

## MORNING COMMENT

### BUY Parkmead

#### Interim Results

Price 45p  
Target 196p

Reuters/BBG Index Sector Market Cap  
PMG.L / PMG LN FTSE AIM Oil & Gas £44.5m

**Parkmead reported a gross profit of £0.7m vs. our estimate of a modest loss. This compares favourably with the six months to 31 December 2015 where a gross loss of £4.1m was reported. The year-end cash balance amounted to £26.7m with no debt, ahead of our anticipated £25.7m, due principally to the better than expected operational results.**

On balance, the company delivered a solid set of operational results which we believe stands in stark contrast to many North Sea companies who have reported significant losses over calendar year 2016. The company's capital discipline has translated through to a strong financial position, with ample financial flexibility to exploit new opportunities that might arise.

The company's low cost (sub \$14/boe) onshore Dutch assets produced approximately 29 mmcf/d gross during calendar 2016 (circa 5,000 boe/d) from four gas fields that generated positive cash flow for the company (Parkmead holds working interests of up to 15% in the fields). We are pleasantly surprised by the reduction in operating costs in the Netherlands and may consider applying reduced operating cost estimates for the region in our valuation model.

In terms of forward looking activity, the company highlighted two key developments in relation to its Southern North Sea assets i) progress on a new minimal platform concept at the Platypus gas field in order to optimise field economics and ii) the Platypus joint-venture partnership is currently working towards optimising the export route for Platypus ahead of finalising an offtake agreement.

We note that the company indicated that the Greater Perth Area oil hub is forecast to produce over 60,000 b/d, which suggests to us that engineering work and concept selection is progressing behind the scenes. We anticipate changes to the ownership structures of the key fields within the hub to be announced over 2017 and believe that there are reasonable grounds to anticipate that Parkmead's ownership of the hub will increase. As a reminder, the company currently holds 60.05% and operatorship of the core Perth field, which we believe is the keystone of the development. We believe once Parkmead communicates the development plan and timeline for the hub (or, for example, introduces an oilfield services company into the mix for drilling/development support) the market will ascribe value to this project, making it an opportune time for investors to take advantage of potential future milestones.

We maintain our 196 p/sh valuation and our Buy recommendation.

#### Marketing Communication

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Analyst Brendan Long, CFA

Estimates (June - £m)	2013A	2014A	2015A	2016A	2017E
Revenue (£m)	4.1	24.7	18.6	10.4	5.8
EBITDA (£m)	-5.6	6.6	-13.1	-2.4	-2.9
Operating cash flow (£m)	-1.4	8.7	-18.4	-3.2	-1.8
Earnings (£m)	-5.6	1.2	-31.4	-6.7	-7.0
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	USD (\$mn)	GBP (£mn)	Per Share (p/share)	Geological (%)	Commercial (%)	Combined (%)	Total (\$mn)		per Share (p/share)	Oil (\$/b)
<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		
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	38	n.a.
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>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						4.9	3.5	3.3				4.9	3.3			
General & admin cash costs (PV10, three years, £2.2mn)						(5.2)	(3.7)	(3.5)				(5.2)	(3.5)			
Cash (31 Dec 2016)						37.4	26.7	25.0				37.4	25.0			
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>29.3</b>				<b>43.7</b>	<b>29.3</b>			
<b>Core NAV</b>						<b>468.1</b>	<b>334.3</b>	<b>313.2</b>				<b>202.0</b>	<b>135.2</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
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.
<b>Total UK Oil &amp; Gas Assets</b>			<b>481.3</b>	<b>209.7</b>		<b>1,803.8</b>	<b>1,288.5</b>	<b>1,207.2</b>				<b>91.7</b>	<b>61.4</b>	<b>8.60</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.	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>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Total of Lower Visibility Assets</b>			<b>481.3</b>	<b>209.7</b>		<b>1,803.8</b>	<b>1,288.5</b>	<b>1,207.2</b>				<b>91.7</b>	<b>61.4</b>	<b>8.60</b>		
<b>Net Asset Value and Target Price</b>			<b>610.2</b>	<b>265</b>		<b>2,271.9</b>	<b>1,622.8</b>	<b>1,520.4</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.

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### Stock Rating Distribution

As at 28 February 2017 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate
Buy	52	81.3	39
Speculative Buy	8	12.5	8
Outperform	3	4.7	1
Market Perform	0	0.0	0
Underperform	1	1.6	0
Sell	0	0.0	0
<b>Total</b>	<b>64</b>	<b>100</b>	<b>48</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.

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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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