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Equity Research

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Stock	Rec	Price	Target Price
Faroe Petroleum	Buy	63p	135p
Parkmead	Buy	62p	105p

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## FLASH OIL & GAS

### Budget tax changes benefit Parkmead and Faroe

In today's UK Budget, the Chancellor of the Exchequer, George Osborne, announced a halving in the current rate of Supplementary Duty and a zero rating of Petroleum of Revenue Tax. With respect to our UK North Sea exposed coverage we increase our Target Prices for each of Parkmead and Faroe by 10p per share taking them to 105p (from 95p) and 135p (from 125p) respectively. Neither company is currently tax paying in the UK and we have not adjusted our financial forecasts, although there could be a potential impact on deferred tax balances.

- ▶ **Budget changes.** Once again the UK government is tinkering with UK oil and gas taxation. UK Oil & Gas, the industry body had called for the elimination of special taxation rates for the North Sea and got a fair chunk of what it asked for with a halving in the rate of Supplementary Duty to 10% and a zero rating for Petroleum Revenue Tax (from 35%). The impact on the industry is marginal with an average annual estimated reduction in tax paid of some £200m pa over the next five years. However, under current industry circumstances, every little helps. The rate of Ring Fence Corporation Tax remains at 30% and there was no Norwegian style change to directly refund unutilisable tax allowances on Exploration and Appraisal activity.
- ▶ **Target prices increased.** Within our current coverage, Parkmead and Faroe are the companies with UK North Sea exposure. Parkmead is most likely to benefit and our NAV for the Company increases to 103p which we round to a Target Price of 105p (from 95p). For Faroe, including minor additional changes, our NAV increases to 136p which we round to a Target price of 135p. We estimate indicative NAVs at a flat US\$50/bbl for Brent of 68p per share for Parkmead and 105p per share for Faroe adjusting for the change in macro assumption only.
- ▶ **Reiterate Buy.** These tax changes confirm that the UK has a relatively dynamic tax environment and that the government is trying to support the industry although it has stopped short of anything radical. We reiterate our Buy recommendations on Parkmead and Faroe on a twelve month view.

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<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>Hold</b>	Total return >-10% and <+10% in next 12 months
71% (41%)	20% (7%)	9% (0%)	<b>Sell</b>	Total return <-10% in next 12 months

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