

15 September 2022

Corp

Ticker	PMG:AIM
Oil & Gas	
Shares in issue (m)	109.3
Next results	FY Nov
Price	56.8p
Target price	164.0p
Upside	189%
Market cap	£62.1m
Net debt/(cash)	-£19.6m
Other EV adjustments	£0.0m
Enterprise value	£42.4m

What's changed?	From	To
Adjusted EPS	3.7	n/c
Target price	164.0	n/c

Share price performance



%	1M	3M	12M
Actual	-19.7	13.1	5.8

Company description

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

Jonathan Wright

Director of Research

* denotes corporate client of finncap

PARKMEAD GROUP*

Skerryvore stake increased, high-impact drilling planned

Parkmead is adding high-impact exploration potential into its investment proposition, increasing its stake in the UK Skerryvore prospect and moving into the drilling phase of the licence. This comes on top of its high margin onshore Dutch gas production and the significant Greater Perth Area oil development opportunity, where a farm-out process has been launched. Strong commodity prices and an urgent drive for domestic energy security, alongside the inducement to invest provided by UK windfall taxes, means Parkmead has never been in a better position to deliver significant accretion in asset value.

- **Raising exposure to high-impact drilling.** Parkmead has reached agreement to increase its stake in the Skerryvore exploration prospect in the UK Central North Sea from 30% to 50% at zero cost. Together with CalEnergy, they have assumed NEO Energy's 30% stake, with Serica holding the remaining 20% of the licence. Parkmead has also received approval from the North Sea Transition Authority (NSTA) to enter the next 3-year exploration phase of the P.2400 licence on which Skerryvore sits, with agreement to drill the high-impact prospects. The rig market is tight and partner alignment will be required, but the well should be drilled comfortably within the 3-year licence window, hopefully in H1 2024. Nearer term, Parkmead is a partner on a two-well drilling campaign in the Netherlands. These are smaller gas targets (37 bcf GIIP), but material none-the-less given current Dutch gas prices and their potential for rapid commercialisation.
- **Major stacked reservoir resource potential.** Parkmead's 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 prospective resources of 157 mboe and have previously been given an average geological chance of success (GCoS) of 24%. We value the larger 50% Skerryvore stake at 9p/sh within our risked NAV of 164p/sh, assuming a 30% commercial chance of success on top of the GCoS. Fully unrisks, this rises to 185p/sh. In the success case, any future development would likely be tied back to existing or planned infrastructure in the area. We would expect a well to cost ~£20m gross (£10m net) for which Parkmead is well funded, with cash at end December 2021 of £24m.
- **Favourable farm out environment.** Parkmead launched its farm-out process at the end of July on the tailwind of the UK's Energy Profits Levy, which heavily incentivises oil and gas producers to invest in new projects. Progress is said to be encouraging, with the process benefiting from the strong commodity price environment and the UK windfall tax investment incentives, plus a more supportive political backdrop. What's more, a new UK licensing round is also planned. Who knows, we may even see the return of the Platypus licence, which Parkmead was forced to relinquish less than a year ago in a less-conducive regulatory environment.

Key estimates		2019A	2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jun	Jun
Revenue	£m	8.3	4.1	3.6	13.1	14.1
Adj EBITDA	£m	5.4	0.3	-0.9	9.3	10.2
Adj EBIT	£m	5.2	-0.5	-1.5	8.8	9.7
Adj PBT	£m	4.8	-0.7	-2.6	8.2	9.1
Adj EPS	p	2.4	0.8	-2.5	3.7	4.0
DPS	p	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2019A	2020A	2021A	2022E	2023E
EV/EBIT (adj)	x	8.2	-86.9	-27.8	4.8	4.4
P/E (adj)	x	23.2	72.6	-22.5	15.4	14.2
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-1.4%	-7.6%	-3.2%	5.9%	5.5%
Pre-tax ROCE	%	7.6%	-0.7%	-2.6%	13.9%	14.3%