

24 March 2017

Equity Research
Colin Smith



OIL & GAS PRODUCERS FLASH PARKMEAD

Interim results to 30 December: £0.7m gross profit

Parkmead reported a gross profit for the six months to December 2016 of £0.7m, a significant improvement on the £4.1m loss reported at the interim stage last year. That reflected the end of loss making production at Athena and the growth in Dutch gas production as a result of the start-up of Diever West. The loss per share was reduced to 2.1p per share (2015 loss per share of 4.8p), excluding impairments, or 4.6p per share on a reported basis. The balance sheet remained robust with cash and net cash of £26.7m. We amend our forecasts to reflect the impairment and retain our 105p per share Target Price and Buy recommendation. Parkmead continues to evaluate further deals and investors are fully aware of Tom Cross's strong track record.

- **Results.** Parkmead returned to profit at the gross profit level. The improvement was not carried through to the bottom line as a result of a £2.4m impairment charge in respect of exploration licences relinquished and a £3.0m negative, non-cash swing in the P&L impact from the revaluation of Share Appreciation Rights in G&A expense. Underlying G&A fell by 21% YoY, we calculate. Net cash used in operating activities of £0.7m was less than a tenth of the outflow experienced at the interim stage last year while net cash used in investing activities fell by a third to £1.0m.
- **Progress.** During the half, Parkmead doubled its interest in the Polecat and Marten fields, taking full control and also increased its stake in the Perth and Dolphin fields to 60.05%. Parkmead disclosed expected recoverable reserves and contingent resources of approximately 104mmb at the Greater Perth Area hub, the development of which the company continues to progress.
- **Revisions.** We amend our figures to reflect these results with a revised forecast for full year negative EPS of 5.8p (from (3.7)p) but our 2017/18 forecast improves by 19% to reflect lower ongoing DD&A.

continued



(Remains Unchanged)

Target Price: 105p

Share Price: 45p

(Price at close 22 March 2017)

Stock Codes PMG.L / PMG LN

Market Cap £44m

Last Published Research: 17 March 2017

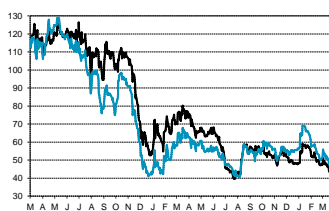
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Absolute & Relative Performance



— Absolute

— Relative to DS Oil & Gas

Source Datastream

This is a marketing communication

Year End	Sales (£m)	PBTA (£m)	EPS (p)	DPS ord (p)	P/E (x)	EV/EBITDA (x)	Yield (%)
June							
2016A	10.4	(6.4)	(6.8)	0.0	n/a	(6.2)	0.0
2017E	5.4	(5.7)	(5.8) from: -3.7	0.0	n/a	(7.4)	0.0
2018E	4.4	(3.0)	(2.1) from: -2.6	0.0	n/a	(9.0)	0.0
2019E	3.7	(2.7)	(2.7)	0.0	n/a	(11.4)	0.0

Source Company Data, Panmure Gordon

- ▶ **Tight discipline.** Parkmead continues to exercise tight discipline on costs and capex, while its improved finances reflect the change in the company's production profile. The company reaffirmed the substantial increase in its reserves and resources which totalled 27.9mmboe of proven and probable reserves as at 31 December, up 19% YoY and a 41% YoY increase in 2C contingent resources to 59.1mmboe. We reiterate our NAV based 105p per share Target Price and Buy recommendation. The pace of deal activity is picking up and Parkmead's strong balance sheet puts Tom Cross in a good position to reprise his old magic.



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Distribution of investment ratings for equity research (as of 8 Mar 17)			Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)	
Overall Global Distribution (Banking Client*)			Buy	Total return of >10% in next 12 months
Buy	Hold	Sell	Hold	Total return >-10% and <+10% in next 12 months
75% (45%)	16% (0%)	9% (0%)	Sell	Total return <-10% in next 12 months
* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients				

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