# Corp

Ticker	PMG:AIM
Energy	
Shares in issue (m)	109.3
Next results	FY Sept
Price	50.6p
Target price	159.0p
Upside	214%
Market cap	£55.3m
Net debt/(cash)	-£24.6m

What's changed?	From	То
Adjusted EPS	-1.4	-1.1
Target price	162.0	159.0

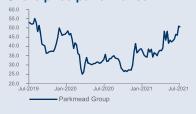
£0.0m

£30.7m

### Share price performance

Other EV adjustments

Enterprise value



%	1M	3M	12M
Actual	16.1	34.4	41.3

#### **Company description**

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

#### **Jonathan Wright**

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# Parkmead Group\*

## Netherlands royalty acquisition

Parkmead has announced a royalty acquisition within its existing producing Dutch gas licences. While small, this creative acquisition brings financial benefits, but more importantly greater partner alignment across the licences, which should help extend the producing life of the fields. It still leaves Parkmead with significant cash resources of ~£25m, providing meaningful firepower for larger acquisitions, most likely in European gas or renewables.

- Dutch gas royalty acquisition. Parkmead has agreed to purchase a historic royalty associated with its interests in the Drenthe IV, Drenthe V and Andel Va licences onshore the Netherlands from Vermilion Energy for €565k. These licences contain the Grolloo, Geesbrug and Brakel onshore gas fields. Parkmead's Drenthe VI licence, which contains the larger Diever West gas field, does not incur this royalty.
- Psmall cash outlay. The acquisition removes the royalty associated with existing producing wells and has an effective date of 1 January 2021. It increases Parkmead's net production from these fields, doubling the effective financial interest from 7.5% to 15%. The €565k acquisition price will be paid partly through cash approx. €150k with the balance coming from part of the remaining 2021 net revenue from Parkmead's interest in the Geesbrug gas field. The proportion of revenue paid to satisfy the royalty in FY20 was €325k.
- ▶ Meaningful acquisition firepower. While small, this creative acquisition brings financial benefits, but more importantly greater partner alignment across the licences, which should help extend the producing life of the fields through incentivising production enhancement activity. All else being equal, this transaction would boost our NAV by ~1.5p/sh. We estimate it still leaves Parkmead with significant cash resources of ~£25m (23p/sh), providing meaningful acquisition firepower with European gas and renewables opportunities the key focus.
- Significant upside potential. We are taking this opportunity to mark-to-market FY21 estimates for oil/gas prices and exchange rates, while raising our FY22 assumptions for Brent (US\$60 vs US\$55/bbl) and the £/\$ exchange rate (1.40 vs 1.35). Alongside the Netherlands royalty acquisition, this boosts FY21 and FY22 CFFO estimates by £2-400k. In our NAV model, we have also pushed back the assumed start-up date of Parkmead's GPA oil project by 12 months to 2025 and moved our discounting date to 1 July 2021. The net effect of these changes is to reduce our risked-NAV and price target by 2% to 159p/sh, still more than 3x the current price.

Key estimates		2018A	2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun	Jun
Revenue	£m	7.0	8.3	4.1	5.6	5.7
Adj EBITDA	£m	-4.8	5.4	0.3	0.7	2.1
Adj EBIT	£m	-5.3	5.2	-0.5	-0.0	1.4
Adj PBT	£m	-5.9	4.8	-0.7	-0.7	0.7
Adj EPS	р	-2.2	2.4	0.8	-1.1	-0.2
DPS	р	0.0	0.0	0.0	0.0	0.0

Key valuation me	trics					
EV/EBIT (adj)	Х	-5.8	6.0	-63.0	-616.6	21.5
P/E (adj)	X	-23.1	20.7	64.7	-46.4	-226.7
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	0.4%	-1.5%	-8.6%	-0.8%	-12.6%
Pre-tax ROCE	%	-8.3%	7.6%	-0.7%	-0.1%	2.0%

<sup>\*</sup> denotes corporate client of finnCap

## Netherlands royalty acquisition

Income statement		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Sales	£m	8.3	4.1	5.6	5.7
Gross profit	£m	6.0	2.1	2.8	3.9
EBITDA (adjusted)	£m	5.4	0.3	0.7	2.1
EBIT (adjusted)	£m	5.2	-0.5	-0.0	1.4
Associates/other	£m	0.0	0.4	-0.0	0.0
Net interest	£m	-0.3	-0.6	-0.6	-0.7
PBT (adjusted)	£m	4.8	-0.7	-0.7	0.7
Total adjustments	£m	-0.0	-0.1	1.1	-0.1
PBT (stated)	£m	4.8	-0.8	0.3	0.7
Tax charge	£m	-2.4	0.3	-1.1	-0.9
Minorities/Disc ops	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	2.4	-0.5	-0.7	-0.3
Adjusted earnings	£m	2.5	0.9	-1.3	-0.3
Shares in issue (year end)	m	98.9	108.6	109.3	109.3
EPS (stated)	р	2.4	-0.5	-0.7	-0.2
EPS (adjusted, fully diluted)	р	2.4	0.8	-1.1	-0.2
DPS	р	0.0	0.0	0.0	0.0

Growth analysis		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Sales growth	%	17.8%	-50.7%	36.6%	2.0%
EBITDA growth	%	212.5%	-94.9%	145.8%	212.8%
EBIT growth	%	197.1%	-109.5%	89.8%	n/m
PBT growth	%	182.2%	-115.4%	4.4%	202.4%
EPS growth	%	211.8%	-68.0%	-239.4%	79.5%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Gross margin	%	72.4%	51.2%	49.5%	69.1%
EBITDA margin	%	65.1%	6.8%	12.2%	37.3%
EBIT margin	%	62.4%	-12.0%	-0.9%	25.1%
PBT margin	%	58.4%	-18.2%	-12.7%	12.8%
Net margin	%	29.8%	21.3%	-23.2%	-4.7%

Cash flow		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
EBITDA	£m	5.4	0.3	0.7	2.1
Net change in working capital	£m	-0.5	-0.5	0.9	0.0
Other operating items	£m	-0.2	1.1	0.9	0.1
Cash flow from op. activities	£m	4.7	0.9	2.5	2.2
Cash interest	£m	0.2	0.1	-0.0	-0.1
Cash tax	£m	-1.8	-1.9	-1.6	-1.5
Capex	£m	-4.0	-3.8	-1.3	-7.5
Other items	£m				
Free cash flow	£m	-0.8	-4.7	-0.5	-7.0
Acquisitions / disposals	£m				
Dividends	£m				
Shares issued	£m	0.0	0.0	0.0	0.0
Other	£m	1.1	-0.2	-3.9	2.6
Net change in cash flow	£m	6.9	-5.0	-0.3	-4.9
Opening net cash (debt)	£m	23.8	30.7	25.7	25.4
Closing net cash (debt)	£m	30.7	25.7	25.4	20.5

Cash flow analysis		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Cash conv'n (op cash / EBITDA)	%	88.0%	319.6%	372.3%	103.5%
Cash conv'n (FCF / EBITDA)	%	-15.8%	n/m	-68.5%	-328.4%
U/lying FCF (capex = depn)	£m	2.9	-1.7	0.1	-0.1
Cash quality (u/l FCF / adj earn)	%	119.0%	-197.8%	-8.3%	52.4%
Investment rate (capex / depn)	Х	18.4	5.0	1.8	10.8
Interest cash cover	Х	n/a	n/a	56.9	18.0
Dividend cash cover	х	n/a	n/a	n/a	n/a

Working capital analysis		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Net working capital / sales	%	-47.2%	-70.9%	-62.0%	-54.6%
Net working capital / sales	days	-172	-259	-226	-199
Inventory (days)	days	0	12	9	8
Receivables (days)	days	29	126	40	40
Payables (days)	days	201	397	275	247

Balance sheet		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Tangible fixed assets	£m	11.8	21.4	16.8	23.6
Goodwill & other intangibles	£m	36.2	38.3	38.9	39.4
Other non current assets	£m	0.0	2.9	2.9	0.0
Net working capital	£m	-3.9	-2.9	-3.5	-3.1
Other assets	£m	2.9	0.0	0.0	0.0
Other liabilities	£m	-9.5	-10.4	-10.4	-10.4
Gross cash & cash equivs	£m	30.7	25.7	25.4	20.5
Capital employed	£m	68.3	74.9	70.1	69.9
Gross debt	£m	0.0	3.6	0.5	0.5
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	68.3	71.3	69.6	69.4
Minorities	£m	0.0	0.0	0.0	0.0
Capital employed	£m	68.3	74.9	70.1	69.9

Leverage analysis		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Net debt / equity	%	no debt	net cash	net cash	net cash
Net debt / EBITDA	Х	no debt	net cash	net cash	net cash
Liabilities / capital employed	%	0.0%	4.8%	0.7%	0.7%

Capital efficiency & intrinsic value		2019A	2020A	2021E	2022E
Year end:		Jun	Jun	Jun	Jun
Adjusted return on equity	%	3.6%	1.2%	-1.9%	-0.4%
RoCE (EBIT basis, pre-tax)	%	7.6%	-0.7%	-0.1%	2.0%
RoCE (u/lying FCF basis)	%	4.3%	-2.3%	0.2%	-0.2%
NAV per share	р	69.0	65.7	63.7	63.5
NTA per share	р	32.4	30.5	28.1	27.5

## **Estimates and NAV**

June yr end		FY 202:	1 estimates		FY2022 estimates			
		New	Old	% Chg	New	Old	% Chg	
Brent oil price	US\$/bbl	54.1	52.5	3%	60.0	55.0	9%	
Dutch TTF gas price	€/MWh	16.6	15.0	10%	16.5	16.5	0%	
Production	boepd	489	489	0%	522	522	0%	
Exchange rate	£/US\$	1.35	1.35	0%	1.40	1.35	4%	
Exchange rate	€/US\$	1.19	1.19	0%	1.18	1.17	1%	
Revenue	£'000	5,572	5,110	9%	5,685	5,820	-2%	
Gross Profit	£'000	3,086	2,627	17%	3,181	3,323	-4%	
Adjusted EBITDA	£'000	678	220	209%	2,122	2,264	-6%	
EBIT	£'000	1,005	546	84%	1,375	1,517	-9%	
PBT	£'000	347	-112	n.m.	674	815	-17%	
EPS	pence	-0.66	-1.01	-35%	-0.24	-0.43	n.m.	
Net CFFO	£'000	880	498	77%	679	477	42%	
Capex	£'000	1,300	1,298	0%	7,525	7,784	-3%	
Period-end cash	£'000	25,374	24,994	2%	20,470	20,115	2%	
Period-end debt	£'000	500	500	0%	500	500	0%	
Net Debt (Cash)	£'000	-24,874	-24,494	2%	-19,970	-19,615	2%	

Source: finnCap

Net Asset Valuation	Net resource NPV/I		PV/bbl Unrisked NPV		Geological	Commercial	Dry hole	Risked NPV	
	mmboe	US\$/boe	US\$m	p/sh	CoS	CoS	cost US\$m	US\$m	p/s
G&A (3 years)			-7.1	-4.6				-7.1	-4.
Net cash / (debt)			34.4	22.3				34.4	22.
SAR/DSP liabilities			-2.3	-1.5				-2.3	-1.
Options			0.5	0.3				0.5	0.
Athena decommissioning			-9.7	-6.3				-9.7	-6.
Aupec (6x 2021e EBIT)			1.7	1.1				1.7	1.1
Pitreadie Farm Ltd land (@ cost)			8.5	5.5				8.5	5.
			26.0	16.8				26.0	16.
Producing assets									
Netherlands producing	3.7	6.34	23.6	15.3	100%	100%		23.6	15.
Core value:			40.4	32.1				40.4	32.
Contingent resource:									
Pitreadie 20 MW Wind Farm			13.0	8.4		30%		3.9	2.
Netherlands - Ottoland	0.7	4.12	2.8	1.8	100%	50%		1.4	0.9
Netherlands - Papekop	0.9	4.12	3.7	2.4	100%	50%		1.9	1.3
UK - Greater Perth Area	79.7	7.59	605.4	392.0	100%	25%		151.4	98.
UK - Platypus	2.6	5.85	15.1	9.8	100%	50%		7.5	4.
UK - Fynn Beauly	25.1	2.50	62.8	40.6	100%	10%		6.3	4.
UK - Fynn Andrew	9.3	2.50	23.1	15.0	100%	10%		2.3	1.5
Contingent value:			726.0	470.1				174.7	113.
Prospective resource:									
UK - Skerryvore (Mey+Ekofisk+Tor)	46.6	5.27	245.5	159.0	24%	30%	5.8	11.8	7.
UK - Ruvaal	9.3	3.80	35.4	22.9	17%	0%	6.2	0.0	0.0
UK - Platypus East	1.3	4.83	6.2	4.0	73%	50%	0.5	1.8	1.
UK - Blackadder	14.1	4.39	62.1	40.2	41%	50%	5.3	7.4	4.
UK - Sanda South	86.0	3.42	293.9	190.3	12%	0%	30.8	0.0	0.0
UK - Sanda North	194.0	3.42	663.0	429.3	15%	0%	29.8	0.0	0.
UK - Davaar	204.0	3.04	619.7	401.2	18%	0%	28.7	0.0	0.0
Netherlands - Drenthe IIIb exploration	0.5	3.30	1.8	1.2	43%	50%	1.3	0.0	0.
Prospective value:			1,927.4	1,248.1				21.0	13.6
Total - Core + Contingent + Prospective:			2,693.8	1,750.2				236.1	158.8

Source: finnCap
Discounted at 10% to I July 2021
Assumes long-term Brent price of US\$55/bbl, Dutch TTF gas price of €16.5/MWh and UK NBP gas price of 45p/th.

Parkmead Group 9 July 2021

## Netherlands royalty acquisition

Research

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