

6 July 2022

Corp

Ticker	PMG:AIM
Oil & Gas	
Shares in issue (m)	109.3
Next results	FY Nov
Price	42.7p
Target price	164.0p
Upside	284%
Market cap	£46.7m
Net debt/(cash)	-£19.6m
Other EV adjustments	£0.0m
Enterprise value	£27.0m

What's changed?	From	To
Adjusted EPS	2.8	3.7
Target price	160.0	164.0

Share price performance



%	1M	3M	12M
Actual	-16.9	-23.2	-22.4

Company description

Parkmead has four divisions offering a broad set of growth opportunities in oil, gas and renewables.

Jonathan Wright

Director of Research

* denotes corporate client of finncap

PARKMEAD GROUP*

Record gas revenues and accelerated new drilling

Parkmead's FY22 trading update for its Dutch gas business showcases the strong exposure it is currently enjoying to an exceptionally strong gas market. Record revenues are expected in FY22 and our new estimates point to more of the same in FY23. An accelerated exploration programme on these licences also offers attractive risk/reward, with the wells capable of rapidly being brought into production if successful, further raising PMG's exposure to exceptional gas prices this winter.

- **Record gas revenues.** Parkmead's FY22 (June year-end) trading update for its onshore Dutch gas business highlights continued strong performance, with the assets benefiting from exceptional gas prices and additional volumes following the royalty acquisition of 2021. Record gas revenues exceeding €14.5m are expected, well ahead of our €12.8m forecast, driven by an average TTF Dutch gas price of €86/MWh, again significantly higher than our €70/MWh assumption.
- **Parkmead to receive the full benefit of exceptional pricing.** European gas prices have entered Parkmead's FY23 at even higher levels, propelled by a significant US LNG outage, on top of Russia restricting supplies to several European countries and energy companies. Dutch TTF gas prices are currently at €165/MWh and the forward curve is averaging near €150/MWh for FY23. Critically, Parkmead remains entirely unhedged so will receive the full benefit of this exceptional pricing outlook.
- **Exceptional netbacks.** Average netbacks for the year were an impressive US\$120/boe while operating costs were just US\$8.6/boe (down 13% y/y). Average gross production across the assets was 21.8 mmcf/d (3,750 boepd), down 28% y/y, although Parkmead's net production will have benefited from last July's royalty acquisition within its existing producing Dutch licences, which doubled the effective financial interest on three of its four producing gas fields to 15%.
- **New drilling accelerated.** A rig has been secured for the upcoming two-well LDS exploration drilling campaign on Parkmead's Dutch licences, with the rig expected to be received around early-Q4, ahead of the previous schedule. These wells will target the LDS-A and LDS-B prospects on the Drenthe VI licence, which contain an estimated 37 bcf of gas in place in the prolific Rotliegendes reservoirs. They have high chances of success (40-49%) and are relatively cheap to drill (~€1.5m net combined). The hook-up time for the wells in the success case is rapid, offering greater potential exposure to gas prices this winter that is not factored into our estimates. We value the prospects at 3p/sh within our riskd NAV. Unriskd, this rises to 19p/sh.
- **Estimates raised sharply.** We are raising our Dutch gas price assumptions to be more closely aligned with the forward curve, marking to market FY22 and raising FY23 to a still cautious €80/MWh from €65. We have also increased our long-term price from €20 to €25/MWh. FY22 revenue rises 13% to £13.1m and 8% in FY23 to £14.1m. Adjusted EBITDA rises 24% in FY22 to £9.3m and a 16% in FY23 to £10.2m. Our riskd NAV and price target increases 3% to 164p/sh.

Key estimates		2019A	2020A	2021A	2022E	2023E
Year end:		Jun	Jun	Jun	Jun	Jun
Revenue	£m	8.3	4.1	3.6	13.1	14.1
Adj EBITDA	£m	5.4	0.3	-0.9	9.3	10.2
Adj EBIT	£m	5.2	-0.5	-1.5	8.8	9.7
Adj PBT	£m	4.8	-0.7	-2.6	8.2	9.1
Adj EPS	p	2.4	0.8	-2.5	3.7	4.0
DPS	p	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2019A	2020A	2021A	2022E	2023E
EV/EBIT (adj)	x	5.2	-55.3	-17.7	3.1	2.8
P/E (adj)	x	17.5	54.6	-16.9	11.6	10.7
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-1.8%	-10.2%	-4.2%	7.9%	7.3%
Pre-tax ROCE	%	7.6%	-0.7%	-2.6%	13.9%	14.3%