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# Range Resources, EQT May Be Targets After Chevron Deal

By Jim Polson and Mike Lee - Nov 10, 2010

Range Resources Corp., EQT Corp. and Ultra Petroleum Corp. are among companies that may attract takeover bids because of their holdings in the Marcellus Shale formation, where natural gas output has exceeded forecasts, analysts said.

Investors expect more deals to follow yesterday's agreement by Chevron Corp. to buy Atlas Energy Inc. for $3.2 billion in cash to gain access to natural gas in the Marcellus. The deal is worth $4.3 billion including assumed debt, which would make it Chevron's biggest since it bought Unocal Corp. in 2005.

Range, EQT, and Ultra, along with Atlas, all control hundreds of thousands of acres in the Marcellus, a layer of gas- rich shale rock under Pennsylvania and adjacent states. The three have below-average enterprise values -- the value of stock plus debt -- compared with reserves among the 65 largest U.S. oil and gas producers, according to a Bloomberg data analysis.

"The Marcellus is the best gas shale play in the U.S.," Brian Lively, an analyst for Tudor, Pickering, Holt & Co. in Houston, said in an interview yesterday. "You're also very close to market, so you tend to get a premium for your gas."

Range and EQT have been among the worst-performing independent oil and gas producers this year in the Standard & Poor's 500 as investors snapped up shares of companies like Pioneer Natural Resources Inc. and Denbury Resources Inc. that pumped more oil, the more profitable product in the current market.

## Not Going 'Quietly'

Chevron, based in San Ramon, California, will join Reliance Industries Ltd., India's largest company by market value, in a joint venture to extract gas from the Marcellus. Exxon Mobil Corp. and Royal Dutch Shell Plc have also bought companies with Marcellus acreage.

"Majors just don't do $4 billion deals and then go quietly into the night," according to a note issued today by Tudor, Pickering analysts including Lively. "There will be more acquisitions" and companies going private, the analysts wrote.

Chevron and other integrated oil companies are buying shale-gas assets based on a 30-year outlook for energy prices, confident that natural gas will sell for more than the current price of about $4.24 per million British thermal units, said Jonathan Dison, a managing director at Bender Consulting Services Inc. in Houston, whose clients have included Chevron. Exxon Mobil has said it expects use of natural gas will outpace that of oil as global energy demand rises.

Three First Targets

"If I were acquiring a company and had all the money in the world, the three I would target first would be Ultra, Range and Petrohawk," Michael Bodino, a Fort Worth, Texas-based analyst for Global Hunter Securities, said in an interview yesterday.

Ultra and Range hold acreage in the Marcellus Shale, while Houston-based Petrohawk Energy Corp. has holdings in the Texas Eagle Ford shale that produces oil.

Kelly Whitley, Ultra Petroleum's manager for investor relations, said the company doesn't have any offers right now. "There are not a lot of barriers if anyone was going to come put an offer in," she said.

Karen Giles, a spokeswoman for Range, said the company doesn't comment on speculation. Spokespeople for EQT and Petrohawk didn't return calls seeking comment yesterday on the possibility of a takeover.

Going Private

Other companies with Marcellus assets are considering private transactions. Quicksilver Resources Inc. said last month it's weighing a potential offer to go private. Exco Resources Inc. said this month that its Chief Executive Officer Douglas H. Miller offered to buy all shares he doesn't already own in a purchase that values the company at about $4.36 billion.

EQT and Range are "top ideas" in the Marcellus, RBC Capital Analyst Scott Hanold wrote in a note to clients yesterday after Chevron announced its deal. Based on the Chevron deal, Range is worth $45 a share.

Range fell 73 cents, or 1.7 percent, to $41.86 at 10:19 in composite trading on the New York Stock Exchange after rising 4.6 percent yesterday. EQT fell 8 cents to $40.43, after a 5.1 percent rise yesterday. Ultra fell 7.54 cents to $47, after increasing 4.1 percent yesterday.

Range held gas leases on 1.3 million acres in the Marcellus region as of June 30, second to

Chesapeake Energy Corp. the second-largest U.S. gas producer behind Exxon Mobil, Hanold wrote in an Aug. 26 note. Relative to its market value, Range had the most Marcellus acres, with Atlas second. EQT holds 500,000 acres in the Marcellus.

Range, EQT and Ultra also have some of the lowest lifting costs, a measure of the expense to produce the equivalent of a barrel of oil, in the U.S., according to data compiled by Bloomberg.

"Companies like Range that have kept their per-unit production costs under control can be outsized winners," Curtis Trimble, a managing director at MKM Holdings LLC in Houston, said in an interview.

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