Westhouse

2 April 2014

Buy

from No Rec

Current price
239p

Target price
400p

Market cap
£257.9m

Parkmead Group

Harder, better, faster, stronger

Over the past two years, Parkmead has gained critical mass and is now poised for the next transformational growth stage. Led by Tom Cross, who founded, grew and sold Dana Petroleum for over US$3bn, Parkmead has the right heritage to successfully operate in the North Sea and Europe. The stock provides investors with visible growth from a production & development base, as well as material upside from exploration, the optionality of a proven acquisition-led strategy and organic growth through licencing rounds. We initiate with a Buy.

Price performance

	Stock	All-Share
1 month:	-9.0%	-0.7%
3 month:	4.4%	-0.7%
12 month:	22.6%	6.0%

Key forecasts

Year to Jun	Production kboe/d	Production growth %	Sales £m	PAT £m	EPS† p	CFPS† p	P/CF x	EV/EBITDA x	EV/boe/d $ '000
2013A	0.3	na	4.1	-5.6	-8.0	-6.75	na	na	na
2014E	1.5	480.9	41.7	16.2	18.5	30.59	9.1	6.3	160.8
2015E	2.4	58.8	79.3	35.3	40.3	61.65	3.9	2.8	99.1
2016E	3.1	29.2	90.6	35.4	40.5	67.76	3.5	2.7	83.5

Source: Westhouse estimates, company data. † Basic

Compelling upside

A risked valuation of the company's production & development base (P&D) (includes Athena and its upside, Perth (3P reserves), Platypus/Possum and Pharos gas discoveries and producing assets in the Netherlands) together with the estimated cash position amounts to c.280p/share and our target price of 400p/share also includes risked upside from near-term exploration. The stock is trading roughly at our Core NAV level of 237p/share. With an implied return of c.67%, we initiate with Buy rating.

Upcoming catalysts

This year, the focus is on increasing production from the Athena field, submitting the Field Development Plan (FDP) for Platypus/Possum, finalising joint development of Perth/ Lowlander in the UKNS and drilling the Diever West prospect in the Netherlands. In 2015, Parkmead has a firm well planned on the large Skerryvore prospect (72p/share risked; 242p/share unrisked). Further contingent wells on Blackadder (5p/share risked; 18p/share unrisked) and Davaar (34p/share risked; 338p/share unrisked) are planned for 2015/16.

Parkmead is focused on growth

We think that Parkmead's story fits well in current market conditions and we highlight the following reasons to own the stock:

- **Visible growth from its P&D base.** We estimate that production is set to almost double in 2016 and more than triple in 2017 (from an estimated 2014 level of 1.5kboe/d). It has two major development areas (the Southern Gas Basin and the Perth area) that are emerging as material production hubs. This strategy offers opportunities for cost savings and improved project economics.
- **Material 'free' exploration upside.** Most of the prospects are tie-back or joint development candidates which could result in relatively fast value crystallisation.
- **Acquisition-led strategy.** Parkmead has executed six acquisitions in the past 26 months and achieved some of the best transaction metrics (US$/b of 2P reserves; see Table 1) amongst its North Sea peers. The plan is to continue to grow via acquisitions.
- **Organic growth through licencing rounds.** Parkmead ranked fifth in last year's licence awards. This is one of the most inexpensive growth strategies and with Parkmead's experienced technical team it could yield substantial results.
- **Parkmead has a proven team and the highest management stake in the sector** (over 32%) and benefits from an experienced technical team.

Last results
Interims, 21 Mar 14

Next results
Finals, Nov 14

Next event
Finals, Nov 14

Reuters / BBG
PMG.L / PMG LN

Index
FTSE AIM

Priced at close
01 April 2014

Analysts
Jamal Orazbayeva
020 7601 6129
jamal.orazbayeva@westhousesecurities.com

Mark Henderson
020 7367 9061
mark.henderson@westhousesecurities.com

Overview

Company activities

Parkmead's current portfolio consists of production, development and exploration assets in the UK North Sea and onshore Netherlands. Its current production is generated from its 30% interest in the Athena oilfield in the UK North Sea and its 15% interest in four onshore gas fields in the Netherlands (Geesbrug, Brakel, Grolloo and Wijk en Aalburg). Development assets include a 52.03% interest in the Perth field, 15% interest in the Platypus gas field in the UKNS and 15% interest in the Ottoland and Papekop developments in the Netherlands. Its exploration portfolio is widespread from onshore Netherlands to West of Shetland and contains numerous prospects.

Key issues on which investors must take a view

Investors need to take a view on the oil price (our long-term oil price assumption is US$100/b) and management's ability to deliver operational results.

Likely direction of consensus revisions

We believe that as development plans on Perth/Lowlander are confirmed, consensus estimates can be adjusted upwards.

Valuation and reason behind target price

Our Core NAV of 237p/share consists of 63p/share attributed to producing assets (Athena, Netherlands), 97p/share attributed to development assets (Perth, Platypus/Possum, Pharos, Netherlands), value for Aupec of 17p/share, Parkmead's investment in Faroe Petroleum shares of 4p/share and the estimated cash position at the end of 2015 (fiscal year to June) of 55p/share. Our target price also includes the risked upside from an additional well on Athena (7p/share risked; 13p/share unrisked), possible (59p/share risked; 84p/share unrisked) reserves from Perth; 47/10-8 gas discovery (6p/share risked; 8p/share unrisked); Blackadder exploration prospect (5p/share risked; 18p/share unrisked); the Skerryvore prospect (72p/share risked; 242p/share unrisked) and the Diever West prospect (1p/share risked).

Risks to our view

We list some of the typical risks for a company exploring for and/or producing oil and gas in the international arena (beyond commodity price). There are risks that production will be lower than forecast due to development delays or engineering and reservoir problems. There are exploration risks which vary from prospect to prospect. Ability to secure drilling and completion services in a timely manner and/or at a competitive rate, as well as capital and operating cost inflation which can erode the economics of a project.

Investment summary

We initiate coverage on The Parkmead Group (PMG LN) with a Buy rating and a 400p/share target price. Parkmead is focused on growth, both organic and acquisition-led. The differentiating feature of Parkmead is that it provides investors with visible growth from its production & development (P&D) base, as well as material upside from its exploration targets, the optionality of an acquisition-led strategy and organic growth through licencing rounds. Led by Tom Cross, who previously founded and sold Dana Petroleum for over US$3bn, Parkmead has the right heritage to successfully operate in the North Sea and replicate Dana's growth on an accelerated basis, in our view.

Market context: how Parkmead fits in and reasons to own the stock

We believe that the current market focus is still on cash generation and near-term monetisation options. It is not just enough to have prospects in the portfolio; the company needs to have funding in place, have a clear and near-term monetisation strategy (whether through development and subsequent production or sale) and to offer material upside.

Many E&P companies these days trade at or even less than the value of their production and development base with exploration coming 'for free'. We think that investors are becoming more and more aware of the binary nature of exploration and the challenges of measuring exploration performance as results sometimes remain uncertain long after drilling is completed. That is why production growth has become one of the more reliable indicators of value creation for the market, with an emphasis on cash, free cash flows and how they are deployed coming under scrutiny.

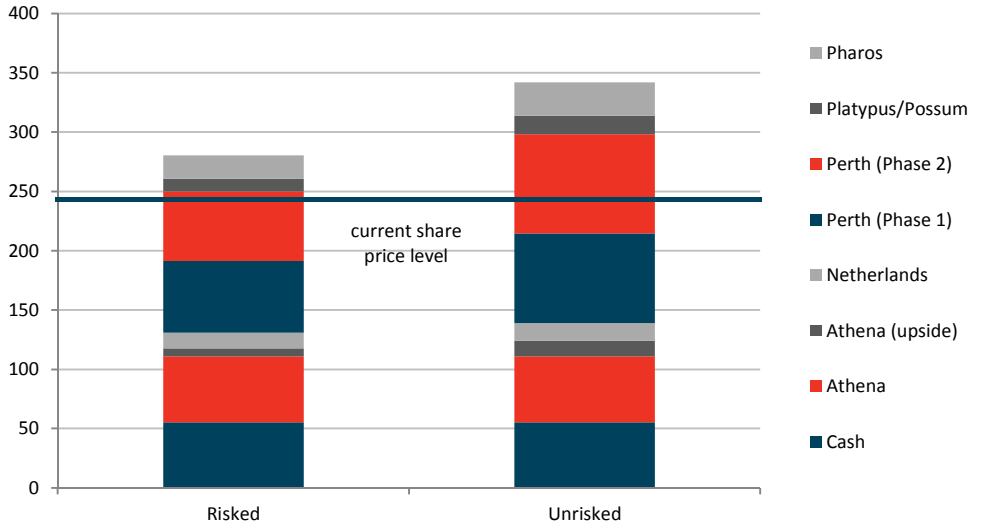
That being said, without exploration there is a risk of limiting longer-term organic growth and investors understand that; however, timing and monetisation are important in exploration as well. There are examples of companies re-calibrating their exploration drilling programmes to focus on near-field opportunities in proven basins (Faroe Petroleum) and/or swapping licences on the basis of future development and monetisation options (Ithaca Energy).

We think that Parkmead's story fits well in current market conditions

We believe under these conditions that management teams' capabilities will be tested, asset deals will be scrutinised and there will be opportunities for consolidation. In this context we think that Parkmead's story fits well:

- **Visible growth from its production & development base.** We estimate that production is set to almost double in 2016 and more than triple in 2017 (from an estimated 2014 level of 1.5kboe/d) with Parkmead bringing on-stream projects such as the Platypus/Possum gas development and the Perth/Lowlander sour crude hub. A risked valuation of the company's P&D base, together with the estimated cash position, amounts to c.280p/share (includes Athena and its upside, Perth (3P reserves), Platypus/Possum and Pharos gas discoveries and producing assets in the Netherlands) together with the estimated cash position amounts to c.280p/share and our target price of 400p/share also includes risked upside from near-term exploration. The stock is trading roughly at our Core NAV level of 237p/share (which is the P&D base plus cash but excluding Athena upside, possible reserves for Perth and including value for Aupec and investment in Faroe Petroleum shares).

Figure 1: Risked and unrisked value (p/share) of the current P&D base (plus cash)

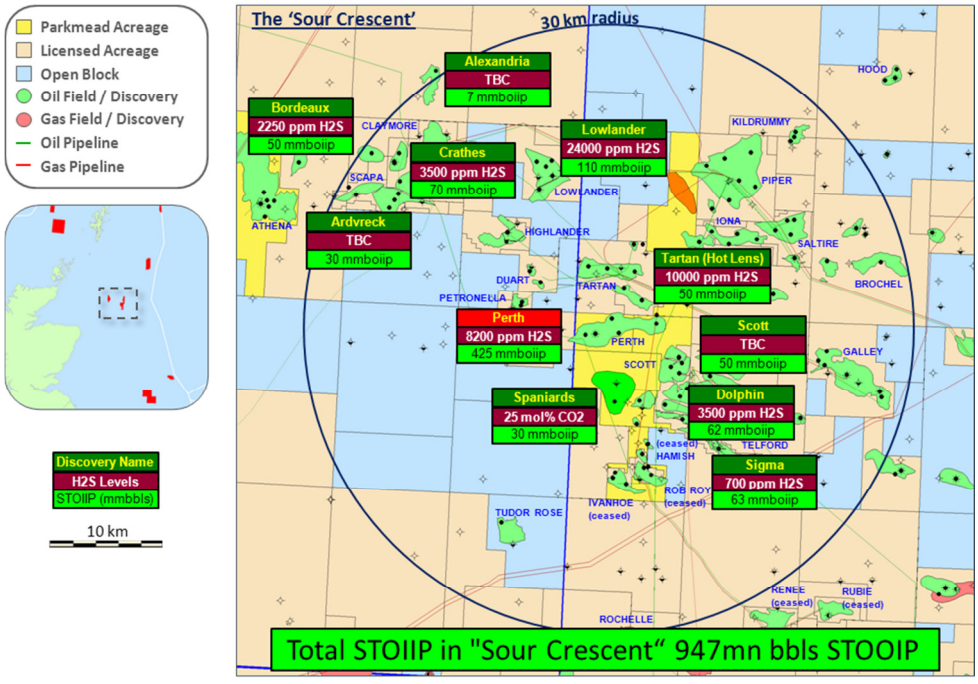


Source: Westhouse estimates

Parkmead's hub strategy offers opportunities for cost savings and improved project economics

In an environment of high capital and operating costs, Parkmead's hub strategy offers opportunities for cost savings and improved project economics. Parkmead currently has two areas that can benefit from a hub approach to development: one in the Southern Gas Basin with Platypus/Possum and potentially Pharos/Blackadder and other surrounding gas discoveries (combined risked value of 42p/share; 70p/share unrisked); and the other in the 'Sour Crescent' with joint development of Perth/Lowlander and subsequent tie-backs of other sour crude discoveries and exploration opportunities (combined risked value of 149p/share; 234p/share unrisked).

Figure 2: The 'Sour Crescent'

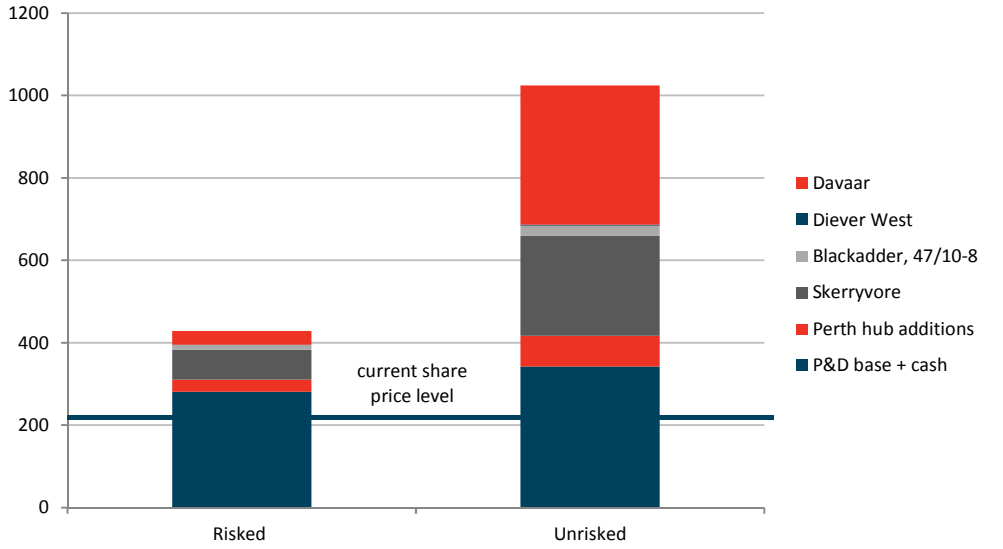


Source: Company data

- **Material upside from the exploration targets.** The company is accelerating exploration drilling on the large Skerryvore exploration prospect (planned for Q2 2015) located in the Central North Sea close to existing infrastructure. This multiple-stacked pay prospect is estimated by us to contain up to 140mmb gross (on block) and we value the c.43mmb net attributable reserves to Parkmead at 73p/share risked and 242p/share unrisked. There is a possibility that the prospect extends into a neighbouring licence (c.90% of the prospect is on Parkmead's licence) operated by Talisman, in which case there may be monetisation options for Parkmead. Exploration wells on Blackadder (5p/share risked; 18p/share unrisked) and Davaar (34p/share risked; 338p/share unrisked) are planned for 2015/16. We note that exploration potential is largely a 'free' optionality for investors (see figure below).

Parkmead's exploration potential is largely a 'free' optionality for investors

Figure 3: Exploration upside (p/share, next 24 months)

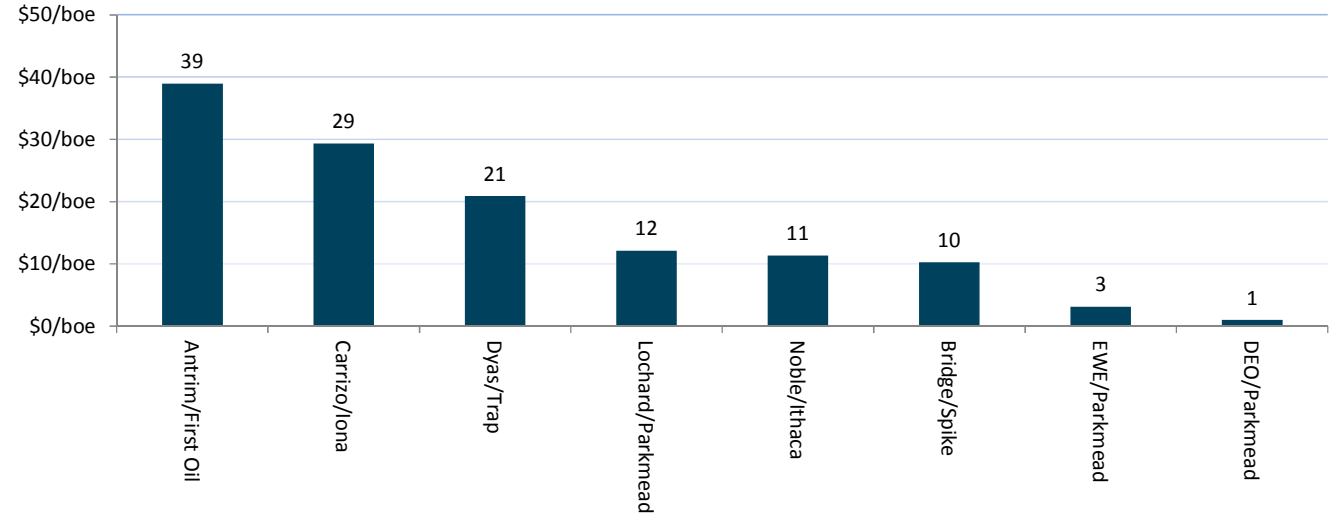


Source: Westhouse estimates

Given its heritage (experienced management and technical team from Dana Petroleum) we think Parkmead is well positioned to benefit from value-accretive opportunities

- **Optionality of acquisition-led strategy.** The current reserve position of c.27mmb and production level of c.2kboe/d was built up via a series of acquisitions (six acquisitions in the past 26 months). Many of these acquisitions were based on the technical team's areas of expertise (for instance, Perth produces from Jurassic Claymore sands similar to the Claymore producing field where Dana Petroleum acquired a 7.25% interest from Centrica in 1998) and have appealing valuation metrics (see figure below). Given its heritage (experienced management and technical team from Dana Petroleum) we think Parkmead is well positioned to benefit from value-accretive opportunities.

Table 1: US$/boe of 2P reserves, North Sea transactions over the past two years



Date	Seller	Buyer	2P, mmboe	Consideration, US$m	Main asset	EV/2P, US$/boe
Feb 14	Antrim	First Oil	2	83	Causeway	39
Dec 13	EWE	Parkmead	4	11	Athena	3
Sep 13	Bridge	Spike	16	164	Corporate	10
May 13	Lochard	Parkmead	2	23	Corporate	12
Dec 12	Carrizo	Iona	6	176	Huntington	29
Oct 12	Noble	Ithaca	3	39	MacCulloch, Cook	11
May 12	DEO Petroleum	Parkmead	22	21	Corporate	1
Mar 12	Dyas	Trap	2	45	Athena	21

Notes:

Transaction metrics related to the Athena field are subject to different 2P reserves estimate interpretation

Dyas/Trap – Trap Oil's estimate of 14.3mmb is used

Lochard/Parkmead and EWE/Parkmead: Sproule's 22.6mmb adjusted for production is used; for Lochard/Parkmead it is assumed that 60% of the total consideration was attributed to Athena

We note that our current 1P estimate for Athena is 8.3mmb plus 5.3mmb accessible with an additional well

Source: Relevant company data, Westhouse estimates

Growth through licencing rounds is one of the most inexpensive ways to grow and with an experienced technical team this strategy could yield substantial results

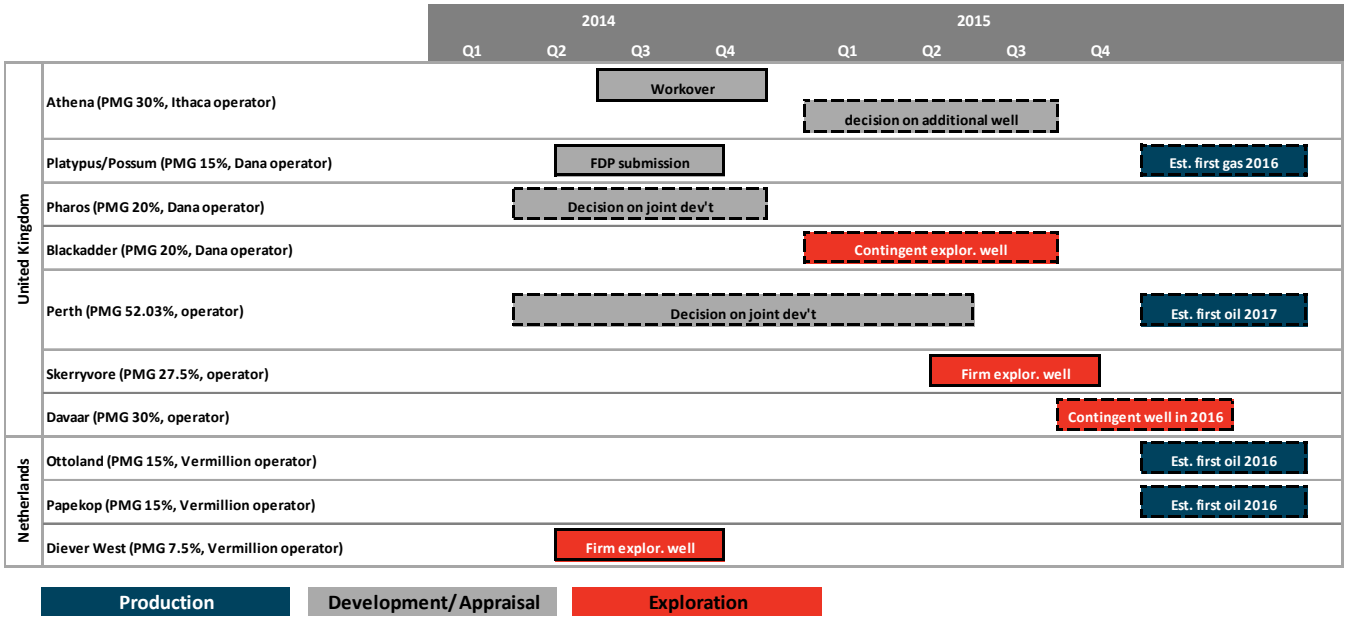
- **Organic growth through licencing rounds.** Last year Parkmead secured six new licences covering a total of 25 offshore blocks in the first tranche of awards under the UKCS 27th Licensing Round. The company ranked fifth in licence awards after such companies as Nexen, E.ON, Dong and GDF Suez. Later, Parkmead was awarded five additional UK blocks, through two new licences, in the second tranche of awards. The 30 blocks cover opportunities across the Central North Sea, Southern North Sea, West of Scotland and West of Shetland areas and provide a pipeline of opportunities. Parkmead has already commenced preparations for the UKCS 28th Licensing Round that opened for applications on 24 January 2014. This is one of the most inexpensive ways to grow and with an experienced technical team this growth strategy could yield substantial results.

Work programme

After raising US$66m in January 2014, Parkmead is well positioned to pursue the outlined work programme, which is a mix of workovers, development, appraisal and exploration. This year, the focus is on increasing production from the Athena field and finalising joint developments of Platypus/Possum and Perth/Lowlander. The company has a firm well planned on Skerryvore in Q2 2015 and contingent wells on Blackadder and Davaar in 2015/16.

Apart from the activities on existing assets, Parkmead remains focused on further M&A activity, as well as growth via new licences in the UKCS 28th Licensing Round and licences awarded through the 'Open Door' licence application system in the Netherlands.

Figure 4: Work programme



Source: Company data, Westhouse estimates

Financials

We believe that following the equity raise and potential cash flow generation from the outlined work programme Parkmead is well positioned to fund its future capex requirements.

Near-term production is driven mainly by Athena and we integrate the possibility of a successful workover on well A2z/P4. We estimate that if the decision to drill a new production well is made and the well is drilled in 2015, then there may be a contribution of another 1,100b/d net to Parkmead in 2016 (calendar year). At the moment we do not include the incremental production from a new well on Athena in our production estimates, but we include the risked value in our EMV. Going forward, we estimate first gas from Platypus/Possum in 2016 (calendar year) at a net annual production rate of 8.5mmcf/d and first oil from Perth (Phase 1) in 2017 (calendar year) at a net annual rate of 6.6kb/d (based on the current interest of 52.03%).

In January 2014, Parkmead raised c.US$66m (£40m) through an oversubscribed placing of 15,686,275 new shares at 255p/share. We integrate the proceeds into our estimates. The company has a loan facility of £2m from Tom Cross, which was renewed in October 2013 for a further two years with an interest rate of 2.5% above LIBOR. Parkmead does not expect the loan to be repaid in cash, but instead be converted into additional shares in the company.

We believe that following the equity raise and potential cash flow generation from the outlined work programme, Parkmead is well positioned to fund its future capex requirements. We note that for a company that is focused both on organic and acquisition-led growth, estimates will change as deals are executed.

Table 2: Key financial estimates

Year to June (£m)	2013A	2014E	2015E	2016E	2017E
Company's production, kboe/d	**0.261**	**1.518**	**2.410**	**3.113**	**6.036**
Production growth (%)	*nm*	*481*	*59*	*29*	*94*
Revenue	4	42	79	91	182
PAT	**-6**	**16**	**35**	**35**	**80**
EBITDA	-3	-3	24	54	59
Operating cash flow	-1	23	54	59	125
Operating cash flow growth, %	*nm*	*nm*	*126*	*10*	*119*
Capex	-8	-11	-51	-73	-35
Net debt/(cash)	**-11**	**-57**	**-60**	**-47**	**-137**
EPS (p/share)	**-8**	**15**	**33**	**33**	**74**
CFPS (p/share)	-7	25	50	55	116

Assumptions:

EBITDA is calculated as (Revenue – Costs of Operation – G&A Expense)

Operating cash flow estimates are before WC changes

Net debt is calculated as (Loans & Borrowings – Cash & Cash Equiv.)

EPS and CFPS are on a fully diluted basis

Source: Company data, Westhouse estimates

Valuation methodology

We use a risked expected monetary value (EMV) approach to value the company's producing assets and assets under development (core NAV), and exploration assets (risked upside) to estimate a potential valuation. We base our core NAV calculation predominately on known 2P reserves and 2C contingent resources, where the 2C resources are actively moving towards commercialisation, adjusted for its net cash or debt position. Exploration potential includes any prospective resources yet to be discovered. We risk these reserves and resources using the chance of success (CoS) based on the development risk for assets under development and geological risk for exploration assets.

In order to estimate the NPV/boe we built an asset-specific economic model

In order to estimate the NPV/boe, we built an asset-specific economic model using known parameters where possible. Where these are not available, developments are modelled based on analogous fields. This takes into account a specific fiscal regime of the host country after government take, all capex and operating costs, and the time value of money.

We also provide a multiple-based valuation where appropriate to support our NAV-based approach.

We use a common price deck across all our models, but adjust prices where necessary to reflect any hedging, quality discounts, etc. Our current Brent oil price assumptions are US$103/b for 2014 and US$100/b for 2015 and beyond. For natural gas prices, we assume US$9.27/mmbtu in 2014 and US$9.50/mmbtu in 2015 and beyond.

Table 3: Westhouse price deck

	2013A	2014E	Long term
WTI (US$)	97.95	97.00	90.00
Brent (US$)	108.70	103.00	100.00
NYMEX Gas (US$/mmbtu)	3.73	4.00	4.00
UK Gas (US$/mmbtu)	10.11	9.27	9.50
UK Gas (p/therm)	66.22	61.16	59.38
FX rate (US$/£)	1.6	1.6	1.6

Source: Bloomberg, Westhouse estimates

Valuation

Our target price of 400p/share consists of Core NAV of 237p/share, the risked upside of 149p/share and 16p/share from estimated option proceeds.

Currently, we assume a c.16% recovery factor for the Athena field and based on Sproule's estimate of original oil in place of 87mmb, the implied overall recoverable potential is c.14mmb. When adjusted for production to date of 5.7mmb, we arrive at the remaining recoverable potential of 8.3mmb in our EMV. This is based on the assumption that a workover will be performed on the P4 well during the second half of 2014 in order to replace the failed electrical submersible pump (ESP) package in the well. Operator, Ithaca Energy (22.5%), is currently in the process of securing a drilling rig. As it stands, Athena is worth US$38.65/b to Parkmead, given the tax losses that Parkmead benefits from and including the impact of the royalty agreement with Gemini post the Lochard Energy acquisition.

Parkmead believes that there is an opportunity to access more reserves by drilling additional well(s) on Athena and we incorporate this potential in our risked upside. We estimate that an additional well has the potential to add a further 5.3mmb (risked at 50% CoS as plans are yet to be confirmed).

We break down the 3P reserves assigned to Perth by Senergy (2012) into Proved, Probable (Phase 1) and Possible (Phase 2) reserves. Currently, we assume that Perth will be developed as a stand-alone project, but when the details of a joint development and unitisation (or some other form of commercial agreement) are confirmed, we will be able to integrate that into our valuation. In our EMV we group the incremental opportunities in the 'Sour Crescent' and show the potential value that can be realised through adding them to the Perth hub.

We value Platypus as a stand-alone project, but recognise the fact that one of the Platypus development wells will be extended slightly to test the Possum gas prospect which is adjacent to Platypus. The nearby Pharos is now a gas discovery and the question will be whether it is one structure with Blackadder and the 47/10-8 discovery.

One of the major exploration catalysts for Parkmead in the near term is the Skerryvore prospect. Skerryvore is estimated to contain up to 140mmb gross (on block) and we value c.43mmb net to Parkmead at 73p/share risked and 242p/share unrisked.

Our core NAV of 237p/share consists of 63p/share attributed to producing assets (Athena, the Netherlands), 97p/share attributed to development assets (Perth (Phase 1), Platypus/Possum, Pharos, the Netherlands), value for Aupec of 17p/share, Parkmead's investment in Faroe Petroleum shares of 4p/share and the estimated cash position at the end of 2015 (fiscal year to June) of 55p/share

Our core NAV of c.237p/share consists of 63p/share attributed to producing assets (Athena, the Netherlands), 97p/share attributed to development assets (Perth (Phase 1), Platypus/Possum, Pharos, the Netherlands), value for Aupec of 17p/share, Parkmead's investment in Faroe Petroleum shares of 4p/share and the estimated cash position at the end of 2015 (fiscal year to June) of 55p/share. Our target price also includes the risked upside from an additional well on Athena (7p/share risked; 13p/share unrisked), possible (59p/share risked; 84p/share unrisked) reserves from Perth; the 47/10-8 gas discovery (6p/share risked; 8p/share unrisked); the Blackadder exploration prospect (5p/share risked; 18p/share unrisked); the Skerryvore prospect (72p/share risked; 242p/share unrisked) and the Diever West prospect (1p/share risked).

We note that the Netherlands assets attribute only 11% of the value we allocate to the P&D base of 117p/share. We also recognise the value from Parkmead's wholly owned subsidiary, Aupec Limited, which provides petroleum benchmarking and economics expertise to a wide range of government bodies and international oil and gas companies. We attribute 17p/share on a revenue multiple-based valuation.

Some assets are not valued in our EMV due to their early stage and as we have more visibility we will be able to update our valuations.

Figure 5: EMV

Country	Asset	Gross Resource (mmboe)	Working Interest (%)	Net Resource (mmboe)	Chance of Success (%)	NPV/boe (US$)	Net Risked Resources (mmboe)	Risked NAV (US$ mm)	Risked NAV US$/sh	Risked NAV (p/sh)	Unrisked NAV (p/sh)
Production											
UK	Athena	8.3	*30.0%*	2.5	*100%*	$ 38.65	2.5	95.9	0.89	55.5	55.5
Netherlands	Geesbrug, Brakel, Grolloo	10.8	*15.0%*	1.6	*100%*	$ 7.93	1.6	12.8	0.12	7.4	7.4
Total		**19.0**		**4.1**			**4.1**	**108.7**	**1.01**	**62.9**	**62.9**
Development											
UK	Perth (Phase 1: Core Perth; Proved reserves)	27.2	*52.0%*	14.2	*80%*	$ 6.07	11.3	68.8	0.64	39.8	49.8
UK	Perth (Phase 1: Core Perth Extension; Probable reserves)	14.1	*52.0%*	7.3	*80%*	$ 6.07	5.9	35.7	0.33	20.6	25.8
UK	SGB - P.1242 - Platypus	17.2	*15.0%*	2.6	*80%*	$ 6.45	2.1	13.3	0.12	7.7	9.6
UK	SGB - P.1242, P.1594 - Possum	7.2	*15.0%*	1.1	*50%*	$ 9.76	0.5	5.2	0.05	3.0	6.1
UK	SGB - P.1566 - Pharos	50.0	*20.0%*	10.0	*70%*	$ 4.89	7.0	34.3	0.32	19.8	28.3
Netherlands	Ottoland	2.0	*15.0%*	0.3	*80%*	$ 6.62	0.2	1.6	0.01	0.9	1.1
Netherlands	Papekop	5.2	*15.0%*	0.8	*80%*	$ 13.86	0.6	8.6	0.08	5.0	6.3
Total		**122.8**		**36.2**			**27.7**	**167.4**	**1.55**	**97.0**	**127.0**
		141.9		**40.3**			**31.7**	**276.1**	**2.56**	**159.9**	**190.0**
Appraisal / Risked upside											
Netherlands	Diever West	2.7	*7.5%*	0.2	*40%*	$ 11.45	0.1	0.9	0.01	0.5	1.3
UK	Athena (upside)	5.3	*30.0%*	1.6	*50%*	$ 14.28	0.8	11.4	0.11	6.6	13.2
UK	Perth (Phase 2: NE Perth & NW Perth; Possible reserves)	27.8	*52.0%*	14.5	*70%*	$ 9.98	10.1	101.0	0.94	58.5	83.6
UK	SGB - P.1742 - Blackadder	31.0	*20.0%*	6.2	*30%*	$ 4.89	1.9	9.1	0.08	5.3	17.6
UK	SGB - 47/10-8 discovery	14.3	*20.0%*	2.9	*70%*	$ 4.89	2.0	9.8	0.09	5.7	8.1
UK	Skerryvore	140.0	*30.5%*	42.7	*30%*	$ 9.77	12.8	125.2	1.16	72.5	241.6
UK	Ardnamurchan	57.0	*70.0%*	39.9	-	$ -					
UK	Sour Crescent - Dolphin	5.4	*52.0%*	2.8	*50%*	$ 9.98	1.4	14.0	0.13	8.1	16.2
UK	Sour Crescent - Sigma	3.8	*52.0%*	2.0	*50%*	$ 9.98	1.0	9.9	0.09	5.7	11.4
UK	Sour Crescent - Gamma/Spaniards	15.0	*12.6%*	1.9	*50%*	$ 9.98	0.9	9.5	0.09	5.5	10.9
UK	Sour Crescent - Birnam prospect	18.5	*34.0%*	6.3	*30%*	$ 9.98	1.9	18.8	0.17	10.9	36.3
UK	P.1861	0.0	*50.0%*	0.0	-	$ -					
UK	P.1863	0.0	*50.0%*	0.0	-	$ -					
UK, West of Shetland	P.1933 - Bombardier	0.0	*43.0%*	0.0	-	$ -					
UK, West of Shetland	P.1933 - Eddystone prospect	147.5	*43.0%*	63.4	-	$ -					
UK, West of Shetland	P.2069 - Davaar	186.0	*30.0%*	55.8	*10%*	$ 10.47	5.6	58.4	0.54	33.8	338.2
UK, West of Scotland	P.1966 - Bardsey, Longships, Godrevy, Pendeen	0.0	*100.0%*	0.0	-	$ -					
Total		**654.4**		**240.1**			**38.5**	**368.0**	**3.41**	**213.1**	**778.6**
Total NAV		**796.2**		**280.4**			**70.2**	**644.1**	**5.97**	**373.0**	**968.5**
Shares (mm, f.d.)		**107.9**									
USD:GBP Exchange rate		**1.60**									

Source: Company data, Westhouse estimates

Table 4: NAV summary

	(mmboe)	(US$/boe)	(US$m)	(p/share)
Production	4	26.55	109	63
Cash/(net debt)			96	55
Aupec			*30*	*17*
Investment in FPM			*7*	*4*
Development/appraisal	28	6.06	167	97
Core NAV	**32**		**409**	**237**
Risked upside	38	9.56	368	213
Option proceeds			28	16
Risked NAV	**70**		**805**	**466**
Share price (p)	239.0			
P/NAV (%)	*101*			
P/RENAV (%)	*51*			

Source: Company data, Westhouse estimates

Table 5: Target price

	Risked (p/share)	Unrisked (p/share)
Production	**63**	**63**
Cash/(net debt)	55	55
Aupec	*17*	*17*
Investment in FPM	*4*	*4*
Development/appraisal	97	127
Core NAV	**237**	**267**
Risked upside		
Athena (upside)	7	13
Perth (Phase 2: NE Perth & NW Perth; Possible reserves)	59	84
SGB – P.1742 – Blackadder	5	18
SGB – 47/10-8 discovery	6	8
Skerryvore	72	242
Diever West	1	1
Option proceeds	16	16
Sum	402	648
Target price	**400**	

Source: Company data, Westhouse estimates

Multiples and peer comparison

We calculate a set of widely used multiples for Parkmead based on our estimates in Table 2, Financials.

Table 6: Multiples

Year end June (x)	FY2014E	FY2015E	FY2016E	FY2017E
P/CF	9.1	3.9	3.5	1.7
P/E	12.9	5.9	5.9	2.6
EV/EBITDA	6.3	2.8	2.7	0.6
EV/DACF	6.9	2.8	2.7	0.6
2P reserves, Dec 13, mmboe	*27.0*			
EV/2P (US$/boe)	9.0			
Production (kboe/d)	*1.5*	*2.4*	*3.1*	*6.0*
EV/boe/d (US$000)	160.8	99.1	83.5	19.2

Source: Westhouse estimates

We think that Parkmead's P/CF multiples reflect the stage of the company's development and its plans to increase production by bringing on-stream projects in the pipeline. Multiples improve as potential production additions from bringing on-stream projects such as the Platypus/Possum gas development and the Perth/Lowlander sour crude hub are factored in.

The EV/2P metric shows that Parkmead is still undervalued and can deliver significant value

We also look at those multiples in the context of North Sea peers. We think at this stage when the company has just recently added production and is in early stages of development on Platypus/Possum and the Perth hub that it is probably not fair to judge it based on P/CF multiples. The EV/2P metric, however, shows that Parkmead is still undervalued and can deliver significant value (Parkmead's US$9.0boe vs. EnQuest's US$18/boe, Faroe's US$12/boe and Ithaca's US$19/boe).

The differentiating thing about Parkmead is that it cannot be categorised either as a 'North Sea producer' (such as EnQuest or Ithaca), or a 'North Sea explorer' (such as Faroe Petroleum). When categorising we are talking about the main value drivers – are they coming from production growth and bringing development projects on-stream or are they driven by exploration drilling? For Parkmead, the value growth can be realised via development and production (Athena, Platypus/Possum, Perth) and/or exploration (Skerryvore, Blackadder, Davaar), as well as through acquisitions.

Table 7: Peer comparison

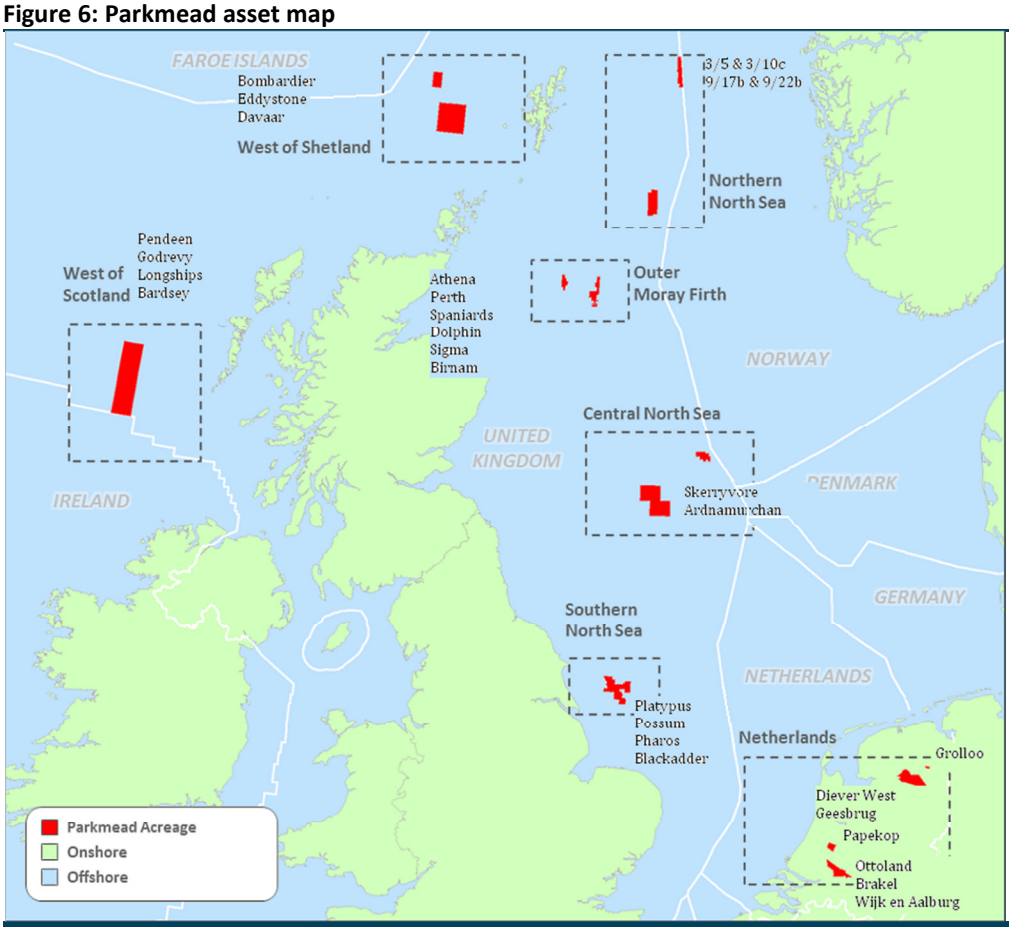
	Market cap	P/CF (x)			EV/2P (US$/boe)	EV/boe/d (US$000)		
	US$m	2014E	2015E	2016E	2014E	2014E	2015E	2016E
Parkmead (Buy; 400p)	339	9.1	3.9	3.5	9.0	161	99	84
Faroe Petroleum (Buy; 185p)	414	2.4	2.4	3.0	11.9	44	37	45
Ithaca Energy (Buy; 200p)	752	2.6	1.3	1.4	19.1	89	27	24
EnQuest (Neutral; 138p)	1503	2.5	1.9	2.3	18.0	88	68	76
Trap Oil (not covered)	38	4.5	3.3	3.3	0.60	0.002	0.001	0.001
Premier Oil (not covered)	2694	2.5	1.9	2.1	15.4	65	49	57
Cairn Energy (not covered)	1614	nm	nm	nm	21.3	nm	nm	nm

Source: Bloomberg, Westhouse estimates. Priced at close, 1 April 2014

Assets description

Parkmead's current portfolio consists of production, development and exploration assets in the UK North Sea and onshore the Netherlands. Its current production is generated from its 30% interest in the Athena oil field in the UKNS and its 15% interest in four onshore gas fields in the Netherlands (Geesbrug, Brakel, Grolloo and Wijk en Aalburg). Development assets include a 52.03% interest in the Perth field, a 15% interest in the Platypus gas field in the UKNS and a 15% interest in the Ottoland and Papekop developments in the Netherlands. Parkmead's exploration portfolio is widespread from onshore the Netherlands to West of Shetland and contains numerous prospects.

Figure 6: Parkmead asset map



Source: Company data

UKNS: Athena

Operated by Ithaca Energy (IAE LN; Buy; TP 200p/share), which holds a 22.5% interest, the Athena field is located in block 14/18b in the Outer Moray Firth area of the UK Continental Shelf, approximately 18km west of the producing Claymore and Scapa oil fields and about 35 km to the north-west of the Perth field. Parkmead has built up its 30% interest through a series of acquisitions – first, via the acquisition of Lochard Energy (10% interest in Athena) in July 2013 and then via the acquisition of a 20% interest from EWE in December 2013. Other partners include Dyas 17.5%, Trap Oil (TRAP LN) 15% and Spike Exploration 15%.

The Athena field was discovered in 1990 by Texaco (operator Ithaca acquired its Athena licence interest in the 25th UK Offshore Licensing Round in 2005). The field was appraised during 2006-2008 and was sanctioned by the UK Department of Energy and Climate Change (DECC) in September 2010 with first oil achieved in May 2012.

The operator, Ithaca, and Parkmead see opportunities for incremental production with workovers and possibly further drilling

The Athena field development consists of four production wells (three of the appraisal wells were re-used as production wells to minimise development drilling costs), fitted with electrical submersible pumps (ESPs), and supported by a water injection well that is designed to supplement natural aquifer influx. The wells are tied back to a leased floating production, storage and offloading (FPSO) vessel, the BW Athena, which is moored over the field. Crude is transported by shuttle tankers directly to the Ithaca-operated Nigg oil terminal for aggregation of the crude into larger cargoes for subsequent sale to market.

Table 8: Asset history since production start-up

Dec-11	Athena 1P at 17.9mmb, 2P at 26.1mmb gross, as estimated by Sproule; peak rate estimated at 22kb/d.
Mar-12	Trap Oil acquired 15% for £34.5m. Trap's estimate: 14.3mmb of recoverable reserves and initial production of 10kb/d rising to 18kb/d once fully commissioned. Effective acquisition is £27m as a result of tax allowances.
May-12	Production started at gross peak rate of 22,000b/d.
Jun-12	Rate reduced to 12,000b/d by the end of June. Suspected downhole restriction in the P1 well, but operator expects no issues with well integrity or performance of the reservoir.
Sep-12	Lochard Energy commissioned Sproule to prepare an independent reserve report on its 10% interest in Athena: 1P at 17.9mmb, 2P at 26.1mmb, 3P at 44.7mmb.
Oct-12	Well intervention was performed on the P1 well. Decided not to perform a rig-based workover as reserves associated with the well are to be recovered by existing wells.
Mar-13	Sproule Dec/12 CPR: Athena 2P at 22.6mmb (c.3.6mmb gross has been produced as at 31 May 2013), the field producing at just over 10,000b/d dry oil, no water break through.
May-13	Parkmead made an offer for Lochard Energy (10% in Athena). Offer was made at 4.9p/share based on 298,865,616 Lochard shares, valuing Lochard at c.£14.5m.
May-13	Spike Exploration acquired 15% from Dyas's 32.5% working interest (WI) in the Athena field. No details on transaction.
Jun-13	Lochard shareholder Cornhill Capital brought the total number of indications to reject the deal to 75,299,453 or 25.19% of the vote. Parkmead announced no increase to its offer. 80-85% of production at the time came from two wells, P3 & P4, with P1 & P2 producing at restricted rates and water percentage has risen to 2-3%.
Jul-13	The acquisition of Lochard completed.
Aug-13	Production from the P4 well has been on free flow since 12 August 2013 and diagnostic testing commenced.
Oct-13	Diagnostic testing on the P4 well completed and confirmed that the ESPs installed in the well have failed.
Dec-13	PMG acquired a 20% interest in the Athena field from EWE for a total consideration of US$11.2m. Production at the time was 7,500b/d gross.
Jan-14	A workover on the P4 well is planned for H2 2014 in order to replace the failed ESP package in the well.

Source: Company data

Athena: issues and opportunities

We provide a description of the current state of the Athena wells in the table below. In January 2014, operator Ithaca Energy announced that it intended to perform a workover on the P4 well during H2 2014 in order to replace the failed ESP package in the well.

Table 9: Athena wells: current state

Well	Type	Performance	Issues
A1	Water Injection		
A2z / P4	Producer	On free flow	ESP package failed; workover scheduled for H2 2014
A3 / P2	Producer	Was temporarily shut-in in Q3 2013 due to a repair to the electrical cable	Is operating on its first ESP
A4 / P3	Producer	Main producer currently	Is operating on its first ESP
A5 / P1	Producer	experiencing a blockage in the production tubing	One ESP operational

Source: Company data, Westhouse estimates

Despite the operational issues, Parkmead does not see a serious impediment to the longer-term performance of Athena. However, it highlights that further investment and drilling of at least one more well will be required. This potential drilling is subject to partner approval.

Looking at the operational history of Athena and the information provided by Ithaca Energy and Parkmead, we tend to agree that Athena's production performance to date is more likely to be a result of mechanical issues. Hypothetically speaking, in the absence of mechanical issues, the reservoir would have been able to perform better, which can be suggested by relatively stable gross rates of c.10,000-11,000b/d after the initial decline and before the mechanical issues at P2 and P4, as well as later and lower-than-expected water breakthrough.

Despite the operational issues, Parkmead does not see a serious impediment to the longer-term performance of Athena

Geologically, the Athena reservoir comprises a Lower Cretaceous, Lower Valhall sandstone within the Scapa unit (the producing Scapa oil field is nearby). The reservoir is sealed by the overlying Scapa shale formation and trapped by stratigraphic pinch-out to the north-west and north-east, and by a dip closure to the south.

Currently we assume a c.16% recovery factor for the Athena field and based on Sproule's estimate of original oil in place of 87mmb, the implied overall recoverable potential is c.14mmb. When adjusted for production to date of 5.7mmb, we arrive at the remaining recoverable potential of 8.3mmb in our EMV. We note that Parkmead believes that there is an opportunity to access more reserves by drilling additional wells. In our current valuation we estimate that an additional well has the potential to add a further 5.3mmb to the reserves case.

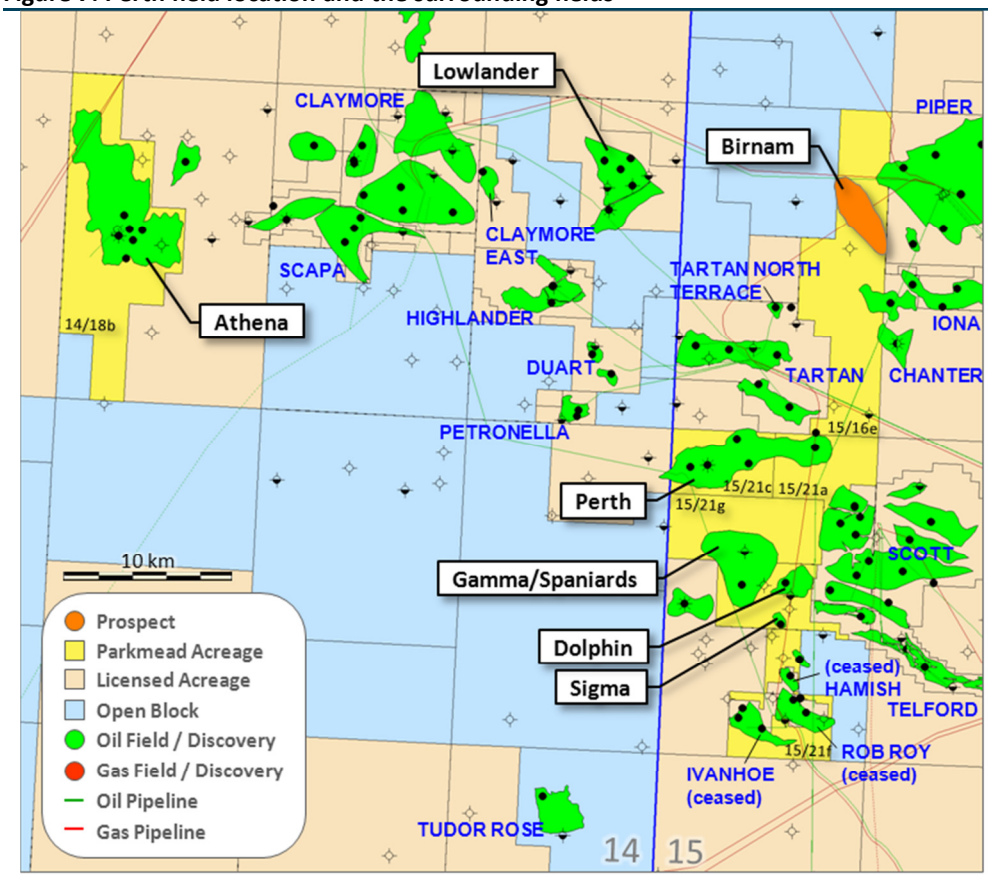
There is a royalty agreement that is specific to 10% of Parkmead's 30% interest in Athena following Parkmead's acquisition of Lochard Energy. In the past, Lochard received a US$14m cash payment from Gemini to fund Athena costs. Two tranches of US$14m are to be repaid via a royalty claim from Lochard's 10% revenue share of Athena. The royalty rate was 50% until the first tranche was repaid in 2013 and then the rate was reduced to 20% until the second tranche has been repaid. The rate will then be reduced to 5% until the end of the asset life. Based on our field model, it will be fully repaid before mid-2015 (calendar year) and no royalty interest will remain on the asset.

UKNS: Perth

Parkmead operates the field with a 52.03% interest and partners are Faroe Petroleum (34.62%) and Atlantic Petroleum (13.35%)

The Perth field is located 185km north-east of Aberdeen in block 15/21c, which together with 15/21b (residual area) forms licence P588 in the Outer Moray Firth area of the UK Continental Shelf. Perth is in 130m water depth and neighbouring infrastructure includes the Tartan platform (7km north) and the Scott platform (11km south-east). Parkmead operates the field with a 52.03% interest (via the acquisition of DEO Petroleum in May 2012) and partners are Faroe Petroleum (FPM LN; Buy; TP 185p/share) (34.62%) and Atlantic Petroleum (13.35%). The distinctive feature of Perth is the sour nature of its fluids: it is light oil with an API density of 29-32°, a hydrogen sulphide concentration of 8,200ppm and a carbon dioxide concentration of 35.4mol% in the produced gas. The field remained undeveloped due to incompatibility with nearby infrastructure and the lower oil price environment at the time of discovery and appraisal in the 1990s.

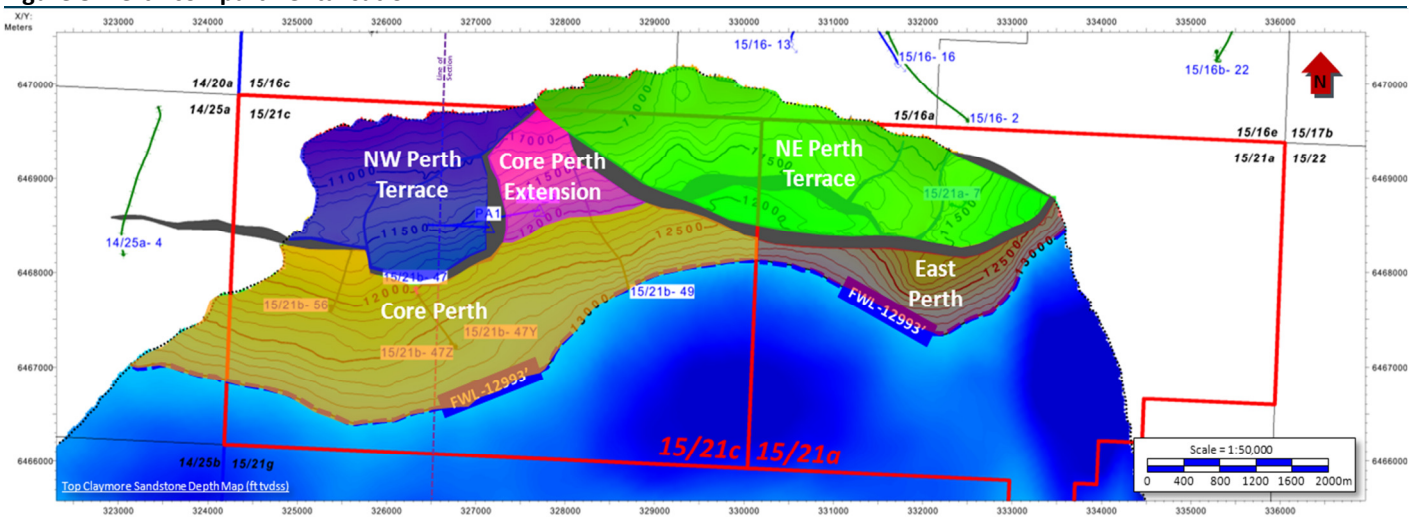
Figure 7: Perth field location and the surrounding fields



Source: Company data

The Perth reservoir is in the Upper Jurassic Claymore sands encased by Kimmeridge Clay and is located in a downthrown fault block on the southern flank of the Tartan ridge with a combined stratigraphic and structural trap. The field is compartmentalised by faults into Core Perth, NW Perth Terrace, NE Perth terrace and East Perth. There is also possible extension and pressure communication between the Core Perth reservoir and an undrilled Core Perth Extension.

Figure 8: Perth compartmentalisation



Source: Senergy

The very first well (15/21a-7) was drilled in 1983 by Monsanto near the eastern edge of NE Perth Terrace. The well encountered oil in the Jurassic and Carboniferous reservoirs. In 1992, Hess drilled well 15/21b-47 in what is now Core Perth, and tested 5,880b/d of 31.5° API oil with a GOR of 625cf/b. Hess carried on with appraisal in Core Perth and drilled four more appraisal wells and one re-entry, the latest of which was in 1997. There was a 10 day extended well test (15/21b-56) with initial stabilised rates of up to 4,400b/d reducing to 3,700b/d.

Current status and stand-alone development

Currently, Parkmead estimates that Perth contains STOIIP of c.400mmb with Phase 1 focused on c.200mmb of STOIIP. The field is deemed economical on a stand-alone basis and Parkmead submitted an FDP in September 2011 and it was agreed in principle with DECC. According to the CPR (Senergy, 2012), 1P gross reserves are estimated at 27.2mmb and gross 2P reserves are estimated at 41.3mmb for Phase 1 of the development (which is planned to include Core Perth and the Core Perth Extension) and an incremental 27.8mmb (3P gross estimates are 69.1mmb) are estimated for Phase 2 (which is planned to include NW and NE Perth Terraces).

An appraisal well was initially planned for 2014 to gain insight into the potential of NW Perth and the Core Perth Extension and be suspended as a future producer from the Core Perth Extension. Faroe Petroleum and Parkmead have instead decided to concentrate on the joint development and unitisation of Perth, Lowlander and Dolphin and the partners believe that Perth and Lowlander are sufficiently appraised to progress to a joint FDP approval.

Phase 1 is estimated to start production at an initial annual gross rate of c.12.6kboe/d in 2017

At the moment, the Phase 1 development plan includes four producers and two water injectors tied back to an FPSO (with the crude being transported by tanker). Given the sour nature of the crude, the FPSO will have stripping facilities and once the gas is sweetened it can be utilised as fuel and for gas lift, with the excess gas being flared. Phase 1 is estimated to start production at an initial annual gross rate of c.12.6kboe/d in 2017 with Phase 2 expected to start contributing c.1 year later at half that gross rate, giving a gross peak rate for the entire field of more than 16kboe/d.

Joint development opportunities and hub strategy

In the early 1990s, the lower oil price environment and lack of investment in nearby infrastructure were limiting factors for the development of Perth. However, we think the field now represents a growth opportunity. The Perth field is located in the middle of the 'Sour Crescent', which is a collection of sour oil fields with a STOIIP potential of 947mmb. Discovered, but undeveloped, these fields are cost-efficient tie-backs to the future Central Perth facilities (all within a 30km radius of Core Perth). In other words, Perth and the 'Sour Crescent' could emerge as a new North Sea production hub with gross production potential of c.40kboe/d (Parkmead estimate). Currently, Parkmead holds a 52.03% interest in the nearby (6km) Dolphin and Sigma discoveries and a 12.63% interest in the Gamma/Spaniards discovery and all three can be tied back to the central development at a later stage. Exploration potential also exists in the area and Parkmead is investigating this accordingly.

According to Parkmead, the UK government is keen to have a single new solution for stranded sour crude – the Perth hub. The ageing infrastructure in the Outer Moray Firth region has not been designed for sour service and retrofitting this capability in a brownfield modification is likely to be prohibitively expensive and involve shutting in any existing production for a considerable period of time.

Currently, Faroe and Parkmead are working together on a potential joint development of Perth, Lowlander and Dolphin

Located c.16km north-west of Perth is the Lowlander discovery, which is wholly owned by Faroe Petroleum (Faroe also holds a 34.62% interest in Perth). Lowlander is estimated to hold STOIIP of 110mmb with recoverable potential of 22mmb. Currently, Faroe and Parkmead are working together on a potential joint development of Perth, Lowlander and Dolphin, which will offer economies of scale and allow for monetisation of otherwise stranded crude at Lowlander. Lowlander's H2S levels are three times higher than Perth's (24,000ppm versus Perth's 8,200ppm) and factoring this into the joint development design makes sense for both Faroe and Parkmead. The value for Parkmead will be realised through a commercial agreement, whether it is gaining an equity interest in Lowlander or a tariff/opex share for Lowlander's use of the central Perth facilities. We think unitisation is a more likely option and there is also an option to simplify the partnership structure even further with Faroe Petroleum and Parkmead owning the two assets roughly on a 60/40 basis.

UKNS: Southern Gas Basin

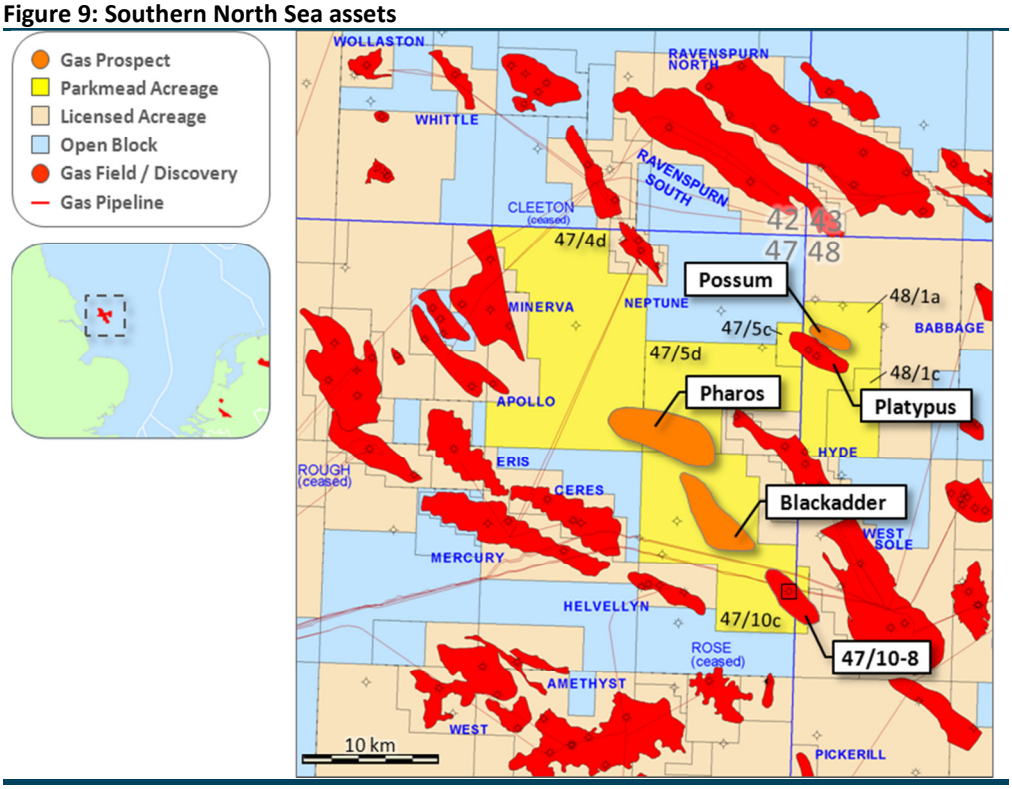
In total, Parkmead holds interests in four traditional licences in the Southern North Sea, covering seven part blocks, all operated by Dana Petroleum. Dana has extensive experience of developing gas fields in the Southern North Sea (including Babbage, Anglia, Johnston, Arran gas fields, etc).

The Platypus gas field (Parkmead 15% interest) was discovered in 2010 by Dana Petroleum's (now Parkmead's) technical team. Platypus is located c.18km north-west of the West Sole facilities (Easington pipeline) and West Sole's tie-backs such as Babbage, Hyde and Hoton. Like the producing gas fields around it, the Platypus reservoir is a Leman sandstone formation of Permian/Rotliegendes age. Interestingly, most of these nearby gas fields (West Sole, Hyde, Hoton, Newsham) are characterised by tighter sands that lend themselves to horizontal well-based developments.

In April 2012, Parkmead drilled a horizontal appraisal well which reached a total measured depth (TMD) of 14,175ft in June. The horizontal section stood at 3,100ft in length. In July, a drill stem test yielded a test flow rate of 27mmcf/d on a 96/64" choke (above Parkmead's expectations) and the well was suspended as a future producer.

Back in 2010, Dana Petroleum estimated 130bcf of gas in place for Platypus. However, after the flow test, Parkmead has increased its gas in place estimate to 147bcf and its best estimate of recoverable reserves to 103bcf (implied recovery factor of 70%). Currently, Parkmead is working closely with Dana Petroleum to progress field development planning with a final FDP to be submitted in 2014.

Figure 9: Southern North Sea assets



Source: Company data

Although Platypus is a commercial project on a stand-alone basis, there are nearby opportunities that can be developed jointly, thus increasing the value of the Southern Gas Basin portfolio. As part of the Platypus development, an exploration well (and if successful, a future production well) will be drilled into the Possum gas prospect which is adjacent to Platypus. Possum is expected to have the same trap type and reservoir as Platypus and Parkmead estimates potential gas in place of up to 100bcf with 43bcf recoverable (best estimate). We estimate first gas in 2016 at an initial annual rate of 56mmcf/d (c.9.4kboe/d).

Although Platypus is a commercial project on a stand-alone basis, there are nearby opportunities that can be developed jointly, thus increasing the value of the Southern Gas Basin portfolio

The Pharos gas discovery was announced in November 2013 in the same Rotliegendes age sandstone reservoir (14km from Platypus). Currently, detailed evaluation of the discovery is being undertaken in order to determine the volume of gas initially in place (pre-drill expectations were that Pharos could contain three times more gas in place than Platypus). Depending on the volume of gas in place, it could emerge as another stand-alone project (or a joint development depending on further successful exploration such as Blackadder). Additionally, there is a possibility to develop the 47/10-8 discovery which is estimated to hold 86bcf of gas in place (see map above).

Encouraging results from Pharos opened up follow-on potential and Parkmead plans a contingent well in 2015 on the Blackadder prospect which is estimated to contain 311bcf (best estimate), of which 186bcf is recoverable. There is a possibility that Pharos, Blackadder and the 47/10-8 discovery are all part of a consistent structure, on trend with West Sole and the Ravenspurn fields.

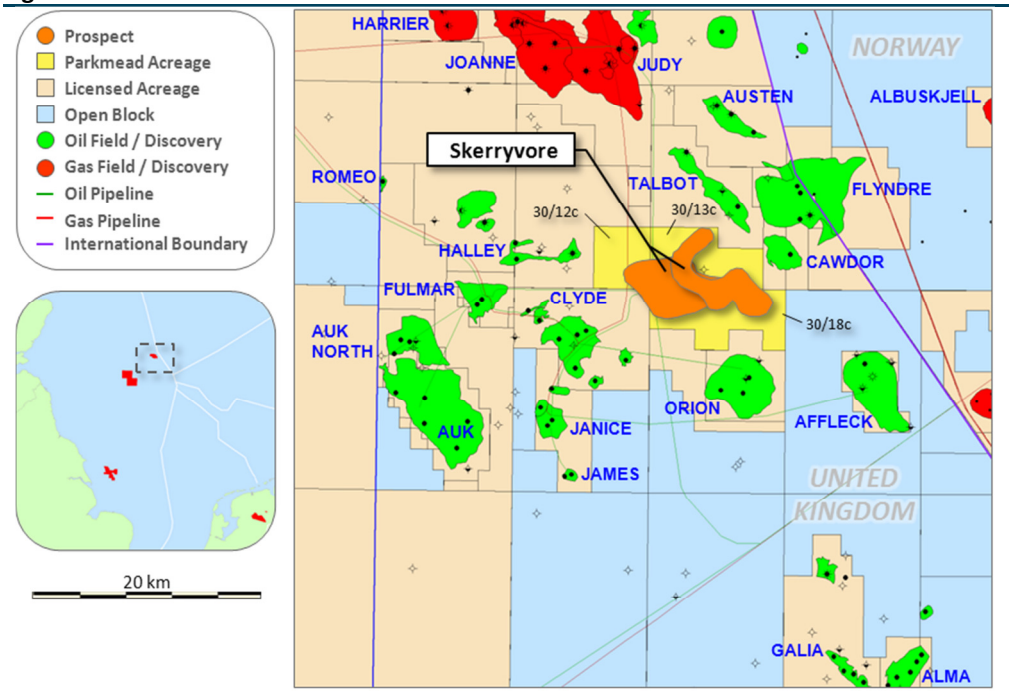
UKNS: Exploration

Central North Sea

Parkmead holds two operated licences in the Central North Sea, awarded in the UKCS 27th Licensing Round, each has exploration prospects identified – Skerryvore (Parkmead 30.5%) in P.2082 and Ardnamurchan (Parkmead 70%) in P.1957.

The Skerryvore prospect is located in the Central Graben area of the UKNS to the east of the Talisman-operated Clyde field and to the south-west of the Talisman's Talbot discovery. Geologically, Skerryvore is on the flank of a salt diapir and will target multiple-stacked pays with a primary target in the Cretaceous Chalk and Palaeocene reservoirs. The Palaeocene prospect is thought to be a southerly extension to the Talbot discovery.

Figure 10: Central North Sea



Source: Company data

The company estimates that Skerryvore holds 466mmb of OOIP with up to 140mmb recoverable (P50, on block, includes all targeted horizons)

Usually, along the flanks of the salt domes/diapirs, reservoir rocks that were uplifted and pierced form traps against the impermeable salt dome. In the North Sea, a thick layer of salt (Permian age Zechstein Salt) forms salt domes/diapirs. One of the successful fields that is sourced from the Late Jurassic Kimmeridge Clay and produces from the Cretaceous Chalk is Ekofisk (1.7bnb of oil and 3.9tcf of gas). Chalks are essentially limestones (carbonate reservoir rocks) that are extremely fine-grained. They can have high porosities but extremely low permeabilities; however, they can be productive if they are naturally fractured (for instance, at Ekofisk the natural fractures clearly control the permeability distribution, as the effective permeability can reach 50mD whereas the matrix permeability only ranges between 0.1mD and 10mD). At Chalk level, we see reservoir and trap effectiveness as main risks.

An exploration well (30/13-8) was drilled in the area previously and it did not encounter its intended reservoir. It is believed that the well was drilled too high updip of the Skerryvore structure and the reservoir had pinched out in that location. Parkmead believes that it has a

good estimate of how steep the structure is and getting the well location right is of the utmost importance.

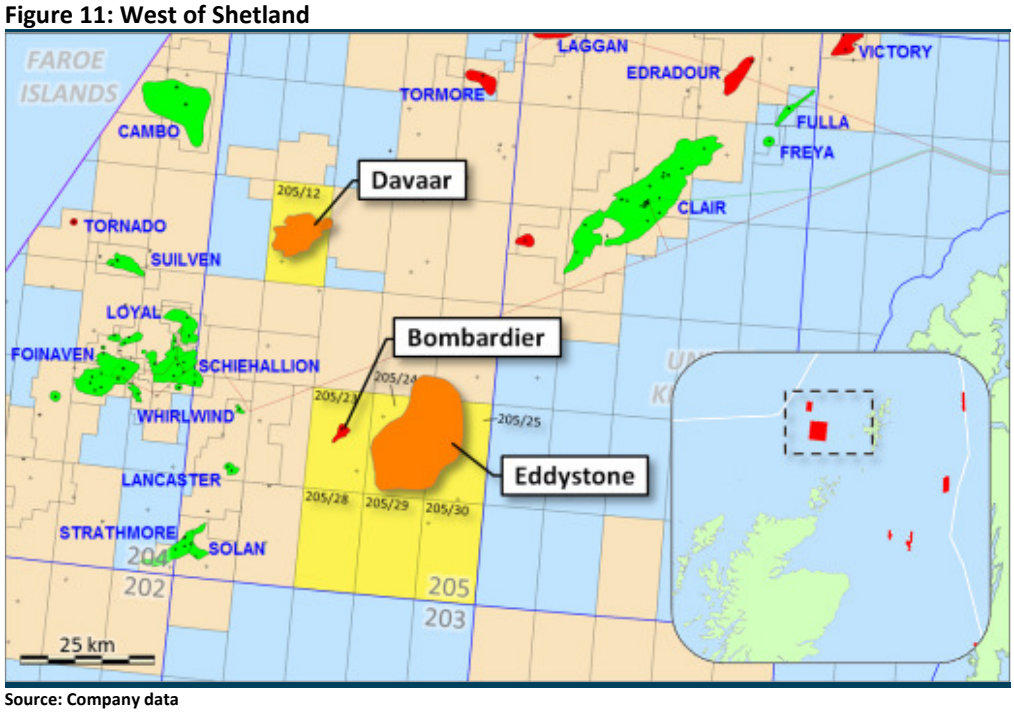
The company estimates that Skerryvore holds 466mmb of OOIP with up to 140mmb recoverable (P50, on block, includes all targeted horizons). There is a possibility that the prospect extends into a neighbouring licence (c.90% of the prospect is on Parkmead's licence) operated by Talisman, in which case there may be monetisation options.

Ardnamurchan is a large gas prospect (Parkmead estimates 570bcf of GIP) with numerous satellite leads. There is no visibility on the drilling of this prospect at this stage.

West of Shetlands

Parkmead has two licences (seven blocks) in the West of Shetland area, awarded in the UKCS 27th Licensing Round.

Figure 11: West of Shetland



Source: Company data

Licence P.1933 (Parkmead 43%) contains the Bombardier discovery (1998; the well encountered a gas column and oil shows) and two oil leads, one of which is the very large cretaceous Eddystone lead (Parkmead estimates 580mmb of STOIIP), positioned on the flanks of the Rona Ridge between the Lancaster oil discovery and the Clair oil field. The work programme consists of obtaining additional 2D seismic data to mature the trapping geometries of the discovery and leads, and a drill or drop well within six years (from 2012).

Licence P.2069 (Parkmead 30%, block 205/12) contains a major Palaeocene oil prospect, Davaar, lying between the Foinaven and Schiehallion oil fields and the Laggan-Tormore gas development (c.100km west of the Shetland Islands where water depths are around 500m) in the Faroe Shetland Basin (Flett sub-basin). The prospect is at the same stratigraphic horizon as the adjacent discoveries and can be de-risked by detailed seismic amplitude and AVO analysis. The company plans to drill an exploration well on Davaar, but the drilling timing has yet to be confirmed (a drill or drop decision has to be made by October 2016).

Davaar is estimated to contain 779mmb of oil in place with recoverable potential of 186mmb

Davaar is expected to target oil in the Palaeocene-age Vaila sands sourced from Middle and Upper Jurassic mudstones. One of the major producing fields in the West of Shetland region that produces from the same reservoir is the BP-operated Foinaven field (total recoverable potential of 414mmb of oil and 150bcf of gas with approximately 78mmb of oil and 55bcf of gas remaining). The reservoir encountered in Foinaven is Paleocene-age channelised siliciclastic turbidites, with three main oil-containing sandstone intervals separated by shales. The reservoir sands are thin but of excellent quality, with good porosity and permeability. The oil is sweet with an API gravity of 26°, some wax content and relatively low viscosity.

Davaar was identified based on a seismic amplitude anomaly (direct hydrocarbon indicator) and Parkmead will carry out a detailed seismic amplitude and AVO analysis, as well as incorporate data taken from nearby wells including the 205/12-1 well – the only prior exploration well drilled in the block 205/12 by Total in 1995, which is believed to have been drilled too far updip of the Davaar anomaly, thus missing the target.

Davaar is estimated to contain 779mmb of oil in place with recoverable potential of 186mmb.

West of Scotland

Parkmead has a 100% interest in the nine-year frontier Licence P.1966, which was awarded in the UKCS 27th Licensing Round. The blocks contained within the licence are fully covered by 3D seismic data and are located in the Rockall Trough area 100km west of the Outer Hebrides and 183km west of the Scottish mainland. The water depth in the area ranges from 201m in the east to a maximum of 1,904m in the west.

Parkmead has already obtained the existing 3D seismic and will execute a detailed amplitude and AVO analysis in order to make a drill or drop decision. So far, Parkmead has identified three shallow Eocene prospects (Longships, Godrevy and Pendeen) and a deeper Cretaceous prospect (Bardsey). As more information becomes available on the prospects we will be able to include it in our valuation.

The Netherlands

The Triassic play in the West Netherlands Basin is predominantly a gas play, however, an oil leg was discovered under the gas layer in several accumulations in the area

Parkmead acquired its Netherlands portfolio (four licences) from Dyas B.V. in March 2012 (completed in August 2012) and it includes four producing gas fields (Wijk en Aalburg, Brakel, Geesbrug and Grolloo), two oil & gas developments (Ottoland and Papekop) and a number of exploration prospects, the most significant of which is Diever West. Parkmead paid an initial cash payment of €4.5m for the acquisition with a contingent payment of €3m to be paid following the first commercial sale of oil from the Papekop field development.

The assets are operated by Vermilion Energy (45% interest). In October 2013, Vermilion Energy acquired Northern Petroleum's Dutch upstream portfolio for a consideration of US$27m. Northern Petroleum retains a net profit interest (NPI) in the Papekop field and a NPI in any future licenced production from the unconventional Posidonia reservoir.

The Triassic play in the West Netherlands Basin is predominantly a gas play. However, an oil leg was discovered under the gas layer in several accumulations in the area, including Papekop and Ottoland.

Producing gas fields

Parkmead holds a 15% working interest in the producing gas fields. In January 2012, these assets were producing at a gross rate of c.12mmcf/d (2,000boe/d). Current production has decreased to c.8mmcf/d gross (1,333boe/d).

Under a historical royalty agreement signed between Northern Petroleum and NAM (Exxon Mobil/Shell), after 100% pay-back plus a 30% uplift on costs, further profits from Parkmead's Dutch assets are to be split on a 50:50 basis. This covers all fields except Papekop and the Diever West prospect.

Oil developments

The Ottoland discovery well (1988) was side-tracked in 2007, fractured in 2009 and an extended well test was performed in Q4 2011. The wellbore which was side-tracked in 2007 is expected to be used to develop the field and the first oil is expected in 2016.

The Papekop discovery well was suspended after discovering primarily oil and some gas in 1986. Papekop is expected to be developed using two wells (the original well will not be re-used) and first oil is anticipated in 2016.

Both Ottoland and Papekop produce associated gas and will require gas treatment facilities and a pipeline that can be shared.

Exploration upside

Diever West is a fault and dip structure with the targeted reservoir in the Upper Permian Rotliegend. The Diever West prospect is estimated to contain 30bcf of GIP with recoverable resources of c.16.4bcf. A well will be drilled on the prospect in 2014.

Company history and shareholders

Parkmead is an E&P company trading on AIM and focused on growth, both organically as well as inorganically via transactions at both the asset and corporate levels. It has a wholly owned subsidiary, Aupec Limited, which provides petroleum benchmarking and economics expertise to a wide range of government bodies and international oil and gas companies.

- Established in 2011 by Tom Cross after the sale of Dana Petroleum.
- In November 2011, Parkmead completed the acquisition of stakes in UK Blocks 48/1a, 47/5b and 48/1c, containing the Platypus gas field and the Possum gas prospect.
- In December 2011, Parkmead agreed to acquire stakes in blocks 47/4d, 47/5d, 47/10c and 48/6c in the UK Southern North Sea, which contained the Pharos gas prospect.
- In March 2012, Parkmead agreed to acquire a portfolio of Netherlands onshore assets comprising four producing gas fields and two oil fields from Dyas B.V.
- In May 2012, Parkmead launched its recommended acquisition of DEO Petroleum plc, and, as a result, Parkmead now owns 52.03% and is operator of the UKCS Perth oil field.
- In October 2012, Parkmead was provisionally awarded several new licences under the UKCS 27th Licensing Round.
- In December 2012, the company raised £19.925m via equity.
- In July 2013, Parkmead completed its recommended offer for Lochard Energy Group plc, obtaining a 10% interest in the producing Athena oil field.
- In December 2013, Parkmead agreed to acquire a further 20% interest in the Athena oil field from EWE VERTRIEB GmbH, trebling Parkmead's interest in the Athena oil field to 30%.
- In January 2014, Parkmead raised c.US$66m (£40m) through an oversubscribed placing of 15,686,275 new shares at 255p/share.

Parkmead has the highest management stake in the sector (over 35%). Institutional holders include Fidelity, Legal & General, Henderson, BlackRock, Artemis, etc.

Table 10: Top 20 shareholders

Holder	Holding (%)	Holder	Holding (%)
Tom Cross	*21.47*	Hargreave Hale & Co	*2.30*
Fidelity Investments	*6.35*	Brewin Dolphin Securities†	*2.21*
TD Direct Investing†	*3.53*	N Doran	*2.09*
David Rose	*3.50*	D Mills	*2.02*
Hargreaves Lansdown†	*3.48*	NFU & Avon	*1.77*
Barclays Stockbrokers Limited†	*3.36*	BlackRock Investment Mgt	*1.57*
Legal & General Investment Mgt	*3.20*	Polar Capital Partners	*1.39*
Halifax Share Dealing†	*2.97*	Artemis Investment Mgt	*1.36*
Henderson Global Investors	*2.86*	Interactive Investor Mgt†	*1.17*
Alexander Kemp	*2.33*	Selftrade†	*1.17*

Source: Parkmead. †Groups of individual retail clients

Board and management

Tom Cross, Executive Chairman and CEO

Tom is a Chartered Director and petroleum engineer with extensive energy sector experience (projects in more than 20 countries). Tom was the founder and CEO of Dana Petroleum through to its sale to the Korea National Oil Corporation in 2010. Prior to Dana, he held senior positions with Conoco, Thomson North Sea, Louisiana Land and Exploration and was Director of Engineering at the UK Petroleum Science and Technology Institute. Tom is a former Chairman of BRINDEX, the Association of British Independent Oil Companies, a former advisor to the BBC on energy affairs and a Fellow of the Institute of Directors.

Ryan Stroulger, Finance Director

Ryan served as Commercial Director of the Group before becoming Finance Director. Prior to this, he served as Group Finance Manager. He began his career as a financial analyst working on oil and gas projects in the UK, Dutch and Norwegian sectors of the North Sea, in addition to numerous ventures across onshore and offshore Africa. Ryan holds a Masters Degree in Oil and Gas Enterprise Management from the University of Aberdeen and a Master of Science degree from Edinburgh University. He is a member of the UK's Institute of Directors and has been awarded the Corporate Finance Qualification by the ICAEW.

Dr Colin Percival, Technical Director

Colin has more than 30 years of experience in the oil & gas industry. He began his career with BP. In 1992, Colin joined British-Borneo where he led its successful UK and international exploration programmes. In 1998, Colin returned to BP where he was responsible for UK Knowledge and Data Management, Licence Management and Divestment, and latterly subsurface management of BP's largest producing UK field. In 2003, Colin joined Dana Petroleum as Geoscience Manager. He joined Parkmead in March 2011, where he leads the company's exploration and technical team. Dr Percival holds a first class honours degree in geology from Reading University and a Ph.D. in sedimentology from Durham University.

Philip Dayer, Non-Executive Director

Philip has over 25 years of corporate finance, public company and stock market experience. He qualified as a Chartered Accountant and went on to gain extensive experience as Director or Head of Corporate Finance with Barclays De Zoete, Citigroup Scrimgeour Vickers, ANZ Grindlays and Société Générale. Latterly, whilst focusing on the energy sector, Mr Dayer was Director of Corporate Finance at Old Mutual Securities and Executive Director at Hoare Govett Limited. Philip was a Non-Executive Director of Dana from 2006 to 2010 and is a Non-Executive Director of a number of other companies. Philip is Chairman of the Audit Committee of the Parkmead Group.

Ian Rawlinson, Non-Executive Director

Ian has over 25 years of experience in the banking and investment industries and in advising public and private companies, including working with Lazard Brothers, Robert Fleming, Fleming Family & Partners and Dana Petroleum. Ian was a Non-Executive Director of Dana from 2005 until 2010. Since 2005, he has also focused on independent commercial and charitable interests. He is a director of a number of other companies and is Chairman of the Tusk Trust. Ian is Chairman of the Remuneration Committee of the Parkmead Group.

Explanation of recommendations

Each structure below is based on total shareholder return defined as the absolute rise in share price plus dividend payment over a 12-month period

Westhouse recommendation structure

Buy	+20% or more
Add	+10% to +20%
Neutral	(+/-) 10%
Sell	-10% or more

Source: Westhouse

The company has seen this research but no material changes have been made as a result.

Unless otherwise stated, the author of this research is the first analyst listed on the front cover of this document. Analysts' remuneration is based on a number of factors, including the overall results of Westhouse Securities Limited, to which a contribution is made by investment banking activities. Analysts' remuneration is not based on expressing a specific view or recommendation on an issuer, security or industry.

This research is classified as being a "marketing communication" as defined by the FCA's Handbook. This is principally because analysts at Westhouse Securities are involved in investment banking activities and pitches for new business and consequently this research has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Therefore, the research is not subject to any prohibition on dealing ahead of the dissemination of investment research. Nevertheless, the Firm's Conflict of Interest Management Policy prohibits dealing ahead of research, except in the normal course of market making and to satisfy unsolicited client orders. Please refer to www.westhousesecurities.com for a summary of our conflict of interest management policy in relation to research. This includes organisational controls (departmental structure, a Chinese wall between corporate finance and other departments, etc), procedures on the supervision and remuneration of analysts, a prohibition on analysts receiving inducements for favourable research, editorial controls and review procedures over research recommendations and a prohibition on analysts undertaking personal account dealings in companies covered by them.

This document has been approved by Westhouse Securities Limited ('Westhouse') for communication to professional clients (as defined in the FCA Handbook) and to persons who, if they were clients of Westhouse, would be professional clients. Any recommendations contained in this document are intended solely for such persons. This document is not intended for use by persons who are retail clients of Westhouse or, who would if they were clients of Westhouse, be retail clients, who should consult their investment adviser before following any recommendations contained herein. In any event this document should not be regarded by the person to whom it is communicated as a substitute by the recipient of the recipient's own judgement and does not constitute investment advice (as defined in the FCA Handbook) and is not a personal recommendation. This document is based on information obtained from sources which we believe to be reliable; however, it is not guaranteed as to accuracy or completeness by Westhouse, and is not to be construed as a representation by Westhouse. Expressions of opinion herein are subject to change without notice. This document is not and should not be construed as an offer or the solicitation of an offer to buy or sell any securities. Past performance is not necessarily a guide to future performance. The value of the financial instruments referred to in this research may go down as well as up. Westhouse and its associated companies and/or their officers, directors and employees may from time to time purchase, subscribe for, or add to or dispose of any shares or other securities (or interests) discussed herein. This document is not for distribution into the United States or any other jurisdiction where the distribution would be against local law. Recipients must not pass this research document on to any other person except with the prior written permission of Westhouse. Westhouse Securities Limited is authorised and regulated by The Financial Conduct Authority (Registered Number 114265) and is a member of The London Stock Exchange. Westhouse is the trading name of Westhouse Securities Limited. Registered Office: Heron Tower, 110 Bishopsgate, London, EC2N 4AY. Registered in England Number: 762818. The Financial Conduct Authority address is 25 The North Colonnade, Canary Wharf, London E14 5HS.

Alastair Stewart and Gareth Evans are independent consultants with contracts for services with Westhouse Securities Limited to write research on Software & Computer Services and Building & Construction, respectively. They have both been approved to conduct the Customer control function (CF30) by the FCA on behalf of Westhouse Securities Limited.

Westhouse Securities, Heron Tower, 110 Bishopsgate, London, EC2N 4AY **Email: firstname.surname@westhousesecurities.com**

Research		**Sales & Trading**	
Head of Research & Insurance		**Sales**	
Joanna Parsons	020 7601 6133	Adrian Beatty	020 7601 6145
Building & Construction		Barry Dravers	020 7601 6627
Alastair Stewart	020 7349 5156	*Simon Wickham*	*020 7601 6141*
Capital Goods		Steve Yelland	020 7601 6142
Harry Breach	020 7367 9058		
Growth Companies			
Kevin Fogarty	020 7367 9062	**Sales Trading**	
Robert Sanders	*020 7367 9060*	*Michael Harrison*	*020 7601 6611*
Investment Funds		Charlie Green	020 7601 6122
Paul Locke	020 7601 6629	**Trading**	
Media		*Bob Butler*	*020 7601 6601*
Roddy Davidson	020 7601 6628	David Gill	020 7601 6603
Mining			
Rob Broke	020 7601 6140	**CEO**	
Nick Hatch	*020 7601 6132*	Christopher Getley	020 7601 6112
Oil & Gas			
Mark Henderson	*020 7367 9061*		
Jamal Orazbayeva	020 7601 6129		
Software & Computer Services			
Gareth Evans	020 7349 5156		

Notes: Names in italic signify head of team