

27 March 2015

BUY

Current Share Price	113p
Target Price	189p
Market Capitalisation	£99m
Shares In Issue	88m
RIC/BLBG	PMG.L/PMG LN
Avg. Daily Volume (3M)	143,893

Current share price(s) timed at 4:30pm on 26/03/15

Share Price



Performance (%)	1M	3M	12M
Absolute	-4	-21	-53
Relative	-4	-25	-55

Source: Datastream (relative to UK-DS Market index)

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Parkmead

Half Year Results

Looking for opportunities

Parkmead's half year results reflect ongoing activity at the company's core producing asset, Athena. Production for the period was 1.85kboed with 1.6kboed coming from Athena. Per barrel costs at Athena remain in the mid-60's but are expected to come down after contract revisions with BW Offshore and service providers. Cash burn during Athena well operations was higher than forecast but production appears to have stabilised with three fully operational wells from two. Parkmead retains a healthy balance sheet with £39.4m of cash and total assets of £109.6m. The company has taken a non-cash impairment of £12.9m relating to Athena, which remains a marginal field in our view at current oil prices and vessel rates. Excluding impairment the group reported a post-tax loss of £2m. Financial performance remains highly levered to Athena production rates, operational costs and oil price in the short term. We stress that the bulk of our valuation is driven by the PDL development rather than current production.

Our NAV drops to 253p/share and target price from 210p/share to 190p/share as we adjust for UKCS tax changes, Athena costs and production, reported cash and Diever West.

Drivers for Parkmead include:

- **Operational drivers:** 1) Cost reduction exercises at Athena in order to increase operating margins 2) delivery of first gas from Diever West in Q415 which has potentially to triple Netherlands gas production by year-end 3) new producer at Geesburg.
- **Development drivers:** Continued progress towards the unitisation and sanction of the PDL project. The PDL oil hub development will be over 80mmbbls, double the initial recoverable reserves of Perth stand-alone. We expect Parkmead to continue to work with partners Faroe Petroleum and Atlantic Petroleum in order to de-risk the project technically and economically. Service sector cost deflation and the new UKCS investment allowance should improve project economics, however, uncertainty on development capex cost and equity ownership remains. We expect further details on the Platypus development on FDP submission in Q415.
- **M&A:** Parkmead is one of a few small-cap E&Ps that is well funded for future capital commitments and is looking to take advantage of distressed asset values in the current oil price environment. We see M&A as a key value driver in 2015, with opportunities arising for Parkmead to use its balance sheet to acquire producing assets at well below NAV.
- **Valuation:** The bulk of valuation remains driven by the Perth development and wider PDL project. Significant uncertainty on project value remains prior to project sanction. We expect uncertainty to reduce as the PDL partner group firms up equity ownership, phasing, capex and project funding. Please see detailed NAV valuation attached.

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Figure 1: Detailed NAV

Parkmead		Ticker	PMG.L		Market Capitalisation		£101m	Financial Year End		June			
Buy	190p	Current Share Price	113p		Enterprise Value (EV)		£139m	Reporting Currency		£			
		Implied Return	68%		Net Cash (Debt)		-£38m	Share in Issue		89m			
Asset	Location	WI %	Fluid	CoS %	Resource (mmboe)		Unrisked \$/boe	Risky NPV \$mn	Risky NPV p/sh	% Total p/sh	Unrisked p/sh	Upside p/sh	
					Gross	Net							
Perth Phase 1 Pre-tax	UKCS	52%	Oil	100%	41	21.4	6.6	141	102		102		
Athena Pre-tax	UKCS	30%	Oil	100%	9.6	2.9	3.5	10	7		7		
Netherlands Production	Netherlands	15%	Gas	100%	13	2.0	4.3	9	6		6		
Liabilities (decomm - tax deductible) , G&A								(42)	(31)		(31)		
NPV of UK Tax payments post allowances								(22)	(16)		(16)		
Net debt (inc Jan 14 placing)								59	43		43		
Faroe Petroleum stake								4.7	3.0		3.0		
Aupec								5	3.6		3.6		
Core NAV					64	26		164	118		47%	118	
Perth Phase 2	UKCS	52%	Oil	60%	28	14	8.3	72	52		87	35	
Additional Sour Crescent upside	UKCS	30%	Oil	60%	30	9	8.3	45	32		54	22	
Platypus	UKCS	15%	Gas	50%	17	3	4.3	6	4		8	4	
Pharos	UKCS	20%	Gas	50%	39	8	4.3	17	12		25	12	
Ottoland	Netherlands	15%	Gas	75%	11	2	4.3	5	4		5	1	
Papekop	Netherlands	15%	Oil/Gas	75%	11	2	8.5	10	7		10	2	
Development NAV (Contingent Resource)					136	37		155	112		44%	188	73
Possum	UKCS	15%	Gas	30%	4	1	4	1	1		2	1	
Skerryvore	UKCS	31%	Oil	25%	80	24	2	15	11		42	32	
Davaar	UKCS	30%	Oil	15%	159	48	2	17	12		82	70	
Exploration & Appraisal NAV (prospective resource)					243	73		32	23		9%	126	103
Total NAV					443	136		351	253			432	175

Source: Numis Securities Research

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Buy	> +20%
Add	> +10% to +19.99%
Hold	0% to +/-9.99%
Reduce	-10% to -19.99%
Sell	> -20%

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Hold	29.2%	5.6%	25.6%	5.4%
Reduce	4.3%	0.0%	4.1%	0.0%
Sell	1.1%	0.0%	1.5%	0.0%
Total	100%	100%	100%	100%

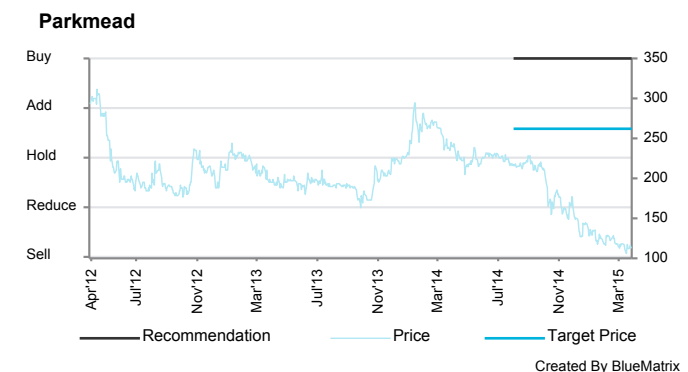
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Three Year - Recommendation, Target Price, Share History



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