WHIreland

17 March 2016

Morning Comment

BUY (N/C)

Parkmead

Tax change relevant for Parkmead, TP up 9% to 176 p/share

Price	68p
Target	176p (162p)

Reuters/BBG	PMG.L / PMG LN
Index	FTSE AIM
Sector	Oil & Gas
Market Cap	£67.3m

The 2016 Budget lowered the effective tax rate from 50% to 40% for Parkmead. Parkmead's high quality assets are expected to be profitable and taxable. Parkmead remains unique amongst its peer group in that it does not have tax losses that would be material in relation to the tax profits we expect its assets will generate. The company is also better positioned to progress new developments as positive dynamics return to the sector over the coming years because it has no debt, no sunk costs, few commitments, £25 million of available free cash (net of funds set aside for other purposes) and access to capital from a variety of sources.

- The Supplemental Charge has been reduced from 20% to 10%. The Supplemental Charge is paid as a supplement on top of the Ring Fence Corporate Tax, which remains unchanged at 30%. Most independent oil & gas companies operating in UK North Sea (Premier, Ithaca, Enquest….) have tax losses such that the change is meaningless. However, we expect the 69 million barrel (gross) Perth field (operated and 52.03% held by Parkmead) will pay circa \$19/barrel in tax (post yesterday's change), over the life of the field based on our long-term crude oil price assumption (\$70/b starting in 2018 and inflated at 2% p.a.). We expect that all of the company's assets that we have included in our target price will pay taxes far in excess of any tax loss carryforwards.

- Different fields will be affected differently by the change, with the benefits being most-notable for large scale fields. This is because smaller scale developments may not pay the Supplemental Charge due to the various allowances that reduce the Supplemental Charge (not the Ring Fence Corporate Tax). Field allowances are £800 million for ultra-heavy oil fields, £500 million for high-pressure/high-temperature fields and £150 million for small fields. However, many fields will pay significant amounts of Supplemental Charge even if they benefit from allowances. It is only on a case by case basis that the effect of the changes can be assessed.

- The 20% increase in the company's take-home earnings (60% ÷ 50% less 100%) can theoretically have a very large percentage change on the NPV of a project – an infinite percentage change is possible if the change has the effect of making the project NPV positive. Within Parkmead's portfolio the projects that we estimate benefit the most from the change are provided below in addition to the percentage increase in the asset value due to the change, based on our estimates:

    - Davaar oil prospect, West of Shetland (+25%)
    - Perth oil field, Central North Sea (+19%)
    - Platypus discovery/Blackadder prospect joint gas project, Southern North Sea (+13%)

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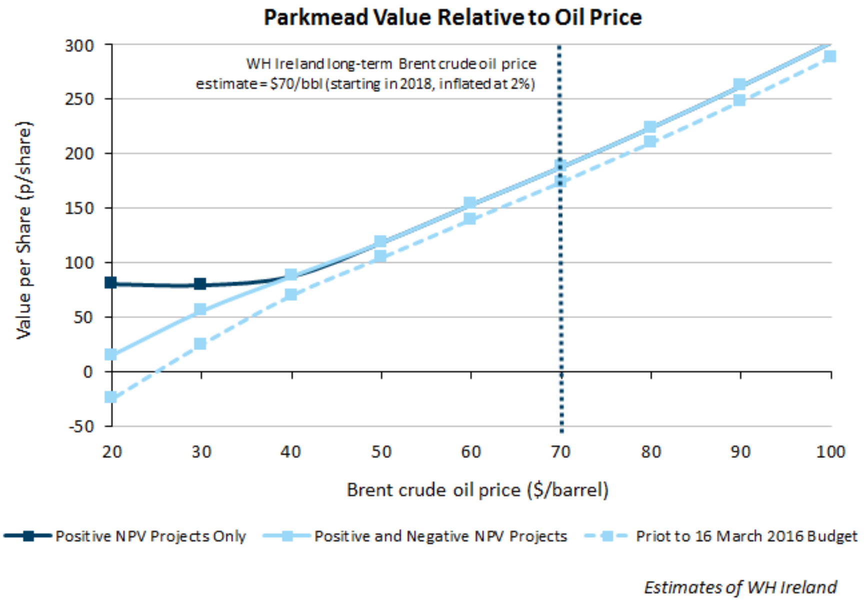
Analyst Brendan Long, CFA

- A valuation graph chart showing the value of Parkmead for various crude oil price assumptions before and after the change is provided below. We note that as expected, the percentage increase in value from the change is greatest in a low crude oil price context. The budget change increases the robustness of Parkmead's project in a low crude oil price environment, while providing material benefit (+9%) based on our long-term commodity price expectations.

Parkmead valuation estimates for various crude oil prices



Source: WH Ireland

- We remind investors that when the Supplemental Charge was reduced from 30% to 20% in the 2015 Budget the consensus view was that this was meaningless for the oil & gas industry and we anticipate the same consensus here. **We disagree** because relatively new companies that are positioned to grow and create value, such as Parkmead, have high quality assets and only modest tax loss carryforwards. Many of the old guard are so hampered by debt and sunk costs in existing projects they cannot, in our opinion, contemplate new investments no matter what the entry price or attractiveness (or tax rate). However, **we believe that despite the blanket statements made and too often applied generally to the UK North Sea, at the project and company specific level the UK North Sea still has much to offer in the way of value creation for shareholders. We believe that Parkmead is uniquely positioned within its peer group to unlock the potential of the UK North Sea. BUY.**

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.

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 quarter ending 31 Dec 2015 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	53	73.6	40
Speculative Buy	15	20.8	14
Outperform	1	1.4	0
Market Perform	1	1.4	1
Underperform	1	1.4	0
Sell	1	1.4	0
Total	72	100	55

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

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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.

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WH Ireland PLC
24 Martin Lane
London EC4R 0DR
T: 020 7220 1666
F: 020 7220 1667

www.wh-ireland.co.uk