

17 November 2017

Equity Research

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## OIL & GAS PRODUCERS FLASH PARKMEAD

### FY16/17 results – Return to gross profit

Parkmead reported a gross profit for the year to June for the first time in three years. That reflected the benefit of a strong performance from its Dutch operations and the elimination of the drag caused by Athena. Cash and net cash held up well at £26.4m as of 30 June. The company reported a loss per share of 5.0p a substantial improvement on the previous year. Reserves and resources were up marginally YoY at 89.7mmboe as of 30 September. Parkmead further increased its ownership position in four key positions including the Greater Perth Area where the company progressed commercialisation. Parkmead continues to evaluate acquisition opportunities including analysing alternative energy based acquisitions. We have reduced our estimate for negative EPS prospectively but also reduced our Target Price to 70p per share (from 80p). That is still double the current share price which is 80% backed by cash on the balance sheet and Parkmead's stake in Faroe.

► **FY16/17 results.** Parkmead reported a gross profit of £1.2m (FY15/16 loss of £4.6m) on revenue of £4.1m (FY15/16 £10.4m) reflecting the absence of Athena and a strong performance from the Dutch gas business, notably Diever West where production has recently increased. Net profit was impacted by a relatively high exploration charge, related to licence relinquishments, and a high G&A charge which was impacted by a non-cash revaluation of share appreciation rights, resulting in a net loss for the year of £4.9m or 5.0p per share (FY15/16 loss per share of 6.8p). Cash flow also improved very significantly with net cash outflow from operations of just £0.4m (FY15/16 net outflow of £10.5m). Cash and net cash ended the financial year at £26.4m (£28.3m at 30 June 2016).

► **Concentrating UK assets.** Parkmead concentrated key ownership positions in the UK through four transactions during the year and now holds 100% interests in the Polecat and Marten fields, the Sanda structures off the West of Shetlands, and licence P.2209 which contains the Farne extension prospect and other leads. In addition, Parkmead increased its interest in the Perth and Dolphin fields to 60.05%. Following an invitation to tender in April of this year, Parkmead is now in discussion with service providers covering pre-FEED, FEED and subsequent development phases of the proposed Greater Perth Area development and has received financial proposals for all parts of the development.



(Remains Unchanged)

Target Price: 70p

Share Price: 35p

(Price at close 15 November 2017)

Stock Codes PMG.L / PMG LN

Market Cap £34m

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### Absolute & Relative Performance



— Absolute

— Relative to DS Oil & Gas

Source Datastream

This is a marketing communication

| Year End<br>June | Sales<br>(£m) | PBTA<br>(£m) | EPS<br>(p)        | DPS ord<br>(p) | P/E<br>(x) | EV/EBITDA<br>(x) | Yield<br>(%) |
|------------------|---------------|--------------|-------------------|----------------|------------|------------------|--------------|
| 2017A            | 4.1           | (4.3)        | (5.0)             | 0.0            | n/a        | (10.4)           | 0.0          |
| 2018E            | 4.3           | (1.8)        | (2.5) from: (2.1) | 0.0            | n/a        | (12.1)           | 0.0          |
| 2019E            | 4.9           | (1.1)        | (1.7) from: (2.6) | 0.0            | n/a        | (38.7)           | 0.0          |
| 2020E            | 4.2           | (1.7)        | (2.4)             | 0.0            | n/a        | (16.8)           | 0.0          |

Source Company Data, Panmure Gordon

- ▶ **Dutch development prospects.** Parkmead now believes the Diever West field (PMG 7.5%) has approximately 108bcf of gas in place more than double previous estimates. Production is currently running at 39.3mmcf. Parkmead is planning a new well at the Geesbrug gas field and is undertaking early development planning at the Ottoland discovery while production from the Brakel field is set to recommence within the next few months. The Dutch portfolio benefits from operating costs of US\$10/boe.
- ▶ **Seeking acquisitions.** Given its strong balance sheet and Tom Cross's track record, Parkmead continues to work intensively to evaluate and execute further value-adding opportunities in both oil and gas and across wider energy sector opportunities.
- ▶ **Revised estimates, Target Price to 70p.** This set of results represents a substantial improvement YoY. Parkmead's net cash position has held up well and remains strong. The performance of the Dutch assets has been very positive, but Parkmead's relatively low ownership positions limit the impact on portfolio value overall. While the company has been concentrating its ownership position in key UK assets and is progressing commercialisation, that process needs to be firmed up, we believe, before the market is likely to attribute higher prospects of development that would close the gap to unrisks value. We are shading our assessment of the chance of commerciality which results in a reduction in our riskd NAV based rounded Target Price to 70p per share (from 80p). We note that our unrisks value is almost 300p per share (Figure 1). We adjust our EPS estimates to reflect lower G&A among other elements, which fall for 2017/18 and improve for 2018/19 reflecting a further improvement in earnings performance over this year and over our previous estimates across that period. The market is well aware of Tom Cross's strong track record and delivery of the right deal or deals could transform the outlook for Parkmead. We note that the company is broadening its range of interests to include wider energy sector opportunities. We remain Buyers of the shares which have 100% upside to our revised target price and are 80% backed by cash on the balance sheet and Parkmead's stake in Faroe.

**Figure 1: Parkmead short form NAV**

|                              | Total<br>(mmboe) | Riskd NAV<br>(p/share) | Unrisks NAV<br>(p/share) |
|------------------------------|------------------|------------------------|--------------------------|
| <b>Producing fields</b>      | <b>1</b>         | <b>-1.2</b>            | <b>-1.2</b>              |
| Net (debt)/cash (2017/18E)   |                  | 24.3                   | 24.3                     |
| Tax losses (discounted)      |                  | 11.9                   | 11.9                     |
| G&A (2 years)                |                  | -5.6                   | -5.6                     |
| Aupec                        |                  | 4.0                    | 4.0                      |
| FPM stake                    |                  | 3.7                    | 3.7                      |
| <b>Corporate</b>             |                  | <b>38.4</b>            | <b>38.4</b>              |
| <b>Core NAV</b>              | <b>1</b>         | <b>37.2</b>            | <b>37.2</b>              |
| <b>Undeveloped resources</b> | <b>77</b>        | <b>35.0</b>            | <b>249.0</b>             |
| <b>Tangible NAV</b>          | <b>78</b>        | <b>72.3</b>            | <b>286.2</b>             |
| <b>Exploration prospects</b> | <b>1</b>         | <b>0.1</b>             | <b>1.4</b>               |
| <b>All sources NAV</b>       | <b>79</b>        | <b>72.4</b>            | <b>287.6</b>             |

Source Company, Panmure Gordon

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Overall Global Distribution (Banking Client\*)

| Buy       | Hold     | Sell    | Buy | Hold |
|-----------|----------|---------|-----|------|
| 67% (47%) | 25% (6%) | 8% (0%) | Buy | Sell |

Total return of >10% in next 12 months

Total return >-10% and <+10% in next 12 months

Total return <-10% in next 12 months

\* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients

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