

MORNING COMMENT

Buy Parkmead

Preliminary Results

Price 54.8p
Target 196p

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

Cash at the end of the period amounted to £28.3m, which was slightly higher than our forecast of £26.9m, principally due to better than anticipated operational results in the Netherlands and lower administrative costs. The company has no debt and no major capital expenditure commitments. We believe the company remains exceptionally well positioned to capture opportunities as strength returns to the sector.

Operationally, the company's Dutch assets beat our expectations with second half revenues of £3.4m vs. our estimate of £3.2m. In the second half, cash costs of goods sold amounted to £3.8m compared to our forecast of £4.3m.

Admin costs for the year amounted to £0.5m, whereas we had anticipated a cost of £1.3m, which reflects both our conservative "look back" approach and the important efficiency gains implemented by the company over the year.

Parkmead reported that the Diever II well in the Netherlands produced at 34 mmcf/d during June 2016 (approximately 5,850 boe/d), which is a remarkable result because it suggests that the well is maintaining production at exceptionally high rates (no declines). We continue to believe that the Diever II well which was brought onstream in November 2015, 14 months after being drilled, is one of the most economically attractive wells drilled in Europe in recent years.

We reiterate our Buy recommendation and 196p/share target price. A valuation table providing the details of asset values is provided on the following page.

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

Estimates (June - £m)	2013A	2014A	2015A	2016E	2017E
Revenue (£m)	4.1	24.7	18.6	10.4	8.0
EBITDA (£m)	-5.6	6.6	-13.1	-2.4	-0.3
Operating cash flow (£m)	-1.4	8.7	-18.4	-3.2	-0.6
Earnings (£m)	-5.6	1.2	-31.4	-6.7	-2.4
Brent oil price (\$/bbl)	108.69	109.34	73.46	44.26	51.25
UK natural gas price (\$/mcf)	10.31	10.09	7.70	5.91	5.29

	Working Interest (%)	Oil/Gas	Key Assumptions			Unrisked Present Value			Risked 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	GBP	Share	Geological (%)	Commercial (%)	Combined (%)	Total (\$mn)	per Share (p/share)		Oil (\$/b)	Gas (\$/mcf)
			USD (\$mn)	GBP (£mn)	(p/share)											
Oil & Gas Assets																
UK Oil & Gas Assets																
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
Total UK Oil & Gas Assets			114.2	52.8		414.4	296.0	277.3				151.3	101.2	7.86		
Netherlands Oil & Gas Assets																
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
Total Netherlands Oil & Gas Assets			14.7	2.2		9.9	7.1	6.6				7.0	4.7	4.51		
Total Oil & Gas Assets		n.a.	128.9	55.0	n.a.	424.3	303.1	284.0	n.a.	n.a.	n.a.	158.2	105.9	7.72		
Balance Sheet and Other Adjustments																
Investment in Faroe Petroleum						3.7	2.6	2.5				3.7	2.5			
General & admin cash costs (PV10, three years, £2.2mn)						(5.2)	(3.7)	(3.5)				(5.2)	(3.5)			
Cash (30 June 2016)						37.7	26.9	25.2				37.7	25.2			
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)			
Total of Balance Sheet and Other Adjustments						42.8	30.6	28.6				42.8	28.6			
Core NAV						467.1	333.6	312.6				201.0	134.5			
Lower Visibility Assets																
UK Oil & Gas Assets																
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
Skerryvore (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 (via Buzzard; discoveries)	100.0%	Oil	32.3	32.3	2022E	278.3	198.8	186.3	100.0%	0.0%	0.0%	-	-	8.62	35	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.
Total UK Oil & Gas Assets			481.3	209.7		1,803.8	1,288.5	1,207.2				91.7	61.4	8.60		
Netherlands Oil & Gas Assets																
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.	n.a.	n.a.
Total Netherlands Oil & Gas Assets	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.	n.a.
Total of Lower Visibility Assets			481.3	209.7		1,803.8	1,288.5	1,207.2				91.7	61.4	8.60		
Net Asset Value and Target Price			610.2	265		2,270.9	1,622.1	1,519.8				292.7	195.9			

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

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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 October 2016 the distribution of all our published recommendations was as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	52	83.9	39
Speculative Buy	7	11.3	7
Outperform	2	3.2	0
Market Perform	0	0.0	0
Underperform	1	1.6	0
Sell	0	0.0	0
Total	62	100	46

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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Marketing Communication

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