

7 February 2018

Equity Research
Colin Smith



BUY

(Remains Unchanged)

Target Price: 85p

Share Price: 39p

(Price at close 6 February 2018)

Stock Codes PMG.L / PMG LN

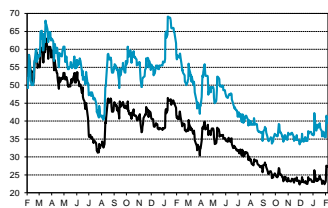
Market Cap £39m

Last Published Research: 17 November 2017

Analyst

Colin Smith

Absolute & Relative Performance



— Absolute

— Relative to DS Oil & Gas

Source Datastream

Investment Research

Oil & Gas Producers Flash

PARKMEAD

Progress on Greater Perth Area commercialisation

Parkmead has increased its interests in the Perth and Dolphin licences to 100%, increasing its overall reserves base by 63% to 46.3mboe. The company has also signed an agreement with Nexen Petroleum to study a potential subsea tie-back of the Greater Perth Area (GPA) project to Nexen’s Scott platform. Finally, Parkmead has commissioned a new reservoir study of Perth and Dolphin to evaluate potential increased flow rates and recovery from the fields. In our view, this marks real progress on the potential commercialisation of the Greater Perth Area to which Parkmead is exceptionally leveraged, as is reflected in our increased Target Price.

- ▶ **Parkmead gets 100% of Perth and Dolphin.** Parkmead has increased its interests in licences P218, P588 and P2154 in the Moray Firth, which contain the Perth and Dolphin fields, from 60.5% to 100%. That gives Parkmead full control of Perth and Dolphin and boosts the company’s 2P reserves by 17.9mmbbl. An agreement has been signed with Nexen Petroleum, a subsidiary of CNOOC, to begin a detailed engineering study for the potential commercialisation of Perth and Dolphin by way of a sub-sea development via the Scott platform some 10km to the southeast. Initial work indicates that the required topside modifications to Scott could be relatively limited. Parkmead has commissioned AGR Tracs International to undertake a new reservoir study that could lead to a substantial increase in the assumed recovery factor of the oil in place volumes at the Perth field which stands at 197mmbbl of oil for core Perth and 498mmbbl including the northern areas of the field. During 2017 Parkmead issued an invitation to tender in connection with the commercialisation of the GPA and is currently holding discussions with a number of leading service companies.
- ▶ **Progress on GPA commercialisation.** It has taken a while, but Faroe has finally exited the Perth and Dolphin licences leaving Parkmead in full control and fully committed to the development of the GPA. Moreover, with Nexen now seeking additional barrels to extend the production life of the Scott facility, there is a potential alternative and likely much more capital efficient route to commercialisation of the GPA rather than through the new FPSO solution that has been under consideration. Were the AGR Tracs study to increase the reserves potential, that would only serve to improve the economics.

Year End	Sales	PBTA	EPS	DPS ord	P/E	EV/EBITDA	Yield
June	(£m)	(£m)	(p)	(p)	(x)	(x)	(%)
2017A	4.1	(4.3)	(5.0)	0.0	n/a	(17.0)	0.0
2018E	4.3	(1.8)	(2.4) from: -2.5	0.0	n/a	(18.4)	0.0
2019E	4.9	(1.1)	(1.7)	0.0	n/a	(54.4)	0.0
2020E	4.2	(1.7)	(2.4)	0.0	n/a	(21.2)	0.0

Source Company Data, Panmure Gordon

- ▶ **Target price increased to 85p.** For now, we continue to model a joint development of Perth and Dolphin together with Lowlander. Adjusting our NAV to reflect the increase in Parkmead's interest in Perth and Dolphin to 100% in our Net Asset Value (NAV) results in an increase in our risked NAV to 86.4p per share which we round to an increased Target Price of 85p per share (from 70p). Within our revised NAV, Perth and Dolphin account for just over 60% of our valuation for all the fields in Parkmead's portfolio, demonstrating how important development of the GPA is to Parkmead. We currently model just a 15% chance of commercialisation for Perth and Dolphin, leaving Parkmead highly leveraged to any improvement of the outlook for the commercialisation of GPA, as reflected in our 382p per share unrisked NAV.
- ▶ **Reiterate Buy.** The combination of Parkmead's assumption of full control of Perth and Dolphin together with Nexen's potential interest in bringing those barrels over Scott looks highly significant. Much will depend on Nexen's view of whether it can adapt the Scott facilities to accommodate the high H2S levels in GPA crude. However, Nexen has experience dealing with high sulphur at its Buzzard field and we understand that crude at Scott has soured up as the field has aged. For the moment, we continue to model an FPSO based solution commercialising Perth, Dolphin and Lowlander so the economics are potentially subject to significant adjustment if a development via Scott is achieved. The future of Lowlander which was licenced 100% to Faroe prior to relinquishment is unclear but we would not be surprised were Parkmead to bid for the licence in the in-progress 30th licensing round, however, the significantly higher H2S levels at Lowlander could impact the potential to produce it through Scott. Despite the many uncertainties, we believe today's announcements indicate a materially improved chance of GPA moving to commercialisation. We have increased our Target Price to 85p per share (from 70p) and we reiterate our Buy recommendation.

NAV – The Parkmead Group

Location	Field/ prospect	WI (%)	CoC* (%)	Liquids (mmbbl)	Gas (bcf)	Total (mmboe)	Risked NAV			Unrisked NAV		
							(US\$m)	(US\$/boe)	(p/share)	(US\$m)	(US\$/boe)	(p/share)
UK	Athena	30.0%	100%	0.0	0.0	0.0	(4.1)	-	(3.3)	-4.1	-	-3.3
Netherlands	Various	15%/7.5%	100%	0.0	3.3	0.6	2.6	4.8	2.1	2.6	4.8	2.1
Producing fields				-	3.3	0.6	-1.5	(2.6)	(1.2)	(1.5)	(2.6)	(1.2)
Net (debt)/cash (2017/18E)							30.5		24.3	30.5		24.3
Tax losses (discounted)							15.0		11.9	15.0		11.9
G&A (2 years)							-7.0		(5.6)	(7.0)		(5.6)
Aupec							5.0		4.0	5.0		4.0
FPM stake							4.7		3.7	4.7		3.7
Corporate							48.2		38.4	48.2		38.4
Core NAV				-	3.3	0.6	46.7	84.2	37.2	46.7	84.2	37.2
UK Greater PDL Area	Perth/Dolphin/ Lowlander	66.3%	15%	60.6	0.0	60.6	36.6	0.6	29.1	247.1	4.1	196.9
UK Greater PDL Area	Polecat	100.0%	14%	26.0	-	26.0	17.6	0.7	14.0	130.0	5.0	103.6
UK Greater PDL Area	Marten	100.0%	14%	7.0	-	7.0	4.7	0.7	3.8	35.0	5.0	27.9
UK SNS	Platypus	15.0%	18%	-	18.6	3.1	0.8	0.3	0.7	4.7	1.5	3.7
UK SNS	Pharos	30.8%	14%	-	56.9	9.5	1.9	0.2	1.5	14.2	1.5	11.3
Undeveloped resources				93.6	75.5	106.1	61.6	0.6	49.1	431.0	4.1	343.3
Tangible NAV				93.6	78.9	106.7	108.4	1.0	86.3	477.8	4.5	380.6
UK SNS	Possum	15.0%	5%	-	7.1	1.2	0.1	0.1	0.1	1.8	1.5	1.4
Exploration prospects				-	7.1	1.2	0.1	0.1	0.1	1.8	1.5	1.4
All sources NAV				93.6	85.9	107.9	108.4	1.0	86.4	479.5	4.4	382.0

*Chance of Commerciality = Chance of Discovery x Chance of Development

Source Panmure Gordon

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Distribution of investment ratings for equity research (as of 3 Jan 18)			Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)	
Overall Global Distribution (Banking Client*)			Buy	Total return of >10% in next 12 months
Buy	Hold	Sell	Hold	Total return >-10% and <+10% in next 12 months
66% (47%)	27% (8%)	7% (0%)	Sell	Total return <-10% in next 12 months
* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients				

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