

Breakfast Bite: Parkmead Group – 14 November 2013

*Parkmead Group (PMG.L)**

Price: 13.75p / PT: 21p

Buy

- **Our view:** Faroe Petroleum announced that “It has acquired the remaining 50% interest in the Lowlander oil discovery in the UK Central North Sea, such that the Company will own the entire 100% interest in the undeveloped oil field” and that “Faroe has acquired Lowlander with the intention of bringing it forward to development together with the neighbouring Perth Field (34.62% held by Faroe), as a joint project sharing the same production facilities and thereby benefiting from economies of scale”. Faroe acquired the remaining 50% from North Sea Ventures Limited and did not disclose the consideration paid. We believe that this is a very robust statement in support of Parkmead’s position as operator and 52.03% holder of the Perth field.
- We believe that a joint development of the two fields would reduce Parkmead’s share of development and operating costs and thereby increase the economic attractiveness of Parkmead’s interest in Perth.
- **As a reminder:** Perth is an economically attractive asset on a stand alone basis. Our 21.0p target price assumes that Perth is developed on a stand-alone basis. We estimate that the present value of lease payments for the FPSO for Perth amount to \$338mn (gross), which increases expected operating costs to circa \$36/bbl. Sharing costs with Lowlander can only increase the value of Perth for Parkmead relative to our target price.
- We shall incorporate the benefit of cost sharing due to a joint development only when a definitive joint-development arrangement is reached. However, we note that today’s announcement is a very strong endorsement by Faroe of the joint development project.
- We also note that today’s announcement brings clear support to the Hub Strategy that Tom Cross is implementing at Parkmead. The Perth development is the only gateway to produce a significant amount of stranded sour crude oil in the “Sour Crescent”. Although this strategy is an excellent reason to invest in Parkmead, no value has been ascribed to the strategic location of Perth in our target price.
- **As a reminder,** Parkmead is currently drilling the Pharos gas well in the Southern North Sea, and results from that well can be expected anytime over the days/weeks ahead. If successful, Pharos would have a value of 2.3p/share based on pre-drill estimates. Pharos is operated by Dana Petroleum and 20% held by Parkmead.
- Parkmead’s share price continues to trade at a material discount to our estimate of the company’s fair value, which is 21.0p/share. We believe this provides an excellent buy opportunity given the premium nature of the company’s assets and management team.

Brendan Long, CFA

*Corporate client of Charles Stanley Securities

This document is issued by Charles Stanley Securities, a division of Charles Stanley & Co Ltd. Authorised and regulated by the Financial Conduct Authority, Member of the London Stock Exchange, the International Capital Market Association and the London International Financial Futures & Options Exchange.

Registered Office: 25 Luke Street, London EC2A 4AR
Tel: 020 7739 8200 Fax: 020 739 7798
Registration No. 1903304