24 March 2017

Parkmead Group (BUY) – Interim results underline strong operational progress
PMG LN (44p, TP 163p), Market Cap: £44m

***Our view*: Parkmead has released its interim results for the period ended 31 December 2016. The financials are broadly in line with our forecasts, with the company being cash flow positive on an operating basis since January 2016. Notably, PMG has increased gas production from its low-cost Netherlands portfolio through an onshore work programme, which has resulted in its moving into gross profit. Operationally, it has been a period of strong progress in terms of the company building out its European footprint. The company successfully increased its stakes in core areas of its portfolio, particularly around the Greater Perth Area oil hub in the UK North Sea. PMG's reserves and resources also significantly increased in 2016 through two licence acquisitions, and we expect PMG to take advantage of the current low oil price environment to execute further acquisitions in 2017. We reiterate our BUY recommendation and 163p TP.**

- **Financials in line with our forecasts –** During period to 31 December 2016, PMG saw a decline in revenues to £2.7m (2015: £7.0m) primarily due to the decline in the oil price, but moved into gross profit for the period, recording a gross profit of £0.7m (2015: £4.1m loss). Cash at year end remains robust at £26.7m (2015: £29.6m). The company's gas portfolio in the Netherlands generates positive cash flows, despite low current commodity prices, and its four separate gas fields have an average operating cost of c.US$14/boe. Oil production at the Athena field was shut-in in January 2016 as part of this cost reduction programme, substantially reducing PMG's cost of sales from this point forward. We are encouraged that PMG has re-allocated capital to its low-cost producing gas fields in the Netherlands in the current climate.
- **Another period of strong operational progress –** Parkmead's reserves and resources significantly increased in 2016 through two licence acquisitions. The company has increased its position around the PDL oil hub in the UK North Sea; and its new licence awards in the 28th Round served to boost the company's acreage position, with 10 new offshore blocks awarded. In particular, we are encouraged by the new award in the West of Shetland region targeting two prospects, Sanda North and Sanda South. We remain of the view that Parkmead is well positioned to take advantage of the ongoing lower oil price environment, and the opportunities that are arising from this. With an experienced management team, strong cash position, and a growing, low-cost gas portfolio, we believe the company will remain acquisitive into 2017.
- **Valuation undemanding –** Our core valuation of 155p takes account of Parkmead's discovered resource base and financial assets/liabilities, whilst we only ascribe 8p for exploration upside. We continue to advocate low operating cost, and well capitalised producers in the current climate, and therefore highlight Parkmead as an attractive opportunity for investors. BUY TP 163p.
- **Risks –** Commodity price fluctuations, currency fluctuations, geological risk.