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Four companies offering value opportunities

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Add cash rich Parkmead to your watchlist

The 70 per cent slump in the oil price this year has pummelled share prices across the energy sector. **Parkmead** (PMG:25p), a small-cap oil and gas exploration and development company, has seen its share price fall 50 per cent from January's highs around 50p, so wiping out all the gains made since I included the shares, at 37p, in my **2018 Bargain Shares Portfolio**.

Even if you ascribe nil value to the company's portfolio of 30 exploration and production blocks in the North Sea (book value of £34.9m, or 32p a share), Parkmead's market capitalisation of £26.6m is now almost 90 per cent backed by net cash of £22.2m (20.5p a share) and 20 per cent below tangible net book value of £33m (30p a share).

One reason for the miserly valuation is because gas prices have plunged to the lowest level in more than a decade and impacting profits from Parkmead's low-cost onshore gas portfolio in the Netherlands. This part of the business still reported positive operational cash flow of £920,000 and a gross profit of £800,000 in the six months to end December 2019, albeit that represented a near 80 per cent decline year-on-year. Strip out a £1.3m non-cash impairment charge, and the company posted a small first half pre-tax loss of £126,000.

The short-term decline in energy prices aside, the UK will still need to rely on gas for decades to come while renewable energy supply is being scaled up. Bearing this in mind, Parkmead holds a 15 per cent stake in the Platypus field in the UK Southern North Sea, located 10 miles north west of the West Sole gas field. Discovered in 2010, and successfully appraised with a horizontal

well in 2012 (flow tested at a rate of 27m cubic feet of gas per day), the co-venturers (CalEnergy Gas, Zennor Petroleum, Dana Petroleum and Parkmead) have submitted a Field Development Plan draft and Environmental Statement to the UK's Oil & Gas Authority. The development concept involves a subsea tie-back to the Cleeton platform located 15 miles away to slash initial capital expenditure and field operating cost. Platypus is expected to produce 47m cubic feet of gas per day at peak production, and have a field life of 20 years. It is a valuable strategic asset.

Parkmead's current market value also fails to attribute any value to 2,320 acres of land and property in Aberdeenshire which have been valued at £7.5m (7.5p a share) and offer potential for the installation of wind turbines, a solar farm and a biomass production facility. Indeed, 1,238 acres of land is adjacent to the Mid Hill Wind Farm which operates 33 Siemens wind turbines with a total generating capacity of 75MW.

Given its cash rich balance sheet and asset backing, I can see Parkmead's share price recovering sharply in a more benign market environment. Hold.