

2 February 2024

Corp

Ticker	PMG:AIM
Oil & Gas	
Shares in issue (m)	109.3
Next results	H1 May
Price	15.3p
Target price	50.0p
Upside	228%
Market Cap	£16.7m
Net debt/(cash)	-£12.5m
Other EV adjustments	£0.0m
Enterprise value	£4.2m

What's changed?	From	To
Adjusted EPS	U/R	-0.1
Target price	45.0	50.0

Share price performance



%	1M	3M	12M
Actual	-20.8	15.1	-66.5

Company description

Parkmead has four divisions offering a broad set of growth opportunities in oil, gas and renewables.

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PARKMEAD GROUP*

Corporate update

Parkmead has released a positive update on its Dutch gas business, where the new LDS-01 well is performing strongly, pushing production to its highest level for four years. Sharply lower European gas prices, down almost a third since the start of December, take some of the shine off the release and hit FY24 estimates. However, our risked NAV and price target still increases 11% to 50p/sh following the inclusion of new projects and Parkmead's significant UK tax-loss shelter.

- **LDS-01 performing above expectation.** Parkmead has released a positive update on its Dutch gas production, where the LDS-01 well has been performing above expectations and has already recovered more gas than the estimated post-well P50 reserves case. Since start-up in October, LDS-01 net gas production has averaged c370 boepd net, pushing Parkmead's overall Dutch gas production to over 430 boepd, its highest since the start of the pandemic. Despite temporary shut-ins to accommodate the new well, we expect Parkmead's average FY24 production to increase 8% y-o-y to 260 boepd. Work is also progressing on the potential development of the 35.6 bcf Papekop gas field, targeting first production as early as 2027, while new exploration prospects have been identified on the prolific Drenthe VI licence.
- **Lower gas prices take their toll, but overall valuation rises.** Despite the success of LDS-01, we are cutting our valuation of PMG's Dutch gas business from 19p/sh to 9p/sh, primarily to reflect sharply lower forward European gas price expectations. Lower Dutch gas prices also hit FY24 estimates, and we reduce our revenue forecast by 34% to £6.2m and EBITDA by a hefty 56% to £2.4m as inflationary cost pressures also bite. However, lower FY24 capex and decommissioning costs leave estimated end-FY24 net cash £3.2m higher at £7.6m, giving management the funds to progress its portfolio of projects and/or consider acquisitions. Despite the lower Dutch gas valuation, our PMG risked NAV and price target increases 11% to 50p/sh. This follows the inclusion of PMG's significant UK tax losses within our valuation (which can be used by PMG or a potential acquirer to enhance the financial metrics of any transaction at a time of high UK oil and gas tax rates), as well as the Gamma East prospect and the potential Brachmont solar farm for the first time.
- **Renewables exposure increasing.** Renewables continue to enjoy strong uptime at the Kempstone Hill wind farm, commercial discussions are progressing with potential wind/solar project partners for Pitreadie, and initial screening studies have been completed for the Brachmont solar farm. Since acquiring the Kempstone Hill wind farm in 2022, Renewables has become a more meaningful component of the group valuation, now representing 19p/sh or 38% of our 50p/sh risked NAV. This diversifies Parkmead's project roster, bringing lower-risk development opportunities into the portfolio. Parkmead offers investors an attractive mix of cash-generative producing assets and potential high-return oil/gas/renewables development projects, providing broad exposure to a range of risk/reward opportunities – all of which are expected to progress in 2024.

Key estimates		2020A	2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun	Jun
Revenue	£m	4.1	3.6	12.1	14.8	6.2
Adj EBITDA	£m	0.3	-0.9	8.2	-21.5	2.4
Adj EBIT	£m	-0.5	-1.5	7.5	-22.2	1.7
Adj PBT	£m	-0.7	-2.6	6.3	-22.3	1.8
Adj EPS	p	0.5	-2.2	1.2	3.0	-0.1
DPS	p	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2020A	2021A	2022A	2023A	2024E
EV/sales	x	1.0	1.2	0.3	0.3	0.7
EV/EBIT (adj)	x	-8.5	-2.7	0.6	-0.2	2.5
P/E (adj)	x	33.5	-6.8	13.0	5.1	-123.0
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-28.4%	-11.9%	-5.4%	-65.5%	-17.6%

Corporate update

Income statement		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Sales	£m	3.6	12.1	14.8	6.2
Gross profit	£m	2.3	11.6	13.3	4.4
EBITDA (adjusted)	£m	-0.9	8.2	-21.5	2.4
EBIT (adjusted)	£m	-1.5	7.5	-22.2	1.7
Associates/other	£m	-0.4	0.0	0.0	0.0
Net interest	£m	-0.7	-1.2	-0.1	0.1
PBT (adjusted)	£m	-2.6	6.3	-22.3	1.8
Total adjustments	£m	-10.9	-2.3	-13.0	-0.1
PBT (stated)	£m	-13.5	4.0	-35.3	1.7
Tax charge	£m	-0.4	-4.8	-7.0	-1.8
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	-13.8	-0.8	-42.3	-0.1
Adjusted earnings	£m	-2.6	1.4	3.6	-0.1
Shares in issue (year end)	m	109.2	109.3	109.3	109.3
EPS (stated)	p	-12.7	-0.7	-38.7	-0.1
EPS (adjusted, fully diluted)	p	-2.2	1.2	3.0	-0.1
DPS	p	0.0	0.0	0.0	0.0

Cash flow		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
EBITDA	£m	-0.9	8.2	-21.5	2.4
Net change in working capital	£m	-1.1	-0.6	0.0	0.0
Other operating items	£m	0.8	0.4	32.9	0.1
Cash flow from op. activities	£m	-1.2	8.0	11.4	2.5
Cash interest	£m	0.0	0.0	0.1	0.1
Cash tax	£m	-0.1	-3.5	-4.9	-1.8
Capex	£m	-0.7	-3.8	-0.5	-0.9
Other items	£m	-0.0	-1.7	-17.0	-2.8
Free cash flow	£m	-2.0	-0.9	-10.9	-2.9
Acquisitions / disposals	£m				
Dividends	£m				
Shares issued	£m	0.0	0.0	0.0	0.0
Other	£m	-4.4	-0.1	-0.4	-0.2
Net change in cash flow	£m	-2.4	-0.1	-11.7	-3.2
Opening net cash (debt)	£m	25.0	25.8	25.2	13.7
Closing net cash (debt)	£m	25.8	25.2	13.7	10.6

Balance sheet		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Tangible fixed assets	£m	19.3	22.5	10.1	9.8
Goodwill & other intangibles	£m	31.7	35.4	3.1	3.5
Other non current assets	£m	2.9	3.1	0.0	0.0
Net working capital	£m	-2.1	-20.7	-1.6	-1.4
Other assets	£m	0.0	0.0	2.9	2.9
Other liabilities	£m	-17.0	-5.6	-10.5	-7.7
Gross cash & cash equivs	£m	23.4	23.3	11.6	8.4
Capital employed	£m	58.2	57.9	15.5	15.5
Gross debt	£m	0.5	0.9	0.9	0.9
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	57.7	57.0	14.7	14.6
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	£m	58.2	57.9	15.5	15.5

Growth analysis		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Sales growth	%	-11.6%	236.1%	21.8%	-58.1%
EBITDA growth	%	-430.6%	n/m	-361.5%	111.2%
EBIT growth	%	-212.2%	592.2%	-396.4%	107.7%
PBT growth	%	-248.5%	342.2%	-456.6%	108.0%
EPS growth	%	-589.6%	152.6%	156.4%	-104.1%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Gross margin	%	64.9%	95.4%	89.7%	71.2%
EBITDA margin	%	-25.3%	67.8%	-145.6%	38.9%
EBIT margin	%	-42.2%	61.8%	-150.5%	27.5%
PBT margin	%	-71.6%	51.6%	-151.0%	29.0%
Net margin	%	-73.3%	11.5%	24.1%	-2.4%

Valuation analysis		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
EV/EBITDA	x	-4.6	0.5	-0.2	1.7
EV/EBIT	x	-2.7	0.6	-0.2	2.5
P/E	x	-6.8	13.0	5.1	-123.0

Cash flow analysis		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Cash conv'n (op cash / EBITDA)	%	n/m	97.7%	n/m	103.1%
Cash conv'n (FCF / EBITDA)	%	217.7%	-10.9%	50.7%	-122.3%
U/lying FCF (capex = depn)	£m	-1.9	2.2	-11.1	-2.7
Cash quality (u/l FCF / adj earn)	%	72.5%	155.6%	-311.7%	n/m
Investment rate (capex / depn)	x	1.1	5.2	0.7	1.3
Interest cash cover	x	net cash	n/a	n/a	n/a
Dividend cash cover	x	n/a	n/a	n/a	n/a

Working capital analysis		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Net working capital / sales	%	-57.4%	-170.8%	-11.0%	-22.5%
Net working capital / sales	days	-210	-623	-40	-82
Inventory (days)	days	7	1	0	1
Receivables (days)	days	137	61	23	56
Payables (days)	days	353	685	64	139

Leverage analysis		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Net debt / equity	%	net cash	net cash	net cash	net cash
Net debt / EBITDA	x	n/a	net cash	n/a	net cash
Liabilities / capital employed	%	0.9%	1.6%	5.5%	5.6%

Capital efficiency & intrinsic value		2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun
Adjusted return on equity	%	-4.6%	2.4%	24.3%	-1.0%
RoCE (EBIT basis, pre-tax)	%	-2.6%	12.9%	-143.2%	11.0%
RoCE (u/lying FCF basis)	%	-3.3%	3.7%	-71.6%	-17.8%
NAV per share	p	52.9	52.2	13.4	13.4
NTA per share	p	23.9	19.7	10.6	10.2

Rising Dutch gas production and reserves

Parkmead has provided a positive update on its Dutch gas production following the production restart at the LDS-01 well last October, with the well performing above expectations and already producing significantly more gas than the estimated post-well P50 reserves case.

Since starting up, gross LDS-01 gas production has averaged close to 5,000 boepd (370 boepd net), pushing Parkmead's overall Dutch gas production to over 430 boepd, its highest since the start of the pandemic. It is also up sharply on FY23 (ending June) average production of c240 boepd, although the second half of FY23 was impacted by the temporary production shut-in to allow optimisation of the Garijp gas terminal to accommodate the increased gas and condensate production from the new LDS-01 well.

This optimisation work continued into the first half of FY24, and as part of the LDS-01 start-up process the Diever-02 well has been temporarily shut-in. Nevertheless, despite these shut-ins we still expect average FY24 production to increase 8% year-on-year to 260 boepd. Also contributing to higher production is the successful workover of the Geesbrug (GSB-01) well in late 2023, with output from this well c50% higher as a result.

Work is progressing on the potential development of the 35.6 bcf Papekop gas field, targeting first production as early as 2027. Additional prospectivity has also been identified across the prolific Drenthe VI licence, which will be matured through a work programme in 2024.

Growing its Renewables portfolio

Parkmead also provided an update on its Renewables portfolio, which continues to benefit from strong uptime at its 100%-owned Kempstone Hill wind farm, hitting 98% in FY23 and generating revenue of £0.7m. At Pitreadie, commercial discussions continue to progress with potential JV partners for wind/solar projects with further studies, environmental surveys and planning work scheduled to take place during 2024. Currently, we include a risked valuation for a 20MW wind farm (6.2p/sh) and a 50 MW solar farm (4.6p/sh) at Pitreadie within our NAV.

Last year, through its strategic relationship with Energy Management Associates Ltd, Parkmead agreed an option over land at Brachmont, also in Aberdeenshire. Initial screening studies have been completed for a solar energy project at this location and we now also include a more heavily risked valuation for a potential 30MW solar project at Brachmont (1.5p/sh) within our NAV.

Since acquiring the Kempstone Hill wind farm in 2022, Renewables has become a more meaningful component of the group valuation, and now represents 19p/sh or 38% of our 50p/sh risked NAV. This diversifies Parkmead's project roster, bringing lower-risk wind and solar farm development opportunities into the portfolio.

Management continues to actively seek opportunities to acquire additional value-enhancing renewable projects, both in production and/or under development, to further bolster this business and diversify the portfolio. Its efforts are underpinned by a more favourable regulatory environment, with the UK government easing planning rules for onshore wind last September and the Scottish government setting a target of generating 50% of its electricity from renewable resources by 2030.

Parkmead's portfolio contains an attractive mix of cash-generative producing assets and potential high-return oil/gas/renewables development opportunities with a range of risk/reward characteristics – all of which are expected to progress through 2024.

Valuation update

The increasingly challenging environment in the North Sea – volatile pricing, ageing infrastructure, rising costs, an uncertain fiscal environment and limited funding appetite – caused Parkmead to re-evaluate its strategy at the end of FY23 to ensure it was ‘fit for purpose’ for the energy transition.

This saw Parkmead shift its strategy to focus on gas production and electricity generation from renewable energies. However, work continues on its existing portfolio of oil and gas assets which have the potential to be developed rapidly – notably, the Skerryvore and Gamma East prospects. Management will also evaluate acquisition opportunities that are aligned with this strategy.

Following today’s release, we have updated our Dutch gas valuation and now include the Gamma East exploration prospect in the Central UK North Sea and the potential Brachmont solar farm in Scotland within our Parkmead NAV. Overall, this drives an 11% increase to our risked NAV and price target, which rises from 45p to 50p/sh.

Figure 1: Parkmead net asset value

Net Asset Valuation	Net resource mmboe	NPV/bbl US\$/boe	Unrisked NPV US\$m	Unrisked NPV p/sh	Geological CoS	Commercial CoS	Dry hole cost US\$m	Risked NPV US\$m	Risked NPV p/sh
Net cash / (debt)			17.1	11.3				17.1	11.3
G&A			-16.1	-10.7				-16.1	-10.7
Options/SARs			4.6	3.0				4.6	3.0
Decommissioning			-3.5	-2.3				-3.5	-2.3
Pitreadie Farm Ltd land (@ cost adjusted for land sales)			5.6	3.7				5.6	3.7
NPV of CT losses			71.6	47.5		10%		7.2	4.7
			79.3	52.6				14.9	9.9
Producing assets									
Kempstone Hill 1.5MW Wind Farm			4.5	3.0		100%		4.5	3.0
Netherlands producing	0.5	6.24	3.2	2.1	100%	100%		3.2	2.1
Core value:			87.0	57.7				22.5	15.0
Contingent resource:									
Netherlands - Papekop	0.8	8.57	6.7	4.5	100%	75%		5.0	3.3
Netherlands - Ottoland	0.7	8.57	5.9	3.9	100%	50%		3.0	2.0
Contingent value:			12.6	8.4				8.0	5.3
Prospective resource:									
UK - Skerryvore (Mey+Ekofisk+Tor)	88.6	4.50	399.3	264.9	24%	33%	9.5	22.1	14.6
UK - Gamma East (Piper + Scott)	14.4	5.74	82.6	54.8	22%	33%	3.9	2.1	1.4
Netherlands - Drenthe VI prospects	2.0	8.57	17.4	11.6	37%	75%	4.7	2.4	1.6
Prospective value:			499.3	331.3			18.1	26.6	17.6
Renewables developments:	US\$/MW	IRR %							
Pitreadie 20MW Wind Farm	0.94	19.6%	18.7	12.4		50%		9.4	6.2
Pitreadie 50MW Solar Farm	0.70	12.2%	14.0	9.3		50%		7.0	4.6
Brachmonth 30MW Solar Farm	0.45	12.1%	9.1	6.0		25%		2.3	1.5
Renewables development value:			41.8	27.7				18.6	12.4
Total - Core + Contingent + Prospective + Renewables:			640.7	425.1				75.7	50.2

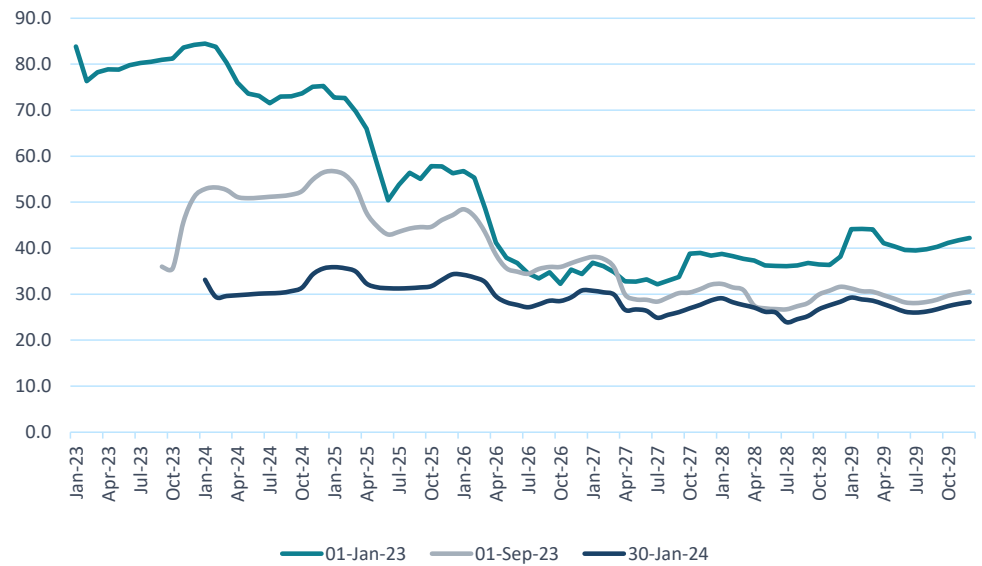
Source: Cavendish

Assumes long-term Brent oil price of US\$70/bbl and European gas price of €30/MWh.

Discounted to 1 January 2024. Dutch gas business and Renewables discounted at 8%, remainder of portfolio at 10%.

Despite the success of last year’s LDS-01 well, our valuation of Parkmead’s Dutch gas business falls from 19p/sh to 9p/sh, due partly to the rollover of our discounting date to January 2024 but more the result of the sharp decline in future European gas price expectations over the last year due to lower demand, healthy LNG supplies and high storage levels.

Figure 2: Dutch TTF natural gas price forward curve over time (€/MWh)



Source: FactSet

A lower Dutch gas price assumption – €35/MWh down from €50/MWh – has also taken its toll on our FY24 estimates for Parkmead. Our revenue forecast falls 34% to £6.2m with EBITDA down a heftier 56% to £2.4m as inflationary cost pressures also bite. Net cash flow actually rises to £0.6m as we no longer expect any further Dutch windfall tax liabilities to accrue in FY24, while we have also lowered capex and remaining decommissioning cost assumptions. This leaves forecast end-FY24 net cash some £3.2m higher at £7.6m, providing funds for management to progress its portfolio of projects and/or consider acquisitions.

Figure 3: Parkmead FY24 estimate changes

June yr end		New	Old	% Chg y/y
Brent oil price	US\$/bbl	75.0	75.0	0%
Dutch TTF gas price	€/MWh	35.0	50.0	-30%
Production	boepd	260	417	-38%
Exchange rate	£/US\$	1.25	1.25	0%
Exchange rate	€/US\$	1.10	1.10	0%
Revenue	£'000	6,184	9,310	-34%
Gross Profit	£'000	3,602	6,747	-47%
Adjusted EBITDA	£'000	2,405	5,464	-56%
Adjusted EBIT	£'000	1,605	4,536	-65%
Net finance expense	£'000	90	(153)	<i>n.m.</i>
Adjusted PBT	£'000	1,694	4,383	-61%
Tax	£'000	(1,841)	(2,372)	-22%
Adjusted net profit	£'000	(147)	2,011	<i>n.m.</i>
EPS	pence	(0.13)	1.84	<i>n.m.</i>
Net CFO	£'000	638	(756)	<i>n.m.</i>
Capex (incl. E&A)	£'000	(896)	(1,388)	-35%
Decommissioning payments	£'000	(2,773)	(3,000)	-8%
Period-end cash	£'000	8,406	5,435	55%
Period-end debt	£'000	(767)	(948)	-19%
Net cash/(debt)	£'000	7,639	4,487	70%

Source: Cavendish

Despite a lower Dutch gas business valuation, our estimate of Parkmead's Core NAV is unchanged at 15p/sh as we now include UK tax losses within our valuation, which are significant with £188.8m of ring-fenced trading losses available. This tax loss position will be highly beneficial for any UK acquisitions and can be used by Parkmead or a potential acquirer to enhance the financial metrics of any transaction at a time of high UK oil and gas tax rates.

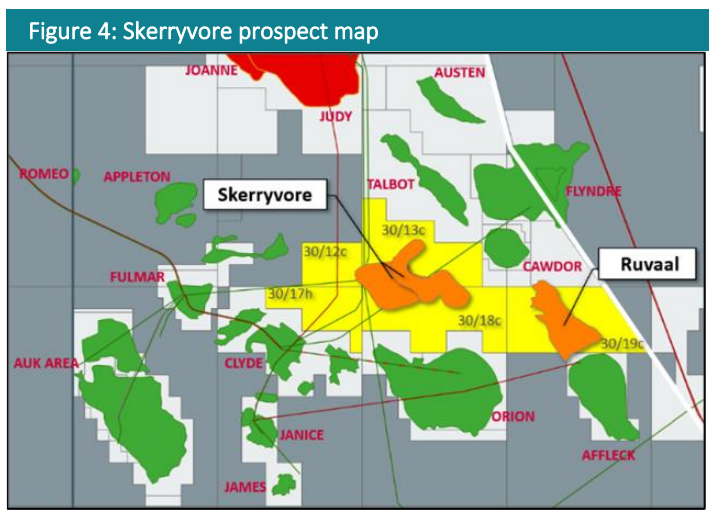
In our valuation, we have illustratively assumed these tax losses are utilised by Parkmead on the Gamma East project, but they could just as easily be applied to any UK production or development asset or included in an asset sale or farm-out to boost the economics of a project for the acquirer.

Moreover, the scale of these tax losses provides a key advantage for any future UK transaction involving Parkmead. This is at a time when UK deal activity is on the rise – in the last 18 months we have tracked 25 North Sea transactions involving UK oil and gas assets or UK E&P companies (13 corporate deals, 5 asset acquisitions and 7 farm-outs).

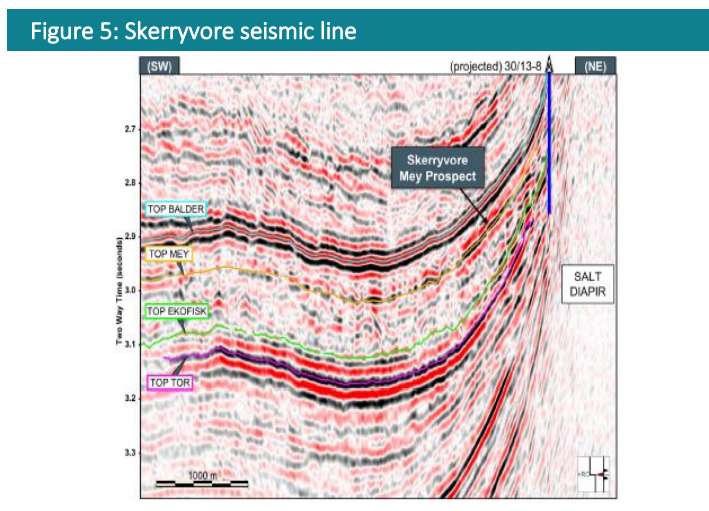
Skerryvore – a potential ‘company maker’

Skerryvore is a key exploration asset within Parkmead’s portfolio, which at >150 mmboe is significant enough to be of interest to large oil companies and presents a potential ‘company making’ opportunity for Parkmead. It also fulfils management’s desire to focus on projects that present clear opportunities for near-term value creation.

Parkmead holds a 50% operated interest in UKCS Licence P.2400 with partners CalEnergy (30%) and Serica Energy. The licence covers four Central North Sea Blocks and the Skerryvore Prospect Area.



Source: Parkmead



Source: Parkmead

Located close to existing infrastructure in the Central North Sea, management believes successful drilling could be developed in a timely and cost-efficient manner. The area around Skerryvore is seeing activity on several fronts, which can help lower costs and development timeframes. Harbour Energy is approaching start-up at the Talbot field, NEO Energy is redeveloping the Affleck field, while additional activity is taking place nearby, in the adjacent Norwegian sector.

Parkmead was awarded this highly sought-after licence in the UK 30th Licensing Round. Its subsequent geotechnical analysis has confirmed Skerryvore has stacked reservoir potential, and the planned exploration well will target prospects at the Mey and Chalk levels. The three stacked targets contain estimated oil and gas prospective resources of 157 mmboe and have been given an average geological chance of success (GCOS) of 24%.

We value Skerryvore at 15p/sh within our risked NAV assuming 33% commercial risking on top of the geological risking (combined c8% chance of success) to account for the funding requirement. However, our 269p/sh unrisked NPV10 for Skerryvore demonstrates the high-impact potential this prospect offers investors.

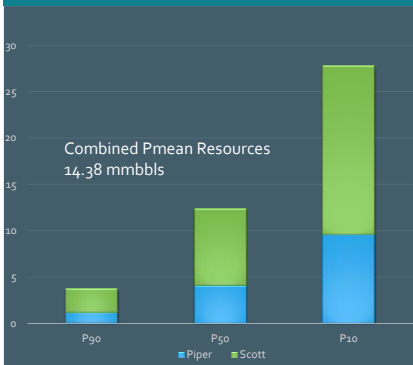
The well should be able to be drilled using a modern jack-up rig while high activity levels on acreage surrounding Skerryvore could offer cost synergies. Parkmead estimates its 50% share of the well cost at ~£12.5m, with drilling targeted this year. In the success case, a future development would likely be tied back to existing or planned infrastructure in the area.

Good progress is being made with well planning as well as vessel and rig tendering. Drilling is currently expected in Q4 2024, providing sufficient time for a partner to enter the licence. In the success case, Skerryvore’s proximity to modern infrastructure provides multiple low-cost tie-back options enabling the potential for an economic and rapid development, with first production as soon as 2027.

The Gamma East prospect

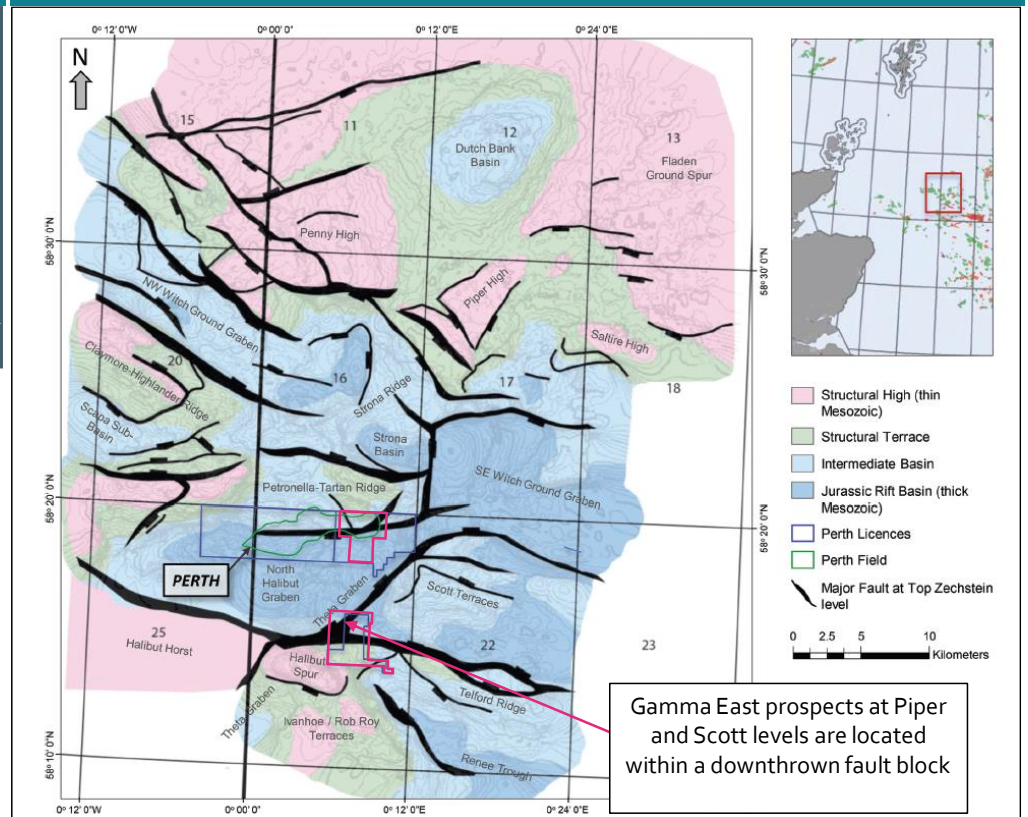
The Gamma East prospect is located close to existing infrastructure in the UK Central North Sea and has two potential targets in the Piper and Scott formations with estimated Pmean prospective resources of 4.9 mmbbls and 9.5 mmbbls, respectively. The licence on Gamma East expires at the end of April 2024 and therefore we will know relatively soon about the potential longer-term value of this to Parkmead.

Figure 6: Gamma East resources



Source: Parkmead

Figure 7: Gamma East prospect map



Source: Parkmead

The 15/21a-46 well was drilled in 1992 immediately downdip of the prospect and encountered oil shows in the top 10ft of the Piper formation, providing a degree of confidence on the Gamma East prospect, which has been given an estimated 22% chance of geological success and can be drilled and developed quickly at relatively low cost.

Parkmead has already approached the nearby Scott field operator to discuss the possibility of drilling an exploration well into these targets from the Scott platform as well as potential processing tariffs if the drilling is successful. On the assumption that the licence is extended, management envisage that the exploration well would be drilled as a producer using a semi-sub. In the success case, the well would be tied back to the Scott platform for processing via the Scott South Production Manifold less than 2km away. The gross cost to drill and tie-back Gamma East is estimated at c£35m, representing a potential development cost of less than US\$2.5/bbl.

As a result, the project is potentially highly profitable, generating an exceptional IRR (>300%) and paying back in less than two years. On a standalone basis, and assuming the licence is extended, we estimate the Gamma East Pmean prospect has a potential NPV10 of US\$83m (55p/sh) at US\$70/bbl Brent, although we risk this heavily in our valuation, including just 1.4p/sh within our riskd NAV.

Parkmead will need to bring in partners to these exploration projects to help fund drilling activity. High equity positions in the assets (100% Gamma East, 50% Skerryvore) provides management with significant negotiating flexibility while Parkmead's £188.8m of tax losses can be deployed on the assets, enhancing their economic attractiveness.

Parkmead has also just been awarded a 50% stake and operatorship of three blocks in the 33rd UK licensing round alongside Orcadian Energy – Blocks 14/15a, 14/20d and 15/11a – significantly increasing Parkmead's acreage position around the Fynn/Beaully fields. This provides additional discoveries and prospectivity to mature over time into the next wave of potential development opportunities within the portfolio.

Finally, management continues to evaluate a number of upstream acquisition opportunities to build on its solid low-cost Dutch gas production base. Again, Parkmead's pool of UK ring-fenced tax losses can help as they can be utilised to improve the economics of these acquisitions.

Corporate update

Income statement		2020A	2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun	Jun
Sales	£m	4.1	3.6	12.1	14.8	6.2
Cost of sales	£m	-2.0	-1.3	-0.6	-1.5	-1.8
Gross profit	£m	2.1	2.3	11.6	13.3	4.4
Operating expenses	£m	-1.8	-3.3	-3.3	-34.8	-2.0
EBITDA (adjusted)	£m	0.3	-0.9	8.2	-21.5	2.4
Depreciation	£m	-0.8	-0.6	-0.7	-0.7	-0.7
Amortisation	£m	0.0	0.0	0.0	0.0	0.0
EBIT (adjusted)	£m	-0.5	-1.5	7.5	-22.2	1.7
Associates/other	£m	0.4	-0.4	0.0	0.0	0.0
Net interest	£m	-0.6	-0.7	-1.2	-0.1	0.1
PBT (adjusted)	£m	-0.7	-2.6	6.3	-22.3	1.8
<i>restructuring costs</i>	£m	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>share based payments</i>	£m	<i>-0.1</i>	<i>0.0</i>	<i>-0.1</i>	<i>0.0</i>	<i>-0.1</i>
<i>other adjustments</i>	£m	<i>0.0</i>	<i>0.0</i>	<i>-2.2</i>	<i>-13.0</i>	<i>0.0</i>
Total adjustments	£m	-0.1	-10.9	-2.3	-13.0	-0.1
PBT (stated)	£m	-0.8	-13.5	4.0	-35.3	1.7
Tax charge	£m	0.3	-0.4	-4.8	-7.0	-1.8
<i>tax rate</i>	%	<i>n/a</i>	<i>n/a</i>	<i>120.5</i>	<i>n/a</i>	<i>108.7</i>
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Reported earnings	£m	-0.5	-13.8	-0.8	-42.3	-0.1
Tax effect of adjustments / other	£m	1.0	11.2	2.2	45.9	0.0
Adjusted earnings	£m	0.5	-2.6	1.4	3.6	-0.1
<i>shares in issue (year end)</i>	m	<i>108.6</i>	<i>109.2</i>	<i>109.3</i>	<i>109.3</i>	<i>109.3</i>
<i>shares in issue (weighted average)</i>	m	<i>106.3</i>	<i>109.2</i>	<i>109.3</i>	<i>109.3</i>	<i>109.3</i>
<i>shares in issue (fully diluted)</i>	m	<i>110.8</i>	<i>118.5</i>	<i>118.6</i>	<i>118.6</i>	<i>118.6</i>
EPS (adjusted, fully diluted)	p	0.5	-2.2	1.2	3.0	-0.1
EPS (stated)	p	-0.5	-12.7	-0.7	-38.7	-0.1
DPS	p	0.0	0.0	0.0	0.0	0.0

Growth analysis (adjusted basis where applicable)						
Sales growth	%	-50.7%	-11.6%	236.1%	21.8%	-58.1%
EBITDA growth	%	-94.9%	-430.6%	n/m	-361.5%	111.2%
EBIT growth	%	-109.5%	-212.2%	592.2%	-396.4%	107.7%
PBT growth	%	-115.4%	-248.5%	342.2%	-456.6%	108.0%
EPS growth	%	-81.4%	-589.6%	152.6%	156.4%	-104.1%
DPS growth	%	n/m	n/m	n/m	n/m	n/m

Profitability analysis (adjusted basis where applicable)						
Gross margin	%	51.2%	64.9%	95.4%	89.7%	71.2%
EBITDA margin	%	6.8%	-25.3%	67.8%	-145.6%	38.9%
EBIT margin	%	-12.0%	-42.2%	61.8%	-150.5%	27.5%
PBT margin	%	-18.2%	-71.6%	51.6%	-151.0%	29.0%
Net margin	%	12.4%	-73.3%	11.5%	24.1%	-2.4%

Corporate update

Cash flow		2020A	2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun	Jun
EBITDA	£m	0.3	-0.9	8.2	-21.5	2.4
Net change in working capital	£m	-0.5	-1.1	-0.6	0.0	0.0
Share based payments	£m	-0.1	0.0	-0.1	0.0	-0.1
Profit/(loss) on sale of assets	£m	-0.4	0.4	0.0	-0.0	0.0
Net pensions charge	£m	0.0	0.0	0.0	0.0	0.0
Change in provision	£m	0.0	0.0	0.0	0.0	0.0
Other items	£m	1.5	0.4	0.5	32.9	0.2
Cash flow from operating activities	£m	0.9	-1.2	8.0	11.4	2.5
Cash interest	£m	0.1	0.0	0.0	0.1	0.1
Tax paid	£m	-1.9	-0.1	-3.5	-4.9	-1.8
Capex	£m	-3.8	-0.7	-3.8	-0.5	-0.9
Other items	£m	0.0	-0.0	-1.7	-17.0	-2.8
Free cash flow	£m	-4.7	-2.0	-0.9	-10.9	-2.9
Disposals	£m					
Acquisitions	£m	0.0	4.0	0.9	-0.4	0.0
Dividends on ord shares	£m					
Other cashflow items	£m	-0.2	-4.4	-0.1	-0.4	-0.2
Issue of share capital	£m	0.0	0.0	0.0	0.0	0.0
Net change in cash flow	£m	-5.0	-2.4	-0.1	-11.7	-3.2
Opening net cash (debt)	£m	33.6	25.0	25.8	25.2	13.7
Closing net cash (debt)	£m	25.0	25.8	25.2	13.7	10.6

Cash flow analysis						
Cash conversion (op cash flow / EBITDA)	%	319.6%	n/m	97.7%	n/m	103.1%
Cash conversion (free cash flow / EBITDA)	%	n/m	217.7%	-10.9%	50.7%	-122.3%
Underlying free cash flow (capex = depreciation)	£m	-1.7	-1.9	2.2	-11.1	-2.7
Cash quality (underlying FCF / adjusted earnings)	%	-339.6%	72.5%	155.6%	-311.7%	n/m
Investment rate (capex / depn)	x	5.0	1.1	5.2	0.7	1.3
Interest cash cover	x	n/a	net cash	n/a	n/a	n/a
Dividend cash cover	x	n/a	n/a	n/a	n/a	n/a

Corporate update

Balance sheet		2020A	2021A	2022A	2023A	2024E
Year end:		Jun	Jun	Jun	Jun	Jun
Tangible fixed assets	£m	21.4	19.3	22.5	10.1	9.8
Goodwill	£m	2.2	2.2	1.1	1.1	1.1
Other intangibles	£m	36.1	29.5	34.3	2.0	2.4
Other non current assets	£m	2.9	2.9	3.1	0.0	0.0
<i>inventories</i>	£m	0.1	0.1	0.0	0.0	0.0
<i>trade receivables</i>	£m	1.4	1.4	2.0	0.9	0.9
<i>trade payables</i>	£m	-4.4	-3.5	-22.8	-2.6	-2.4
Net working capital	£m	-2.9	-2.1	-20.7	-1.6	-1.4
Other assets	£m	0.0	0.0	0.0	2.9	2.9
Other liabilities	£m	-10.4	-17.0	-5.6	-10.5	-7.7
Gross cash & cash equivalents	£m	25.7	23.4	23.3	11.6	8.4
Capital employed	£m	74.9	58.2	57.9	15.5	15.5
Gross debt	£m	3.6	0.5	0.9	0.9	0.9
Net pension liability	£m	0.0	0.0	0.0	0.0	0.0
Shareholders equity	£m	71.3	57.7	57.0	14.7	14.6
Minorities	£m	0.0	0.0	0.0	0.0	0.0
Capital employed	£m	74.9	58.2	57.9	15.5	15.5

Leverage analysis						
Net debt / equity	%	net cash	net cash	net cash	net cash	net cash
Net debt / EBITDA	x	net cash	n/a	net cash	n/a	net cash
Liabilities / capital employed	%	4.8%	0.9%	1.6%	5.5%	5.6%

Working capital analysis						
Net working capital / sales	%	-70.9%	-57.4%	-170.8%	-11.0%	-22.5%
Net working capital / sales	days	-259	-210	-623	-40	-82
Inventory (days)	days	12	7	1	0	1
Receivables (days)	days	126	137	61	23	56
Payables (days)	days	397	353	685	64	139

Capital efficiency & intrinsic value						
Adjusted return on equity	%	0.7%	-4.6%	2.4%	24.3%	-1.0%
RoCE (EBIT basis, pre-tax)	%	-0.7%	-2.6%	12.9%	-143.2%	11.0%
RoCE (underlying free cash flow basis)	%	-2.3%	-3.3%	3.7%	-71.6%	-17.8%
NAV per share	p	65.7	52.9	52.2	13.4	13.4
NTA per share	p	30.5	23.9	19.7	10.6	10.2

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Recommendation history

Company	Disclosures	Date	Rec	Price	Target price
Parkmead Group	2,6,8,9,10,11	20 November 20	Corp	30.0p	155.0p

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