

20 June 2023

## Corp

Ticker	PMG:AIM
Oil & Gas	
Shares in issue (m)	109.3
Next results	FY Sept

Price	15.8p
Target price	45.0p
Upside	186%

Market cap	£17.2m
Net debt/(cash)	-£19.6m
Other EV adjustments	£0.0m
Enterprise value	-£2.4m

What's changed?	From	To
Adjusted EPS	3.0	2.6
Target price	167.0	45.0

### Share price performance



%	1M	3M	12M
Actual	-25.0	-56.3	-68.8

### Company description

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

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\* denotes corporate client of finnCap

## PARKMEAD GROUP\*

### UK North Sea strategy update

Parkmead is shifting its strategy to focus on projects that are fit for the energy transition and can deliver near-term value creation. As a result, it is relinquishing its Perth licences in the North Sea due to the significant challenges and increased costs associated with this development project. The GPA development was a key component of our valuation. Removing it lowers our risk NAV sharply, from 167p/sh to 45p/sh. To a large extent this is already priced in: the shares have lost ~50% in the last three months as the market's confidence in Parkmead finding a partner(s) for the project receded. Nevertheless, this was a sizeable opportunity and its relinquishment will still disappoint investors.

- **Strategy shift.** The increasingly challenging environment in the North Sea – volatile pricing, ageing infrastructure, rising costs, an uncertain fiscal environment and limited funding appetite – has led Parkmead to re-evaluate its strategy to ensure it is 'fit for purpose' for the energy transition. As a result, Parkmead is shifting its strategy to focus on gas production and electricity generation from renewable energies. It will continue to work on its existing portfolio of oil and gas assets, which have the potential to be developed rapidly, and will evaluate acquisition opportunities that are aligned with this strategy.

- **Perth licences relinquished.** The key casualty of this strategy shift is the Greater Perth Area (GPA), which has proved too challenging and costly to advance. Management has been pursuing a farm-out of its GPA development project in the Central North Sea for several months but ageing neighbouring infrastructure and higher capital costs (capex has risen to ~US\$1bn), alongside a harsh and uncertain UK upstream fiscal environment following the introduction of the windfall tax, has hampered progress with potential partners. Significant fiscal uncertainty, in particular, has diminished the appetite of major energy companies for large development projects such as this. Management expects to take a one-off non-cash impairment charge of ~£33m relating to the Perth area with its FY23 results.

- **Focused on near-term value creation.** Management will instead refocus its efforts on projects that present clear opportunities for near-term value creation. This includes the high-impact Skerryvore exploration opportunity in the Central North Sea (PMG 50%), which management believes can be developed in a timely and cost-efficient manner. Good progress is being made with well planning as well as vessel and rig tendering. Skerryvore is comprised of stacked prospects and is surrounded by modern infrastructure, providing low-cost development tie-back options. Parkmead is also pursuing selective applications in the UKCS 33rd Oil & Gas Licensing Round which are consistent with this strategy. Management continues to evaluate a number of acquisition opportunities to build on its solid low-cost Dutch gas production base and its growing UK onshore renewable energy presence. Its ~£150m pool of UK ring-fenced tax losses will help here as they can be utilised to improve the economics of North Sea production acquisitions.

Key estimates		2020A	2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun	Jun
Revenue	£m	4.1	3.6	12.1	19.0	10.8
Adj EBITDA	£m	0.3	-0.9	8.2	15.1	6.7
Adj EBIT	£m	-0.5	-1.5	7.5	14.3	5.9
Adj PBT	£m	-0.7	-2.6	6.3	14.1	5.7
Adj EPS	p	0.5	-2.2	1.2	2.6	2.3
DPS	p	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2020A	2021A	2022A	2023E	2024E
EV/sales	x	-0.6	-0.7	-0.2	-0.1	0.0
EV/EBIT (adj)	x	4.9	1.6	-0.3	-0.2	0.0
P/E (adj)	x	34.6	-7.1	13.4	6.1	6.8
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-27.5%	-11.5%	-5.2%	-80.3%	-9.1%

## UK North Sea strategy update

Income statement		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Sales	£m	3.6	12.1	19.0	10.8
Gross profit	£m	2.3	11.6	17.8	8.9
EBITDA (adjusted)	£m	-0.9	8.2	15.1	6.7
<b>EBIT (adjusted)</b>	<b>£m</b>	<b>-1.5</b>	<b>7.5</b>	<b>14.3</b>	<b>5.9</b>
Associates/other	£m	-0.4	0.0	0.0	0.0
Net interest	£m	-0.7	-1.2	-0.2	-0.1
<b>PBT (adjusted)</b>	<b>£m</b>	<b>-2.6</b>	<b>6.3</b>	<b>14.1</b>	<b>5.7</b>
Total adjustments	£m	-10.9	-2.3	-45.8	-0.1
PBT (stated)	£m	-13.5	4.0	-31.7	5.6
Tax charge	£m	-0.4	-4.8	-11.0	-2.9
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	-13.8	-0.8	-42.7	2.7
<b>Adjusted earnings</b>	<b>£m</b>	<b>-2.6</b>	<b>1.4</b>	<b>3.1</b>	<b>2.7</b>
Shares in issue (year end)	m	109.2	109.3	109.3	109.3
EPS (stated)	p	-12.7	-0.7	-39.0	2.5
<b>EPS (adjusted, fully diluted)</b>	<b>p</b>	<b>-2.2</b>	<b>1.2</b>	<b>2.6</b>	<b>2.3</b>
DPS	p	0.0	0.0	0.0	0.0

Cash flow		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
EBITDA	£m	-0.9	8.2	15.1	6.7
Net change in working capital	£m	-1.1	-0.6	0.0	0.0
Other operating items	£m	0.8	0.4	0.2	-3.8
<b>Cash flow from op. activities</b>	<b>£m</b>	<b>-1.2</b>	<b>8.0</b>	<b>15.3</b>	<b>2.8</b>
Cash interest	£m	0.0	0.0	-0.2	-0.1
Cash tax	£m	-0.1	-3.5	-6.9	-2.9
Capex	£m	-0.7	-3.8	-2.8	-1.4
Other items	£m	-0.0	-1.7	-19.2	0.0
<b>Free cash flow</b>	<b>£m</b>	<b>-2.0</b>	<b>-0.9</b>	<b>-13.8</b>	<b>-1.6</b>
Acquisitions / disposals	£m				
Dividends	£m				
Shares issued	£m	0.0	0.0	0.0	0.0
Other	£m	-4.4	-0.1	2.5	-0.4
<b>Net change in cash flow</b>	<b>£m</b>	<b>-2.4</b>	<b>-0.1</b>	<b>-12.9</b>	<b>-1.9</b>
Opening net cash (debt)	£m	25.0	25.8	25.2	9.4
<b>Closing net cash (debt)</b>	<b>£m</b>	<b>25.8</b>	<b>25.2</b>	<b>9.4</b>	<b>7.5</b>

Balance sheet		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Tangible fixed assets	£m	19.3	22.5	24.9	24.1
Goodwill & other intangibles	£m	31.7	35.4	-9.3	-8.2
Other non current assets	£m	2.9	3.1	0.2	0.2
Net working capital	£m	-2.1	-20.7	-1.1	-0.8
Other assets	£m	0.0	0.0	0.0	0.0
Other liabilities	£m	-17.0	-5.6	-5.6	-5.6
Gross cash & cash equivalents	£m	23.4	23.3	10.4	8.4
<b>Capital employed</b>	<b>£m</b>	<b>58.2</b>	<b>57.9</b>	<b>19.4</b>	<b>18.2</b>
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	18.5	17.3
Minorities	£m	0.0	0.0	0.0	0.0
<b>Capital employed</b>	<b>£m</b>	<b>58.2</b>	<b>57.9</b>	<b>19.4</b>	<b>18.2</b>

Growth analysis		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Sales growth	%	-11.6%	236.1%	56.9%	-43.4%
EBITDA growth	%	-430.6%	n/m	83.6%	-55.7%
EBIT growth	%	-212.2%	592.2%	91.1%	-59.1%
PBT growth	%	-248.5%	342.2%	125.7%	-59.6%
EPS growth	%	-589.6%	152.6%	120.7%	-10.9%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Gross margin	%	64.9%	95.4%	93.6%	82.7%
EBITDA margin	%	-25.3%	67.8%	79.4%	62.2%
EBIT margin	%	-42.2%	61.8%	75.3%	54.4%
PBT margin	%	-71.6%	51.6%	74.2%	53.0%
Net margin	%	-73.3%	11.5%	16.1%	25.4%

Valuation analysis		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
EV/EBITDA	x	2.6	-0.3	-0.2	0.0
EV/EBIT	x	1.6	-0.3	-0.2	0.0
P/E	x	-7.1	13.4	6.1	6.8

Cash flow analysis		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Cash conv'n (op cash / EBITDA)	%	n/m	97.7%	101.2%	42.5%
Cash conv'n (FCF / EBITDA)	%	217.7%	-10.9%	-91.5%	-23.4%
U/lying FCF (capex = depn)	£m	-1.9	2.2	-11.8	-1.0
Cash quality (u/l FCF / adj earn)	%	72.5%	155.6%	-384.8%	-37.3%
Investment rate (capex / depn)	x	1.1	5.2	3.6	1.7
Interest cash cover	x	net cash	n/a	72.3	19.0
Dividend cash cover	x	n/a	n/a	n/a	n/a

Working capital analysis		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Net working capital / sales	%	-57.4%	-170.8%	-6.0%	-7.1%
Net working capital / sales	days	-210	-623	-22	-26
Inventory (days)	days	7	1	1	1
Receivables (days)	days	137	61	39	68
Payables (days)	days	353	685	61	96

Leverage analysis		2021A	2022A	2023E	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	net cash	net cash
Liabilities / capital employed	%	0.9%	1.6%	4.9%	5.2%

Capital efficiency & intrinsic value		2021A	2022A	2023E	2024E
Year end:		Jun	Jun	Jun	Jun
Adjusted return on equity	%	-4.6%	2.4%	16.6%	15.8%
RoCE (EBIT basis, pre-tax)	%	-2.6%	12.9%	73.8%	32.2%
RoCE (u/lying FCF basis)	%	-3.3%	3.7%	-60.8%	-5.6%
NAV per share	p	52.9	52.2	16.9	15.8
NTA per share	p	23.9	19.7	25.4	23.3

## Valuation

We have updated our valuation and estimates following the decision not to extend the Greater Perth Area licences and marked-to-market our FY23 Dutch gas price assumption (€110/MWh down from €115/MWh), resulting in our risked NAV and price target declining sharply from 167p/sh to 45p/sh.

Figure 1: Parkmead net asset value

Net Asset Valuation	Net resource mmboe	NPV/bbl US\$/boe	Unrisked NPV US\$m	p/sh	Geological Co\$	Commercial Co\$	Dry hole cost US\$m	Riskd NPV US\$m	p/sh
Net cash / (debt)			24.5	16.0				24.5	16.0
G&A			-21.3	-13.9				-21.3	-13.9
Options/SARs			5.1	3.3				5.1	3.3
Decommissioning			-21.4	-13.9				-21.4	-13.9
Aupec (8x 2023e EBIT)			0.1	0.1				0.1	0.1
Pitreadie Farm Ltd land (@ cost adjusted for land sales)			5.6	3.7				5.6	3.7
Kempstone Hi 1.5 MW Wind Farm			5.0	3.3				5.0	3.3
High Blackwood 0.5 MW Wind Farm			1.8	1.2				1.8	1.2
			-0.5	-0.3				-0.5	-0.3
<b>Producing assets</b>									
Netherlands producing	2.0	15.87	32.5	21.2	100%	100%		32.5	21.2
<b>Core value:</b>			<b>32.1</b>	<b>20.8</b>				<b>32.1</b>	<b>20.8</b>
<b>Contingent resource:</b>									
Pitreadie 20MW hybrid renewables project			6.9	4.5		50%		3.5	2.3
Netherlands - Ottoland	0.7	9.52	6.6	4.3	100%	50%		3.3	2.1
Netherlands - Papekop	0.9	9.52	8.5	5.5	100%	50%		4.2	2.8
UK - Fynn Beaul	25.1	2.50	62.8	41.0	100%	10%		6.3	4.1
UK - Fynn Andrew	9.3	2.50	23.1	15.1	100%	10%		2.3	1.5
<b>Contingent value:</b>			<b>107.9</b>	<b>70.4</b>				<b>19.6</b>	<b>12.8</b>
<b>Prospective resource:</b>									
UK - Skerryvore (Mey+Ekofisk+Tor)	77.7	5.14	399.0	260.4	24%	25%	5.8	18.1	11.8
<b>Prospective value:</b>			<b>399.0</b>	<b>260.4</b>				<b>18.1</b>	<b>11.8</b>
<b>Total - Core + Contingent + Prospective:</b>			<b>539.0</b>	<b>351.6</b>				<b>69.8</b>	<b>45.4</b>

Source: finnCap

Discounted to 1 January 2023 at 10%.

Assumes Dutch TTF gas prices of €110/MWh in FY23, €50/MWh in FY24, €40/MWh in FY25 and €30/MWh thereafter. Long term Brent US\$70/bbl.

Figure 2, below, summarises our estimate changes as a result of the adjustment to our FY23 Dutch gas price assumption and the expected £33m one-off non-cash impairment charge following the relinquishment of the Perth licences. We now also include the contribution from the recently acquired High Blackwood Wind Farm in our forecasts.

Figure 2: Parkmead estimate change summary

June yr end		FY 2023 estimates			FY 2024 estimates		
		New	Old	% Chg	New	Old	% Chg y/y
Brent oil price	US\$/bbl	88.0	88.0	0%	75.0	75.0	0%
Dutch TTF gas price	€/MWh	110.0	115.0	-4%	50.0	50.0	0%
Exchange rate	£/US\$	1.20	1.20	0%	1.25	1.25	0%
Exchange rate	€/US\$	1.10	1.10	0%	1.10	1.10	0%
Revenue	£'000	19,025	19,894	-4%	10,766	10,443	3%
Gross Profit	£'000	16,937	17,692	-4%	7,969	7,979	0%
Adjusted EBITDA	£'000	15,102	15,849	-5%	6,693	6,592	2%
Adjusted EBIT	£'000	14,238	14,993	-5%	5,759	5,769	0%
Net finance expense	£'000	(211)	(208)	1%	(150)	(144)	4%
Adjusted PBT	£'000	14,026	14,785	-5%	5,609	5,625	0%
Tax	£'000	(10,956)	(11,302)	-3%	(2,875)	(2,898)	-1%
Adjusted net profit	£'000	3,070	3,483	-12%	2,734	2,727	0%
EPS	£'000	(39.01)	(8.46)	361%	2.50	2.50	0%
Net CFFO	£'000	8,370	8,770	-5%	(31)	(155)	-80%
Capex	£'000	(2,781)	(2,781)	0%	(1,388)	(1,388)	0%
Decommissioning payments	£'000	(19,200)	(19,200)	0%	-	-	-
Period-end cash	£'000	10,365	12,369	-16%	8,422	10,307	-18%
Period-end debt	£'000	(948)	(948)	-	(948)	(948)	0%
Net cash/(debt)	£'000	9,417	11,421	-18%	7,474	9,359	-20%

Source: finnCap

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