

## MORNING COMMENT

### BUY Parkmead

#### TP Upgrade Reflecting Increased Stake in Perth and Dolphin

Price 54.6p  
Target 196p (U/R)

Reuters/BBG PMG.L / PMG LN  
Index FTSE AIM  
Sector Oil & Gas  
Market Cap £54m

Parkmead announced yesterday that it increased its interest in the Perth and Dolphin fields to 60.05% (from 52.03%) which equates to a 15% increase our estimate of Parkmead's share of resources to 41.7 million barrels of oil from 36.3 million barrels. The Perth field is a high quality oil field benefiting from five well penetrations and a significant reserves base and Parkmead operates the field. A number of satellite fields are dependent on Perth. Due to the qualities of the field we feel compelled to increase our target price following yesterday's announcement. We have also adjusted our valuation to reflect our updated forex assumption of USD 1.40/GBP from USD 1.50/GBP. We therefore reinstate a target price of 196p/share, from under review. Prior to placing our target price under review we had a 176 p/share target price. A valuation table is provided on the following page and we will provide a comprehensive update note in due course.

By increasing its stake in the Perth field, Parkmead has added US\$43.6M of value (on an unrisks basis) into its portfolio for nil consideration. On a risks basis, we estimate that Parkmead's value has increased by US\$14.4M and this discount should unwind as certain milestones are reached at the PDL development. The full details are provided in the valuation table.

The devaluation of the pound is material and of real significance for Parkmead given that the bulk of its value is derived from USD denominated revenue. We remain comfortable with the crude oil price estimates that we made in January 2016, with Brent prices assumed to average \$44.54/b, \$57.80/b and \$70.00/b in 2016, 2017 and 2018, respectively.

Parkmead has had an active summer having increased its stakes in the Polecat, Marten, Dolphin and Perth fields, all for nil consideration. Production in the Netherlands continues to exceed expectations whilst providing useful free-cash flow to the Group. We look forward to providing the market with a comprehensive update note on these activities in due course.

Currently, the equity market is undervaluing Parkmead's high quality assets; however, we anticipate that their inherent value will be increasingly recognised as sentiment returns to the sector. We highlight that debt, which is creating anxiety within the oil & gas sector even as commodity prices recover, is not a concern for Parkmead, which has no debt and ample cash (key balance sheet details are provided on the following page).

An updated valuation is provided on the following page, with changes to our valuation highlighted in light blue (except the forex change).

#### Marketing Communication

This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research.

Analyst Brendan Long, CFA

	Working Interest (%)	Oil/ Gas	Key Assumptions			Unrisked Present Value			Risky Value			Economic Analysis				
			Gross Resource Scale (mn boe)	Net Resource Scale (mn boe)	First Production (year)	Net to Company (NPV10)			Risking Factors			Contribution to Target Price		Value \$/boe	Commodity Price Breakeven (NPV10)	
						Total USD (\$mn)	GBP (£mn)	Per Share (p/share)	Geological (%)	Commercial (%)	Combined (%)	Total (\$mn)	per Share (p/share)		Oil (\$/b)	Gas (\$/mcf)
<b>Oil &amp; Gas Assets</b>																
<b>UK Oil &amp; Gas Assets</b>																
Perth Core (Phase 1)	60.05%	Oil	39.0	23.4	2019E	92.6	66.1	62.0	100.0%	50.0%	50.0%	46.3	31.0	3.96	38	n.a.
Perth NW and NE (Phase 2)	60.05%	Oil	30.5	18.3	2022E	248.1	177.2	166.0	60.0%	50.0%	30.0%	74.4	49.8	13.56		
Platypus (discovery)	15.0%	Gas	17.3	2.6	2019E	14.8	10.6	9.9	100.0%	75.0%	75.0%	11.1	7.4	5.69	n.a.	5.50
Pharos (discovery)	30.8%	Gas	27.5	8.5	2020E	58.9	42.1	39.4	66.0%	50.0%	33.0%	19.4	13.0	6.97	n.a.	4.00
<b>Total UK Oil &amp; Gas Assets</b>			<b>114.2</b>	<b>52.8</b>		<b>414.4</b>	<b>296.0</b>	<b>277.3</b>				<b>151.3</b>	<b>101.2</b>	<b>7.86</b>		
<b>Netherlands Oil &amp; Gas Assets</b>																
Core assets	15%/7.5%	Gas	9.9	1.5	2012A	4.0	2.9	2.7	100.0%	100.0%	100.0%	4.0	2.7	2.72	n.a.	1.91
Papekop (discovery)	15%/7.5%	Oil & Gas	4.8	0.7	2017E	5.9	4.2	3.9	100.0%	50.0%	50.0%	3.0	2.0	8.19	18	4.00
<b>Total Netherlands Oil &amp; Gas Assets</b>			<b>14.7</b>	<b>2.2</b>		<b>9.9</b>	<b>7.1</b>	<b>6.6</b>				<b>7.0</b>	<b>4.7</b>	<b>4.51</b>		
<b>Total Oil &amp; Gas Assets</b>		<b>n.a.</b>	<b>128.9</b>	<b>55.0</b>	<b>n.a.</b>	<b>424.3</b>	<b>303.1</b>	<b>284.0</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>158.2</b>	<b>105.9</b>	<b>7.72</b>		
<b>Balance Sheet and Other Adjustments</b>																
Investment in Faroe Petroleum						3.6	2.6	2.4				3.6	2.4			
General & admin cash costs (PV10, three years, £2.2mn)						(7.7)	(5.5)	(5.1)				(7.7)	(5.1)			
Cash (31 December 2015)						41.4	29.6	27.7				41.4	27.7			
Working capital liability (31 December 2015)						(0.4)	(0.3)	(0.2)				(0.4)	(0.2)			
Cash assumed from option exercise						17.8	12.7	11.9				17.8	11.9			
Cash in escrow for relinquishment						(11.2)	(8.0)	(7.5)				(11.2)	(7.5)			
<b>Total of Balance Sheet and Other Adjustments</b>						<b>43.7</b>	<b>31.2</b>	<b>29.2</b>				<b>43.7</b>	<b>29.2</b>			
<b>Core NAV</b>						<b>468.0</b>	<b>334.3</b>	<b>313.2</b>				<b>201.9</b>	<b>135.1</b>			
<b>Lower Visibility Assets</b>																
<b>UK Oil &amp; Gas Assets</b>																
Possum (prospect adjacent to Platypus)	15.0%	Gas	6.6	1.0	2019E	6.2	4.4	4.1	50.0%	75.0%	37.5%	2.3	1.6	6.26	n.a.	4.00
Blackadder (prospect adjacent to Pharos)	30.8%	Gas	29.1	8.9	2020E	77.8	55.6	52.1	33.3%	50.0%	16.7%	13.0	8.7	8.70	n.a.	3.66
Selene (prospect)	50.0%	Gas	38.9	19.4	2020E	142.1	101.5	95.1	38.0%	50.0%	19.0%	27.0	18.1	7.31	n.a.	3.00
Skerrvore (prospect)	30.5%	Oil	64.9	19.8	2020E	249.7	178.4	167.1	38.0%	25.0%	9.5%	23.7	15.9	12.61	35	n.a.
Davaar (West of Shetland prospect)	30.0%	Oil	175.0	52.5	2022E	410.8	293.4	274.9	25.0%	25.0%	6.3%	25.7	17.2	7.82	41	n.a.
Sanda N/S (Davaar satellites; prospects)	56.0%	Oil	125.4	70.2	2024E	577.5	412.5	386.5	12.5%	0.0%	0.0%	-	-	8.23	37	n.a.
Polecat & Marten (Perth satellites; discoveries)	50.0%	Oil	33.6	16.8	2022E	39.3	28.1	26.3	100.0%	0.0%	0.0%	-	-	2.34	45	n.a.
Perth West (prospect adjacent to Perth)	60.05%	Oil	9.2	5.5	2022E	61.4	43.9	41.1	40.0%	0.0%	0.0%	-	-	11.16	41	n.a.
<b>Total UK Oil &amp; Gas Assets</b>			<b>482.6</b>	<b>194.2</b>		<b>1,564.8</b>	<b>1,117.7</b>	<b>1,047.2</b>				<b>91.7</b>	<b>61.4</b>	<b>8.06</b>		
<b>Netherlands Oil &amp; Gas Assets</b>																
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
<b>Total Netherlands Oil &amp; Gas Assets</b>			<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>		
<b>Total of Lower Visibility Assets</b>			<b>482.6</b>	<b>194.2</b>		<b>1,564.8</b>	<b>1,117.7</b>	<b>1,047.2</b>				<b>91.7</b>	<b>61.4</b>	<b>8.06</b>		
<b>Net Asset Value and Target Price</b>			<b>611.5</b>	<b>249</b>		<b>2,032.8</b>	<b>1,452.0</b>	<b>1,360.4</b>				<b>293.6</b>	<b>196.5</b>			

**Key assumptions:**

Asset values are based on after-tax discounted cash flow models for each asset using a 10% discount rate (a standard NPV10 approach to oil & gas assets)

Long term (2018) Brent oil price: \$70/b (inflated at 2% p.a.); Long term (2018) UK natural gas price: 50p/therm (inflated at 2% p.a.), which equates to circa \$7.71/mcf; USD/GBP = 1.40

## Disclosures

### WH Ireland Recommendation Definitions

#### Buy

Expected to outperform the FTSE All Share by 15% or more over the next 12 months.

#### Outperform

Expected to outperform the FTSE All Share by 5/15% over the next 12 months.

#### Market Perform

Expected to perform in line with the FTSE All Share over the next 12 months.

#### Underperform

Expected to underperform the FTSE All Share by 5/15% or more over the next 12 months.

#### Sell

Expected to underperform the FTSE All Share by 15% or more over the next 12 months.

#### Speculative Buy

The stock has considerable level of upside but there is a higher than average degree of risk.

#### Disclaimer

This research recommendation is intended only for distribution to Professional Clients and Eligible Counterparties as defined under the rules of the Financial Conduct Authority and is not directed at Retail Clients. This note contains investment advice of both a general and specific nature. It has been prepared with all reasonable care and is not knowingly misleading in whole or in part. The information herein is obtained from sources which we consider to be reliable but its accuracy and completeness cannot be guaranteed. The opinions and conclusions given herein are those of WH Ireland Ltd and are subject to change without notice. The report is not an offer or solicitation to buy or sell any security. Clients are advised that WH Ireland Ltd and/or its directors and employees may have already acted upon the recommendations contained herein or made use of all information on which they are based. WH Ireland is or may be providing, or has or may have provided within the previous 12 months, significant advice or investment services in relation to some of the investments concerned or related investments. Traders and salespeople may express opinions on the company that do not align with the opinions stated in this report. Recommendations may or may not be suitable for individual clients and some securities carry a greater risk than others. Clients are advised to contact their investment advisor as to the suitability of each recommendation for their own circumstances before taking any action. No responsibility is taken for any losses, including, without limitation, any consequential loss, which may be incurred by clients acting upon such recommendations. The value of the securities and the income from them may fluctuate. It should be remembered that past performance is not necessarily a guide to future performance. For our mutual protection, telephone calls may be recorded and such recordings may be used in the event of a dispute. No part of this document is to be copied or distributed without prior consent. By accepting this document, you agree to be bound by the disclaimers stated above. Please refer to [www.wh-ireland.co.uk](http://www.wh-ireland.co.uk) for a summary of our conflicts of interest policy and procedures.

### Share Price Target

The share price target is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon.

### Stock Rating Distribution

As at the month ending 31 August 2016 the distribution of all our published recommendations was as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	57	82.6	40
Speculative Buy	10	14.5	10
Outperform	1	1.4	0
Market Perform	0	0.0	0
Underperform	1	1.4	0
Sell	0	0.0	0
<b>Total</b>	<b>69</b>	<b>100</b>	<b>50</b>

This table demonstrates the distribution of WH Ireland recommendations. The first column illustrates the distribution in absolute terms with the second showing the percentages.

### Conflicts of Interest Policy

This research is classified as being "non-independent" as defined by the FCA's Conduct of Business Rule 12.3. Please refer to [www.wh-ireland.co.uk](http://www.wh-ireland.co.uk) for a summary of our conflict of interest policy.

Where WH Ireland acts in a professional or retained capacity for a company, the following symbols, as indicated on the front page next to the company name, apply:

\*WH Ireland acts as NOMAD and/or Broker

#WH Ireland makes markets in this stock

~WH Ireland provides Investor Relations services

### Marketing Communication

This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Please refer to important disclosures towards the end of this document.

### Analyst Certification

The research analyst or analysts attest that the views expressed in this research report accurately reflect his or her personal views about the subject security and issuer.

WH Ireland is a member of The London Stock Exchange and is authorised and regulated by The Financial Conduct Authority

WH Ireland Limited

24 Martin Lane

London EC4R 0DR

T: 020 7220 1666

F: 020 7220 1667

[www.wh-ireland.co.uk](http://www.wh-ireland.co.uk)