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Multiple share price catalysts on Parkmead's horizon
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I am not one for hyperbole, but the half-year results from Parkmead (PMG:57.5p), a small-cap oil and gas exploration and development company, led by 19 per cent shareholder, Tom Cross, the founder and former chief executive of Dana Petroleum, until its sale to the Korea National Oil Corporation in 2010, blew me away. Parkmead produces gas from a portfolio of four fields across the Netherlands, and holds oil and gas interests spanning 30 exploration and production blocks in the North Sea, several of which could prove transformational for shareholders this year.

The company holds a 7.5 per cent stake in the Diever West gasfield in the Netherlands, which came on stream in November 2015, and averaged the equivalent of 5,340 barrels of oil equivalent per day (boepd) in its first six months. It has been exceeding expectations ever since, so much so that output in the latest six-month period surged by 54 per cent to 8,293 bopd. Moreover, dynamic reservoir monitoring suggests that it has 18.6m barrels of oil equivalent of gross gas-in-place, or 108bn cubic feet. That's more than 2.5 times the original estimate.

In addition to Diever West, Parkmead's low-cost onshore gas portfolio includes three other fields in the Netherlands, and the four fields in total have an average operating cost of just $12.3 (£9.50) per barrel of oil equivalent. So, with output surging, half-year gross profit of £3.84m on revenue of £5.3m almost matched that of the whole of the previous financial year, and produced a post-tax profit of £2.2m.

Importantly, the company is now cash-flow positive on an operating basis and retains a robust balance sheet, which was buoyed post period-end by a £6.2m inflow following the recent takeover of Faroe Petroleum, a company in which Parkmead was a shareholder. As a result, net cash of £30m equates to more than half of Parkmead's market capitalisation of £56m, implying that its Dutch gas operating assets and the 30 North Sea Licences are being incredibly lowly rated.

That's anomalous for several reasons, not least of which is that these licences include the Parkmead operated Polecat and Martin oil fields in the UK Central North Sea. These are located eight miles to the west of Blocks 20/5b & 21/1d in the Outer Moray Firth. I know the blocks well because Jersey Oil & Gas (JOG:224p), a UK North Sea-focused upstream oil and gas company and a constituent of my 2019 Bargain Share Portfolio, holds an 18 per cent interest in both licences.

Bear this in mind, the result of an appraisal drilling programme on the flagship Verbier discovery in Block 20/5b is due to be announced in a few weeks' time. Initial operator estimates suggest gross recoverable resources associated with the Verbier discovery is between 25m and 130m barrels of oil equivalent (boe) with an estimated mean of 69mboe. The purpose of the appraisal well is to accurately determine the potential volume range in the discovery. The point being that there could be a very positive read across and valuation upside for Parkmead's Polecat and Martin oil fields, given that they share many similarities with the Verbier discovery. It would obviously be good news for Jersey Oil & Gas shareholders, too.

Progress on the commercialisation of multiple licenses

Furthermore, Parkmead is making considerable progress on the Platypus gas field in the UK Southern North Sea, in which the company holds a 15 per cent equity stake alongside Dana Petroleum, the operator and 59 per cent stakeholder. Detailed development concept work has found that, by collaborating with other facilities in the area, a minimal platform concept can be adopted, substantially reducing development expenditure. In addition, the field's gas reserves can now be recovered from two rather than three development wells. The joint-venture partnership holding the licence is working towards optimising the export route for Platypus ahead of an off-take agreement.

Likely newsflow on the commercialisation of licences covering the Perth and Dolphin fields in the Moray Firth area, which contains very large oil fields including Piper, Claymore and Tartan, is another potential share price driver. Perth and Dolphin are two substantial Upper Jurassic Claymore sandstone accumulations that have tested 32°-38° API oil at production rates of up to 6,000 barrels of oil per day (bopd) per well. That's worth noting, because Parkmead is in commercial discussions with the Scott field partnership, led by China National Offshore Oil Corporation, to explore terms of a sub-sea tie-back via the Scott platform located six miles away from Parkmead's Greater Perth Area (GPA) oil hub. Parkmead is also holding discussions with a number of leading, international oil service companies.

The point being that newsflow from either Verbier, the GPA project, further production gains in the Netherlands, or an off-take agreement for Platypus, all have scope to drive Parkmead's share price significantly higher, and put a more realistic valuation on its 2P reserves of 46m barrels of oil equivalent (boe), and 2C reserves of 100.9m boe.

This is not lost on investors, which is why Parkmead's shares are up 55 per cent since I included them in my 2018 Bargain Shares Portfolio. However, I believe that they could double – or even treble in value – if the company commercialises either the Platypus or GPA project. The downside risk looks limited given cash backs up more than half Parkmead's market capitalisation, and the profitable Dutch gas operations means that the company actually generates positive cash flow. Strong buy.