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**Simon Thompson** November 23 2020

# Bagging a value stock hat-trick

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## Parkmead's multiple valuation catalysts

- Gas prices rebound sharply since the summer
- Platypus and Pitreadie projects offer potential share price catalysts

Prospects for **Parkmead** (PMG:34p), a small-cap oil and gas exploration and development company, are far better than investors are pricing into its low-ball valuation. The company's market capitalisation of £35m is half net asset value of £71m even though there are potentially strong share price drivers on the horizon.

Firstly, natural gas prices have rebounded to €14 per megawatt hour (MWh) from a low of €5 per MWh in June, having previously fallen from €27.7 per MWh in October 2018. Parkmead owns interests in a low-cost onshore gas portfolio in the Netherlands, which has an average operating cost of $9.9 per barrel of oil equivalent, or less than a quarter of the current spot price. The rebound in prices will produce valuable cash flow in what remains a low commodity price environment. It also supports house broker FinnCap's pre-tax profit estimate of £0.7m on revenue of £4.8m for the 2020-21 financial year, a sharp improvement on the £0.8m pre-tax loss in the year just ended.

Secondly, even though the move towards renewable energy is clearly gathering momentum, the fact is that the UK will be reliant on gas for decades to come while green energy supply is ramped up and the requisite infrastructure is put in place. Parkmead is well placed to benefit on two fronts as it has a 15 per cent working interest in the Platypus gas field in the UK Southern North Sea, located 10 miles north-west of the West Sole gas field, which is targeting project sanction in 2021. Dana Petroleum, CalEnergy and Zennor Petroleum are its heavyweight industry partners.

Importantly, Parkmead's cash pile of £25.7m (24p a share) is more than sufficient to fund its estimated $21m (£15.7m) share of development costs based on a two-well sub-sea tie-back to route gas through a 23km pipeline to Perenco's Cleeton platform and onwards to the Dimlington gas terminal for processing. Analysts estimate Parkmead's 15 per cent stake has an unrisked net present value (NPV) of $10m (7.4p a share) based on a long-term UK gas price of 45p per therm and a 10 per cent discount rate. Increase the gas price to 55p per therm and lower the discount rate to 8 per cent and NPV doubles to 14.2p, or half Parkmead's share price.

Thirdly, Parkmead purchased 2,320 acres of land and property in Aberdeenshire for £8.5m last year. Half the land is adjacent to the Mid Hill Wind Farm which operates 33 Siemens wind turbines with a total generating capacity of 75MW. The company is conducting an analysis of the sites to assess the potential for the installation of wind turbines, a solar farm and a biomass production facility. Analysts believe that a 20 MW wind farm on 1,236 acres of the land is conservatively worth £30m at start-up (£1.52m per MW) and supports an unleveraged NPV of £9m (8.6p a share) to Parkmead, and perhaps significantly more .

The point is that Parkmead's cash pile and the Aberdeenshire land backs up almost all the current share price, so you are getting a free ride on the Netherlands gas fields as well as any upside from Platypus. In fact, the current valuation ascribes nil value to any of the company's exploration and production blocks in the North Sea (book value of £36m, or 33p a share).

Admittedly, Parkmead's shares have had a rollercoaster ride since I included them, at 37p, in my **2018 Bargain Shares portfolio**, having hit a high of 83p that year before giving back all the gains and more. However, investors are starting to warm to the investment case since my last article ('**Four companies offering value investment opportunities', 1 April 2020**), and I expect that to continue. On a bid-offer spread of 33p to 34p, the shares rate a buy.