

12 January 2023

Corp

Ticker	PMG:AIM
Oil & Gas	
Shares in issue (m)	109.3
Next results	H1 May
Price	52.0p
Target price	184.0p
Upside	254%
Market cap	£56.8m
Net debt/(cash)	-£25.2m
Other EV adjustments	£0.0m
Enterprise value	£31.6m

What's changed?	From	To
Adjusted EPS	6.8	n/c
Target price	187.0	184.0

Share price performance



%	1M	3M	12M
Actual	-15.0	-17.5	23.8

Company description

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

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PARKMEAD GROUP*

Dutch gas discovery

Parkmead has announced a gas discovery with the first of its two planned wells in the Netherlands, which will be quickly and cheaply tied back to existing infrastructure, boosting Parkmead's exposure to strong gas prices. In isolation, this adds ~2p/sh to our valuation, with further upside possible from the second well in this programme and the additional prospectivity contained on the licence, both of which have been significantly de-risked with this discovery. However, offsetting this is the impact of windfall taxes in both the UK and Netherlands. This results in a 2% cut to our risked NAV and price target to 184p/sh, which feels churlish given today's positive drilling news and the fact that UK windfall taxes provide a significant incentive for potential partners in its ongoing GPA farm-out process.

- **Dutch gas discovery.** The LDS-01 well on the Drenthe VI concession (PMG 7.5%) in the Netherlands has been successfully completed, encountering gas columns at multiple intervals in the main horizons. LDS-01 will be tied-in to production following the conclusion of the second well in this programme, LDS-02, which is currently drilling and has been significantly de-risked by this discovery. A short tie-in period is expected due to the well's close proximity to the Diever field production infrastructure, with first gas from LDS-01 anticipated within Q1 2023.
- **Multiple follow-on opportunities.** The pre-drill resource estimate for the prospects targeted by the two LDS wells was a combined Pmean 37 bcf gas-in-place. The wells have the potential to significantly increase Parkmead's production, adding volumes of up to 5,900 boepd gross, further raising Parkmead's exposure to strong European gas prices. We await updated guidance once the well(s) are onstream but note that our current estimates conservatively include ~20% of this volume potential. Moreover, this discovery should open up additional drilling opportunities on the large Drenthe VI licence, which contains multiple low-risk, high return prospects.
- **Gas prices have eased.** European gas prices have fallen sharply due to a mild winter and high gas storage levels. Dutch TTF gas prices are down 80% from their summer highs to €70/MWh but remain very high by historical standards. With operating costs of less than US\$9/boe, these onshore assets remain highly profitable. Pre-drill, our risked valuation of these LDS prospects was 1.4p/sh. In isolation, de-risking the LDS-01 discovery adds ~2p/sh to our valuation. Fully de-risking the LDS prospects would add another ~2p/sh to our valuation.
- **Windfall taxes restrain valuation.** Offsetting this valuation uplift is the impact of windfall taxes in both the UK and the Netherlands. The Dutch lower house of parliament approved a 'windfall tax' on the gas, oil and coal sectors in November, which now passes to the upper house for approval. Unlike in the UK, this windfall levy is only expected to apply to 2023-24 so should be modest. We are still awaiting final clarification of the levy terms, so have not yet factored this into our forecasts. However, we now include the UK windfall tax in our Greater Perth Area (GPA) development model, which lowers our valuation by 6p/sh. Overall, our risked NAV and price target falls 3p/sh to 184p/sh.

Key estimates		2019A	2020A	2021A	2022A	2023E
Year end:		Jun	Jun	Jun	Jun	Jun
Revenue	£m	8.3	4.1	3.6	12.1	22.1
Adj EBITDA	£m	5.4	0.3	-0.9	8.2	17.9
Adj EBIT	£m	5.2	-0.5	-1.5	7.5	17.2
Adj PBT	£m	4.8	-0.7	-2.6	4.1	16.5
Adj EPS	p	2.4	0.5	-2.2	1.2	6.8
DPS	p	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2019A	2020A	2021A	2022A	2023E
EV/EBIT (adj)	x	6.1	-64.8	-20.7	4.2	1.8
P/E (adj)	x	21.3	114.1	-23.3	44.3	7.6
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-1.5%	-8.3%	-3.5%	-1.6%	-23.5%
Pre-tax ROCE	%	7.6%	-0.7%	-2.6%	12.9%	25.9%

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The recommendation system used for this research is as follows. We expect the indicated target price to be achieved within 12 months of the date of this publication. A 'Hold' indicates expected share price performance of +/-10%, a 'Buy' indicates an expected increase in share price of more than 10% and a 'Sell' indicates an expected decrease in share price of more than 10%.

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