Parkmead Group (BUY) – FY16 results in line with expectations
PMG LN (55p, TP 163p), Market Cap: £54m

Our view: **Parkmead has released its preliminary results for the year ended 30 June 2016. The financials are broadly in line with our forecasts, with the company being cash flow positive on an operating basis since January 2016. Operationally, it has been another year of strong progress in terms of the company building out its European footprint. Six acquisitions, at both an asset and corporate level, have been completed, and the company continues to evaluate further acquisition opportunities to take advantage of the current low oil price environment. We reiterate our BUY recommendation and 163p TP.**

- **Financials in line with our forecasts –** Revenues for the year were £10.4m (CFE est: £10.47m; 2015: £18.6m). Oil production at the Athena field was shut-in in January 2016 as part of this cost reduction programme, substantially reducing the company's cost of sales. Parkmead has re-allocated capital to the its low-cost producing gas fields in the Netherlands, where its four separate gas fields have an average operating cost of US$14/boe. Parkmead's gas portfolio in the Netherlands generates positive cash flows despite the low current commodity prices, and all revenue from this gas production is received in Euros, mitigating recent currency fluctuations. Administrative expenses were £0.5m (2015: £1.2m credit), which includes a credit in respect of a non-cash share based payment charge. Cash at year end was £28.3m (2015: £41.1m), and the company remains debt free.
- **Another year of strong operational progress –** Parkmead's reserves and resources have significantly increased in 2016 through two licence acquisitions. The company has increased its position around the PDL oil hub in the UK North Sea; and its new licence awards in the 28th Round served to boost the company's acreage position, with 10 new offshore blocks awarded. In particular, we are encouraged by the new award in the West of Shetland region targeting two prospects, Sanda North and Sanda South. We remain of the view that Parkmead is well positioned to take advantage of the ongoing lower oil price environment, and the opportunities that are arising from this. With an experienced management team, strong cash position, and a growing, low-cost gas portfolio, we believe the company will remain acquisitive into 2017.
- **Valuation undemanding –** Our core valuation of 155p takes account of Parkmead's discovered resource base and financial assets/liabilities, whilst we only ascribe 8p for exploration upside. We continue to advocate low operating cost, and well capitalised producers in the current climate, and therefore highlight Parkmead as an attractive opportunity for investors. BUY TP 163p.
- **Risks –** Commodity price fluctuations, currency fluctuations, geological risk.