

Range Resources Ltd (RRL LN)

BUY

Flash Note

Price target: £0.24

Oil & Gas

10 October 2011

Operations Update

BUY Recommendation maintained

Event

Range Resources Ltd ("Range" or "Company") provided an operational update on its activities in Trinidad, Texas and Georgia.

Trinidad

Following on from the successful completion of QUN 115 and MD 247, the Company recently spudded a step out well - QUN 116 with Rig 1 and has successfully set surface casing to 100 ft. Drilling continues at approximately 725ft with a target depth of 1,000ft, targeting the Lower Forest oil sands.

Rig 2 recently passed final Ministry inspection on location and has spudded QUN 117, the fourth well in the Company's planned initial 21 well program. Another step out well, QUN 117 has a projected total depth of 2,000ft and is targeting the Lower Forest oil sands as well as the prolific underlying Upper Cruse reservoirs.

Rig 8 is currently being serviced and is set to join the drilling programme shortly following recertification. Once placed back into service, Rig 8 will be used to target deeper reservoirs, including the Middle and Lower Cruse oil sands with target depths averaging 6,500 ft. The Middle and Lower Cruse reservoirs have historically been the most prolific within the existing fields, but are under developed in certain areas. The Range drilling program is expected to add reserves and production from these sands within the existing fields, while extending the producing trend into new areas. Rig 8 is the third and last drilling rig to be introduced into the 2011 drilling program. The Company will introduce other drilling and completion rigs into the fleet to accelerate drilling and production increases early 2012. The ability to develop reserves from deeper objectives will become an increasing focus as the Company tests other known producing horizons such as the Herrera formation.

The Company is buoyed by this early success and remains confident of increasing production to between 1,400 - 1,800 bopd from this initial programme in Trinidad.

Stock Data

Current Price	9.75p
52 - wk Range:	4.65 – 24.5
12 month target:	24.00p
Market Cap (M):	£156.20
EV (M):	£145.35

52 Week range

4.65	9.75	24.5
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Price Chart



Company Summary

Range Resources Limited explores for oil, gas, and minerals. The Company holds interest in properties in Somalia, United States, Georgia and Trinidad.

Analysts

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Texas – North Chapman Ranch

The drilling rig has recently moved to the Smith #2 site, being an offset well to the Smith #1 discovery well. The Smith #2 well is regarded as a relatively low risk development well. Once completed, the rig is expected to move to the Albrecht #1 well site, a step-out well that is intended to extend the North Chapman Ranch field to the south east with the objective of adding significant reserves, production, and cash flow. Should the Smith #2 and Albrecht #1 prove successful, the partners will jointly consider a multi-well program for 2012 that could see as many as four additional wells drilled in the field. The Company will look to provide regular updates as to the progress of the Smith #2 drilling operations.

Texas – East Cotton Valley

The operator has resumed testing of the Ross 3H horizontal wells with additional perforations being added between 7,245 and 7,675 feet in the horizontal section. Swabbing operations have commenced looking to confirm oil saturation before the commencement of fracking operations to the reservoir.

Georgia

The Company is also pleased to report that their partner and project operator in Georgia, Strait Oil and Gas Ltd, have drilled to the intermediate depth of 1544 meters with a proposed total depth of 3500 meters. Drilling operations are continuing after a short interruption to undertake a comprehensive data collection program. The analysis is deemed prudent to determine if the well has reached the Paleozoic granite basement or is drilling through a subvolcanic intrusive which is masking the targeted primary reservoir objective at the depth of about 2,300m as interpreted from the helium survey and exists with other similar discoveries found under subvolcanic intrusives. An additional factor for undertaking the analysis is the slow drilling rates that are being achieved through the highly variable intrusive complex.

A full suite of wireline logs has been successfully recorded. Additional valuable information has been obtained through the successful collection of 10 sidewall cores from critical intervals. Preparations are underway for cutting a full diameter conventional core within the nearest future. Once the coring program is completed, a Vertical Seismic Profile (“VSP”) survey will be run. The new data will then be integrated into the full data set and the subsurface situation reinterpreted as appropriate. This reinterpretation will then be used to determine the next steps for the well depending on the progress of the well at that point in time. The VSP survey will be undertaken in approximately 10 to 14 days.

Comment

During turbulent markets investors should seek well capitalised companies with diversified portfolios and near-term news flow. Range offers these attributes and at the current price is a compelling investment opportunity. Our core NAV based on the Company’s production and development assets is 8.6p per share and our total risked exploration NAV is 23.0p per share, which in our opinion reflects the asymmetry of limited downside and significant upside of the portfolio at the current share price.

The Company’s activities in Trinidad will provide continuous new flow for the remainder of this year with a mix of lower risk step-out drilling and higher risk, higher return exploration of the deeper Herrera horizon, which is a proven production target at nearby fields. It is expected that the first Herrera exploration well could be spudded during the first two months of 2012. Our un-risked upside for the Herrera exploration opportunity is 21.0p per share. Range is in a strong operational position in Trinidad as it owns a fleet of drilling and auxiliary units, providing great operational flexibility in tackling the various development, appraisal and exploration objectives.

In Georgia the Company is drilling its first exploration well. Mukhiani-1 is targeting Vani-3 prospect with an estimated 115MMbbl of oil-in-place (gross) or 46MMbbl of oil-in-place net to the Company. The Company’s update highlights the complex geological setting. Apart from drilling operational issues, such as the recent problems with a drill collar, it appears that the variability of rock formations is hampering the drilling progress. The management have recognised that the best course of action is to gather more data and undertake further analysis to complement the existing technical work and to refine the geological model. Our risked valuation for Georgia is 4.7p per share based on probability of success of 20%. This is a high risk exploration play; however, it is important to note that Mukhiani-1 is the first well in the exploration campaign and that the Company and its partners have identified several other prospects. We expect there will be much more exploration activity in Georgia and in the meantime hope that the drill bit has encountered igneous intrusions and that drilling will continue towards the target depth.

Range has already had a very successful campaign at the North Chapman Ranch project. Albrecht-1 will be a key well for the Company as it has the potential to significantly increase the 2P reserves from our current estimate of 6.1MMboe net to the Company. In our valuation we have accounted for an additional 9.4MMboe albeit risked at probability of success of 50%. If successful, the un-risked upside at North Chapman Ranch will be about 4.4p per share.

Finally, we must not forget the upcoming exploration drilling campaign in Puntland, Somalia. This has been the long-term project for Range and provides the largest prospective resource base in the Company's exploration inventory. There are high exploration, political and development risks; however, at the current share price level the opportunity is available as a free option to the investors as the current share price is underpinned by funded activities in more politically stable areas. The Company recently raised US\$15m from Socius Capital Group ("Socius") and is expected to receive another US\$15m from the exercise of options due by the end of this year. The Company is also benefiting from production in Trinidad and Texas which is contributing towards capital expenditure programme in these areas of operation.

We have updated our valuation to account for the recent share placement with Socius and the issue of the un-listed options. Our total risked NAV is down to 23.0p per share from 23.8p per share; however, we are inclined to maintain our price target at 24p and await further news before revising our valuation.

Recommendation

We retain our Buy recommendation and target price of 24p.

Research Disclosures

Shahin Amini

Shahin has 13 years of work experience in the oil & gas industry and banking. Prior to joining FoxDavies, he worked for Rand Merchant Bank and Sumitomo Mitsui Banking Corporation and was involved in the origination and execution of financing mandates for resources companies and projects. Shahin has an MSc degree in Offshore and Subsea Engineering from University College London and MBA from Imperial College London.

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Research disclosure as of 10 October 2011

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Range Resource Ltd (RRL)	1,2, 7 & 8

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Aminex	AEX LN Equity	BUY	07.06.11	£0.13	£0.03
Ascent Resources	AST LN Equity	BUY	13.06.11	£0.15	£0.03
Borders & Southern Petroleum	BOR LN Equity	BUY	26.11.10	£1.50	£0.49
Bowleven	BLVN LN Equity	BUY	02.03.11	£5.50	£0.86
Circle Oil	COP LN Equity	BUY	29.09.11	£0.90	£0.23
Desire Petroleum	DES LN Equity	UNDER REVIEW	29.03.11	£0.40	£0.17
Enegi Oil	ENEG LN Equity	UNDER REVIEW	18.11.10	£0.25	£0.09
Falklands Oil & Gas	FOGL LN Equity	BUY	01.04.11	£2.50	£0.48
Gulf Keystone	GKP LN Equity	BUY	18.08.11	£2.75	£1.39
Gulfsands Petroleum	GPX LN Equity	UNDER REVIEW	07.01.11	£3.50	£2.03
Hardy Oil & Gas	HDY LN Equity	BUY	25.08.11	£2.50	£1.48
Heritage Oil	HOIL LN Equity	HOLD	30.03.11	£4.20	£2.44
Matra Petroleum	MTA LN Equity	UNDER REVIEW	26.05.10	£0.07	£0.01
Max Petroleum	MXP LN Equity	BUY	02.03.11	£0.50	£0.13
Petrokamchatka	PKP CN Equity	UNDER REVIEW	14.01.10	C\$0.15	C\$0.015
Po Valley	PVE AU Equity	BUY	29.04.10	A\$1.50	A\$0.17
Range Resources	RRL LN Equity	BUY	10.10.11	£0.24	£0.10
Rockhopper Exploration	RKH LN Equity	BUY	16.08.11	£6.00	£1.70
San Leon Energy	SLE LN Equity	BUY	29.07.11	£0.50	£0.15
Sterling Energy	SEY LN Equity	HOLD	06.07.11	£0.30	£0.40
Tower Resources	TRP LN Equity	HOLD	09.07.10	£0.04	£0.03
Victoria Oil & Gas	VOG LN Equity	BUY	27.09.11	£0.13	£0.04

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