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**Parkmead Group (PMG.L)\***

**Price: 117p / PT: 347p (n/c)**

**Buy (n/c)**

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Our view: The 10% reduction in North Sea oil & gas tax (Supplemental Charge) reduces the tax burden from 60% to 50% for oil & gas companies. This increases oil & gas companies' share of profits from 40% to 50%, which is a 25% increase – this is material.

- We estimate that the NPV10 value of Parkmead increases by 19% as a result of the tax cut.
- Parkmead's strong balance sheet (robust cash position amounting to 43p/share of value at 30 June 2014) hides part of the magnitude of the benefit at the asset level.
- We estimate that Perth's NPV10 value has been increased by 23.9% by this tax change.
- We believe that further reductions in UK oil & gas taxes are likely in future years.
- Investors with exposure to high-quality assets such as Parkmead's Perth field (to be developed via a joint-development with the Lowlander and Dolphin field) will benefit from the tax break, as opposed to assets that were (or are being developed) in a high-cost environment. For many oil companies, unfortunately, the tax break will have no effect. We estimate that the NPV10 breakeven oil price for Perth (Phase 1 and Phase 2) is around \$47/barrel. We have sharpened our pencils on costs and will be doing further work with the company on costs over the coming weeks. Rig rates have fallen by at least 40% and continue to fall. Furthermore, we are seeing a constructive backdrop for new North Sea oil projects.
- The change will encourage investment in the UK North Sea, which will favour farm-outs. Companies with cash and project flexibility stand to gain from the current setting. Companies with debt and mature legacy asset portfolios (or that are being dragged into high cost projects) will be less able to capture the positive developments that are taking form in the UK North Sea.
- We maintain our high-conviction Buy recommendation in respect of Parkmead. We will review our commodity price assumptions, cost estimates and forthcoming interim results (expected near the end of March) and provide an updated target price near the end of March.

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**Brendan Long, CFA**

\*Corporate client of Charles Stanley Securities

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