investors CHRONICLE

Simon Thompson October 29, 2018

Bargain Shares: Repeating buying opportunities

Simon Thompson

Parkmead offers a repeat buying opportunity

This is also an opportune time to revisit **Parkmead** (PMG:50.5p), a small-cap oil and gas exploration and development company led by 19 per cent shareholder Tom Cross, the founder and former chief executive of Dana Petroleum until its sale to the Korea National Oil Corporation in 2010. The shares are the top performer in this year's portfolio, up 35 per cent, but have given back a chunk of their gains and unjustifiably so. The company reports its annual results to the end of June 2018 in a few weeks time, too.

In the Netherlands, Parkmead holds a 7.5 per cent interest in the Diever West gas field which came on stream three years ago and has been exceeding expectations since then. The company revealed in its last update that the field was generating an average daily output of 7,833 barrels of oil equivalent (boe) and that new dynamic monitoring suggests it has 18.6m boe of gross gas-in-place, or 108bn cubic feet, more than double the original estimate. Cash generation from Diever explains why analyst Colin Smith at house broker Panmure Gordon expects Parkmead to report a positive annual net cash flow of £1.1m from operations and is forecasting net cash of £23m at the period end, a sum worth 23p a share.

In addition, Parkmead owns a shareholding worth £5.7m in oil and gas producer **Faroe Petroleum** (FPM), a company that is being courted by DNO ASA, the Norwegian oil and gas operator that has built up a 28.7 per cent stake. Effectively cash in the bank, and the stake in Faroe backs up almost 60 per cent of its own market value of £49m. However, the most likely catalyst for a share price re-rating lies in Parkmead's exploration activities across 30 licences in the North Sea, any one of which has potential to create substantial investment upside for shareholders.

The most of important are three licences in the Moray Firth that contain the Perth and Dolphin fields. Parkmead has commissioned a reservoir study that could lead to a marked increase in the recovery factor of oil volumes at the Perth field, which currently stand at 197m barrels of oil for core Perth and 498m barrels including the northern areas of the field. The Perth and Dolphin fields account for 60 per cent of Panmure Gordon's valuation of all the fields in Parkmead's portfolio. Bearing this in mind, in the UK 30th licensing rounds, the company secured a further five licences including a block in the Outer Moray First Basin that contains the Lowlander oil discovery, located 10 miles north west of the Parkmead operated Perth field, which is at the centre of its Greater Perth Area (GPA) oil hub project.

The Lowlander field is important to Parkmead because it could be developed as part of the GPA project. The block also contains an Upper Jurassic turbidite sandstone discovery, Midlander, to the north east of Lowlander that could add to Parkmead's resource base in the area. The work programme consists of obtaining 3D seismic and a drill or drop well. The addition of the Lowlander field increases Parkmead's 2C 'contingent' resources by 29 per cent to 95.3m boe.

The bottom line is that in a few weeks time I expect a positive update from Parkmead on how its GPA commercialisation plans are progressing, and further good news from Diever. So, with the cash-rich shares trading on a 40 per cent discount to Panmure Gordon's risked NAV estimate of 85p a share, and positive divergence on the charts – the 14-day relative strength index (RSI) has made a higher low at the 46p to 47p support level when it was tested earlier this month – I see this as a repeat buying opportunity.