectations as Range transitions the project to development ahead of its peers. We expect development milestones, efforts to secure midstream capacity, and water sourcing agreements in the Marcellus to be the key drivers.

Stock Data

Average Daily Volume	2,893,113

Q4 production inline; Realized prices below

Range Resources reported Q4 production of 403 MMcfe/d (+3.9% sequential; 17.4% YoY), inline with our estimate and the midpoint of guidance. Q4 realized prices were 12% below our expectations at $6.86/Mcfe. RRC's companywide rig count is down 10 rigs since October and 17 rigs since July (13 rigs total). Although the company has not announced an official FY09 drilling budget, preliminary plans call for approximately 500 net wells (vs. 489 in FY08). In our view, flat YoY drilling plans despite rig reductions reflect efficiency gains in the Marcellus and foreshadow a shift towards high ROR projects in the company's eastern region.

We are adjusting our estimates to reflect lower than expected realized prices, wider differentials, and additional hedging. We are lowering our Q4 EPS and CFPS estimates to $0.22 and $1.02 from $0.34 and $1.21, respectively. We are decreasing our FY09 EPS and CFPS estimates to $1.10 and $4.54 from $1.35 and $4.94, respectively. During Q4, we expect Range to announce an $800 MM capital program which equates to approximately 112% of our FY09 discretionary cash flow estimate.

Marcellus IP rates improve ~50%; Well costs headed down

In the Marcellus, RRC's latest 10 horizontal IP rates increased 49% relative to previously announced results. Q4 IP rates averaged 7.3 MMcfe (vs. 4.9 MMcfe/d previously) and included the highest rate well announced in the play to date. At 24.5 MMcfe/d, and for less than half the cost, the well compares favorably with a typical Haynesville well ($7-9 MM to drill and complete; typical IP of 15 MMcfe/d). Current production in the play is restricted at 35 MMcfe/d pending additional processing capacity, which is projected to reach 60 MMcfe/d in March/April and 180 MMcfe/d by year-end.

Also, Range has reduced drilling times by 20 days ($800k / well cost reduction) and the addition of six built-for-purpose rigs should drive further efficiency gains. Well costs are expected to average $3.0–$4.0 MM during FY09 (F&D ~$1.00/Mcfe). Based on recent results and plans to drill a minimum of 50 horizontal wells during FY09, the company's projected YE09 exit rate of 80-100 MMcfe/d looks conservative and likely reflects processing capacity limitations.

Other projects quietly meeting/beating expectations

Non-Marcellus projects in the Eastern region continue to meet or exceed expectations. We expect this region to be a focus of FY09 activity as the company shifts away from the Mid-Cont and toward higher ROR eastern projects to offset weak nat gas prices (east typically receives 5+% premium to Henry Hub vs. 10%-15% discount in the Mid-Cont).

In the Huron project, Range plans to double its horizontal drilling program to 20 wells during FY09. Average quarterly IP rates of 1.1 MMcfe/d were inline with expectations. The project exposes RRC to 1.5 Tcfe in low risk probable reserve potential. Other notable events from the region include positive results from RRC's first horizontal Berea test (IP: 1.5 MMcfe/d; inline with EQT reported rates) and plans to drill five additional Big Lime wells (W. VA) following "encouraging" results from a recent horizontal completion. Additional information on the two projects is likely to be available on the Q4 call.

In the Barnett, RRC completed the best well to date in its Hill County extension area (9.0 MMcfe/d) and reported solid production results from its downspacing pilot (250 ft/ well) in Tarrant County (14.0 MMcfe/d combined rate; two wells). The company has 47k net acres in the SW Ellis/Hill County project and successful downspacing in southern Tarrant County could add an additional 30 locations (4+ Bcfe/well).

Price objective basis & risk

Range Resources Corp. (RRC)

Our $52 price objective is based on our sum of parts NAV estimate (DCF- 12% WACC: $50/Bbl & $6/MMBtu) and equates to a 12.1x 2009e EBITDA multiple, a substantial premium to its mid cap peers. In our opinion a premium is justified by a deep, low risk development inventory which includes a leadership position in the Marcellus Shale play. Our NAV gives the company risked credit for 90% of its low-risk probable reserves focused primarily in Appalachia and the Barnett Shale. Additionally, we give the company credit for 30% of its potential reserves from the Marcellus Shale. Risks to our price objective are: E&P companies in general are subject to commodity price volatility, operating risk, regulatory risks, and uncertainty of reserve estimates. Company specific risks to our price objective are: (1) Range has significant 3P exposure to the emerging Marcellus Shale. Therefore, delineation results above or below our expectations could undermine our valuation. (2) The Marcellus Shale will likely require a substantial investment in infrastructure in order to accommodate horizontal development. Given the early stage nature of the play and capital constraints facing the sector, the timing and cost of midstream projects could impact intermediate term development.

Analyst Certification

I, Eric Hagen, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US-Oil & Gas Exploration and Production Coverage Cluster

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	Continental Resources, Inc.	CLR	CLR US	Eric Hagen
	Legacy Reserves, LP	LGCY	LGCY US	Eric Hagen
	Petrohawk Energy Corp.	HK	HK US	Eric Hagen
	Range Resources Corp.	RRC	RRC US	Eric Hagen
	Whiting Petroleum Corp.	WLL	WLL US	Eric Hagen
	XTO Energy	XTO	XTO US	Eric Hagen
NEUTRAL				
	Anadarko Petroleum Corp.	APC	APC US	Eric Hagen
	Bill Barrett Corp.	BBG	BBG US	Eric Hagen
	Cabot Oil & Gas Corp.	COG	COG US	Eric Hagen
	Devon Energy Corp.	DVN	DVN US	Eric Hagen
	EOG Resources	EOG	EOG US	Eric Hagen
	Quicksilver Resources Inc.	KWK	KWK US	Eric Hagen
UNDERPERFORM				
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	Berry Petroleum Co.	BRY	BRY US	Eric Hagen
	Cimarex Energy	XEC	XEC US	Eric Hagen
	Delta Petroleum	DPTR	DPTR US	Eric Hagen
	Denbury Resources Inc.	DNR	DNR US	Eric Hagen
	EV Energy Partners, LP	EVEP	EVEP US	Eric Hagen
	Linn Energy LLC	LINE	LINE US	Eric Hagen
	St. Mary Land & Exploration Co.	SM	SM US	Eric Hagen

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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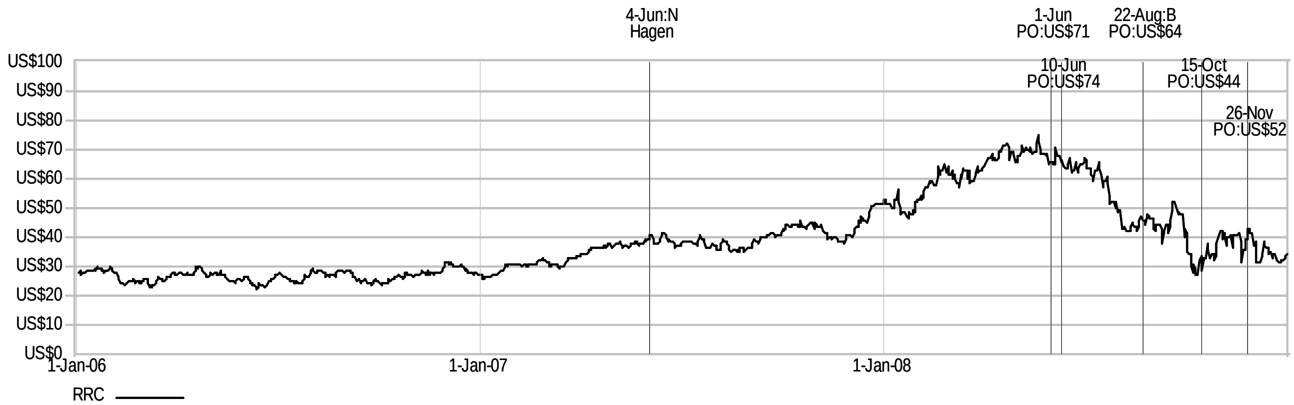
RRC Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

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BAS-ML price charts do not reflect analysts' coverage of the stock at prior firms. Historical price charts relating to companies covered as of December 31, 2008 by former Banc of America Securities LLC (BAS) analysts are available to BAS clients on the BAS website."

Investment Rating Distribution: Energy Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	115	43.89%	Buy	37	36.63%
Neutral	60	22.90%	Neutral	19	36.54%
Sell	87	33.21%	Sell	12	15.79%

Investment Rating Distribution: Global Group (as of 01 Jan 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1297	38.46%	Buy	314	26.81%
Neutral	859	25.47%	Neutral	210	28.23%
Sell	1216	36.06%	Sell	229	20.71%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BAS-ML Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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