Parkmead Group (BUY) – Interim results, strong financial position
PMG LN (62p, TP 163p), Market Cap: £67m

***Our view*: Parkmead's interim results underline the company's financial strength despite a challenging sector backdrop. Whilst revenues are down materially on 2014, the company maintains a strong cash position following a successful equity placing in May. We believe the company is well positioned to build out its European footprint through an acquisition-led growth strategy, taking advantage of low asset valuations. Concurrently, the company will organically grow its existing low-cost gas portfolio delivering additional near-term cash flows, and naturally hedging its exposure to oil price weakness.**

- Financials in line with expectations – During the six month period to 31 December 2015, Parkmead generated revenues of £7.0m (2014: £10.1m). The reduction in revenues was principally attributable to the global drop in commodity prices with Brent crude oil averaging US$48/bbl in the second half of 2015 compared to US$91/bbl in the second half of 2014. The reduction in revenue was partly offset by the increasing contribution from Diever West in the Netherlands following first gas in November 2015. A significant reduction in operating costs was achieved in the period which, combined with no impairment charge being recorded compared to the corresponding period last year, reduced the company's post-tax loss substantially to £4.8m (2014: £14.9m). The Athena field was shut-in in January 2016 following which the final operating costs will substantially be incurred before the end of Q1 2016. Parkmead's low-cost producing gas fields in the Netherlands (where the four separate gas fields have an average operating cost of US$14/boe) generate positive cash flows despite the low pricing environment. Parkmead's cash position was £29.6m at 31 December 2015 (30 June 15: £41.1m) with nominal debt, reflecting the continued strength of its balance sheet.

- Potential for 2016 portfolio growth – The sharp decline in the oil price and subsequent impact on valuations of European based assets has led to a number of unique buying opportunities that Parkmead can capitalise on. We believe the slump in the crude price since 2014 will speed the process of transformation in the North Sea, which will see independents playing an increasingly important role, as larger players look to divest exposure to mature fields in favour of more material assets globally. In light of this, Shell is actively reducing its exposure to mature fields in areas such as the Northern North Sea, and we have seen asset sales from other IOCs as well as NOCs. In late 2014, Faroe Petroleum (BUY – TP 100p) purchased two producing fields from Tullow Oil (HOLD – TP 163p) as the latter looks to focus on its West African portfolio. Independents are able to utilise the value of their tax shields on UK production cash flows, offsetting historical losses, and therefore boosting the NPVs of these fields. This, in effect, would suggests that North Sea production remains extremely competitive on a global basis.

- Diever West illustrates operational competence – In September 2014 the Diever-2 well found gas in a good quality Rotliegendes age sandstone reservoir. A 157ft gas column was encountered, with both net pay and porosity values exceeding pre-drill expectations. The well was tested following the successful discovery and recorded an excellent flow rate of 29MMcf/d (c.5,000boepd). Diever West has been tied into existing production facilities under a fast-track and low-cost development, and first commercial gas production was achieved in November 2015. Parkmead has worked closely with the field operator, Vermilion Energy, on the fast-track development of the field and the joint-venture group successfully brought the field on-stream within just 14 months of discovery.

- 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.

Sam Wahab | Oil & Gas Research |

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