WHIreland

22 September 2016

COMPANY COMMENT

Buy

Parkmead

Update Note

Price	54.9p
Target	196p

Reuters/BBG	PMG.L / PMG LN
Index	FTSE AIM
Sector	Oil & Gas
Market Cap	£54m

This note provides a comprehensive update on Parkmead's recent developments.

Diever West: On August 10th, Parkmead announced that Diever West produced gas at an average rate of 34 mmcf/d over the month of July, which equates to 5,850 boe/d. As a reminder, the flow rate of the well during initial testing in November 2015 was 29 mmcf/d, which vastly exceeded pre-drill expectations. We had anticipated a current flow rate of 26 mmcf/d. We estimate that the continued improved production rates add US$1.1M to Parkmead's DCF valuation. The Diever West discovery and production well was drilled in September 2014 and we estimated its gross cost at circa US$11M or US$1.20/boe, making it one of the most capital efficient wells drilled in Europe in recent years. Parkmead holds an effective 7.5% revenue interest in the discovery, which is operated by Vermilion Energy. We currently estimate the field will produce 55 bcf, circa 3.2 times greater than pre-drill estimates. The field was producing commercial gas approximately 13 months after being discovered, with abundant infrastructure allowing for fast-track commercialisation. The producing reservoir is a classic four-way dip closed Rotliegendes sandstone structure and we anticipate the well to provide high-visibility production for decades.

Increased Perth Stake: Parkmead announced on September 14th that it increased its interest in the Perth and Dolphin fields to 60.05% (from 52.03%), which equates to a 15% increase in our estimate of Parkmead's share of resources to 41.7 mmb of oil from 36.3 mmb. The acquisition was achieved for nil consideration reflecting that the holder of the acquired interest, Atlantic Petroleum, was in financial distress and in default in respect of payments due in relation to the relevant licence. Pursuant to the acquisition, we increased our target price for Parkmead to 196p/share on September 15th (inclusive of a significant change to our forex assumption to USD/GBP 1.40 from 1.50) from 176p/share (allowing for a one day period when our target price was under review).

Analyst Brendan Long, CFA

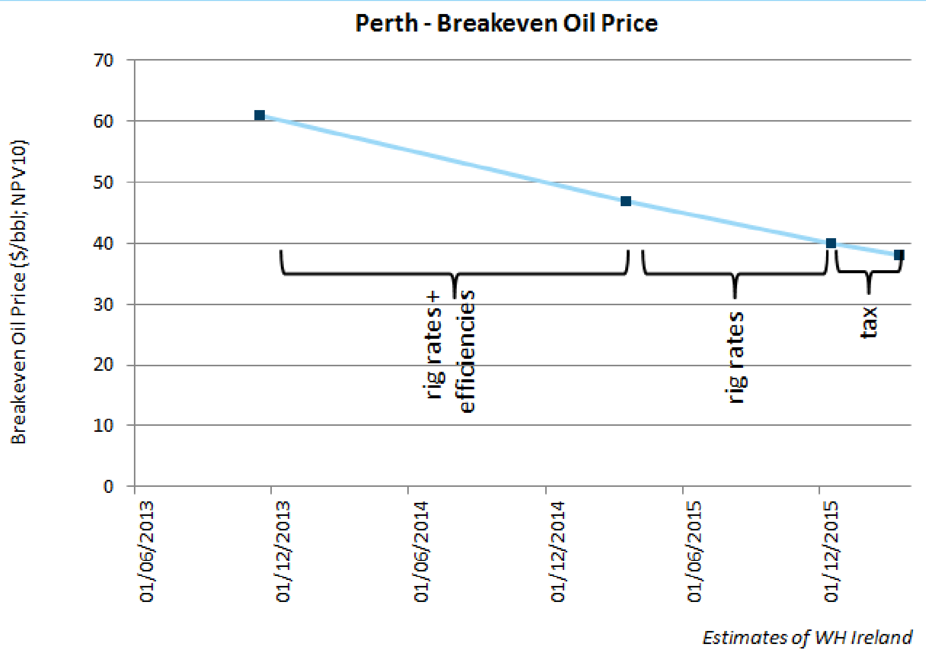
Perth Background: In addition to the discovery well, four appraisal wells have been drilled on Perth. Inclusive of its terraces, we estimate the field will produce 69.4 mmb of oil (gross). The 2P reserves estimate from Senergy, 41.3mmb, understates the economic value of the field by including only volumes within faults that have been penetrated by wells. In our target price we have included only 30% of the upside from drilling into new fault blocks. However, from the eyes of a potential acquirer or developer there is obvious and low-risk resource potential beyond the 2P estimate. Of the discovered oil fields within a 30km radius of Perth, we believe that Perth has the combination of i) low geological risk due to the regional setting and the five well penetrations ii) meaningful absolute scale and iii) the ability to provide attractive returns on invested capital even in a challenging crude oil price environment. Therefore, as the recovery in the oil & gas sector takes form, we believe that Perth will be uniquely well positioned as the keystone to unlock the latent value of discovered but undeveloped oilfields within the Greater PDL Area hub.

Faroe Petroleum Refocusing on Norway: Faroe Petroleum ("Faroe") has committed capital to a number of material projects in Norway and we believe it is effectively recasting itself as a Norwegian focused E&P company. Faroe has written off its remaining investment in PDL as non-core in its recently announced H1 results, which we believe reflects its Norwegian focused strategy. In our opinion it is untenable to have an uncommitted partner in a high-quality and undeveloped oil project that is of material scale from the perspective of the OGA. Parkmead is committed to progressing the field and the OGA would not hesitate, in our opinion, to force Faroe to exit the Perth, Dolphin, Lowlander hub-area given that they are manifestly pursuing a strategy outside of the UK in terms of future growth and capital allocation decisions. In contrast, the UK North Sea remains an area of core strategic focus for Parkmead.

Polecat and Marten Acquisition: On August 10th, Parkmead announced that it had doubled its stakes in the Polecat and Marten oil discoveries to 100%. We estimate that Polecat and Marten could produce 24.7 and 7.5 mmb, respectively. The anticipated combined production rate for the two fields is 18,300 bopd at peak. Our cost estimates assume that, combined, the fields are produced with 4 producer wells and 3 water injection wells (each costing US$28.8M). In our modelling we have assumed that the fields are produced on an expedited basis via the infrastructure for the the Buzzard field (12km away) although they could also be tied into the PDL facilities (55km away). We estimate that other capex consists of subsea infrastructure costs of US$192M, insurance & project management costs of US$49.46M and US$37.5M of topsides modification costs at Buzzard. Buzzard is currently the most productive oil field in the UK North Sea with a 2015 average production rate of 170 kboe/d. In due course as milestones towards commercialisation of the Polecat and Marten fields are achieved, we anticipate including the value for those fields in our target price ($278M; 186p/share; $8.62/b).

Perth Development Costs and Breakeven Analysis: We estimate that the capex required to bring Perth to first oil (Perth Phase 1) will amount to circa $US 315M gross assuming that an FPSO is leased. We estimate that to develop the north west and north east terraces (Perth Phase 2) an additional $US 376.7M of capex will be required. All in, we anticipate that 12 wells will be drilled (including 4 water injection wells) to produce 69.4 mmb. Drilling costs have come down considerably. Also, given that taxes are traditionally the most important cost for most oil & gas companies, the alleviation of the excessive UK oil & gas taxes in recent budgets is also highly material to the value of the Perth field. Taxes are not relevant for many legacy fields that had high capex costs and, therefore, accumulated tax losses but taxes *are* highly relevant for Perth. Our estimates of the breakeven prices that would provide a 10% return on invested capital for Perth are provided below. We believe that there is scope for a significant reduction to our most recent Brent crude oil breakeven price of $US 38/b based on the potential to manage production offtake costs significantly downward relative to our estimates.

Perth NPV10 Breakevens Over Time



Source: WH Ireland

Future Growth in the Netherlands: We estimate that the value of Parkmead's Dutch assets, net to the company, amounts to US$9.9M and that they will contribute circa US$5.0M p.a. of revenue to the company. Looking forward, Parkmead has an extensive portfolio of high quality growth opportunities in the Netherlands. On 10th August, the company drew attention to its intention of drilling a sidetrack well at the Wijk en Aalburg gas field. By drilling the attic of the reservoir it is anticipated that a further 7.3 bcf (1.2 mmboe) of incremental gas can be recovered from the existing well, while deferring the abandonment liability by decades. Parkmead holds a 15% working interest in the field which becomes an effective 7.5% revenue interest after payout and a return on capital are achieved. If successfully drilled we anticipate the attic gas at Wijk en Aalburg would add $US 1.2M of value to the company's Dutch assets.

Balance Sheet: As at 31 December 2015, the company had no debt and a cash balance of £29.6M. Circa £8.0M of cash is in escrow to cover abandonment liabilities, which we anticipate to be substantially lower than the amounts in escrow. Furthermore, Parkmead has indicated that through its development activity in the areas surrounding abandoned wells, those wells may be reopened which could pave the way for abandonment liabilities to be reversed and for the cash in escrow to be returned to the JV partners. The company has no capital intensive work commitments. Sector weakness creates acquisition opportunities that Parkmead has exploited and further opportunities may arise in the future.

	Working Interest	Oil/ Gas	Key Assumptions: Gross Resource Scale	Net Resource Scale	First Production	Unrisked Present Value Net to Company (NPV10): Total: USD	GBP	Per Share	Risked Value: Risking Factors: Geological	Commercial	Combined	Contribution to Target Price: Total	per Share	Economic Analysis: Value $/boe	Commodity Price Breakeven (NPV10): Oil	Gas
	(%)		*(mn boe)*	*(mn boe)*	*(year)*	*($mn)*	*(£mn)*	*(p/share)*	*(%)*	*(%)*	*(%)*	*($mn)*	*(p/share)*	*($/boe)*	*($/b)*	*($/mcf)*
Oil & Gas Assets																
UK Oil & Gas Assets																
Perth Core (Phase 1)	*60.05%*	Oil	39.0	23.4	2019E	92.6	66.1	62.0	*100.0%*	*50.0%*	*50.0%*	46.3	31.0	3.96	38	n.a.
Perth NW and NE (Phase 2)	*60.05%*	Oil	30.5	18.3	2022E	248.1	177.2	166.0	*60.0%*	*50.0%*	*30.0%*	74.4	49.8	13.56		
Platypus (discovery)	*15.0%*	Gas	17.3	2.6	2019E	14.8	10.6	9.9	*100.0%*	*75.0%*	*75.0%*	11.1	7.4	5.69	n.a.	5.50
Pharos (discovery)	*30.8%*	Gas	27.5	8.5	2020E	58.9	42.1	39.4	*66.0%*	*50.0%*	*33.0%*	19.4	13.0	6.97	n.a.	4.00
Total UK Oil & Gas Assets			114.2	52.8		414.4	296.0	277.3				151.3	101.2	7.86		
Netherlands Oil & Gas Assets																
Core assets	*15%/7.5%*	Gas	9.9	1.5	2012A	4.0	2.9	2.7	*100.0%*	*100.0%*	*100.0%*	4.0	2.7	2.72	n.a.	1.91
Papekop (discovery)	*15%/7.5%*	Oil & Gas	4.8	0.7	2017E	5.9	4.2	3.9	*100.0%*	*50.0%*	*50.0%*	3.0	2.0	8.19	18	4.00
Total Netherlands Oil & Gas Assets			14.7	2.2		9.9	7.1	6.6				7.0	4.7	4.51		
Total Oil & Gas Assets		**n.a.**	**128.9**	**55.0**	**n.a.**	**424.3**	**303.1**	**284.0**	**n.a.**	**n.a.**	**n.a.**	**158.2**	**105.9**	**7.72**		
Balance Sheet and Other Adjustments																
Investment in Faroe Petroleum						3.6	2.6	2.4				3.6	2.4			
General & admin cash costs (PV10, three years, £2.2mn)						(7.7)	(5.5)	(5.1)				(7.7)	(5.1)			
Cash (31 December 2015)						41.4	29.6	27.7				41.4	27.7			
Working capital liability (31 December 2015)						(0.4)	(0.3)	(0.2)				(0.4)	(0.2)			
Cash assumed from option exercise						17.8	12.7	11.9				17.8	11.9			
Cash in escrow for relinquishment						(11.2)	(8.0)	(7.5)				(11.2)	(7.5)			
Total of Balance Sheet and Other Adjustments						**43.7**	**31.2**	**29.2**				**43.7**	**29.2**			
Core NAV						**468.0**	**334.3**	**313.2**				**201.9**	**135.1**			
Lower Visibility Assets																
UK Oil & Gas Assets																
Possum (prospect adjacent to Platypus)	*15.0%*	Gas	6.6	1.0	2019E	6.2	4.4	4.1	*50.0%*	*75.0%*	*37.5%*	2.3	1.6	6.26	n.a.	4.00
Blackadder (prospect adjacent to Pharos)	*30.8%*	Gas	29.1	8.9	2020E	77.8	55.6	52.1	*33.3%*	*50.0%*	*16.7%*	13.0	8.7	8.70	n.a.	3.66
Selene (prospect)	*50.0%*	Gas	38.9	19.4	2020E	142.1	101.5	95.1	*38.0%*	*50.0%*	*19.0%*	27.0	18.1	7.31	n.a.	3.00
Skerryvore (prospect)	*30.5%*	Oil	64.9	19.8	2020E	249.7	178.4	167.1	*38.0%*	*25.0%*	*9.5%*	23.7	15.9	12.61	35	n.a.
Davaar (West of Shetland prospect)	*30.0%*	Oil	175.0	52.5	2022E	410.8	293.4	274.9	*25.0%*	*25.0%*	*6.3%*	25.7	17.2	7.82	41	n.a.
Sanda N/S (Davaar satellites; prospects)	*56.0%*	Oil	125.4	70.2	2024E	577.5	412.5	386.5	*12.5%*	*0.0%*	*0.0%*	-	-	8.23	37	n.a.
Polecat & Marten (via Buzzard; discoveries)	*100.0%*	Oil	32.3	32.3	2022E	278.3	198.8	186.3	*100.0%*	*0.0%*	*0.0%*	-	-	8.62	35	n.a.
Perth West (prospect adjacent to Perth)	*60.05%*	Oil	9.2	5.5	2022E	61.4	43.9	41.1	*40.0%*	*0.0%*	*0.0%*	-	-	11.16	41	n.a.
Total UK Oil & Gas Assets			481.3	209.7		1,803.8	1,288.5	1,207.2				91.7	61.4	8.60		
Netherlands Oil & Gas Assets																
n.a.	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*		
Total Netherlands Oil & Gas Assets	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*		
Total of Lower Visibility Assets			**481.3**	**209.7**		**1,803.8**	**1,288.5**	**1,207.2**				**91.7**	**61.4**	**8.60**		
Net Asset Value and Target Price			**610.2**	**265**		**2,271.8**	**1,622.7**	**1,520.4**				**293.6**	**196.5**			

Key assumptions:

Asset values are based on after-tax discounted cash flow models for each asset using a 10% discount rate (a standard NPV10 approach to oil & gas assets)

Long term (2018) Brent oil price: $70/b (inflated at 2% p.a.); Long term (2018) UK natural gas price: 50p/therm (inflated at 2% p.a.), which equates to circa $7.71/mcf; USD/GBP = 1.40

Disclosures

WH Ireland Recommendation Definitions

Buy
Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

Outperform
Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

Market Perform
Expected to perform in line with the FTSE All Share over the next 12 months.

Underperform
Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

Sell
Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

Speculative Buy
The stock has considerable level of upside but there is a higher than average degree of risk.

Share Price Target
The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

Stock Rating Distribution

As at the month ending 31 August 2016 the distribution of all our published recommendations was as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	57	82.6	40
Speculative Buy	10	14.5	10
Outperform	1	1.4	0
Market Perform	0	0.0	0
Underperform	1	1.4	0
Sell	0	0.0	0
Total	69	100	50

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

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