SMALL COMPANIES

Profit from a North Sea farm-out

An energy group has appointed a leading energy corporate finance advisory firm to manage the farm-out process of its Greater Perth Area (GPA) development project. It is benefiting from record gas prices in Europe, too.

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By **Simon Thompson**

- Appoints corporate finance advisory firm to manage Greater Perth Area farm-out process
- European gas prices hit record highs and 12-month forward curve prices are 131 per cent higher than those embedded in analyst earnings forecasts

Parkmead (PMG: 66p), a UK and Netherlands focused energy group, has appointed a leading energy corporate finance advisory firm, Gneiss Energy, to manage the farm-out process of its Greater Perth Area (GPA) development project.

The core Perth field holds 55mn barrels of recoverable oil equivalent (boe) on a most likely P50 basis, while the wider GPA project has scope to deliver 75-130mn boe (P50 basis) and provide value-adding volumes to surrounding infrastructure through field life extension. GPA is one of the North Sea's largest undeveloped oil projects, and has been fully appraised. Importantly, fields have been flow tested at rates of up to 6,000 barrels of oil per day and have produced good quality, light crude oil of between 37° and 32° API. Sensibly, Parkmead has been in discussions with the Scott field partnership, led by CNOC, to explore terms of a sub-sea tie-back via the nearby Scott platform to yield mutually beneficial advantages for both the Scott partnership and the Perth owners.

With geopolitical tensions unlikely to abate anytime soon, UK energy security high on the agenda, and Brent crude above $100 or three times the GPA's $35 a barrel operating break-even, the economics and oil price back drop are supportive for a successful farm-out. Furthermore, Parkmead directors are seeing a "positive investment sentiment emanating from the introduction of the new UK energy profits levy, whereby the associated investment allowance of up to 91 per cent has created a powerful incentive for major producers to invest in new UK North Sea developments."

House broker FinnCap has placed a £104m (92p a share) net present value (NPV) on Parkmead's interest in the GPA project, so it forms a material proportion of the brokerage's total risked NPV of 164p a share. The directors estimate that every $10 per barrel increase in the oil price adds £130m

(115p a share) to the P50 post-tax net present value (NPV) of the GPA project.

The good news gets even better. That's because European gas prices have surged again since I highlighted how Parkmead's low-cost onshore gas portfolio in the Netherlands is benefiting from the European energy crisis (**'Profiting from the European gas crisis', 6 July 2022**). In fact, Dutch Title Transfer Facility (TTF) gas prices have since hit record highs and future prices are now averaging €185 per MWh over Parkmead's 2022/23 financial year, or more than double the €80 per MWh embedded in FinnCap's profit estimates. A massive earnings upgrade is on the cards.

Although Parkmead's share price has risen 30 per cent in the past month, the shares still trade on an unwarranted 60 per cent discount to analysts' NPV estimates. Buy.

Simon Thompson was named Journalist of the Year at the 2022 Small Cap Awards.