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Parkmead Group looks very cheap - buy

By Gary Newman | Friday 27 October 2017

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Often the valuation of resource companies on the AIM market seems to revolve more around how popular they are amongst private investors, than having much to do with the progress that they have made, and how well they are likely to do in the future.

That would certainly seem to be the case with Parkmead Group (PMG) which has seen its market valuation drop to just £34 million at a share price of 36p.

This sort of valuation when compared to some of its peers would be more suggestive of a company that was purely at the exploration stage or producing tiny amounts of oil, rather than the reality of where Parkmead is currently. Especially once you take into account the financial position of the company.

Gauging exactly where it is financially involves some degree of guesswork as the last set of interims are only up until the end of 2016, and the full year results up to the end of June 2017 should be out shortly.

But I think it is fair to say that not only does it have the cash to sustain its current activities – short of going into full production at some of its development assets – but it is also in a position where it could potentially add to its existing portfolio if opportunities arise.

Currently its income comes from four gas fields in the Netherlands where it has a 15% stake and which averaged around 5,000boepd during the latter half of 2016. That generated a gross profit of £700,000, and although natural gas prices have weakened in recent months they are still above the average for that period, so I would expect profit to have improved slightly.

That will help to reduce the net loss that the company makes, which stood at some £4.5 million for the six month period. Although that sounds far worse than it is as £2.4 million of that was impairment charged to exploration and evaluation expenses, and of £2.4 million admin expenses, £1.55 million of that related to the re-evaluation of share appreciation rights. So in terms of normal running costs, the company was actually very close to breakeven, as well as having net assets of over £70 million.

Aside from its producing assets in the Netherlands, there is also plenty of potential at its offshore licences in the UK, with the Moray Firth probably of most interest. So far 13 wells have been drilled across the Perth, Dolphin and Lowlander licences, where Parkmead holds a 60% interest, and production rates of up to 6,000bopd of high quality oil have been achieved, with over 80 million barrels of recoverable oil expected if this hub can be developed.

In addition, within the Moray Firth, the company also now has a 100% stake in both the Polecat and Marten fields – with nearly 4,400bopd having previously been flowed at Polecat, and total 2C resources of over 33 million barrels from these two licences.

It also has a number of other licences within the North Sea and West of Shetland areas, at varying stages, although many are still exploration plays.

There is of course still plenty of risk here as bringing new projects online is not going to be cheap, but given that Brent is now trading at close to $60, then that will certainly help when it comes to financing development.

Just because a CEO has had success with another company in the past it isn’t always an indicator that their next enterprise will do so well, but in the case of executive chairman Tom Cross – who was CEO of Dana Petroleum – I think there is a good chance of another success here. I also like the fact that he has plenty of skin in the game, owning over 19% of the company.

Recently the share price has been languishing at close to the yearly lows and with not a lot of volume, and given that Fidelity Investments had been selling – reducing its stake from 8.94% to 4.55% - that certainly didn’t help. It may well be the case that it has continued to sell and has been dragging on the shares, but if that is the case then I think it has provided a cheap buying opportunity.